Systex Corporation and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Systex Corporation

Opinion

We have audited the accompanying consolidated financial statements of Systex Corporation and its subsidiaries (collectively, 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 then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other independent auditors (refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. 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 of the Group's consolidated financial statements for the year ended December 31, 2017 are addressed as follows:

Valuation of Inventory

As of December 31, 2017, inventories amounted to $2,910,565 thousand, significant to the Group. The valuation of inventory write-down involves subjective judgements, including identification of slow-moving and obsolete inventories, estimation of net realizable value, and provision for loss due to changes in economic conditions, etc. Therefore, we consider the valuation of inventory as a key audit matter. For the disclosures related to inventories, refer to Notes 5 and 11 to the consolidated financial statements.

Our audit procedures for the abovementioned key audit matter included:

1. We obtained and assessed the report of lower of cost or net realizable value prepared by management. We examined the amounts and categories in the aging analysis report of inventories. We assessed the reasonableness of net realizable value by sampling the latest and post year-end sales.

2. We attended year-end inventory counts and assessed the condition of inventories to evaluate the completeness of inventory provisions for obsolete and damaged goods.

Valuation of Accounts Receivable

As of December 31, 2017, accounts receivables amounted to $3,217,198 thousand, an amount significant to the Group. The assessment of the recoverability of accounts receivable involves the use of critical judgements, and, assumptions about credit risk, impairment rates and possible changes in economic conditions, etc. Therefore, we consider the valuation of accounts receivable as a key audit matter. For the disclosures related to accounts receivable, refer to Notes 5 and 10 to the consolidated financial statements.

Our audit procedures for the abovementioned key audit matter included:

1. We obtained the reports of accounts receivable impairment and we assessed the reasonableness of the methodology and data used in the reports as well as the consistency of the reports. In order to evaluate the adequacy of the allowance for doubtful accounts, we reviewed the related calculation and validated the aging amounts as of the balance sheet date to understand and measure the potential risk in overdue balances.

2. We tested the recoverability of accounts receivables by verifying cash receipts in the subsequent period. For a receivable that was past due and not yet received, we assessed the reasonableness of the allowance for the doubtful accounts based on the customer's payment history, the bank's guarantee provided, and our understanding of the economic environment.

Other Matter

We did not audit the financial statements as of and for the years ended December 31, 2017 and 2016 of SoftMobile Technology Corporation, Rainbow Tech Information (HK) Limited and Systex Information (H.K.) Ltd., which are all consolidated subsidiaries. The aggregate assets of these subsidiaries as of December 31, 2017 and 2016 amounted to $468,683 thousand and $505,825 thousand, respectively, or 2.42% and 2.65% of the respective consolidated assets. The aggregate net operating revenues of these subsidiaries in 2017 and 2016 were $1,183,995 thousand and $1,126,067 thousand, respectively, or 7.02% and 6.95% of the respective consolidated net operating revenues. We also did not audit the financial statements as of and for the year ended December 31, 2017 of Sanfran Technologies, Mohist Web Technology Co., Limited and Forms

Syntron Information (Shenzhen) Limited, and the financial statements as of and for the year ended December 31, 2016 of Sanfran Technologies Inc. and Forms Syntron Information (Shenzhen) Limited, the investments in which were accounted by the equity method in the accompanying consolidated financial statements. The aggregate carrying amounts of these investments accounted by equity method as of December 31, 2017 and 2016, including those reclassified to noncurrent assets held for sale, were $801,036 thousand and $838,453 thousand, respectively, or 4.14% and 4.39% of the respective consolidated assets. The aggregate amounts of the share in their profit and other comprehensive income in 2017 and 2016 were $40,158 thousand and $4,339 thousand, respectively, or 5.34% and 0.5% of the respective consolidated comprehensive income. The financial statements of the abovementioned subsidiaries and investees were audited by other auditors whose reports have been provided to us and, our opinion, insofar as it relates to the amounts included for these subsidiaries and investees, is based solely on the reports of the other auditors.

We have also audited the parent company only financial statements of Systex Corporation as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified report with other matter paragraph.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect 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, including the audit committee, 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 the 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 and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' 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 Shu-Wan Lin and Shiow-Ming Shue.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 22, 2018

<u>*Notice to Readers*</u>

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with 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 applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017		2016 (Audited after Restated)	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 3,708,235	19	$ 4,245,282	22
Financial assets at fair value through profit or loss (Notes 4 and 7)	3,222,285	17	2,879,956	15
Available-for-sale financial assets (Notes 4 and 8)	16,561	-	18,984	-
Debt investments with no active market - current (Notes 4 and 9)	357,120	2	102,339	1
Notes receivable, net (Notes 4 and 10)	64,837	1	67,579	-
Accounts receivable, net (Notes 4, 5, 10 and 25)	3,217,198	17	3,304,915	17
Other receivables (Notes 20 and 26)	204,277	1	217,270	1
Inventories (Notes 4, 5 and 11)	2,910,565	15	2,422,283	13
Prepayments	836,115	4	850,922	5
Non-current assets held for sale (Notes 4 and 14)	-	-	96,546	1
Refundable deposits - current	220,715	1	210,691	1
Other current assets	63,149	-	53,754	-
Total current assets	14,821,057	77	14,470,521	76
NON-CURRENT ASSETS				
Financial assets measured at cost - non-current (Notes 4 and 12)	509,150	3	432,971	2
Debt investments with no active market-non-current (Notes 4 and 9)	574,400	3	548,375	3
Investments accounted for using equity method (Notes 4 and 14)	1,153,527	6	1,191,205	6
Property, plant and equipment (Notes 4, 15 and 26)	1,940,525	10	2,009,673	11
Computer software (Note 4)	51,368	-	79,585	1
Technological expertise (Note 4)	-	-	25,951	-
Other intangible assets (Note 4)	-	-	7,215	-
Deferred tax assets (Notes 4 and 20)	54,870	-	66,702	-
Refundable deposits - non-current (Note 27)	162,086	1	116,676	1
Long-term receivables (Notes 4 and 10)	4,944	-	54,195	-
Other non-current assets (Note 26)	92,243	-	79,559	-
Total non-current assets	4,543,113	23	4,612,107	24
TOTAL	$ 19,364,170	100	$ 19,082,628	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term loans (Notes 16 and 26)	$ 1,460,053	7	$ 1,046,022	5
Notes and accounts payable (Note 25)	3,100,522	16	2,953,992	15
Other payables	902,169	5	901,816	5
Current tax liabilities (Notes 4 and 20)	62,039	-	168,439	1
Receipts in advance	1,081,130	6	882,226	5
Other current liabilities	160,581	1	112,090	1
Total current liabilities	6,766,494	35	6,064,585	32
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 20)	5,023	-	5,894	-
Net defined benefit liabilities - non-current (Notes 4 and 17)	263,637	1	246,379	1
Other non-current liabilities	6,860	-	6,575	-
Total non-current liabilities	275,520	1	258,848	1
Total liabilities	7,042,014	36	6,323,433	33
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 4 and 18)				
Common shares	2,693,933	14	2,693,933	14
Capital surplus	7,363,072	38	7,634,980	40
Retained earnings				
Legal reserve	896,914	5	786,087	4
Special reserve	64,494	-	-	-
Unappropriated earnings	2,708,899	14	2,681,315	14
Total retained earnings	3,670,307	19	3,467,402	18
Other equity	(453,327)	(2)	(64,494)	-
Treasury shares	(1,003,629)	(5)	(1,003,629)	(5)
Total equity attributable to owners of the Corporation	12,270,356	64	12,728,192	67
NON-CONTROLLING INTERESTS (Note 18)	51,800	-	31,003	-
Total equity	12,322,156	64	12,759,195	67
TOTAL	$ 19,364,170	100	$ 19,082,628	100

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

(With Deloitte & Touche audit report dated March 22, 2018)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 4 and 25)				
Sales	$ 12,181,047	72	$ 11,761,268	73
Less: Sales returns and allowances	86,183	-	131,563	1
Net sales	12,094,864	72	11,629,705	72
Service revenue	4,706,829	28	4,514,543	28
Other operating revenue	72,586	-	66,132	-
Total operating revenues	16,874,279	100	16,210,380	100
OPERATING COSTS (Notes 4, 11, 19 and 25)				
Cost of goods sold	10,350,367	61	9,961,443	61
Service cost	1,967,169	12	1,895,107	12
Other operating cost	23,015	-	21,770	-
Total operating costs	12,340,551	73	11,878,320	73
GROSS PROFIT	4,533,728	27	4,332,060	27
OPERATING EXPENSES (Notes 17, 19 and 25)				
Selling expenses	3,194,696	19	3,172,663	19
General and administrative expenses	359,085	2	420,986	3
Research and development expenses	440,821	3	459,143	3
Total operating expenses	3,994,602	24	4,052,792	25
PROFIT FROM OPERATIONS	539,126	3	279,268	2
NON-OPERATING INCOME AND EXPENSES				
Share of profit of associates (Notes 4 and 14)	66,479	1	84,102	-
Interest income (Note 4)	48,528	-	29,965	-
Dividend income (Note 4)	47,243	-	42,918	-
Other income, net	56,818	-	62,455	-
Gain on sale of investments, net (Note 19)	478,622	3	1,227,033	8
Foreign exchange gain (loss), net (Note 4)	34,492	-	(69,545)	-
Gain on financial assets at fair value through profit or loss, net (Note 4)	98,992	1	115,052	1
Interest expense	(32,359)	-	(24,823)	-
Other expenses	(4,227)	-	(29,095)	-
Gain on disposal of property, plant and equipment, net (Note 4)	4,229	-	17,804	-
Impairment loss on assets (Notes 4 and 19)	(37,783)	-	(489,274)	(3)
Total non-operating income and expenses	761,034	5	966,592	6

(Continued)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE INCOME TAX	$ 1,300,160	8	$ 1,245,860	8
INCOME TAX EXPENSE (Notes 4 and 20)	127,042	1	155,532	1
NET INCOME	1,173,118	7	1,090,328	7
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 17)	(32,743)	-	(15,384)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 20)	(151)	-	437	-
	(32,894)	-	(14,947)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(434,475)	(3)	(129,765)	(1)
Unrealized gain (loss) on available-for-sale financial assets	(613)	-	10,428	-
Share of the other comprehensive gain (loss) of associates accounted for using the equity method	47,070	-	(81,450)	(1)
	(388,018)	(3)	(200,787)	(2)
Other comprehensive loss for the year, net of income tax	(420,912)	(3)	(215,734)	(2)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 752,206	4	$ 874,594	5
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Corporation	$ 1,177,749	7	$ 1,108,268	7
Non-controlling interests	(4,631)	-	(17,940)	-
	$ 1,173,118	7	$ 1,090,328	7
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Corporation	$ 756,949	4	$ 892,819	5
Non-controlling interests	(4,743)	-	(18,225)	-
	$ 752,206	4	$ 874,594	5

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SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
EARNINGS PER SHARE (Note 21)				
Basic	$4.79		$4.50	
Diluted	$4.79		$4.50	

