

Hu Lane Associate Inc. and Subsidiaries

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

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2017 are the same as the companies required to be included in the consolidated financial statements of parent and subsidiaries companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiaries companies. Hence, we did not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

HU LANE ASSOCIATE INC.

By

March 27, 2018

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hu Lane Associate Inc.

Opinion

We have audited the accompanying consolidated financial statements of Hu Lane Associate Inc. (the "Company") and its subsidiaries (collectively referred to as 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, 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. 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.

Estimated Impairment of Trade Receivables

As discussed in Notes 5 and 8 to the accompanying consolidated financial statements, trade receivables of the Group amounted to NT\$1,294,739 thousand (after deducting the allowance for impairment loss of NT\$25,462 thousand) as of December 31, 2017. The determination of impairment involved critical judgments from management. The result of the process and judgment may be different from actual result; therefore, impairment of trade receivables is considered a key audit matter.

The audit procedures we performed in response to the potential misstatement of impairment of trade receivables were as follows:

1. We obtained an understanding of internal controls related to the impairment of trade receivables and we evaluated the design of such internal controls.
2. We evaluated the assumptions the management used to calculate impairment of trade receivables and we confirmed that the calculation supports the amount of impairment of trade receivables.
3. We tested the correctness of the aging analysis table, which is the basis for calculating impairment of trade receivables.
4. We analyzed the reasonableness of historical estimates by referring to the customer's historical payment performance to confirm that the assumption the management used to estimate impairment of trade receivables is appropriate.
5. We confirmed the collectible amount of trade receivables by verifying the level of cash collected by the business after the yearend to consider any additional provisioning requirements.

Valuation of Inventory

As discussed in Notes 5 and 9 to the accompanying consolidated financial statements, the inventory of the Group amounted to NT\$972,397 thousand (after deducting provision for slow moving and obsolete inventory of NT\$107,596 thousand) as of December 31, 2017. The inventory was measured at the lower of cost or net realizable value. The estimation of net realizable value of inventory involved critical judgments from management. The result of the process and judgment may be different from actual result; therefore, valuation of inventory is considered a key audit matter.

The audit procedures we performed in response to the potential misstatement of the net realizable value of inventory were as follows:

1. We obtained an understanding of the internal controls related to inventory provisions and we evaluated the design of such internal controls.
2. We analyzed the reasonableness of historical estimation by referring to the actual inventory loss to confirm the assumption the management used to estimate inventory provision is appropriate.
3. We selected samples from the inventory list and we verified the selling price and we recalculated the net realizable value. We confirmed that inventory was measured at the lower of cost or net realizable value.
4. We obtained the amount of inventory at yearend and compared it to the yearend inventory count data. We also assessed the physical condition of inventory to evaluate the adequacy of provision for obsolete and damaged goods by attending and observing yearend physical inventory count.

Other Matters

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 supervisors, 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 Shiuh-ran, Cheng and Chen-Hsiu, Yang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 27, 2018

Notice to Readers

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.

HU LANE ASSOCIATE INC. AND SUBSIDIARIES

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

	2017		2016	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 976,338	14	\$ 815,588	14
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	148,155	2	9,241	-
Debt investments with no active market - current (Notes 4 and 6)	8,990	-	21,190	-
Notes receivable (Notes 4, 24 and 26)	720,852	11	718,096	12
Trade receivables from unrelated parties (Notes 4 and 8)	1,294,739	19	1,295,511	22
Other receivables (Note 25)	12,495	-	8,678	-
Current tax assets (Notes 4 and 18)	16,784	-	25,084	-
Inventories (Notes 4 and 9)	972,397	14	637,672	11
Other current assets	<u>145,802</u>	<u>2</u>	<u>54,098</u>	<u>1</u>
Total current assets	<u>4,296,552</u>	<u>62</u>	<u>3,585,158</u>	<u>60</u>
NON-CURRENT ASSETS				
Investments accounted for using equity method (Notes 4 and 11)	12,400	-	26,374	1
Property, plant and equipment (Notes 4, 12 and 26)	2,409,957	34	2,034,874	34
Investment properties (Note 4)	2,510	-	2,514	-
Other intangible assets (Note 4)	21,713	-	18,011	-
Deferred tax assets (Notes 4 and 18)	40,498	1	45,520	1
Long-term prepayments for lease (Note 22)	80,135	1	85,507	2
Other non-current assets	<u>111,076</u>	<u>2</u>	<u>135,170</u>	<u>2</u>
Total non-current assets	<u>2,678,289</u>	<u>38</u>	<u>2,347,970</u>	<u>40</u>
TOTAL	<u>\$ 6,974,841</u>	<u>100</u>	<u>\$ 5,933,128</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 13)	\$ 899,500	13	\$ 345,000	6
Notes payable	7,097	-	3,271	-
Trade payables to unrelated parties	500,278	7	433,199	7
Other payables to unrelated parties (Notes 14 and 25)	644,771	9	537,078	9
Other payables to related parties (Note 25)	17,478	-	18,964	-
Current tax liabilities (Notes 4 and 18)	111,758	2	127,170	2
Other current liabilities	<u>25,263</u>	<u>1</u>	<u>47,119</u>	<u>1</u>
Total current liabilities	<u>2,206,145</u>	<u>32</u>	<u>1,511,801</u>	<u>25</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 18)	155,886	2	150,799	3
Net defined benefit liabilities - non-current (Notes 4 and 15)	59,510	1	60,080	1
Other non-current liabilities	<u>11,548</u>	<u>-</u>	<u>13,378</u>	<u>-</u>
Total non-current liabilities	<u>226,944</u>	<u>3</u>	<u>224,257</u>	<u>4</u>
Total liabilities	<u>2,433,089</u>	<u>35</u>	<u>1,736,058</u>	<u>29</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 16)				
Share capital				
Ordinary shares	971,817	14	971,580	16
Advance receipts for ordinary shares	458	-	319	-
Total share capital	<u>972,275</u>	<u>14</u>	<u>971,899</u>	<u>16</u>
Capital surplus	<u>1,279,082</u>	<u>18</u>	<u>1,278,931</u>	<u>22</u>
Retained earnings				
Legal reserve	613,115	9	523,343	9
Special reserve	59,916	1	59,916	1
Unappropriated earnings	<u>1,745,470</u>	<u>25</u>	<u>1,452,581</u>	<u>24</u>
Total retained earnings	<u>2,418,501</u>	<u>35</u>	<u>2,035,840</u>	<u>34</u>
Other equity	<u>(131,974)</u>	<u>(2)</u>	<u>(89,600)</u>	<u>(1)</u>
Total equity attributable to owners of the Company	4,537,884	65	4,197,070	71
NON-CONTROLLING INTERESTS	<u>3,868</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total equity	<u>4,541,752</u>	<u>65</u>	<u>4,197,070</u>	<u>71</u>
TOTAL	<u>\$ 6,974,841</u>	<u>100</u>	<u>\$ 5,933,128</u>	<u>100</u>

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

HU LANE ASSOCIATE INC. 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 REVENUE (Notes 4 and 25)	\$ 4,076,623	100	\$ 3,982,466	100
OPERATING COSTS (Notes 9, 17 and 25)	<u>2,247,756</u>	<u>55</u>	<u>2,160,300</u>	<u>54</u>
GROSS PROFIT	<u>1,828,867</u>	<u>45</u>	<u>1,822,166</u>	<u>46</u>
OPERATING EXPENSES (Notes 17 and 25)				
Selling and marketing expenses	233,743	6	189,655	5
General and administrative expenses	256,194	6	309,380	8
Research and development expenses	<u>108,624</u>	<u>3</u>	<u>104,405</u>	<u>2</u>
Total operating expenses	<u>598,561</u>	<u>15</u>	<u>603,440</u>	<u>15</u>
PROFIT FROM OPERATIONS	<u>1,230,306</u>	<u>30</u>	<u>1,218,726</u>	<u>31</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 17)	49,375	1	49,226	1
Other gains and losses (Note 17)	(63,437)	(1)	(156,696)	(4)
Finance costs	(12,490)	-	(8,937)	-
Share of profit or loss of associates (Notes 4 and 11)	<u>4,224</u>	<u>-</u>	<u>7,666</u>	<u>-</u>
Total non-operating income and expenses	<u>(22,328)</u>	<u>-</u>	<u>(108,741)</u>	<u>(3)</u>
PROFIT BEFORE INCOME TAX	1,207,978	30	1,109,985	28
INCOME TAX EXPENSE (Notes 4 and 18)	<u>236,112</u>	<u>6</u>	<u>212,264</u>	<u>6</u>
NET PROFIT FOR THE YEAR	<u>971,866</u>	<u>24</u>	<u>897,721</u>	<u>22</u>
OTHER COMPREHENSIVE INCOME (Notes 4, 11, 15 and 18)				
Items that will not be reclassified subsequently to profit or loss				
Actuarial gain and loss arising from defined benefit plans	(7,367)	-	(8,968)	-
Income tax relating to components of other comprehensive income	<u>1,252</u>	<u>-</u>	<u>1,524</u>	<u>-</u>
	<u>(6,115)</u>	<u>-</u>	<u>(7,444)</u>	<u>-</u>