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

(With Deloitte & Touche audit report dated March 22, 2018) (Concluded)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Corporation (Notes 4 and 18)													
	Share Capital				Retained Earnings				Other Equity					
	Common Shares	Advance Receipts for Common Shares	Total	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Instruments	Treasury Shares	Total	Non-controlling Interests (Note 18)	Total Equity
BALANCE, JANUARY 1, 2016	$ 2,687,733	$ 650	$ 2,688,383	$ 8,197,220	$ 729,659	$ -	$ 2,317,133	$ 3,046,792	$ 127,939	$ 8,841	$ (967,498)	$ 13,101,677	$ 56,026	$ 13,157,703
Appropriation of 2015 earnings														
Legal reserve	-	-	-	-	56,428	-	(56,428)	-	-	-	-	-	-	-
Cash dividends - NT$2.5 per share	-	-	-	-	-	-	(673,483)	(673,483)	-	-	-	(673,483)	-	(673,483)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	-	58,753	-	-	-	-	-	-	-	58,753	-	58,753
Distribution in cash of the capital surplus - NT$2.5 per share	-	-	-	(673,483)	-	-	-	-	-	-	-	(673,483)	-	(673,483)
Issuance of common shares for exercised employee stock options	6,200	(650)	5,550	11,045	-	-	-	-	-	-	-	16,595	-	16,595
Net income (loss) for 2016	-	-	-	-	-	-	1,108,268	1,108,268	-	-	-	1,108,268	(17,940)	1,090,328
Other comprehensive income (loss) for 2016	-	-	-	-	-	-	(14,175)	(14,175)	(211,225)	9,951	-	(215,449)	(285)	(215,734)
Total comprehensive income (loss) for 2016	-	-	-	-	-	-	1,094,093	1,094,093	(211,225)	9,951	-	892,819	(18,225)	874,594
Acquisition of the Corporation's shares by subsidiaries regarded as treasury share transaction	-	-	-	-	-	-	-	-	-	-	(36,131)	(36,131)	(37,728)	(73,859)
Cash dividends received by subsidiaries from the Corporation	-	-	-	116,457	-	-	-	-	-	-	-	116,457	-	116,457
Disposal of investments accounted for by using equity method	-	-	-	(83,588)	-	-	-	-	-	-	-	(83,588)	-	(83,588)
Changes in percentage of ownership interest in subsidiaries	-	-	-	8,576	-	-	-	-	-	-	-	8,576	(8,576)	-
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	39,506	39,506
BALANCE, DECEMBER 31, 2016	2,693,933	-	2,693,933	7,634,980	786,087	-	2,681,315	3,467,402	(83,286)	18,792	(1,003,629)	12,728,192	31,003	12,759,195
Appropriation of 2016 earnings														
Legal reserve	-	-	-	-	110,827	-	(110,827)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	64,494	(64,494)	-	-	-	-	-	-	-
Cash dividends - NT$3.5 per share	-	-	-	-	-	-	(942,877)	(942,877)	-	-	-	(942,877)	-	(942,877)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	-	54,304	-	-	-	-	-	-	-	54,304	-	54,304
Distribution in cash of the capital surplus - NT$1.5 per share	-	-	-	(404,090)	-	-	-	-	-	-	-	(404,090)	-	(404,090)
Net income (loss) for 2017	-	-	-	-	-	-	1,177,749	1,177,749		-	-	1,177,749	(4,631)	1,173,118
Other comprehensive income (loss) for 2017	-	-	-	-	-	-	(31,967)	(31,967)	(387,405)	(1,428)	-	(420,800)	(112)	(420,912)
Total comprehensive income (loss) for 2017	-	-	-	-	-	-	1,145,782	1,145,782	(387,405)	(1,428)	-	756,949	(4,743)	752,206
Cash dividends received by subsidiaries from the Corporation	-	-	-	117,049	-	-	-	-	-	-	-	117,049	-	117,049
Disposal of investments accounted for by using equity method	-	-	-	(39,171)	-	-	-	-	-	-	-	(39,171)	-	(39,171)
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	25,540	25,540
BALANCE, DECEMBER 31, 2017	$ 2,693,933	$ -	$ 2,693,933	$ 7,363,072	$ 896,914	$ 64,494	$ 2,708,899	$ 3,670,307	$ (470,691)	$ 17,364	$ (1,003,629)	$ 12,270,356	$ 51,800	$ 12,322,156

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

(With Deloitte & Touche audit report dated March 22, 2018)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 1,300,160	$ 1,245,860
Adjustments for :		
Depreciation expenses	114,811	130,915
Amortization expenses	43,620	61,760
Provision for allowance for doubtful accounts	6,057	18,811
Gain on financial assets at fair value through profit or loss, net	(98,992)	(115,052)
Interest expense	32,359	24,823
Interest income	(48,528)	(29,965)
Dividend income	(47,243)	(42,918)
Share of profit of associates	(66,479)	(84,102)
Gain on disposal of property, plant and equipment, net	(4,229)	(17,804)
Gain on sale of non-current assets held for sale	(193,003)	-
Gain on sale of investment, net	-	(859)
Gain on sale of investments accounted for using equity method	(257,467)	(1,168,277)
Impairment loss on financial assets	4,129	174,051
Impairment loss on non-financial assets	33,654	315,223
Write-down of inventories	12,731	78,285
Unrealized loss (gain) on foreign currency exchange, net	8,982	(5)
Changes in operating assets and liabilities		
(Increase) decrease in financial assets held for trading	(328,122)	1,078,598
Decrease in notes receivable	2,742	7,426
(Increase) decrease in accounts receivable	(52,500)	86,031
Decrease in other receivables	17,889	93,565
Increase in inventories	(504,184)	(527,021)
(Increase) decrease in prepayments	(5,995)	10,187
Increase in other current assets	(10,066)	(10,024)
Increase in notes and accounts payable	253,029	148,228
Increase in other payables	13,227	148,269
Increase in receipts in advance	208,421	42,695
Increase (decrease) in other current liabilities	50,410	(8,285)
Decrease in net defined benefit liabilities	(15,485)	(9,118)
Cash generated from operations	469,928	1,651,297
Interest paid	(32,258)	(24,089)
Income tax paid	(218,027)	(132,989)
Net cash generated from operating activities	219,643	1,494,219
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of debt investments with no active market	(32,705)	(548,836)
Proceeds on sale of held-to-maturity financial assets	-	52,112
Acquisition of financial assets measured at cost	(88,465)	(43,212)
Proceeds on sale of financial assets measured at cost	-	2,478
Return of capital from capital reduction and liquidation of financial assets measured at cost	7,064	671

(Continued)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	**2016**
Acquisition of investments accounted for using equity method	$ (33,600)	$ -
Proceeds on sale of investments accounted for using equity method	344,010	1,361,442
Proceeds on sale of non-current assets held for sale	275,370	-
Payments for property, plant and equipment	(61,655)	(93,448)
Proceeds on disposal of property, plant and equipment	13,530	36,039
Increase in refundable deposits	(56,507)	(21,704)
Payments for intangible assets	(16,360)	(41,179)
Proceeds on disposal of intangible assets	-	160
Decrease in long-term receivables	49,251	38,409
(Increase) decrease in pledged time deposits	(7,973)	17,893
Increase in time deposits with original maturity of more than 3 months	(268,614)	(85,931)
Increase in other non-current assets	(4,732)	(2,692)
Interest received	45,024	24,136
Dividends received	47,341	42,949
Dividends received from associates	31,057	42,430
Distribution in cash of the capital surplus received from financial assets measured at cost	-	75
Net cash generated from investing activities	242,036	781,792
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	441,084	462,229
Increase (decrease) in guarantee deposits received	420	(684)
Dividends paid	(942,877)	(673,483)
Proceeds from exercise of employee stock options	-	16,595
Payments for buy-back of common shares	-	(73,859)
Increase in non-controlling interests	25,540	39,506
Cash dividends received by subsidiaries from the Corporation	117,049	116,457
Distribution in cash from the capital surplus	(404,090)	(673,483)
Net cash used in financing activities	(762,874)	(786,722)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(235,852)	(49,648)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(537,047)	1,439,641
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	4,245,282	2,805,641
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 3,708,235	$ 4,245,282

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

(With Deloitte & Touche audit report dated March 22, 2018) (Concluded)

SYSTEX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Systex Corporation (the Corporation) was incorporated on January 7, 1997 under the provision of the Company Act of the Republic of China and other laws and regulations. The Corporation is mainly engaged in sales and leases of computer software and related equipment, transmission and security of value-added network, maintenance of database, and consultation.

The Corporation's shares had been traded on Emerging Stock Market since April 10, 2002 and Taipei Exchange since January 6, 2003. On December 30, 2010, the Corporation has changed the listing and trading of its shares to the Taiwan Stock Exchange.

The consolidated financial statements are presented in the Corporation's functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation's board of directors on March 22, 2018.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC).

   Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the accounting policies of the Corporation and entities controlled by the Corporation (collectively, the "Group"):

   1) Amendments to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

      The amendments clarify that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Group is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2 or Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using the present value technique. The amendments were retrospectively applied from January 1, 2017.

2) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards, including IFRS 2 "Share-based Payment", IFRS 3 "Business Combinations" and IFRS 8 "Operating Segments", were amended in this annual improvement.

The amended IFRS 2 changes the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition" and "service condition". The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Group or another entity in the same group or the market price of the equity instruments of the Group or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Group as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Group, but also of other entities outside the Group. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions are accounted for differently, and the aforementioned amendment were applied to those share-based payments granted on or after January 1, 2017.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss. The amendment is applied to business combination with acquisition date on or after January 1, 2017.

The amended IFRS 8 requires the Group to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics". The amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segments' assets are regularly provided to the chief operating decision-maker. The judgements made in applying aggregation criteria were disclosed retrospectively upon initial application of the amendment in 2017 refer to Note 29.

When the amended IFRS 13 becomes effective in 2017, the short-term receivables and payables with no stated interest rate are measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

3) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 "Investment Property", were amended in this annual improvement.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

4) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include an emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Group, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction amount or balance with a specific related party is 10% or more of the Group's respective total transaction amount or balance, such transaction should be separately disclosed by the name of each related party.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 25 for the related disclosures.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs endorsed by the FSC for application starting from 2018

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Group analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

a) Listed shares and certain unlisted shares classified as available-for-sale will be classified as at fair value through profit or loss, or designated as at fair value through other comprehensive income with the fair value gains or losses accumulated in other equity, which will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal. Besides, unlisted shares measured at cost will be measured at fair value;

b) Debt investments classified as debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows.

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

The Group has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables, contract assets and lease receivables. In relation to debt instrument investments and financial guarantee contracts, the Group will assess whether there has been a significant increase in credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Group anticipates that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

The Group elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets on January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2018**
Impact on assets, liabilities and equity			
Financial assets at fair value through profit or loss - current	$ 3,222,285	$ 1,548,257	$ 4,770,542
Financial assets at fair value through other comprehensive income - current	-	126,517	126,517
Available-for-sale financial assets - current	16,561	(16,561)	-
Financial assets measured at amortized cost - non-current	-	500,000	500,000
Financial assets measured at cost - non-current	509,150	(509,150)	-
Debt investments with no active market - non-current	574,400	(574,400)	-
Total effect on assets	$ 4,322,396	$ 1,074,663	$ 5,397,059
Retained earnings	$ 2,708,899	$ 1,095,099	$ 3,803,998
Other equity	(453,327)	(21,651)	(474,978)
Non-controlling interests	51,800	1,215	53,015
Total effect on equity	$ 2,307,372	$ 1,074,663	$ 3,382,035

2) IFRS 15 “Revenue from Contracts with Customers” and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations.