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HU LANE ASSOCIATE INC. 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	%
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	\$ (38,139)	(1)	\$ (168,090)	(4)
Share of other comprehensive income (loss) of associates accounted for using the equity method	<u>(4,235)</u>	<u>-</u>	<u>(1,817)</u>	<u>-</u>
	<u>(42,374)</u>	<u>(1)</u>	<u>(169,907)</u>	<u>(4)</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(48,489)</u>	<u>(1)</u>	<u>(177,351)</u>	<u>(4)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 923,377</u>	<u>23</u>	<u>\$ 720,370</u>	<u>18</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 971,866	24	\$ 897,721	23
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 971,866</u>	<u>24</u>	<u>\$ 897,721</u>	<u>23</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 923,377	23	\$ 720,370	18
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 923,377</u>	<u>23</u>	<u>\$ 720,370</u>	<u>18</u>
EARNINGS PER SHARE (Note 19)				
Basic	<u>\$ 10.00</u>		<u>\$ 9.24</u>	
Diluted	<u>\$ 9.95</u>		<u>\$ 9.17</u>	

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

(Concluded)

HU LANE ASSOCIATE INC. 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 Company						Other Equity	Total	Non-controlling Interests	Total Equity
	Share Capital		Capital Surplus	Retained Earnings			Exchange			
	Ordinary Shares	Advance Receipts for Ordinary Shares		Legal Reserve	Special Reserve	Unappropriated	Differences on Translating Foreign Operations			
BALANCE AT JANUARY 1, 2016	\$ 971,532	\$ -	\$ 1,278,897	\$ 443,223	\$ 59,916	\$ 1,186,508	\$ 80,307	\$ 4,020,383	\$ -	\$ 4,020,383
Appropriation of 2015 earnings										
Legal reserve	-	-	-	80,120	-	(80,120)	-	-	-	-
Cash dividends	-	-	-	-	-	(544,084)	-	(544,084)	-	(544,084)
Exercise of employee share options	48	319	34	-	-	-	-	401	-	401
Net profit for the year ended December 31, 2016	-	-	-	-	-	897,721	-	897,721	-	897,721
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(7,444)	(169,907)	(177,351)	-	(177,351)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	890,277	(169,907)	720,370	-	720,370
BALANCE AT DECEMBER 31, 2016	971,580	319	1,278,931	523,343	59,916	1,452,581	(89,600)	4,197,070	-	4,197,070
Appropriation of 2016 earnings										
Legal reserve	-	-	-	89,772	-	(89,772)	-	-	-	-
Cash dividends	-	-	-	-	-	(583,090)	-	(583,090)	-	(583,090)
Exercise of employee share options	237	139	151	-	-	-	-	527	-	527
Non-controlling interests	-	-	-	-	-	-	-	-	3,868	3,868
Net profit for the year ended December 31, 2017	-	-	-	-	-	971,866	-	971,866	-	971,866
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(6,115)	(42,374)	(48,489)	-	(48,489)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	965,751	(42,374)	923,377	-	923,377
BALANCE AT DECEMBER 31, 2017	<u>\$ 971,817</u>	<u>\$ 458</u>	<u>\$ 1,279,082</u>	<u>\$ 613,115</u>	<u>\$ 59,916</u>	<u>\$ 1,745,470</u>	<u>\$ (131,974)</u>	<u>\$ 4,537,884</u>	<u>\$ 3,868</u>	<u>\$ 4,541,752</u>

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

HU LANE ASSOCIATE INC. 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	\$ 1,207,978	\$ 1,109,985
Adjustments for:		
Depreciation expenses	154,475	145,479
Amortization expenses	25,436	16,506
Reversal of impairment loss recognized on trade receivables	(3,452)	(6,786)
Net gain on fair value change of financial assets and liabilities designated as at fair value through profit or loss	(626)	(463)
Finance costs	12,490	8,937
Interest income	(4,696)	(6,889)
Dividend income	(3,516)	(13)
Share of profit of associates	(4,224)	(7,666)
Loss on disposal of property, plant and equipment	291	1,230
(Reversal of write-downs) write-downs of inventories	(12,729)	31,081
Changes in operating assets and liabilities		
Financial assets held for trading	(138,288)	61,445
Notes receivable	(2,756)	(278,650)
Trade receivables from unrelated parties	5,577	(225,351)
Trade receivables from related parties	-	115,618
Other receivables	(3,817)	1,366
Inventories	(317,538)	58,703
Other current assets	(90,450)	51,039
Other non-current assets	62,429	(40,769)
Notes payable	3,826	(47,052)
Trade payables from unrelated parties	65,545	117,604
Trade payables from related parties	-	(10,329)
Other payables	106,913	277,492
Other current liabilities	(23,342)	41,256
Provisions - non-current	(7,937)	(38,277)
Other non-current liabilities	(1,822)	(108)
Cash generated from operations	1,029,767	1,375,388
Interest received	4,696	6,889
Interest paid	(12,490)	(8,937)
Income tax received	2,505	2,347
Income tax paid	(231,994)	(249,999)
Net cash generated from operating activities	792,484	1,125,688
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of debt investments with no active market	(40,860)	(23,093)
Principal of matured debt investments with no active market	53,060	49,737
Net cash outflow on acquisition of subsidiaries (Note 21)	(14,912)	-
Payments for property, plant and equipment	(592,776)	(280,354)
Proceeds from disposal of property, plant and equipment	3,450	21,160

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HU LANE ASSOCIATE INC. AND SUBSIDIARIES

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

	2017	2016
Decrease in refundable deposits	\$ 467	\$ 622
Payments for intangible assets	(9,723)	(9,229)
Dividends received	<u>17,478</u>	<u>13</u>
Net cash used in investing activities	<u>(583,816)</u>	<u>(241,144)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	554,500	-
Repayments of short-term borrowings	-	(305,992)
Proceeds from guarantee deposits received	-	2,111
Refund of guarantee deposits received	(8)	-
Dividends paid to owners of the Company	(583,090)	(544,084)
Proceeds from exercise of employee share options	<u>527</u>	<u>401</u>
Net cash used in financing activities	<u>(28,071)</u>	<u>(847,564)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(19,847)</u>	<u>(53,130)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	160,750	(16,150)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>815,588</u>	<u>831,738</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 976,338</u>	<u>\$ 815,588</u>

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

(Concluded)

HU LANE ASSOCIATE INC. 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

Organization and Operations of the Parent Company

Hu Lane Associate Inc. (the “Company” or Hu Lane Associate) was incorporated in July 1977 as Hu Lane Enterprise Co., Ltd. and renamed Hu Lane Industry Co., Ltd. on January 29, 2001, and renamed again Hu Lane Associate Inc. in 2003. Hu Lane Associate established Hong Kong Branch in October 2001. Hu Lane Associate is mainly engaged in manufacturing and sales of terminal devices, terminal crimping, industrial rubber and plastic products.