When applying IFRS 15, the Group recognizes revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the Group satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

The Group assessed that the initial application of IFRS 15 on January 1, 2018 will not have material impact on assets, liabilities and equity.

3) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendments clarify that the difference between the carrying amount of a debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments also stipulate that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

4) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group will apply IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the interpretation.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The amendments stipulate that, when an entity sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when an entity loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when an entity sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate or joint venture, i.e. the entity's share of the gain or loss is eliminated. Also, when an entity loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate or joint venture, i.e. the entity's share of the gain or loss is eliminated.

2) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this standard recognized at the date of initial application.

3) IFRIC 23 "Uncertainty Over Income Tax Treatments"

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Group shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

4) Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment shall be applied prospectively.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within twelve months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and

2) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

- Principles for preparing consolidated financial statements

  The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (i.e. its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Corporation.

See Note 13 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquirer's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

f. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including subsidiaries and associates in other countries that use currency different from the currency of the Corporation) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income attributed to the owners of the Corporation and non-controlling interests as appropriate.

On the disposal of a foreign operation (i.e. a disposal of the Corporation's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Corporation are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Corporation losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

g. Inventories

Inventories are stated at the lower of cost (monthly weighted average) or net realizable value. Net realizable value is the estimated selling price of inventories less all estimated costs necessary to make the sale.

h. Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of equity of associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of equity of associates. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which it ceases to have significant influence. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

i. Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

Freehold land is not depreciated.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Intangible assets

1) Intangible assets acquired separately

Intangible assets (computer software) with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

2) Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

b) The intention to complete the intangible asset and use or sell it;

c) The ability to use or sell the intangible asset;

d) How the intangible asset will generate probable future economic benefits;

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Intangible assets acquired in a business combination

Intangible assets (technological expertise and client relationship) acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

4) Derecognition of intangible assets

Gains or losses arising from derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

k. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual or smallest group of cash-generating units on a reasonable and consistent allocation basis.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. Non-current assets held for sale

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

When to a sale plan would result in loss of control of a subsidiary, regardless of whether the Group will retain a non-controlling interest in that subsidiary after the sale. However, such investment is still accounted for by the equity method.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate, only the investment or the portion of the investment that will be disposed of is classified as held for sale when the classification criteria are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method. If the Group ceases to have significant influence nor joint control over the investment after the disposal takes place, the Group accounts for any retained interest that has not been classified as held for sale in accordance with the accounting policies for financial instruments.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

When a subsidiary, associate, or a portion of an interest in an associate previously classified as held for sale no longer meets the criteria to be so classified, it is measured at the carrying amount that would have been recognized had such interests not been classified as held for sale. Financial statements for the periods since classification as held for sale are amended accordingly.

m. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

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

i. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss that are assets held for trading.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 24.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either not classified as loans and receivables or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit and loss or other comprehensive income. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

Loans and receivables (including accounts receivable, cash and cash equivalent, and debt investments with no active market) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as accounts receivable, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables, and so on.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible accounts receivable that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

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

2) Equity instruments

Equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Corporation's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Corporation's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

All the financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

n. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenues from sales of computer hardware and software are recognized when the items and the risks and rewards associated with the items are transferred to the customers. Revenue from integrated hardware and software solutions are generally recognized by reference to the stage of completion of the contract terms.

Service income is generally recognized when service is rendered or is recognized over the term of the service contract under the straight-line method or the percentage-of-completion method. Contract profit for the current period is the difference between the cumulative profit at the end of the current period and the cumulative profit recognized in the prior periods. When total contract cost is estimated to be greater than total contract revenue at the end of a year, the excess should be recognized as operating cost in the current year.

Other operating revenue is mainly comprised of rental revenue on leases of computer equipment, which is recognized over the term of the lease.

Dividend income from investments is recognized when the shareholder’s right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

o. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group’s net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

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

p. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur, or when the plan amendment or curtailment occurs/when the settlement occurs. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

q. Share-based payment arrangements

The fair value determined at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimate of the number of employee stock options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee stock options.

At the end of each reporting period, the Corporation revises its estimate of the number of employee stock options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee stock options.

r. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and the corresponding tax bases used in the computation of taxable profit. If the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, personnel training expenditures and investments to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income, in which case, the current and deferred tax are also recognized in other comprehensive income.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

a. Estimated impairment 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 impairment loss is measured as the difference between an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

b. Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value was based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	**2016**
Cash on hand	$ 683	$ 747
Checking and savings accounts	1,705,305	3,308,374
Cash equivalent		
Time deposits with original maturities less than three months	2,002,247	936,161
	$ 3,708,235	$ 4,245,282
Market interest rate interval		
Time deposits with original maturities less than three months	0.60%-1.85%	0.60%-1.25%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	**2016**
Financial assets held for trading		
Mutual funds	$ 3,073,085	$ 2,661,604
Corporation bonds	12,139	27,433
Listed shares	137,061	190,919
	$ 3,222,285	$ 2,879,956

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	**2016**
Listed shares	$ 8,526	$ 11,047
Corporate bonds	8,035	7,937
	$ 16,561	$ 18,984

9. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	December 31	
	2017	**2016**
Current		
Time deposits with original maturity of more than 3 months	$ 357,120	$ 102,339
Non-current		
Domestic corporate bonds	$ 500,000	$ 500,000
Overseas convertible bonds	74,400	48,375
	$ 574,400	$ 548,375
Market interest rate interval		
Time deposits with original maturity of more than 3 months	1.63%-1.73%	0.30%-1.01%
Domestic corporate bonds	3.5%	3.5%
Overseas convertible bonds	5%-6%	5%-6%

10. NOTES RECEIVABLE, ACCOUNTS RECEIVABLE AND LONG-TERM RECEIVABLES, NET

	December 31	
	2017	**2016**
Notes receivable	$ 65,068	$ 67,810
Less: Allowance for doubtful accounts	(231)	(231)
	$ 64,837	$ 67,579
Accounts receivable	$ 3,257,736	$ 3,444,783
Less: Allowance for doubtful accounts	(40,538)	(139,868)
	$ 3,217,198	$ 3,304,915
Long-term receivables	$ 5,210	$ 55,966
Less: Unrealized interest income	(266)	(1,771)
	$ 4,944	$ 54,195

The average credit period on accounts receivable was 78 days. In determining the recoverability of accounts receivable, the Group considered any change in the credit quality of the accounts receivable since the date credit was initially granted to the end of the reporting period. Based on the historical experience, the risk of non-collection of receivable was higher when the receivables were not collected on due date. The Group assessed the receivables individually and recognized an allowance for doubtful accounts of 100% against receivables that are irrecoverable. Allowance for doubtful accounts was recognized against other receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

The aging of receivables (based on invoice date) was as follows:

	December 31	
	2017	2016
Less than 90 days	$ 2,904,996	$ 2,917,517
91-120 days	158,607	208,459
121-180 days	108,475	94,099
181-360 days	84,896	111,586
Over 361 days	65,830	180,932
	$ 3,322,804	$ 3,512,593

The aging of receivables that were past due but not impaired (based on invoice date) was as follows:

	December 31	
	2017	2016
91-120 days	$ 158,548	$ 206,898
121-180 days	107,830	93,512
181-360 days	79,009	105,295
Over 361 days	31,652	49,329
	$ 377,039	$ 455,034

Because there was no significant change in credit quality and the amounts were still considered recoverable, the Group did not hold any collateral or other credit enhancements for these balances. In addition, the Group does not have the legal right to offset receivables with accounts payable with the same counterparty.

The Group's transactions were made with a large number of unrelated customers; thus, the concentration of credit risk was limited.

The movements of the allowance for doubtful trade receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	$ 73,988	$ 63,397	$ 137,385
Add: Impairment losses recognized on receivables	2,387	16,424	18,811
Less: Amounts written off during the year as uncollectible	(355)	(14,546)	(14,901)
Foreign exchange translation gains and losses	-	(1,196)	(1,196)
Balance at December 31, 2016	76,020	64,079	140,099
Add: Impairment losses recognized on receivables	1,020	5,037	6,057
Less: Amounts written off during the year as uncollectible	(67,333)	(37,638)	(104,971)
Foreign exchange translation gains and losses	-	(416)	(416)
Balance at December 31, 2017	$ 9,707	$ 31,062	$ 40,769

11. INVENTORIES

	December 31 2017	December 31 2016
Merchandise	$ 2,875,190	$ 2,388,459
Maintenance parts	35,375	33,824
	$ 2,910,565	$ 2,422,283

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was $10,350,367 thousand and $9,961,443 thousand, respectively. The cost of goods sold included inventory write-downs of $12,731 thousand and $78,285 thousand, respectively.

12. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

	December 31 2017	December 31 2016
Unlisted common shares	$ 439,301	$ 416,026
Unlisted special shares	50,000	-
Others	19,849	16,945
	$ 509,150	$ 432,971

Management believed that the above unlisted equity investments held by the Group had fair values which cannot be reliably measured, because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of the reporting period.

13. SUBSIDIARIES

Subsidiaries Included in the consolidated Financial Statements

Investor	Investee	Main Business	% of Ownership December 31 2017	% of Ownership December 31 2016	Remark
The Corporation	Concord System Management Corporation (CSMC)	Design, assessment and planning of computer system and application software and data-processing system, sale and lease of computer hardware, peripheral equipment and spare parts, and repairs and maintenance services.	100.00	100.00	
The Corporation	Systex Capital Group, Inc. (SCGI)	Investment activities including financial trust and holding.	100.00	100.00	
The Corporation	Hanmore Investment Corporation (Hanmore)	General investment activities.	48.92	48.92	a)
The Corporation	Systex Software & Service Corporation (SSSC)	Sale and development of computer software, data-processing services.	100.00	100.00	
The Corporation	Golden Bridge Corporation (GBC)	General investment activities.	100.00	100.00	
The Corporation	Taifon Computer Co., Ltd. (Taifon)	Design of computer hardware and software equipment system, computer room installation, and maintenance, sale, lease and consultation.	100.00	100.00	
The Corporation	Ching Pu Investment Corporation (Ching Pu)	General investment activities.	100.00	100.00	
The Corporation	Kimo.com (BVI) Corporation (Kimo BVI)	Investment activities including financial trust and holding.	100.00	100.00	

(Continued)