Hu Lane Associate’s shares have been listed on the Taiwan GreTai Securities Market since November 26, 2003. Hu Lane Associate’s stockholders approved on May 28, 2004 the planned merger with Jie Yun Industry Co., Ltd. with the effective merger date of August 31, 2004, and Hu Lane Associate was the surviving entity. Hu Lane Associate’s board of directors approved on April 4, 2014 the planned merger with I-hung Steel Co., Ltd. with the effective merger date of May 12, 2014, and Hu Lane Associate was the surviving entity.

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

Organization and Operations of the Subsidiaries

Evervalue Investments Limited (Evervalue), a company established on March 12, 2001, is 100% owned subsidiary of Hu Lane Associate. It is mainly engaged in investment.

Telford Investments Limited (Telford), a company established on March 8, 2001, is 100% owned subsidiary of Hu Lane Associate. It is mainly engaged in investment.

Chiren Investments Limited (Chiren), a company established on August 16, 2004, is 100% owned subsidiary of Hu Lane Associate. It is mainly engaged in investment.

Hu Lane Electronics (Vietnam) Limited (HuLane Vietnam), a company established in November 2009, is 100% owned subsidiary of Hu Lane Associate. It is mainly engaged in manufacturing terminals and molding.

Hulane Electronics (Shenzhen) Limited (Hulane Shenzhen), a company established in June 1999, is 100% owned by Evervalue. It is mainly engaged in manufacturing of terminals and molding.

Lihoo Electronics (Shenzhen) Limited (Lihoo Shenzhen), a company established in October 1997, is 100% owned subsidiary of Evervalue. It is mainly engaged in manufacturing electronics.

Hulane Electronics (Nanjing) Limited (Hulane Nanjing), a company established in January 2004, is 100% owned subsidiary of Evervalue. It is mainly engaged in manufacturing terminals and molding.

Fortune Master Development Limited (Fortune Master), a company established on March 5, 2010, is 100% owned subsidiary of Evervalue. It is mainly engaged in trading and investment.

Dongguan Hulane Electronics Technology (Dongguan Hulane), a company established in June 2011, is 100% owned subsidiary of Fortune Master. It is mainly engaged in manufacturing of terminals and molding.

Dongguan Hulane Puquang Trading Limited (Dongguan Puquang), a company established in May 2012, is 100% owned subsidiary of Fortune Master. It is mainly engaged in sales of vehicle components and plastic materials.

PT Hulane Tech Manufacturing's 80% equity was acquired by the Company in December 2017. The purpose of this acquisition is to develop area integration for the long-term expansion and operation of the Company.

Hu Lane Associate and its subsidiaries are hereinafter referred to collectively as "the Group".

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on March 27, 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 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 Group's accounting policies:

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 Company or its subsidiaries, or is the spouse or second immediate family of the chairman of the board of directors or president of the Company or its subsidiaries, 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 relationships with whom the Group has significant transactions. 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 transactions should be separately disclosed by the name of each related party.

The retrospective application of the amendments on January 1, 2017 enhanced the disclosures of related party transactions. Refer to Note 25 for the related disclosures.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 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.

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. 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.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

The Group has performed a preliminary assessment that it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables. 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 will elect not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 and will recognize the cumulative effect of the initial application 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 as of 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
<u>Impact on assets, liabilities and equity</u>			
Trade receivables	\$ 1,294,739	\$ (15,814)	\$ 1,278,925
Total effect on assets	\$ 1,294,739	\$ (15,814)	\$ 1,278,925
Retained earnings	\$ 1,745,470	\$ (15,814)	\$ 1,729,656
Total effect on equity	\$ 1,745,470	\$ (15,814)	\$ 1,729,656

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.

The Group’s revenue from contracts with customers is a single component so the adoption of IFRS 15 will not affect the Group’s assets, liabilities and equity, and comprehensive income and cash flows.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group assessed that the application of other standards and interpretations will not have significant influence on the Group’s financial position and financial performance.

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

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
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 (Concluded)

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.

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. 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.

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 financial instruments that are measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on 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 12 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 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities due to be settled within 12 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 12 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 Company and the entities controlled by the Company (i.e. its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other 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 Company.

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 Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

See Note 10 and Table 8 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 they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held interests in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

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 are initially measured at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets.

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 from 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 purpose of presenting consolidated financial statements, the functional currencies of the Company and the Group entities (including subsidiaries, associates, joint ventures and branches in other countries that use currency different from the currency of the Company) are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving the 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 Company) are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to the 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 consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

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 and joint ventures.

Under the equity method, investments in an associate are 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.

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.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent that interests in the associate 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.

Property, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Freehold land is not depreciated.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in estimates 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. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

k. Intangible assets

1) Intangible assets acquired separately

Intangible assets 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) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

l. Impairment of tangible and intangible assets

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 cash-generating units on a reasonable and consistent basis of allocation. Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent allocation basis.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

The 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.

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 financial assets at fair value through profit or loss or 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 when the financial asset is 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 incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 24.

ii. Loans and receivables

Loans and receivables (including trade receivables, 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, as a result of one or more events that occurred after the initial recognition of the financial asset, that the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables, 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 90 days, as well as observable changes in national or local economic conditions that correlate with a default on receivables.

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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade 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 trade receivables 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) 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. Sales returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

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

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Group; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

2) Dividend and interest income

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 applicable effective interest rate.

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

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.

3) Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element separately as finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. The minimum lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

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 defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. 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. Employee share options

The fair value 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 estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vesting immediately.

At the end of each reporting period, the Group revises its estimate of the number of employee share 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 share 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 liabilities 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 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 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 or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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 estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Income taxes

As of December 31, 2017 and 2016, the carrying amount of deferred tax assets was \$40,498 thousand and \$45,520 thousand, respectively. The realizability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

b. Estimated impairment of trade receivables

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

c. Write-down of inventory

The net realizable value of inventory 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.

d. Recognition and measurement of defined benefit plans

The net defined benefit liabilities and the resulting defined benefit costs under defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	\$ 4,048	\$ 3,779
Checking accounts and demand deposits	609,532	570,715
Cash equivalents		
Time deposits with original maturities less than three months	<u>362,758</u>	<u>241,094</u>
	<u>\$ 976,338</u>	<u>\$ 815,588</u>

- a. The market rate intervals of demand deposits and time deposits at the end of the reporting period were as follows:

	December 31	
	2017	2016
Demand deposits	0.01%-0.35%	0.01%-0.3%
Time deposits	1.51%-4.4%	1.07%-8.4%

- b. As of December 31, 2017 and 2016, the amount of time deposits with original maturities more than three months were \$8,990 thousand and \$21,190 thousand, respectively, were classified as debt investments with no active market. The market rate intervals of time deposits with original maturities more than three months were 1.045%-6.5% and 1.21%-6.5%, respectively.

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Financial asset at FVTPL - current</u>		
Financial assets held for trading		
Domestic quoted shares	\$ 89,416	\$ 277
Mutual funds	<u>58,739</u>	<u>8,964</u>
	<u>\$ 148,155</u>	<u>\$ 9,241</u>

8. NOTES RECEIVABLE AND TRADE RECEIVABLES

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Notes receivable</u>		
Notes receivable - operating	<u>\$ 720,852</u>	<u>\$ 718,096</u>
<u>Trade receivables from unrelated parties</u>		
Trade receivables	\$ 1,320,201	\$ 1,325,610
Less: Allowance for impairment loss	<u>(25,462)</u>	<u>(30,099)</u>
	<u>\$ 1,294,739</u>	<u>\$ 1,295,511</u>

The average credit period of sales of goods was 90 days. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Group recognized an allowance for impairment loss of 100% against all receivables over 365 days because historical experience was that receivables that are past due beyond 365 days are not recoverable. Allowance for impairment loss was recognized against trade receivables between 120 days and 365 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial positions.

Past due but not impaired receivables are trade receivables balances that were past due at the end of the reporting period, but the Group did not recognize an allowance for impairment loss 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.

Notes receivable pledged as collateral for borrowings is disclosed in Note 26.

- a. The aging of receivables that were past due but not impaired was as follows:

	December 31	
	2017	2016
Less than 90 days	<u>\$ 1,062,237</u>	<u>\$ 1,062,280</u>
91-120 days	<u>\$ 120,223</u>	<u>\$ 124,917</u>

The above aging schedule was based on the invoice date.