Investor	Investee	Main Business	% of Ownership December 31 2017	2016	Remark
The Corporation, Ching Pu and GBC	Syspower Corporation (Syspower)	Design, setup and maintenance of computer information and communication engineering, and design and sale of computer system software.	84.07	84.07	
The Corporation	Nexsys Corporation (Nexsys)	Manufacturing of wire communication equipment and apparatus, electronic parts and components, and computers and peripheral equipment, installation of computer, and wholesale and retailing of computer and business machinery equipment.	100.00	100.00	
The Corporation	Systex Solutions Corporation II (Syxtex Solutions II)	Design, construction and sale of telecom instrument, electronic calculator and computer.	100.00	100.00	
The Corporation	Etu Corporation (Etu)	Software design and data processing, retailing and service of software.	84.19	78.26	b)
The Corporation	Naturint Corporation (Naturint)	Installation, sale, information software, data processing and other consultation of computer software and related equipment, network certification and software publication.	100.00	100.00	c)
GBC	SoftMobile Technology Corporation (Soft Mobile)	Manufacturing of wire communication equipment and apparatus, electronic parts and components, and computers and peripheral equipment, installation of computer, and wholesale and retailing of computer and business machinery equipment.	100.00	100.00	
Ching Pu	Taiwan Electronic Data Processing Corporation (TEDP)	Design, installation, maintenance, lease and consultation of computer software and hardware equipment system, computer room engineering, network equipment system integration, and wholesale and retailing of medical appliances.	69.59	69.59	
TEDP	Medincom Technology Corporation (Medincom)	Installation, sale and consultation of computer software and related equipment, and wholesale and retailing of medical appliances.	100.00	100.00	
Kimo BVI	Sysware Singapore Pte. Ltd. (Sysware Singapore)	Computer system integration service and software.	100.00	100.00	
Kimo BVI	Systex Information (H.K.) Limited (Systex Info)	Sale of computer and peripheral equipment, retailing and processing of information of software.	100.00	100.00	
Kimo BVI	Sysware Shenglong Information Systems Co., Ltd. (Sysware Shenglong)	Design of computer system, information processing service provider, retailing of computer and peripheral equipment.	100.00	100.00	
Kimo BVI	Ucom Information Ltd. (Shanghai) (Ucom Shanghai)	Service, wholesale and retailing of information software.	100.00	100.00	
Kimo BVI	Systek Information (Shanghai) Ltd. (Systek)	Sale of computer and peripheral equipment, retailing and processing of information software.	100.00	100.00	
Kimo BVI	Rainbow Tech Information (HK) Limited (RTIHK)	Sale of computer and peripheral equipment, retailing and processing of information software.	100.00	100.00	
Kimo BVI	Systex Solutions (HK) Limited	Investment activities including financial trust and holding.	100.00	100.00	
Kimo BVI and SCGI	Syscore Corporation (Syscore)	General investment activities.	100.00	-	d)
Sysware Shenglong	Optima Financial Software Company (Optima)	Research, development and production of computer hardware, and information system integration.	-	-	e)
Systex Info	Systex Group (China) Ltd. (Systex China)	Management consultation, marketing and sale, and capital and operation financial management.	100.00	100.00	
Systek and Ucom Shanghai	Rainbow Tech (Guangzhou) Inc. (RTGI)	Research, development, installation and wholesale of software and hardware technique and internet system.	100.00	100.00	
Systex Group (China) Ltd. (Systex Group)	Systex Ucom (Shanghai) Information Ltd. Co. (Systex Ucom)	Software design and data processing, retailing and service of software.	100.00	100.00	

(Concluded)

a. The Group holds a 48.9% interest in Hanmore. The directors of the Corporation consider the Group's absolute size of holding in Hanmore and the relative size of and dispersion of the shareholdings owned by the other shareholders and concluded that the Group has the practical ability to direct the relevant activities of Hanmore and therefore the Group has control over Hanmore.

b. The Corporation purchased shares of Etu in June and July 2017 from the shareholders of non-controlling interests, resulting in an increase of the ownership percentage.

c. Naturint was incorporated in July 2016.

d. Syscore was incorporated in October 2017.

e. Optima completed nullification of registration process in May 2016.

All accounts of subsidiaries were included in consolidated financial statements for the years ended December 31, 2017 and 2016.

Among the abovementioned entities, the financial statements as of and for the years ended December 31, 2017 and 2016 of Sysware Singapore were not audited. The aggregate assets of the subsidiary as of December 31, 2017 and 2016 amounted to $7,788 thousand and $8,995 thousand, respectively, which were 0.04% and 0.05% of the respective consolidated assets, and the aggregate liabilities amounted to $76 thousand and $707 thousand, respectively, which were 0% and 0.01% of the respective consolidated liabilities. The aggregate net operating revenues of the subsidiary in 2017 and 2016 amounted to $0 thousand and $30,493 thousand, respectively, which were 0% and 0.19% of the respective consolidated net operating revenues, and the aggregate amounts of comprehensive loss amounted to $2,020 thousand and $451 thousand in 2017 and 2016, respectively, which were (0.27%) and (0.05%) of the respective consolidated total comprehensive income. The Corporation believes that any adjustment that might have resulted had the financial statements of the subsidiary been audited would not be material to the consolidated financial statements taken as a whole.

14. INVESTMENTS ACCOUNTED FOR BY USING THE EQUITY METHOD

	December 31	
	2017	**2016 (After Restated)**
Investments in associates		
Material associates		
Forms Syntron Information (Shenzhen) Limited	$ 737,516	$ 793,549
Associates that are not individually material	416,011	397,656
	$ 1,153,527	$ 1,191,205

a. Material associates

Name of Associates	Proportion of Ownership and Voting Rights December 31 2017	2016
Forms Syntron Information (Shenzhen) Limited	11.69%	14.16%

Although the Group only owns less than 20% of interests of Forms Syntron Information (Shenzhen) Limited, the Group has significant influence over the investee since the Group holds a director of the investee; therefore, the investment is accounted for using the equity method. As the Group had planned to dispose all interests of Forms Syntron Information (Shenzhen) Limited in 2017, the Group entered into a sale agreement in January 2017 and the sale transaction was to be completed in the second quarter of 2017. Therefore, the Group classified the carrying amount of the investment, amounting to $793,549 thousand, to non-current asset held for sale. Due to the transaction, the Group paid a contract guarantee deposit amounted to US$15,000 thousand (accounted for refundable deposits - current)

However, due to the local policy that imposes foreign exchange controls, the buyer could not fully pay the total contract price and the ownership interests can not be transferred to the buyer according to the sale agreement. After negotiations, the Group and the buyer agreed to terminate the sale agreement in March 2017, and the Group refunded the aforementioned deposit in May 2017. Hence, the investment no longer met the criteria of non-current asset held for sale and should be measured at the carrying amount that would have been recognized had such interests not been classified as held for sale in accordance with the requirements of IFRS 5, and the presentation of the investment in the consolidated balance sheets as of December 31, 2016 has been retrospectively adjusted.

Fair values (Level 1) of investment in the associate with available published price quotation are summarized as follows:

	December 31	
Name of Associate	**2017**	**2016**
Forms Syntron Information (Shenzhen) Limited	$ 2,288,705	$ 3,801,920

Summarized financial information in respect of the Group’s material associate is set out below. The summarized financial information below represents amounts shown in the associates’ financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

Forms Syntron Information (Shenzhen) Limited

	December 31	
	2017	**2016**
Assets	$ 5,315,268	$ 4,630,310
Liabilities	(235,625)	(276,832)
Equity	$ 5,079,643	$ 4,353,478
Proportion of the Group’s ownership	11.69%	14.16%
Equity attributable to the Group	$ 594,031	$ 616,614
Goodwill	147,440	182,345
Other payables	(3,955)	(5,410)
Carrying amount	$ 737,516	$ 793,549

	For the Year Ended December 31	
	2017	2016
Operating revenue	$ 1,664,593	$ 1,783,405
Net profit for the year	$ 417,417	$ 367,485
Other comprehensive income	(542)	2,818
Total comprehensive income for the year	$ 416,875	$ 370,303
Dividends received from Forms Syntron Information (Shenzhen) Limited	$ 14,960	$ 13,075

b. Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2017	2016
The Group's share of:		
Net profit for the year	$ 11,762	$ 18,342
Other comprehensive income (loss)	13,261	(13,365)
Total comprehensive income for the year	$ 25,023	$ 4,977

Except for E-Customer Capital Limited, Systex Infopro Co., Ltd. and Sunlight-tech Inc., for the year ended December 31, 2017, and AFE Solutions Limited, Bisnews International Limited, E-Customer Capital Limited, Systex Infopro Co., Ltd. and Yankey Inc., for the year ended in December 31, 2016, investments accounted for by the equity method and the share of profit or loss and other comprehensive income were calculated based on the financial statements that have been audited. Management believes the financial statements that have not been audited would not have material impact on the investments under the equity method or the share of profit or loss and other comprehensive income in the consolidated financial statements.

In addition, the Group planned to dispose all the interests of AFE Solutions Limited and Bisnews International Limited in 2017. Therefore, the Group reclassified the carrying amounts of these investment, amounting to $81,149 thousand and $15,397 thousand, respectively, to non-current asset held for sale in October 2016. The disposal of the interests was completed in March 2017, and the proceeds of the disposal amounted to $275,370 thousand (US$9,049 thousand.).

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Computer Equipment	Transportation Equipment	Lease Equipment	Leasehold Improvements	Other Equipment	Total
Cost								
Balance at January 1, 2016	$ 835,372	$ 1,530,556	$ 268,980	$ 12,722	$ 87,083	$ 54,946	$ 100,589	$ 2,890,248
Additions	-	-	59,901	10,169	13,480	5,330	4,568	93,448
Disposals	(4,304)	(28,749)	(128,757)	(9,220)	(13,901)	(16,833)	(14,457)	(216,221)
Reclassification	-	-	(3,181)	-	(67)	-	-	(3,248)
Effect of foreign currency exchange differences	-	(24,702)	(2,391)	(243)	(399)	(637)	(4,084)	(32,456)
Balance at December 31, 2016	$ 831,068	$ 1,477,105	$ 194,552	$ 13,428	$ 86,196	$ 42,806	$ 86,616	$ 2,731,771

(Continued)

	Land	Buildings	Computer Equipment	Transportation Equipment	Lease Equipment	Leasehold Improvements	Other Equipment	Total
Accumulated depreciation and impairment								
Balance at January 1, 2016	$ 14,853	$ 481,312	$ 175,989	$ 11,128	$ 28,981	$ 30,912	$ 57,576	$ 800,751
Depreciation expenses	-	23,052	53,653	1,211	29,795	10,043	13,161	130,915
Disposals	-	(16,260)	(127,872)	(9,220)	(13,901)	(16,833)	(13,900)	(197,986)
Reclassification	-	-	(2,152)	-	(54)	-	-	(2,206)
Effect of foreign currency exchange differences	-	(4,180)	(1,568)	(202)	(145)	(481)	(2,800)	(9,376)
Balance at December 31, 2016	$ 14,853	$ 483,924	$ 98,050	$ 2,917	$ 44,676	$ 23,641	$ 54,037	$ 722,098
Carrying amounts at December 31, 2016	$ 816,215	$ 993,181	$ 96,502	$ 10,511	$ 41,520	$ 19,165	$ 32,579	$ 2,009,673
Cost								
Balance at January 1, 2017	$ 831,068	$ 1,477,105	$ 194,552	$ 13,428	$ 86,196	$ 42,806	$ 86,616	$ 2,731,771
Additions	-	-	44,075	508	5,431	4,015	7,626	61,655
Disposals	(5,310)	(2,873)	(42,303)	-	(22,880)	(7,773)	(6,224)	(87,363)
Reclassification	-	-	63	-	(1,780)	(248)	288	(1,677)
Effect of foreign currency exchange differences	-	(5,751)	(2,364)	(55)	(117)	(382)	(1,831)	(10,500)
Balance at December 31, 2017	$ 825,758	$ 1,468,481	$ 194,023	$ 13,881	$ 66,850	$ 38,418	$ 86,475	$ 2,693,886
Accumulated depreciation and impairment								
Balance at January 1, 2017	$ 14,853	$ 483,924	$ 98,050	$ 2,917	$ 44,676	$ 23,641	$ 54,037	$ 722,098
Depreciation expenses	-	22,442	43,675	1,955	26,943	7,640	12,156	114,811
Disposals	-	(1,084)	(40,127)	-	(22,880)	(7,773)	(6,198)	(78,062)
Reclassification	-	-	62	-	(1,581)	(4)	44	(1,479)
Effect of foreign currency exchange differences	-	(973)	(1,869)	(50)	(34)	(304)	(777)	(4,007)
Balance at December 31, 2017	$ 14,853	$ 504,309	$ 99,791	$ 4,822	$ 47,124	$ 23,200	$ 59,262	$ 753,361
Carrying amounts at December 31, 2017	$ 810,905	$ 964,172	$ 94,232	$ 9,059	$ 19,726	$ 15,218	$ 27,213	$ 1,940,525

(Concluded)

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings	19-60 years
Computer equipment and other equipment	3-7 years
Transportation equipment	5-6 years
Lease equipment	2-5 years
Leasehold improvements	2-5 years or the period of lease, if shorter

Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 26.

16. SHORT-TERM LOANS

Bank Loans

	December 31	
	2017	2016
Unsecured loans	$ 901,000	$ 576,000
Secured loans	559,053	470,022
	$ 1,460,053	$ 1,046,022
Annual interest rate		
Unsecured loans	1.13%-2.34%	1.24%-2.37%
Secured loans	1.40%-4.92%	1.43%-4.57%

Refer to Note 26 for the carrying amounts of property, plant and equipment - buildings and the Corporation's shares provided as collaterals for the above secured bank loans.

17. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Corporation and its domestic subsidiaries adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of Systex Info, RTIHK, Systek, Ucom Shanghai, Sysware Shenglong, RTGI, Systex China, Systex Ucom and Sysware Singapore are members of state-managed retirement benefit plans operated by the governments of their respective jurisdictions. The subsidiaries are required to contribute specific percentages of payroll costs to the retirement benefit schemes to funds the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

The defined benefit plan adopted by the Corporation and several of its domestic subsidiaries in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. These entities contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31	
	2017	**2016**
Present value of defined benefit obligation	$ 504,162	$ 510,678
Fair value of plan assets	(240,525)	(264,299)
Net defined benefit liability	$ 263,637	$ 246,379

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2016	$ 492,267	$ (253,194)	$ 239,073
Service cost			
Current service cost	2,667	-	2,667
Net interest expense (income)	7,397	(3,947)	3,450
Recognized in profit or loss	10,064	(3,947)	6,117
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	2,211	2,211
Actuarial loss - changes in demographic assumptions	4,851	-	4,851
Actuarial loss - changes in financial assumptions	15,459	-	15,459
Actuarial loss - experience adjustments	(7,137)	-	(7,137)
Recognized in other comprehensive income	13,173	2,211	15,384
Contributions from the employer	-	(14,220)	(14,220)
Benefits paid	(4,826)	4,826	-
Plan assets refund	-	25	25
Balance at December 31, 2016	510,678	(264,299)	246,379
Service cost			
Current service cost	2,236	-	2,236
Net interest expense (income)	6,992	(3,740)	3,252
Recognized in profit or loss	9,228	(3,740)	5,488
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	1,453	1,453
Actuarial gain - changes in demographic assumptions	(5,109)	-	(5,109)
Actuarial loss - changes in financial assumptions	7,326	-	7,326
Actuarial loss - experience adjustments	29,073	-	29,073
Recognized in other comprehensive income	31,290	1,453	32,743
Contributions from the employer	-	(12,924)	(12,924)
Benefits paid	(47,034)	38,985	(8,049)
Balance at December 31, 2017	$ 504,162	$ (240,525)	$ 263,637

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2017	**2016**
Discount rates	1.25%-1.75%	1.38%-1.75%
Expected rates of salary increase	1.00%-2.50%	1.00%-2.50%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2017	**2016**
Discount rates		
0.25%-0.5% increase	$ (30,460)	$ (25,514)
0.25%-0.5% decrease	$ 28,339	$ 27,514
Expected rates of salary increase		
0.25%-0.5% increase	$ 28,438	$ 26,794
0.25%-0.5% decrease	$ (30,317)	$ (25,079)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2017	**2016**
The expected contributions to the plan for the next year	$ 17,631	$ 14,164
The average duration of the defined benefit obligation	13 years	15 years

18. EQUITY

a. Share capital

	December 31	
	2017	**2016**
Number of common shares authorized (in thousands)	400,000	400,000
Common shares authorized	$ 4,000,000	$ 4,000,000
Number of common shares issued (in thousands)	269,393	269,393
Common shares issued	$ 2,693,933	$ 2,693,933

Fully paid common shares, which have a par value of $10, carry one vote per share and carry a right to dividends.

b. Stock-based compensation plan

For the Corporation to retain its qualitative professionals for its business and operations and deepen the employees' sense of belonging, the Corporation adopted stock option plans (the "Plans"), which the board of directors approved on March 19, 2010, to grant employees 10,000 units of stock options. Each unit represented 1,000 common shares of the Corporation. The Securities and Futures Bureau under the FSC approved the Plans on April 12, 2010.

The Corporation issued 6,800 units and 3,200 units, on February 17, 2011 and May 10, 2010, respectively. The options were granted to qualified employees of the Corporation and its subsidiaries. The options are valid for 5 years and exercisable at certain percentages after the second anniversary from the grant date. The exercise price of the stock options is equal to the closing price of the Corporation's common shares listed on the Taiwan Stock Exchange on the date of the grant. If the number of the Corporation's common shares changes after the granting of the stock option, the exercise price will be revised in accordance with the terms of the Plans.

Information on employee stock options in 2016 was as follows:

	2016	
Employee Stock Option	**Number of Outstanding Options**	**Weighted-average Exercise Price (NT$)**
Beginning outstanding balance	655	$ 29.90
Options exercised	(555)	$ 29.90
Options forfeited	(100)	$ 29.90
Ending outstanding balance	-	$ -
Ending exercisable balance	-	

Options granted in 2011 and 2010 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	Issued on February 17, 2011	**Issued on May 10, 2010**
Grant-date share price (NT$)	$40.50	$42.70
Exercise price (NT$)	$33.90	$34.00
Expected volatility	37.24%-37.76%	39.20%-39.45%
Expected life (years)	3.5-4 years	3.5-4 years
Expected dividend yield	-	-
Risk-free interest rate	1%-1.045%	0.69%-0.87%

c. Capital surplus

	December 31	
	2017	2016
Maybe used to offset a deficit, distribute as cash dividends, or transfer to share capital (1)		
Issue of common shares	$ 5,638,242	$ 6,042,332
Donations	544	544
May not be used for any purpose		
Changes in percentage of ownership interest in subsidiaries (2)	8,576	8,576
Share of changes in associates accounted for by using equity method	270,675	255,542
Treasury share transactions	1,440,542	1,323,493
Gain on sale of property and equipment	4,493	4,493
	$ 7,363,072	$ 7,634,980

1) Such capital surplus may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and once a year).

2) Such capital surplus arises from the effect of changes in ownership interest in subsidiary resulted from equity transactions other than actual disposal on acquisition, or from changes in capital surplus of subsidiaries accounted for by using the equity method.

d. Appropriation of earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 17, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors after amendment, please refer to c. employees' compensation and remuneration of directors in Note 19.

Following its Articles of Incorporation and considering the overall environment, growth trends in the industry, and the Corporation's long-term financial planning and ongoing goal to have steady progress, the Corporation applies its residual dividends policy as follows:

1) Determine the appropriate capital budget.

2) Determine the funds needed for the capital budget.

3) Determine the amount to be funded by unappropriated earnings (the remaining may be funded through capital increase by cash or through issuance of bonds).

4) The remaining retained earnings, less an appropriate portion for the operational needs, may be distributed to shareholders.

The Corporation's dividends may be distributed in cash or stocks. The distribution of profits shall be made preferably by way of cash dividends. The distribution could also be made by way of stock dividends, which should not exceed 50% of the total distributed earnings in principle. In addition, dividend policy depends on criteria such as the Corporation's current and future investment environment, cash requirements, domestic and international competition, capital budget, etc. Further, the Corporation also takes into consideration shareholders' interests, balances of dividends and its long-term financial goals. Annually, the board of directors prepares a proposal on earnings appropriation for approval at the shareholders' meeting.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Corporation's paid-in capital. Legal reserve may be used to offset deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under the local regulations, an amount equal to the net debit balance of total other equity items (including exchange differences on translating foreign operations and unrealized gain (loss) on available-for-sale financial assets) shall be appropriated as a special reserve. The special reserve may be reversed to the extent of the decrease in the net debit balance.

If the Corporation's shares are held by its subsidiaries at the end of the year and the market value of the shares held are lower than their carrying amounts, the Corporation should appropriate a special reserve equal to the difference between the carrying amounts and market value multiplied by its percentages of ownership in the subsidiaries. The special reserve can be reversed in proportion to the percentages of ownership in the subsidiaries when the market value of the shares increased.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation.

The appropriations of earnings for 2016 and 2015 had been approved in the shareholders' meetings held on June 16, 2017 and June 17, 2016, respectively, were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For the Year Ended December 31		**For the Year Ended December 31**	
	2016	**2015**	**2016**	**2015**
Legal reserve	$ 110,827	$ 56,428	$ -	$ -
Special reserve	64,494	-	-	-
Cash dividends	942,877	673,483	3.5	2.5
	$ 1,118,198	$ 729,911	$ 3.5	$ 2.5

The shareholders resolved the distribution in cash of the capital surplus arising from issuance of common shares in the shareholders' meeting held on June 16, 2017 and June 17, 2016, respectively. The distribution amounted to $404,090 thousand (at NT$1.5 per share) and $673,483 thousand (at NT$2.5 per share), respectively.

The appropriations of earnings for 2017 had been proposed by the Corporation's board of directors on March 22, 2018. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 117,775	$ -
Special reserve	388,833	-
Cash dividends	673,483	2.5

In addition, the board of directors proposed in the same meeting the distribution in cash of the capital surplus arising from issuance of common shares, amounting to $673,483 thousand at NT$2.5 per share.

The appropriations of 2017 earnings and distribution of capital surplus will be resolved by the shareholders in their meeting scheduled for June 2018.