- b. The aging of impaired trade receivables was as follows:

	December 31	
	2017	2016
121-180 days	\$ 76,082	\$ 64,269
181-360 days	36,197	44,045
More than 361 days	<u>-</u>	<u>-</u>
	<u>\$ 112,279</u>	<u>\$ 108,314</u>

The above amounts of trade receivables are aged based on the invoice date and presented after deducting allowance for impairment loss.

- c. The movements of the allowance for impairment loss recognized on trade receivables were as follows:

	For the Year Ended December 31			
	2017		2016	
	Trade Receivables from Unrelated Parties	Trade Receivables from Related Parties	Trade Receivables from Unrelated Parties	Trade Receivables from Related Parties
Balance at January 1	\$ 30,099	\$ -	\$ 39,138	\$ 1,051
Less: Impairment losses reversed	(3,452)	-	(5,836)	(950)
Less: Amounts written off during the year as uncollectible	(963)	-	(3)	-
Foreign exchange translation gains and losses	<u>(222)</u>	<u>-</u>	<u>(3,200)</u>	<u>(101)</u>
Balance at December 31	<u>\$ 25,462</u>	<u>\$ -</u>	<u>\$ 30,099</u>	<u>\$ -</u>

- d. Refer to Note 24 for details of the factoring agreements for trade receivables.

9. INVENTORIES

	December 31	
	2017	2016
Finished goods	\$ 388,625	\$ 133,542
Work in progress	134,562	108,684
Raw materials and supplies	148,304	116,155
Merchandise	<u>300,906</u>	<u>279,291</u>
	<u>\$ 972,397</u>	<u>\$ 637,672</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was \$2,241,712 thousand and \$2,160,300 thousand, respectively. The cost of goods sold in 2017 and 2016 included reversal of inventory write-downs of \$(12,729) thousand and inventory write-downs of \$31,081 thousand, respectively.

10. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements:

Investor	Investee	Nature of Activities	Proportion of Ownership	
			December 31	
			2017	2016
Hu Lane Associate	Telford	Investment	100	100
	Evervalue	Investment	100	100
	Chiren	Investment	100	100
	Hulane Vietnam	Manufacture of terminals and molding	100	100
	PT Hulane Tech	Manufacture of terminals and molding	80	-
Evervalue	Manufacturing			
	Hulane Shenzhen	Manufacture of terminals and molding	100	100
	Lihoo Shenzhen	Manufacture of electronics	100	100
	Hulane Nanjing	Manufacture of terminals and molding	100	100
	Fortune Master	Trading and investment	100	100
Fortune Master	Dongguan Hulane	Manufacture of terminals and molding	100	100
	Dongguan Puguang	Sale terminals of vehicle components and plastic materials	100	100

Note: The Company determined whether each of abovementioned entities of the Group is a material subsidiary or not, and Dongguan Hulane, Dongguan Puguang, Fortune Master, Hulane Nanjing and Evervalue are material subsidiaries and the others are immaterial subsidiaries. Immaterial subsidiaries' financial statements have not been audited. Management believes there will be no material impact on the Group's consolidated financial statements if the financial statements of these companies were audited.

b. Subsidiaries excluded from the consolidated financial statements: None.

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investment in Associates

	December 31	
	2017	2016
Unlisted companies		
PT. Delta Hulane Pacific Co., Limited	<u>\$ 12,400</u>	<u>\$ 26,374</u>
Aggregate information of individually immaterial subsidiaries:		
	For the Year Ended December 31	
	2017	2016
The Group's share of:		
Profit	\$ 4,224	\$ 7,666
Other comprehensive income (loss)	<u>(4,235)</u>	<u>(1,817)</u>
Total comprehensive income for the year	<u>\$ (11)</u>	<u>\$ 5,849</u>

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery Equipment	Transportation Equipment	Furniture and Fixtures	Leasehold Improvements	Other Equipment	Prepayments for Equipment and Property under Construction	Total
Cost									
Balance at January 1, 2016	\$ 1,008,022	\$ 366,984	\$ 1,303,997	\$ 16,587	\$ 70,688	\$ 534	\$ 493	\$ 312,808	\$ 3,080,113
Additions	-	1,141	8,519	668	4,019	-	10,002	256,005	280,354
Disposals	-	(2,538)	(212,425)	(354)	(16,678)	(534)	(343)	(254)	(233,126)
Effect of foreign currency exchange differences	-	(28,992)	(103,786)	(1,149)	(5,150)	-	(12)	(23,230)	(162,319)
Reclassifications	-	151,158	197,401	53	9,677	-	(6,256)	(436,768)	(84,735)
Balance at December 31, 2016	<u>1,008,022</u>	<u>487,753</u>	<u>1,193,706</u>	<u>15,805</u>	<u>62,556</u>	<u>-</u>	<u>3,884</u>	<u>108,561</u>	<u>2,880,287</u>
Accumulated Depreciation									
Balance at January 1, 2016	-	92,701	835,687	8,778	42,982	496	-	-	980,644
Depreciation expense	-	13,587	121,407	2,135	7,764	38	544	-	145,475
Disposals	-	(2,538)	(191,984)	(321)	(15,359)	(534)	-	-	(210,736)
Effect of foreign currency exchange differences	-	(4,384)	(63,211)	(657)	(2,555)	-	(4)	-	(70,811)
Reclassifications	-	195	347	24	275	-	-	-	841
Balance at December 31, 2016	<u>-</u>	<u>99,561</u>	<u>702,246</u>	<u>9,959</u>	<u>33,107</u>	<u>-</u>	<u>540</u>	<u>-</u>	<u>845,413</u>
Carrying amounts at December 31, 2016	<u>\$ 1,008,022</u>	<u>\$ 388,192</u>	<u>\$ 491,460</u>	<u>\$ 5,846</u>	<u>\$ 29,449</u>	<u>\$ -</u>	<u>\$ 3,344</u>	<u>\$ 108,561</u>	<u>\$ 2,034,874</u>
Cost									
Balance at January 1, 2017	\$ 1,008,022	\$ 487,753	\$ 1,193,706	\$ 15,805	\$ 62,556	\$ -	\$ 3,884	\$ 108,561	\$ 2,880,287
Additions	-	7,189	66,311	2,250	7,527	-	3,494	506,005	592,776
Disposals	-	-	(13,790)	(81)	(2,078)	-	-	-	(15,949)
Acquisition through business combinations	-	14,520	-	1,466	18	-	-	-	16,004
Effect of foreign currency exchange differences	-	(11,794)	(17,632)	(426)	(1,985)	-	(69)	(586)	(32,492)
Reclassifications	-	45,179	242,997	-	1,085	1,200	(2,362)	(341,969)	(53,870)
Balance at December 31, 2017	<u>1,008,022</u>	<u>542,847</u>	<u>1,471,592</u>	<u>19,014</u>	<u>67,123</u>	<u>1,200</u>	<u>4,947</u>	<u>272,011</u>	<u>3,386,756</u>

(Continued)

	Freehold Land	Buildings	Machinery Equipment	Transportation Equipment	Furniture and Fixtures	Leasehold Improvements	Other Equipment	Prepayments for Equipment and Property under Construction	Total
Accumulated Depreciation									
Balance at January 1, 2017	\$ -	\$ 99,561	\$ 702,246	\$ 9,959	\$ 33,107	\$ -	\$ 540	\$ -	\$ 845,413
Depreciation expense	-	18,459	125,984	2,148	6,971	120	789	-	154,471
Disposals	-	-	(10,371)	(76)	(1,761)	-	-	-	(12,208)
Acquisitions through business combinations	-	90	-	239	-	-	-	-	329
Effect of foreign currency exchange differences	-	(1,861)	(11,641)	(350)	(1,313)	-	2	-	(15,163)
Reclassifications	-	373	3,184	45	355	-	-	-	3,957
Balance at December 31, 2017	-	116,622	809,402	11,965	37,359	120	1,331	-	976,799
Carrying amounts at December 31, 2017	<u>\$ 1,008,022</u>	<u>\$ 426,225</u>	<u>\$ 662,190</u>	<u>\$ 7,049</u>	<u>\$ 29,764</u>	<u>\$ 1,080</u>	<u>\$ 3,616</u>	<u>\$ 272,011</u>	<u>\$ 2,409,957</u>

(Concluded)

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

Building	
Main buildings	35-40 years
Electrical power equipment	3-15 years
Engineering system	5-10 years
Machinery equipment	2-10 years
Transportation equipment	5 years
Furniture and fixtures and other equipment	1-8 years
Leasehold improvements	5 years

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

13. BORROWINGS

	December 31	
	2017	2016
<u>Secured borrowings</u>		
Bank loans	\$ 300,000	\$ 150,000
<u>Unsecured borrowings</u>		
Line of credit borrowings	<u>599,500</u>	<u>195,000</u>
	<u>\$ 899,500</u>	<u>\$ 345,000</u>

The range of interest rate on borrowings was 0.73%-1.08% and 0.69%-0.98% per annum as of December 31, 2017 and 2016, respectively.

14. OTHER PAYABLES

	December 31	
	2017	2016
Accrued salaries and bonuses	\$ 116,999	\$ 121,096
Accrued Bonus to employees and remuneration to directors and supervisors	66,603	65,387
Equipment payable	102,868	55,645
Others	<u>358,301</u>	<u>294,950</u>
	<u>\$ 644,771</u>	<u>\$ 537,078</u>

15. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The pension schemes of Hong Kong Branch and subsidiaries in China and Vietnam of the Group were defined contributions, under which the related contributions were made according to local regulations; holding companies had no employees and had no pension schemes. The other entities of the Group 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 expense of defined contribution plans is set out below:

	December 31	
	2017	2016
Defined contribution plans	<u>\$ 40,443</u>	<u>\$ 36,620</u>

b. Defined benefit plans

The defined benefit plan adopted by the Company 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 6 months before retirement. The Company contributes amounts equal to 5% 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	\$ 134,792	\$ 129,910
Fair value of plan assets	<u>(75,282)</u>	<u>(69,830)</u>
Net defined benefit liability	<u>\$ 59,510</u>	<u>\$ 60,080</u>

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2016	<u>\$ 123,042</u>	<u>\$ (33,653)</u>	<u>\$ 89,389</u>
Service cost			
Current service cost	1,481	-	1,481
Net interest expense (income)	<u>1,875</u>	<u>(781)</u>	<u>1,094</u>
Recognized in profit or loss	<u>3,356</u>	<u>(781)</u>	<u>2,575</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	380	380
Actuarial (gain) loss - changes in financial assumptions	2,178	-	2,178
Actuarial (gain) loss - experience adjustments	<u>6,410</u>	<u>-</u>	<u>6,410</u>
Recognized in other comprehensive income	<u>8,588</u>	<u>380</u>	<u>8,968</u>
Contributions from the employer	<u>-</u>	<u>(40,852)</u>	<u>(40,852)</u>
Benefits paid	<u>(5,076)</u>	<u>5,076</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ 129,910</u>	<u>\$ (69,830)</u>	<u>\$ 60,080</u>
Balance at January 1, 2017	<u>\$ 129,910</u>	<u>\$ (69,830)</u>	<u>\$ 60,080</u>
Service cost			
Current service cost	1,409	-	1,409
Net interest expense (income)	<u>1,819</u>	<u>(995)</u>	<u>824</u>
Recognized in profit or loss	<u>3,228</u>	<u>(995)</u>	<u>2,233</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	334	334
Actuarial (gain) loss - changes in financial assumptions	2,714	-	2,714
Actuarial (gain) loss - experience adjustments	<u>4,319</u>	<u>-</u>	<u>4,319</u>
Recognized in other comprehensive income	<u>7,033</u>	<u>334</u>	<u>7,367</u>
Contributions from the employer	<u>-</u>	<u>(10,170)</u>	<u>(10,170)</u>
Benefits paid	<u>(5,379)</u>	<u>5,379</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ 134,792</u>	<u>\$ (75,282)</u>	<u>\$ 59,510</u>

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/corporate 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 rate(s)	1.15%	1.40%
Expected rate(s) of salary increase	2.00%	2.00%
Mortality rate	Taiwan actuarial life table	
Turnover rate	Note	Note

Note: Based on historical experience of turnover rate for the past few years and consideration of future developments.

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 rate(s)		
0.25% increase	\$ (2,687)	\$ (2,686)
0.25% decrease	\$ 2,797	\$ 2,796
Expected rate(s) of salary increase		
1% increase	\$ 11,796	\$ 11,815
1% decrease	\$ (10,254)	\$ (10,274)

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	\$ 2,233	\$ 2,575
The average duration of the defined benefit obligation	12 years	13 years

16. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2017	2016
Number of shares authorized (in thousands)	100,000	100,000
Shares authorized	\$ 1,000,000	\$ 1,000,000
Number of shares issued and fully paid (in thousands)	97,182	97,158
Shares issued	\$ 971,817	\$ 971,580

The shares increased due to employees' exercise of their employee share options.

b. Capital surplus

	December 31	
	2017	2016
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>		
Issuance of ordinary shares	\$ 1,211,921	\$ 1,211,645
Consolidation excess	53,723	53,723
The difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	101	101
<u>May not be used for any purpose</u>		
Employee share options	<u>13,337</u>	<u>13,462</u>
	<u>\$ 1,279,082</u>	<u>\$ 1,278,931</u>

The capital surplus arising from shares issued in excess of par (including share premium from issuance of common shares), consolidation excess and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

c. Retained 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 27, 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 Company 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 Company'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 and supervisors after amendment, please refer to e. employees' compensation and remuneration of directors and supervisors in Note 17.

In consideration of the operating environments and business growth, the Company distributed dividends both by cash and by stocks to meet the capital needs for the Company's present and future expansion plans and to satisfy stockholders' cash flow requirements. In principle, cash dividends should not be lower than 10% of total dividends distributed.

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

Items referred to under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs”, the Company should appropriate to or reverse from a special reserve.

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 Company.

The appropriations of earnings for 2016 and 2015 had been approved in the shareholders’ meetings on June 16, 2017 and June 27, 2016, respectively. The appropriations and dividends per share 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	\$ 89,772	\$ 80,120	\$ -	\$ -
Cash dividends	583,090	544,084	6.0	5.6

17. NET PROFIT AND OTHER COMPREHENSIVE INCOME

a. Other income

	For the Year Ended December 31	
	2017	2016
Interest income	\$ 4,696	\$ 6,889
Other income	<u>44,679</u>	<u>42,337</u>
	<u>\$ 49,375</u>	<u>\$ 49,226</u>

b. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Net foreign exchange gains (losses)	\$ (43,021)	\$ (126,944)
Other losses	<u>(20,416)</u>	<u>(29,752)</u>
	<u>\$ (63,437)</u>	<u>\$ (156,696)</u>

c. Depreciation and amortization expenses

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	\$ 154,471	\$ 145,475
Investment property	4	4
Intangible assets	<u>25,436</u>	<u>16,506</u>
	<u>\$ 179,911</u>	<u>\$ 161,985</u>

(Continued)

	For the Year Ended December 31	
	2017	2016
An analysis of depreciation by function		
Operating costs	\$ 132,359	\$ 124,722
Operating expenses	<u>22,116</u>	<u>20,757</u>
	<u>\$ 154,475</u>	<u>\$ 145,479</u>
An analysis of amortization by function		
Operating costs	\$ 7,547	\$ 4,043
Operating expenses	<u>17,889</u>	<u>12,463</u>
	<u>\$ 25,436</u>	<u>\$ 16,506</u>
		(Concluded)

d. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Short-term benefits	\$ 576,942	\$ 620,643
Post-employment benefits		
Defined contribution plans	40,443	36,620
Defined benefit plans (Note 16)	<u>2,233</u>	<u>2,575</u>
	<u>42,676</u>	<u>39,195</u>
Other employee benefits	<u>193,624</u>	<u>167,752</u>
Total employee benefits expense	<u>\$ 813,242</u>	<u>\$ 827,590</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 518,574	\$ 475,458
Operating expenses	<u>294,668</u>	<u>352,132</u>
	<u>\$ 813,242</u>	<u>\$ 827,590</u>

e. Employees' compensation and remuneration of directors and supervisors for 2017 and 2016

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting in June 2016, the Company accrued employees' compensation and remuneration of directors and supervisors at the rates 1% - 10% and no higher than 1%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2017 and 2016 which have been approved by the Company's board of directors on March 27, 2018 and March 27, 2017, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2017	2016
Employees' compensation	5.02%	5.26%
Remuneration of directors and supervisors	0.50%	0.53%

Amount

	For the Year Ended December 31	
	2017	2016
	Cash	Cash
Employees' compensation	\$ 60,548	\$ 59,443
Remuneration of directors and supervisors	6,055	5,944

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

The Company held a board of directors' meeting on March 27, 2017 that resulted in the actual amounts of the employees' compensation and remuneration of directors and supervisors paid for 2016 to differ from the amounts recognized in the consolidated financial statements for the year ended December 31, 2016. The differences were adjusted to profit and loss for the year ended December 31, 2017.