Information about the appropriations of earnings and distribution of capital surplus are available at the Market Observation Post System website of the Taiwan Stock Exchange.

e. Others equity items

1) Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ (83,286)	$ 127,939
Exchange differences arising on translating the net asset of foreign operations	(434,475)	(129,765)
Share of exchange difference of associates accounted for using the equity method	47,070	(81,460)
Balance at December 31	$ (470,691)	$ (83,286)

2) Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 18,792	$ 8,841
Unrealized loss arising on revaluation of available-for-sale financial assets	(1,428)	(22,278)
Cumulative loss reclassified to profit or loss on impairment of available-for-sale financial assets	-	32,219
Share of unrealized gain on revaluation of available-for-sale financial assets of associates accounted for using the equity method	-	10
Balance at December 31	$ 17,364	$ 18,792

f. Treasury share (in thousand)

Purpose of Treasury Share	Number of Shares at January 1	Increase During the Year	Decrease During the Year	Number of Shares at December 31
2017				
Reclassification of the Corporation's shares held by subsidiaries from equity-method investments into treasury share	23,410	-	-	23,410
2016				
Reclassification of the Corporation's shares held by subsidiaries from equity-method investments into treasury share	22,687	723	-	23,410

The Corporation's shares held by subsidiaries at end of reporting period were as follows:

	December 31	
	2017	2016
Hanmore		
Share (in thousand)	21,317	21,317
Investments cost	$ 834,351	$ 866,326
Market value	$ 1,264,079	$ 1,238,499
Ching Pu		
Share (in thousand)	12,982	12,982
Investments cost	$ 338,944	$ 358,416
Market value	$ 769,802	$ 754,224

For the Corporation's shares held by Hanmore, the investment cost at 48.9% (the ownership percentage owned by the Corporation) was transferred from investment accounted for using equity method to treasury shares, amounting to $515,618 (10,428 thousand shares) as of December 31, 2017 and 2016, respectively. The remaining was treated as recoveries from Hanmore's non-controlling interests, accounted for deduction to non-controlling interests in balance sheets.

The Corporation's shares held by its subsidiaries are recorded as treasury shares, with the subsidiaries having the same rights as other common shareholders on these shares, except that the subsidiaries which are owned by the parent company for over 50% will not have the right to participate in any share issuance for cash or to vote.

g. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 31,003	$ 56,026
Attributable to non-controlling interests:		
Share of loss for the year	(4,631)	(17,940)
Unrealized gains on available-for-sale financial asset	815	487
Remeasurement on defined benefit plans	(927)	(772)
Cash dividends received from subsidiaries	(28,465)	(39,317)
Non-controlling interests arising from cash dividends received by subsidiaries (Hanmore) from the Corporation	54,441	53,823
No-controlling interests arising from subscription of capital increase in Etu	-	25,000
Change in subsidiaries ownership	(436)	(8,576)
Acquisition of the Corporation's shares by Hanmore regarding as treasury share transaction	-	(37,728)
Balance at December 31	$ 51,800	$ 31,003

19. NET PROFIT

a. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	$ 114,811	$ 130,915
Intangible assets	43,620	61,760
	$ 158,431	$ 192,675
An analysis of depreciation by function		
Operating costs	$ 37,583	$ 47,623
Operating expenses	77,228	83,292
	$ 114,811	$ 130,915
An analysis of amortization by function		
Operating costs	$ 2,922	$ 3,017
Operating expenses	40,698	58,743
	$ 43,620	$ 61,760

b. Employee benefits expenses (accounted for operating expenses)

	For the Year Ended December 31	
	2017	2016
Post-employment benefits		
Defined contribution plans	$ 127,437	$ 127,295
Defined benefits plans (Note 17)	5,488	6,117
	132,925	133,412
Termination benefits	9,975	10,188
Payroll and other employee benefits	2,831,288	2,875,750
	$ 2,974,188	$ 3,019,350

As of December 31, 2017 and 2016, the Group has 2,907 and 2,920 employees, respectively.

c. Employees' compensation and remuneration of directors

The Corporation accrued employees' compensation and remuneration of directors at the rates no less than 0.1% and no higher than 0.1%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2017 and 2016 which have been approved by the Corporation's board of directors on March 22, 2018 and March 23, 2017, respectively, were as follows:

	For the Year Ended December 31			
	2017		2016	
	Accrual Rate	Cash	Accrual Rate	Cash
Employees' compensation	0.1%	$ 1,216	0.1%	$ 1,102
Remuneration of directors	2.0%	24,317	2.0%	22,035

If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2016.

Information on the employees' compensation and remuneration of directors resolved by the Corporation's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

d. Gain (loss) on sale of investments, net

	For the Year Ended December 31	
	2017	2016
Financial asset at fair value through profit or loss	$ 28,152	$ 57,897
Financial assets measured at cost	-	1,263
Held-to-maturity financial assets	-	(404)
Investments accounted for using the equity method	257,467	1,168,277
Non-current assets held for sale	193,003	-
	$ 478,622	$ 1,227,033

e. Impairment losses on assets

	For the Year Ended December 31	
	2017	2016
Financial assets		
Financial assets measured at cost	$ 882	$ 60,083
Available-for-sale financial assets	-	32,219
Investments accounted for using the equity method	3,247	81,749
	4,129	174,051
Non-financial assets		
Computer software	8,535	-
Technological expertise	23,213	-
Other intangible assets	1,906	-
Goodwill	-	315,223
	33,654	315,223
	$ 37,783	$ 489,274

20. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expenses were as follows:

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	$ 82,099	$ 59,903
Income tax expense of unappropriated earnings	210	16
Land value increment tax	102	720
Enterprise Income Tax on securities	34,204	133,010
Adjustments for prior years' tax	(383)	(9,362)
	116,232	184,287
Deferred tax		
In respected of the current year	10,810	(28,755)
Income tax expense recognized in profit or loss	$ 127,042	$ 155,532

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year Ended December 31	
	2017	2016
Profit before tax	$ 1,300,160	$ 1,245,860
Income tax expense calculated at the statutory rate (17%)	$ 221,027	$ 211,796
Nondeductible expenses in determining taxable income	4,668	45,762
Tax-exempt income	(67,198)	(235,148)
Additional income tax on unappropriated earnings	210	16
Unrecognized temporary differences	(9,898)	2,086

(Continued)

	For the Year Ended December 31	
	2017	2016
Investment tax credits recognized	$ -	$ (26,247)
Unrecognized loss carryforwards	5,062	17,432
Effect of different tax rate of group entities operating in other jurisdictions	(60,752)	15,467
Adjustments for prior years' tax	(383)	(9,362)
Land value increment tax	102	720
Enterprise Income Tax on securities	34,204	133,010
Income tax expense recognized in profit or loss	$ 127,042	$ 155,532

(Concluded)

Systex Solution (HK) Limited sold investments accounted for using equity method in 2017 and 2016 and incurred Enterprise Income Tax of $34,204 thousand and $133,010 thousand, respectively, according to the related tax laws in its jurisdiction.

The applicable corporate income tax rate used above is 17% for the group entities in ROC, and 25% for subsidiaries in China. Tax rate used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by $4,433 thousand and $886 thousand, respectively, in 2018.

As the status of 2018 appropriations of earnings is uncertain, the potential income tax consequences of 2017 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
Deferred tax		
Remeasurement on defined benefit plan	$ (151)	$ 437

c. Current tax assets and liabilities

	December 31	
	2017	2016
Current tax assets (included in other receivables)		
Tax refund receivable	$ 20,373	$ 17,385
Current tax liabilities		
Income tax payable	$ 50,105	$ 158,286
In respect of prior years	11,934	10,153
	$ 62,039	$ 168,439

As of December 31, 2017 and 2016, income tax payables were net of prepayments aggregating $33,252 thousand and $34,633 thousand, respectively.

d. The movements of deferred tax assets and liabilities

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Unrealized project costs	$ 196	$ (60)	$ -	$ 136
Allowance for loss on inventories	20,531	(14,652)	-	5,879
Deferred revenue	772	1,119	-	1,891
Payable for annual leave	5,968	(4,519)	-	1,449
Defined benefit obligation	3,017	216	(151)	3,082
Others	4,931	5,499	-	10,430
	35,415	(12,397)	(151)	22,867
Loss carry forwards	1,287	968	-	2,255
Investment credits	30,000	(252)	-	29,748
	$ 66,702	$ (11,681)	$ (151)	$ 54,870
Deferred tax liabilities				
Temporary differences				
Exchange differences on foreign operations	$ 4,969	$ -	$ -	$ 4,969
Others	925	(871)	-	54
	$ 5,894	$ (871)	$ -	$ 5,023

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Unrealized project costs	$ 19,901	$ (19,705)	$ -	$ 196
Allowance for loss on inventories	15,648	4,883	-	20,531
Deferred revenue	2,255	(1,483)	-	772
Payable for annual leave	2,688	3,280	-	5,968
Defined benefit obligation	2,090	490	437	3,017
Others	3,000	1,931	-	4,931
	45,582	(10,604)	437	35,415

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Loss carry forwards	$ -	$ 1,287	$ -	$ 1,287
Investment credits	3,753	26,247	-	30,000
	$ 49,335	$ 16,930	$ 437	$ 66,702
Deferred tax liabilities				
Temporary differences				
Goodwill	$ 11,472	$ (11,472)	$ -	$ -
Exchange differences on foreign operations	4,969	-	-	4,969
Others	1,278	(353)	-	925
	$ 17,719	$ (11,825)	$ -	$ 5,894

(Concluded)

e. Unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the consolidated balance sheets

	December 31	
	2017	2016
Loss carryforwards		
Expiry in 2017	$ -	$ 145,132
Expiry in 2018	52,116	54,678
Expiry in 2019	122,224	122,513
Expiry in 2020	19,687	19,687
Expiry in 2021	4,316	4,316
Expiry in 2022	78,990	78,990
Expiry in 2023	14,698	14,698
Expiry in 2024	9,989	9,989
Expiry in 2025	85,255	85,255
Expiry in 2026	108,682	102,548
Expiry in 2027	38,738	-
	$ 534,695	$ 637,806
Investment credits		
Equity investment	$ 1,980	$ 1,980
Research and development	6,658	-
	$ 8,638	$ 1,980

f. Information about unused investment credits and unused loss carryforwards

As of December 31, 2017, investment tax credits comprised of:

Laws and Statutes	Tax Credit Source	Remaining Creditable Amount	Expiry Year
Act for promotion of private participation in infrastructure project	Equity investment	$ 31,728	2020
Statute for Industrial Innovation	Research and development	6,658	2018
		$ 38,386	

Loss carryforwards as of December 31, 2017 comprised of:

Expiry Year	Total Credit
2018	$ 52,116
2019	122,224
2020	19,687
2021	4,316
2022	78,990
2023	14,698
2024	9,989
2025	85,255
2026	116,027
2027	44,656
	$ 547,958

g. Integrated income tax

	December 31	
	2017	2016
Imputation credits accounts	$ 304,708	$ 364,380

	For the Year Ended December 31	
	2017 (Estimate)	2016
Creditable ratio for distribution of earnings	Note	12.16%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

h. Income tax assessments

Income tax returns through 2016 and undistributed earnings through 2015 of Nexsys, TEDP, Medincom, Etu and Naturint; income tax returns through 2015 and undistributed earnings through 2014 of the Taifon, Ching Pu, Hanmore, Syspower, GBC, Soft Mobile, SSSC and Systex Solutions II; income tax returns through 2014 and undistributed earnings through 2013 of the Corporation and CSMS have been assessed by the tax authorities.

SCGI and KIMO are exempt from income tax under their local government regulations.