	For the Year Ended December 31, 2016	
	Bonus to Employees	Remuneration of Directors and Supervisors
Amounts approved in the board of directors' meeting	<u>\$ 59,443</u>	<u>\$ 5,944</u>
Amounts recognized in the annual financial statements	<u>\$ 81,363</u>	<u>\$ 8,136</u>

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, 2015.

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

18. INCOME TAX

- a. Major components of tax expense recognized in profit or loss:

	For the Year Ended December 31	
	2017	2016
<u>Current tax</u>		
In respect of the current year	\$ 192,436	\$ 204,454
Income tax on unappropriated earnings	21,742	17,001
Adjustments for prior years	<u>10,573</u>	<u>(515)</u>
	224,751	220,940
<u>Deferred tax</u>		
In respect of the current year	<u>11,361</u>	<u>(8,676)</u>
Income tax expense recognized in profit or loss	<u>\$ 236,112</u>	<u>\$ 212,264</u>

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

	For the Year Ended December 31	
	2017	2016
Profit before tax	<u>\$ 1,207,978</u>	<u>\$ 1,109,985</u>
Income tax expense calculated at the statutory rate (17%)	\$ 205,356	\$ 188,697
Tax-exempt income	(1,355)	(1,317)
Unrecognized deductible temporary differences	(22,297)	(13,568)
Income tax on unappropriated earnings	21,742	17,001
Effect of different tax rate of group entities operating in other jurisdictions	22,093	21,966
Adjustments for prior years' tax	<u>10,573</u>	<u>(515)</u>
Income tax expense recognized in profit or loss	<u>\$ 236,112</u>	<u>\$ 212,264</u>

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in the ROC, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates 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 \$7,147 thousand and \$898 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
<u>Deferred tax</u>		
In respect of the current year:		
Actuarial gains and losses on defined benefit plan	<u>\$ 1,252</u>	<u>\$ 1,524</u>

c. Current tax assets and liabilities

	December 31	
	2017	2016
Current tax assets		
Tax refund receivable	<u>\$ 16,784</u>	<u>\$ 25,084</u>
Current tax liabilities		
Income tax payable	<u>\$ 111,758</u>	<u>\$ 127,170</u>

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Defined benefit obligation	\$ 10,214	\$ (1,349)	\$ 1,252	\$ 10,117
Allowance for inventory losses	1,548	471	-	2,019
Others	<u>33,758</u>	<u>(5,396)</u>	<u>-</u>	<u>28,362</u>
	<u>\$ 45,520</u>	<u>\$ (6,274)</u>	<u>\$ 1,252</u>	<u>\$ 40,498</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Others	\$ -	\$ 5,087	\$ -	\$ 5,087
Land incremental tax	<u>150,799</u>	<u>-</u>	<u>-</u>	<u>150,799</u>
	<u>\$ 150,799</u>	<u>\$ 5,087</u>	<u>\$ -</u>	<u>\$ 155,886</u>

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Defined benefit obligation	\$ 15,197	\$ (6,507)	\$ 1,524	\$ 10,214
Allowance for inventory losses	2,180	(632)	-	1,548
Others	<u>25,059</u>	<u>8,699</u>	<u>-</u>	<u>33,758</u>
	<u>\$ 42,436</u>	<u>\$ 1,560</u>	<u>\$ 1,524</u>	<u>\$ 45,520</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Others	\$ 7,116	\$ (7,116)	\$ -	\$ -
Land incremental tax	<u>150,799</u>	<u>-</u>	<u>-</u>	<u>150,799</u>
	<u>\$ 157,915</u>	<u>\$ (7,116)</u>	<u>\$ -</u>	<u>\$ 150,799</u>

e. Integrated income tax

	December 31	
	2017	2016
Unappropriated earnings		
Generated before January 1, 1998	\$ -	\$ 3,401
Generated on and after January 1, 1998	<u>-</u>	<u>1,449,180</u>
	<u>\$ -</u>	<u>\$ 1,452,581</u>
	(Note)	
Shareholder - imputed credit account	<u>\$ -</u>	<u>\$ 158,213</u>
	(Note)	
	For the Year Ended December 31	
	2017 (Expected)	2016 (Actual)
Creditable ratio for distribution of earning	(Note)	16.82%

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

f. Income tax assessments

The Company's tax returns through 2015 have been assessed by the tax authorities. The Hong Kong Branch's tax is incorporated into Hu Lane Associate's income tax calculation. Upon attestation by local organization in Hong Kong recognized by the ROC, the Company could apply for refund of tax. As of December 31, 2017 Hu Lane Associate applied for refund of tax through 2015, which was approved by the tax authority through 2014. As of December 31, 2017 and 2016 tax refund receivables amounted to \$16,784 thousand and \$24,839 thousand, respectively.

19. EARNINGS PER SHARE

	For the Year Ended December 31	
	2017	2016
Basic earnings per share	<u>\$ 10.00</u>	<u>\$ 9.24</u>
Diluted earnings per share	<u>\$ 9.95</u>	<u>\$ 9.17</u>

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

Net Profit for the Year

	For the Year Ended December 31	
	2017	2016
Earnings used in the computation of basic earnings per share	<u>\$ 971,866</u>	<u>\$ 897,721</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 971,866</u>	<u>\$ 897,721</u>

Weighted average number of ordinary shares outstanding (in thousand shares):

	For the Year Ended December 31	
	2017	2016
Weighted average number of ordinary shares in computation of basic earnings per share	97,184	97,162
Effect of potentially dilutive ordinary shares:		
Employee share option	16	46
Employee's compensation	<u>490</u>	<u>645</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>97,690</u>	<u>97,853</u>

Since the Group offered to settle compensation paid to employees in cash or shares, the Group assumed the entire amount of the compensation will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

20. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company

Qualified employees of the Company and its subsidiaries were granted 890 options in March 2009. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The options granted are valid for 10 years and exercisable at certain percentages after the second to fourth anniversary from the grant date. The options were granted at an exercise price equal to the closing price of the Company's common shares listed on the Taiwan GreTai Securities Market on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

Information on employee share options was as follows:

	2017		2016	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
Balance at January 1	51.6	\$ 16.36	75.9	\$ 17.01
Options granted	-	-	-	-
Options forfeited	-	-	-	-
Options exercised	(33.2)	15.87	(24.3)	17.01
Options expired	<u>-</u>	-	<u>-</u>	-
Balance at December 31	<u>18.4</u>	15.80	<u>51.6</u>	16.36
Options exercisable, end of year	<u>18.4</u>	15.80	<u>51.6</u>	16.36
Weighted-average fair value of options granted (\$)	<u>\$ 7,792</u>		<u>\$ 7,792</u>	

The weighted-average share prices at the date of exercise of share options for the years ended December 31, 2017 and 2016 were \$15.87 and \$17.01, respectively.

Information about outstanding options as of December 31, 2017 and 2016 was as follows:

	December 31	
	2017	2016
Range of exercise price (NT\$)	\$ 15.80	\$ 16.36
Weighted-average remaining contractual life (years)	1.25	2.25

Options granted in March 2009 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	March 2012
Grant-date share price (\$)	\$26.8
Exercise price (\$)	\$26.8
Expected volatility	29.07%
Expected life (years)	10 years
Expected dividend yield	-
Risk-free interest rate	1.0305%

Expected volatility was based on the historical share price volatility over the past 10 years. Since the period from the Company's shares listing in November 2003 to March 2009 was shorter than 10 years (expected life), the assumption for expected volatility was based on the historical share price volatility over the above period instead of 10 years.