21. EARNINGS PER SHARE

The earnings and weighted average number of common shares outstanding in the computation of earnings per share were as follows:

	For the Year Ended December 31	
	2017	2016
Net income for the year		
Net income for the year attributable to owners of the Corporation	$ 1,177,749	$ 1,108,268
Number of shares (thousand)		
Weighted average number of common shares in the computation of basic earnings per share	245,983	246,074
Effect of potentially dilutive common shares:		
Employees' compensation	21	19
Weighted average number of common shares in the computation of diluted earnings per share	246,004	246,093
Earnings per share (NT$)		
Basic earnings per share	$4.79	$4.50
Dilutive earnings per share	$4.79	$4.50

If the Corporation can settle bonus to employees in cash or shares, the Corporation should assume the entire amount of the bonus will be settled in shares and the resulting potential shares, if dilutive, should be included in the weighted average number of shares outstanding used in the computation of diluted earnings per share. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

The pro forma net income and earnings per share, assuming the Corporation's share held by subsidiaries were treated as investment instead of treasury shares, were as follows:

	For the Year Ended December 31	
	2017	2016
Net income for the year		
Net income for the year attributable to owners of the Corporation	$ 1,259,683	$ 1,166,497
Number of shares (thousand)		
Weighted average number of common shares in the computation of pro forma earnings per shares	269,393	269,362
Effect of potentially dilutive common shares:		
Employees' compensation	21	19
Weighted average number of common shares in the computation of pro forma diluted earnings per shares	269,414	269,381
Earnings per share (NT$)		
Basic earnings per shares	$4.68	$4.33
Dilutive earning per share	$4.68	$4.33

22. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In January and December 2016, the Group subscribed for additional new shares of Etu at a percentage different from its existing ownership percentage, reducing its interest from 100% to 75% and increasing from 75% to 78.26%, respectively. In June and July 2017, the Group purchased shares of Etu from the shareholders of non-controlling interests, increasing its interests from 78.26% to 84.19%.

The above transactions were accounted for as equity transactions, since the Group did not change the influence on these subsidiaries.

	For the Year Ended December 31	
	2017	**2016**
Cash consideration received (paid)	$ (436)	$ 25,000
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to (from) non-controlling interests	436	(16,424)
Differences recognized from equity transaction	$ -	$ 8,576
Line item adjusted for equity transaction		
Capital surplus - changes in percentage of ownership interest in subsidiaries	$ -	$ 8,576

23. CAPITAL MANAGEMENT

The capital structure of the Group consists of debt and equity of the Group (comprising issued capital, legal reserve, retained earnings and other equity).

Key management personnel of the Corporation review the capital structure on a periodic basis. As part of this review, the Corporation considers the cost of capital and the risks associated with each class of capital. In order to balance the overall capital structure, the Corporation may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and the amount of new debt issued or existing debt redeemed.

24. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

   Except that fair value of financial assets measured at cost could not be reliably measured, the management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

Fair value hierarchy

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Financial assets at FVTPL				
Non-derivative financial assets held for trading	$ 3,210,146	$ 12,139	$ -	$ 3,222,285
Available-for-sale financial assets				
Listed shares	8,526	-	-	8,526
Corporation bonds	-	8,035	-	8,035
	$ 3,218,672	$ 20,174	$ -	$ 3,238,846
December 31, 2016				
Financial assets at FVTPL				
Non-derivative financial assets held for trading	$ 2,852,523	$ 27,433	$ -	$ 2,879,956
Available-for-sale financial assets				
Listed shares	11,047	-	-	11,047
Corporation bonds	-	7,937	-	7,937
	$ 2,863,570	$ 35,370	$ -	$ 2,898,940

There were no transfers between Levels 1 and 2 in 2017 and 2016.

c. Categories of financial instruments

	December 31	
	2017	2016
Financial assets		
Fair value through profit or loss (FVTPL)		
Held for trading	$ 3,222,285	$ 2,879,956
Loans and receivables (1)	8,601,007	8,952,148
Available-for-sale financial assets (2)	525,711	451,955
Financial liabilities		
Amortized cost (3)	5,469,604	4,908,405

1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt instruments with no active market, notes receivable, accounts receivable, refundable deposits, other receivables, lease receivables - current (included in other current assets), long-term receivables, pledged time deposits - non-current (included in other non-current assets) and lease receivables - non-current (included in other non-current assets).

2) The balances included the carrying amount of available-for-sale financial assets measured at cost.

3) The balances included financial liabilities measured at amortized cost, which comprise short-term loans, notes and accounts payable, other payables and guarantee deposits received (included in other non-current liabilities).

d. Financial risk management objectives and policies

The Group's main target of financial risk management is to manage the market risk related to operating activity (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. To reduce the potential and detrimental influence of the fluctuations in market on the Group's financial performance, the Group endeavors to identify, estimate and hedge the uncertainties of the market.

The Group's significant financial activity is reviewed and approved by the board of directors and audit committee in compliance with related regulations and internal control policy, and the authority and responsibility are delegated according to the operating procedures.

1) Market risk

a) Foreign currency risk

The Group has foreign currency sales, purchases and borrowings, which were exposed to foreign currency risk. The Group designated a department to monitor exchange rate fluctuations in timely manner and change foreign currency position to control and mitigate such risks as soon as possible.

The sensitivity analysis focused on outstanding foreign currency denominated monetary assets and monetary liabilities (mainly USD and RMB) at the end of the reporting period. A positive number below indicates a decrease/increase in pre-tax loss associated with New Taiwan dollars strengthening/weakening 5% against the relevant currency.

	For the Year Ended December 31	
	2017	**2016**
USD		
Increase/decrease	$ 18,864	$ 19,393
RMB		
Increase/decrease	8,950	62,430

b) Interest rate risk

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	December 31	
	2017	**2016**
Fair value interest rate risk		
Financial assets	$ 2,933,767	$ 1,586,875
Financial liabilities	1,460,053	1,046,022
Cash flow interest rate risk		
Financial assets	1,705,305	3,308,373

The Group acquired better interest rate through long-term cooperation with banks; therefore, the effect of interest rate fluctuations is immaterial.

The sensitivity analyses below were determined based on financial assets and financial liabilities with floating interest rates at the end of reporting period. If interest rates had been 10 basis points (0.1%) higher/lower, the Group's pre-tax net income effect would have been as follows:

	For the Year Ended December 31	
	2017	**2016**
Increase/decrease	$ 1,705	$ 3,308

c) Other price risk

The Group was exposed to price risk through its investments in listed shares, TDR, corporate bonds and mutual funds. The Group established a real-time control system for the price risk, and management does not anticipate any material loss due to this risk.

The sensitivity analyses of the above investment were determined based on financial assets which were measured at fair value at the end of reporting period. If market prices had been 5% higher/lower, the effects on the Group's pre-tax net income and other comprehensive income would have been as follows:

	For the Year Ended December 31	
	2017	**2016**
Pre-tax net income		
Increase/decrease	$ 161,114	$ 143,998
Other comprehensive income		
Increase/decrease	828	949

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Group if the counterparties breached contracts. Generally, the maximum exposure to credit risk for financial assets at the balance sheet date are their carrying amounts.

The Group delegated a department responsible for managing accounts receivable, establishing credit limits, credit approvals and other monitoring procedures to ensure the profitability of the Group. The Group only transacts with creditworthy financial institutions to reduce credit risk.

Since the counterparties are creditworthy financial institutions and enterprises and the concentration of credit risk is not significant, the credit risk is anticipated to be immaterial.

3) Liquidity risk

The Group put in place inventory management system, procedures for collections and payments, and develops cash flow forecast to ensure the liquidity of operating capital. In addition, the Group invests idle funds in short-term market under consideration of liquidity, security and profitability. The Group also maintains banking facilities to ensure the liquidity of cash.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual terms.

December 31, 2017

	Less than 1 Year	1-5 Years	5+ Years	Total
Non-derivative financial liabilities				
Short-term bank loans	$ 1,460,053	$ -	$ -	$ 1,460,053

December 31, 2016

	Less than 1 Year	1-5 Years	5+ Years	Total
Non-derivative financial liabilities				
Short-term bank loans	$ 1,046,022	$ -	$ -	$ 1,046,022

The Group has sufficient working capital to meet the cash needs for their operations. Thus, no material liquidity risk is anticipated.

In addition, the Group's investments in mutual funds and listed shares are publicly-traded in an active market and can readily be sold in the market at their approximate fair values. However, the Group also invested in unlisted stocks, subordinate debenture bonds and convertible bonds with significant liquidity risks because these assets do not have quoted market prices in an active market.

25. TRANSACTIONS WITH RELATED PARTIES

Balances, transactions, revenue and expense between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

a. Related parties and their relationship with the Group

Related Parties	Relationship with the Group
Systemweb Technologies Co., Ltd.	Associate
Sanfran Technologies Inc.	Associate
Investment Media Ltd.	Associate
Forms Syntron Information (Shenzhen) Limited	Associate
AFE Solutions Limited	Associate

b. Operating revenue

		For the Year Ended December 31	
Line Items	Related Party Categories	2017	2016
Sales	Associates	$ 6,124	$ 5,124
Service revenue	Associates	$ 5,045	$ 3,740

c. Purchases of goods

	For the Year Ended December 31	
Related Party Categories	2017	2016
Associates	$ 70,074	$ 49,636

d. Receivables from related parties

Line Items	Related Party Categories	December 31 2017	December 31 2016
Notes and accounts receivable	Associates	$ 1,603	$ 868

e. Payables to related parties

Line Items	Related Party Categories	December 31 2017	December 31 2016
Accounts payable	Associates	$ 53,726	$ 21,774

The product/service sales and purchase transactions with related parties were conducted underpricing terms similar to those for third parties, i.e., for purchases or sales of similar products/services, except those transactions on products/services with special specifications. Settlement terms for related-party transactions were similar to those for third parties.

f. Other assets acquired

Line Items	Related Party Categories	For the Year Ended December 31 2017	For the Year Ended December 31 2016
Intangible assets	Associates	$ -	$ 5,827

g. Other transactions with related parties

Line Items	Related Party Categories	For the Year Ended December 31 2017	For the Year Ended December 31 2016
Service cost	Associates	$ 20,571	$ 20,381
Operating expenses	Associates	$ 99	$ 99

h. Compensation of key management personnel

	For the Year Ended December 31 2017	For the Year Ended December 31 2016
Short-term employee benefits	$ 111,191	$ 113,537
Post-employment benefits	3,350	3,404
	$ 114,541	$ 116,941

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

26. PLEDGED ASSETS

The following assets were pledged as the Group's collateral for bank loans, contract guarantees, guarantees of gift certificates and gift cards and import duty guarantee:

	December 31	
	2017	**2016**
Property, plant and equipment - buildings, net	$ 112,010	$ 117,189
Pledged time deposits - current (included in other receivables)	167,180	160,085
Pledged time deposits - non-current (included in other non-current assets)	51,421	43,448
The shares of the Corporation (Note)	593,000	581,000
	$ 923,611	$ 901,722

Note: Hanmore pledged 10,000 thousand shares of the Corporation as of December 31, 2017 and 2016, and it was eliminated on consolidation.

27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant commitments and contingencies of the Group as of December 31, 2017 and 2016 were as follows:

a. Unused letters of credit of the Corporation in aggregate amount were as follows:

December 31	
2017	**2016**
$ 720	$ 749

b. Outstanding sales contracts of the Group in the amount were as follows:

December 31	
2017	**2016**
$ 6,927,594	$ 8,446,499

c. The Group provided endorsements for Systex Solutions II, RTGI, Systek, SSSC, Systex Info, Systex Ucom, and Systex China up to $300,000 thousand, $44,640 thousand, $14,880 thousand $700,000 thousand, $23,080 thousand, $91,090 thousand and $868,470 thousand, respectively. TEDP provided endorsement for Medincom up to $15,000 thousand. Ucom Shanghai provided endorsement for Systex China up to $113,863 thousand. Systek provided endorsement for Systex China up to $113,863 thousand.

d. The Group issues gift certificates and gift cards. For the handling of advance receipts from customers for sold gift certificates and gift cards, the Group entered into a trust agreement with E.SUN Commercial Bank according to the "Provision to be Included in Standard Form Contract of All Sorts of Gift Certificates of Retail Companies" issued by the Ministry of Economic Affairs. According to the trust agreement, the Group opened a trust account in E.SUN Commercial Bank. Advance receipts from customers for sold gift certificates are deposited in the trust account and amounts for services already provided to customers are paid to the Group on a monthly basis. The balance in the trust account should be not lower than the amount of outstanding gift certificates and gift cards. As of December 31, 2017, the Group's assets in the trust account amounted to $23,195 thousand (included in other receivables and other non-current assets).

e. As of December 31, 2017, the Group had lease contracts for office premises, parking lots and warehouse with rentals paid monthly or annually, expiring between August 2018 and December 2022, and the refundable deposits for above lease contracts amounted to $24,294 thousand (included in refundable deposits). Future rentals are as follows:

Year	**Amount**
2018	$ 89,933
2019	42,240
2020	14,742
2021	12,195
2022	1,296

28. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31, 2017

	Foreign Currencies	**Exchange Rate**	**Carrying Amount**
Financial assets			
Monetary items			
RMB	$ 39,491	4.55	$ 179,864
USD	18,709	29.76	556,774
Non-monetary items			
Financial assets at fair value through profit or loss			
HKD	11,817	3.81	44,989
RMB	1,700	4.55	7,743
Investment accounted for using equity method			
RMB	173,484	4.55	790,132
USD	1,356	29.76	40,346
Financial liabilities			
Monetary item			
USD	6,032	29.76	179,503
RMB	190	4.55	864

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
RMB	$ 312,365	4.65	$ 1,452,185
USD	20,638	32.25	665,587
Non-monetary items			
Financial assets at fair value through profit or loss			
HKD	11,195	4.16	46,550
RMB	3,001	4.65	13,953
Investment accounted for using equity method			
RMB	44,407	4.65	206,448
USD	1,237	32.25	39,898
Financial liabilities			
Monetary item			
USD	8,611	32.25	277,719
RMB	43,792	4.65	203,588

For the years ended December 31, 2017 and 2016, realized and unrealized net foreign exchange gains (losses) were $34,492 thousand and $(69,545) thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Group entities.

29. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on financial information. The Group's reportable segments were as follows:

Financial business integration provides financial technologies and develops smart finance, centered on FinTech, to assist financial customers (mainly engaged in large-scale financial customers) in digital transformation, including transformation services in mobile applications, integration services for investor and wealth management upgrade services. Customer market integration focus on new retail, provides full-channel and full payment services, and assists customers, especially digital e-commerce customer, in operating O2O business to realize digital transformation. Data Technology integration provides comprehensive Data Technology product portfolio and solution to drive business intelligence growth of customers, acts as the Data Enabler for customers and actively introduces domestic and foreign leading digital technology to provide solution to customer in digital transformation. China Group, in the way of alliance with local suppliers, expands self-employed business, develops independent products, provides system integration and value-added services, and provides commercial software and cloud platform tools in China. Investment department engages in investment activities.

The chief operating decision-maker of the Group divided the domestic information service business into three operating segments according to industry level and customer's service requirements and has taken China Group as a reportable segment due to regional specialties. In addition, the financial investment business is considered as an investment department that should be reported separately. Financial business integration included domestic departments which provide a cross-border financial transaction cloud, APP and customized development, community services for investors, and ITDM services of securities or futures trading in Greater China. Customer market integration included domestic departments which provide mobile payments, O2O integration services, data processing services, precision marketing solution, government official website, service platform, and e-commerce platform. Data Technology integration included domestic departments which provide big data platform and value-added innovation, commercial software, cloud value-added services, Cyber-security, IT development training courses, and book publishing.

a. Segment revenues and results

	Financial Business Integration	Consumer Market Integration	Data Technology Integration	China Group	Investment Department	Adjustment and Elimination	Total
2017							
Sales to customers	$ 2,504,443	$ 3,040,054	$ 7,364,325	$ 3,965,457	$ -	$ -	$ 16,874,279
Sales to other segments	215,644	171,676	732,496	705,688	-	(1,825,504)	-
Total sales	$ 2,720,087	$ 3,211,730	$ 8,096,821	$ 4,671,145	$ -	$ (1,825,504)	$ 16,874,279
Segment income	$ 328,031	$ 322,103	$ 339,637	$ 34,630	$ 622,838	$ -	$ 1,647,239
Corporate general expenses							(347,079)
Income before income tax							$ 1,300,160
Segment depreciation and amortization expenses	$ 46,560	$ 32,206	$ 22,635	$ 25,388	$ -		$ 126,789
Non-segment depreciation and amortization expenses							31,642
Total depreciation and amortization expenses							$ 158,431
Segment assets	$ 2,217,675	$ 1,944,099	$ 4,391,675	$ 2,705,027	$ 6,995,370		$ 18,253,846
General assets							1,110,324
Total assets							$ 19,364,170
2016							
Sales to customers	$ 2,480,701	$ 2,951,582	$ 6,860,718	$ 3,917,379	$ -	$ -	$ 16,210,380
Sales to other segments	282,770	176,003	911,500	671,771	-	(2,042,044)	-
Total sales	$ 2,763,471	$ 3,127,585	$ 7,772,218	$ 4,589,150	$ -	$ (2,042,044)	$ 16,210,380
Segment income	$ 332,857	$ 278,643	$ 245,355	$ 12,001	$ 692,025	$ -	$ 1,560,881
Corporate general expenses							(315,021)
Income before income tax							$ 1,245,860
Segment depreciation and amortization expenses	$ 52,707	$ 44,750	$ 39,927	$ 27,732	$ -		$ 165,116
Non-segment depreciation and amortization expenses							27,559
Total depreciation and amortization expenses							$ 192,675
Segment assets	$ 2,182,962	$ 1,918,425	$ 3,998,639	$ 2,553,449	$ 7,083,259		$ 17,736,734
General assets							1,345,894
Total assets							$ 19,082,628

Segment income represented the income before tax earned by each segment without allocation of central administration costs and directors' salaries, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, exchange gain or loss, interest expense and income tax expense.

b. Geographical information

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets is detailed below.

	Revenue from External Customers	
	2017	**2016**
Domestic	$ 13,033,319	$ 12,296,668
Asia	3,840,960	3,913,712
	$ 16,874,279	$ 16,210,380

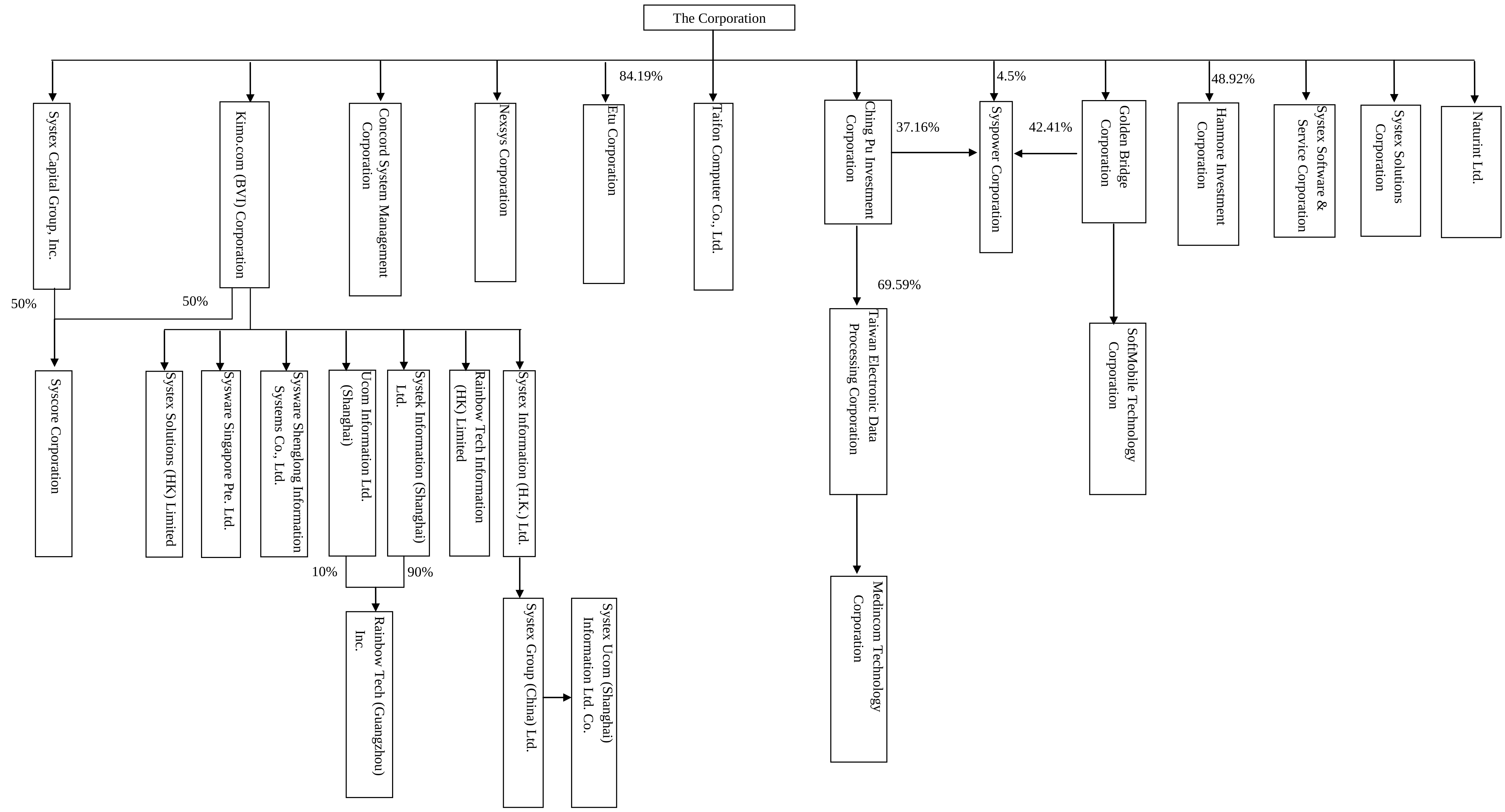
	Non-current Assets December 31	
	2017	**2016**
Domestic	$ 3,222,501	$ 3,230,256
Asia	1,190,268	1,278,923
Others	130,344	102,928
	$ 4,543,113	$ 4,612,107

c. Major customers

No revenue from any individual customer exceeded 10% of the Group's total operating revenue for the years ended December 31, 2017 and 2016.

SYSTEX CORPORATION AND SUBSIDIARIES

THE RELATIONSHIP AND PERCENTAGE OF OWNERSHIP OF COMPANIES IN THE GROUP
DECEMBER 31, 2017



Note: Percentage of ownership is 100% unless noted on the chart.