21. BUSINESS COMBINATIONS

a. Subsidiary acquired

	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
PT. Hulane Tech Manufacturing	Manufacturing	December 31, 2017	80	<u>\$ 15,472</u>

PT. Hulane Tech Manufacturing was acquired for the purpose of expanding the Group's operation.

b. Consideration transferred

	PT. Hulane Tech Manufacturing
Cash	<u>\$ 15,472</u>

c. Assets acquired and liabilities assumed at the date of acquisition

	PT. Hulane Tech Manufacturing
Current assets	
Cash and cash equivalents	\$ 560
Accounts receivable	1,131
Inventories	3,034
Other current assets	1,254
Non-current assets	
Property, plant and equipment	15,675
Current liabilities	
Accounts payable	(1,534)
Other payables	<u>(780)</u>
	<u>\$ 19,340</u>

d. Non-controlling interest

The non-controlling interest (a 20% ownership interest in PT. Hulane Tech Manufacturing) recognized at the acquisition date was measured by reference to the amount of acquiree's identifiable net assets acquired that is in proportion to the Group's share.

e. Net cash outflow on acquisition of subsidiaries

	For the Year Ended December 31, 2017
Consideration paid in cash	\$ 15,472
Less: Cash and cash equivalent balances acquired	<u>(560)</u>
	<u>\$ 14,912</u>

f. Impact of acquisition on the results of the Group

Had the business combination been in effect at the beginning of the annual reporting period, the Group's revenue would have been \$4,090,910 thousand, and the profit would have been \$1,235,911 thousand for the year ended December 31, 2017. This pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2017, nor is it intended to be a projection of future results.

22. OPERATING LEASE ARRANGEMENTS

a. The Group as lessee

Operating leases relate to leases of land. The Group does not have a bargain purchase option to acquire the leased land at the expiration of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	December 31	
	2017	2016
Not later than 1 year	\$ 12,728	\$ 7,991
1-5 years	11,749	7,681
More than 5 years	<u>1,313</u>	<u>-</u>
	<u>\$ 25,790</u>	<u>\$ 15,672</u>

b. Long-term prepayments for lease

The long-term prepayments for lease were payments for lease of rights to superficies of lands in China and Vietnam. As of December 31, 2017 and 2016, the unamortized balance of long-term prepayments for lease was \$80,135 thousand and \$85,507 thousand, respectively.

23. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged in the reporting period.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves, retained earnings and other equity).

The Group is not subject to any external imposed capital requirements.

24. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments not carried at fair value

Management believes the carrying amounts of financial assets and financial liabilities not carried at fair values approximate their fair values.

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

1) Fair value hierarchy

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Non-derivative financial assets held for trading	<u>\$ 148,155</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 148,155</u>

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Non-derivative financial assets held for trading	<u>\$ 9,241</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,241</u>

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2017

	Financial Assets at Fair Value Through Profit or Loss Structured Deposits
<u>Financial assets</u>	
Balance at January 1, 2017	\$ -
Purchases	11,017
Recognized in profit or loss - unrealized	24
Settlements	<u>(11,041)</u>
Balance at December 31, 2017	<u>\$ -</u>

For the year ended December 31, 2016

	Financial Assets at Fair Value Through Profit or Loss Structured Deposits
<u>Financial assets</u>	
Balance at January 1, 2016	\$ 61,029
Recognized in profit or loss - unrealized	62
Settlements	<u>(61,091)</u>
Balance at December 31, 2016	<u>\$ -</u>

3) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

Fair value of structured deposits was calculated based on the discounted cash flow of income from holding the investment.

c. Categories of financial instruments

	December 31	
	2017	2016
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	\$ 148,155	\$ 9,241
Loans and receivables (1)	3,013,414	2,859,063

Financial liabilities

Amortized cost (2)	2,069,124	1,318,548
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- 1) The balances included loans and receivables measured at amortized cost, which comprised cash and cash equivalents, debt investments with no active market, notes receivable, trade receivables and other receivables.
- 2) The balances included financial liabilities measured at amortized cost, which comprised short-term loans, notes payable, trade payables and other payables.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivables, trade payables and borrowings. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Corporate Treasury function reports quarterly to the Group's board of directors.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

Several subsidiaries of the Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) at the end of the reporting period are set out in Note 27.

Sensitivity analysis

The Group was mainly exposed to USD and RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and other equity associated with New Taiwan dollars strengthen 5% against the relevant currency. For a 5% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

	USD Impact		RMB Impact	
	For the Year Ended December 31		For the Year Ended December 31	
	2017	2016	2017	2016
Profit or loss	\$ 23,683	\$ 25,782	\$ 63,038	\$ 58,590

b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates.

The carrying amount 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	\$ 371,748	\$ 262,284
Financial liabilities	899,500	345,000
Cash flow interest rate risk		
Financial assets	609,532	570,715
Financial liabilities	-	-

Sensitivity analysis

The sensitivity analyses were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. The Group's floating-rate financial assets were demand deposits, which fluctuated moderately, and accordingly the Group was exposed to low interest rate risk. On the other hand, no floating-rate liabilities were held at the end of the reporting period, and no related sensitivity analysis was performed.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation and financial guarantees provided by the Group could arise from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by related departments such as executive vice president, internal auditors, and financial accounting.

The Group did transactions with a large number of customers diversified to different industries and geographical locations; the Group performed credit evaluation on the financial condition of trade receivables and controlled the credit risk exposure on an ongoing basis.

The Group did transactions with a large number of unrelated customers and, thus, no concentration of credit risk was deserved.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2017 and 2016, the Group had available unutilized short-term bank loan facilities set out in (b) below.

a) Liquidity and interest risk rate tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

To the extent that interest flows are floating rate, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2017

	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	\$ 203,683	\$ 886,649	\$ 61,814	\$ -	\$ -
Variable interest rate liabilities	-	-	-	-	-
Fixed interest rate liabilities	<u>900,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,103,775</u>	<u>\$ 886,649</u>	<u>\$ 61,814</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2016

	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	\$ 173,140	\$ 722,615	\$ 77,793	\$ -	\$ -
Variable interest rate liabilities	-	-	-	-	-
Fixed interest rate liabilities	<u>110,239</u>	<u>85,351</u>	<u>150,106</u>	<u>-</u>	<u>-</u>
	<u>\$ 283,379</u>	<u>\$ 807,966</u>	<u>\$ 227,899</u>	<u>\$ -</u>	<u>\$ -</u>

b) Financing facilities

	<u>December 31</u>	
	2017	2016
Unsecured bank overdraft facility, reviewed annually:		
Amount used	\$ 599,500	\$ 195,000
Amount unused	<u>548,100</u>	<u>977,500</u>
	<u>\$ 1,147,600</u>	<u>\$ 1,172,500</u>
Secured bank overdraft facility:		
Amount used	\$ 300,000	\$ 150,000
Amount unused	<u>1,109,000</u>	<u>259,000</u>
	<u>\$ 1,409,000</u>	<u>\$ 409,000</u>

e. Financial assets transfer information

During 2017 and 2016, the Group discounted notes receivable with an aggregate carrying amount of \$513,617 thousand and \$296,042 thousand to a bank for cash proceeds of \$513,617 thousand and \$296,042 thousand, respectively. According to the contract, if the notes receivable are not paid at maturity, the bank has the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these notes receivable, it continues to recognize the full carrying amount of the receivables.

As of December 31, 2017 and 2016, the carrying amount of the trade receivables that have been transferred but have not been derecognized amounted to \$214,860 thousand and \$129,664 thousand, respectively, and the carrying amount of the related liability (recorded as other payables) was \$214,860 thousand and \$129,664 thousand, respectively.

25. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in other notes, details of transactions between the Group and other related parties are disclosed below.

a. Related parties and their relationships with the Group:

<u>Related Party</u>	<u>Relationship with the Group</u>
PT. Delta Hulane Pacific Co., Limited	Associate
Shenzhen Pu Guang Trading Limited	Related party in substance (no longer related party in substance since September 30, 2016)
Tay Lian Electronics Limited	Related party in substance

b. Sales of goods

<u>Related Party</u>	<u>For the Year Ended December 31</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>% to Total</u>	<u>Amount</u>	<u>% to Total</u>
Shenzhen Pu Guang Trading Limited	\$ <u>-</u>	<u>-</u>	\$ <u>759</u>	<u>-</u>

The Group mainly sold products such as connectors and terminals to related parties, of which the selling price was based on the cost negotiated by both parties according to the market condition. The collection terms for products sold to related parties were open account 90 days in average, similar to those for products sold to third parties.

c. Purchases

<u>Related Party</u>	<u>For the Year Ended December 31</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>% to Total</u>	<u>Amount</u>	<u>% to Total</u>
Shenzhen Pu Guang Trading Limited	\$ -	-	\$ 11	-
Tay Lian Electronics Limited	-	-	108	-
PT. Delta Hulane Pacific Co., Limited	<u>623</u>	<u>-</u>	<u>583</u>	<u>-</u>
	\$ <u>623</u>	<u>-</u>	\$ <u>702</u>	<u>-</u>

The Group mainly purchased products such as connectors and terminals from related parties, of which the purchase price was based on the cost negotiated by both parties according to the market condition. The payment terms for products purchased from related parties were open account 90 days, similar to those for products purchased from third parties.

d. Other payables

Related Party	December 31			
	2017		2016	
	Amount	% to Total	Amount	% to Total
Tay Lian Electronics Limited	\$ 17,225	99	\$ 18,903	100
PT. Delta Hulane Pacific Co., Limited	<u>253</u>	<u>1</u>	<u>61</u>	<u>-</u>
	<u>\$ 17,478</u>	<u>100</u>	<u>\$ 18,964</u>	<u>100</u>

e. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Salaries and short-term employee benefits	\$ 74,481	\$ 73,312
Post-employment benefits	<u>1,187</u>	<u>1,142</u>
	<u>\$ 75,668</u>	<u>\$ 74,454</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

26. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

	December 31	
	2017	2016
Land	\$ 978,565	\$ 149,870
Buildings	24,086	25,436
Notes receivable	<u>214,860</u>	<u>129,664</u>
	<u>\$ 1,217,511</u>	<u>\$ 304,970</u>

Land and buildings were recorded as property, plant and equipment.

27. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group entities' significant assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

	December 31					
	2017			2016		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 24,015	29.76	\$ 714,686	\$ 27,518	32.25	\$ 887,463
EUR	842	35.57	29,960	875	33.9	29,674
RMB	297,837	4.565	1,359,628	264,105	4.617	1,219,373
Non-monetary items						
Investments accounted for using equity method						
IDR	5,636,488	0.0022	12,400	10,989,118	0.0024	26,374
<u>Financial liabilities</u>						
Monetary items						
USD	8,099	29.76	241,026	11,529	32.25	371,821
RMB	21,656	4.565	98,860	10,303	4.617	47,569

The Group is mainly exposed to USD and RMB. The following information was aggregated by the functional currencies of the group entities, and the exchange rates between respective functional currencies and the presentation currency were disclosed. The significant realized and unrealized foreign exchange gains (losses) were as follows:

For the Year Ended December 31				
Foreign Currencies	2017		2016	
	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
NTD	1 (NTD:NTD)	\$ (49,454)	1 (NTD:NTD)	\$ (118,969)
RMB	4.565 (RMB:NTD)	35	4.617 (RMB:NTD)	(7,432)
VND	0.0012 (VND:NTD)	(228)	0.0014 (VND:NTD)	(531)
HKD	3.807 (HKD:NTD)	6,626	4.158 (HKD:NTD)	(12)
		<u>\$ (43,021)</u>		<u>\$ (126,944)</u>

28. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (Table 1)
- 2) Endorsements/guarantees provided. (Table 2)
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities). (Table 3)
- 4) Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital. (Table 4)

- 5) Acquisition of individual real estate at costs of at least NT \$300 million or 20% of the paid-in capital. (None)
 - 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 5)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 6)
 - 9) Trading in derivative instruments. (None)
 - 10) Intercompany relationships and significant intercompany transactions. (Table 7)
 - 11) Information on investees. (Table 8)
- b. Information on investments in mainland China
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 9)
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (Tables 1, 2 and 10)
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - c) The amount of property transactions and the amount of the resultant gains or losses.
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

29. SEGMENT INFORMATION

The Group has reorganized in July 2016. The Group makes operating decisions based on the information of the Group as a whole; thus, the Group is a single segment according to IFRS 8, and there is no need to disclose operating segments financial information.

a. Revenue from major products and services

The major products of the Group are connectors.

b. Geographical information

The Group operates in two principal geographical areas - China and Asia.

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

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		For the Year Ended December 31	
	2017	2016	2017	2016
China	\$ 2,986,020	\$ 2,951,950	\$ 1,208,993	\$ 1,032,744
Asia	<u>1,090,603</u>	<u>1,030,516</u>	<u>1,428,798</u>	<u>1,269,706</u>
	<u>\$ 4,076,623</u>	<u>\$ 3,982,466</u>	<u>\$ 2,637,791</u>	<u>\$ 2,302,450</u>

Non-current assets exclude deferred tax assets.

c. Information about major customers

No single customer contributed 10% or more to the Group's revenue for 2017 and 2016.

TABLE 1

HU LANE ASSOCIATE INC. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limits	Note
													Item	Value			
1	Evervalue Investments Limited	Dongguan Hulane Electronics Technology	Other receivables from related parties	Yes	\$ 59,520 (US\$ 2,000)	\$ 14,880 (US\$ 500)	\$ 14,880 (US\$ 500)	3%	Short-term financing	\$ -	Operations	\$ -	None	\$ -	\$ 814,188	\$ 814,188	
2	Telford Investments Limited	Dongguan Hulane Electronics Technology	Other receivables from related parties	Yes	119,040 (US\$ 4,000)	119,040 (US\$ 4,000)	119,040 (US\$ 4,000)	3% - 6 months Libor+3.5%	Short-term financing	-	Operations	-	None	-	157,237	157,237	
3	Hulane Electronics (Shenzhen) Limited	Dongguan Hulane Electronics Technology	Other receivables from related parties	Yes	31,955 (RMB 7,000)	31,955 (RMB 7,000)	31,955 (RMB 7,000)	4.35%	Short-term financing	-	Operations	-	None	-	32,551	43,402	

TABLE 2

HU LANE ASSOCIATE INC. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorser/Guarantor	Endorsee/Guarantee		Limits on Endorsement/ Guarantee Amount Provided to Each Counterparty	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Nature of Relationship										
0	Hu Lane Associate Inc.	Evervalue Investments Limited	Subsidiary directly held more than 50% of ordinary shares and subsidiary	\$ 907,577	\$ 303,552 (US\$ 10,200)	\$ 303,552 (US\$ 10,200)	\$ - (US\$ -)	\$ -	6.69	\$ 1,815,153	Y	N	N

TABLE 3

HU LANE ASSOCIATE INC. AND SUBSIDIARIES

**MARKETABLE SECURITIES HELD
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)**

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2017				Note
				Shares	Carrying Amount	Percentage of Ownership	Fair Value	
Hu Lane Associate Inc.	<u>Domestic quoted shares</u>							
	Chia Chang Co., Limited	-	Financial assets at fair value through profit or loss - current	10	\$ 241	-	\$ 241	
	Taiwan Semiconductor Manufacturing Company, Limited	-	Financial assets at fair value through profit or loss - current	150	34,425	-	34,425	
	Media Tek Inc.	-	Financial assets at fair value through profit or loss - current	100	29,400	-	29,400	
	Fubon Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss - current	500	25,350	-	25,350	
	<u>Mutual funds</u>							
	Hua Nan	-	Financial assets at fair value through profit or loss - current	3,712	49,740	-	49,740	
Chiren Investments Limited	<u>Mutual funds</u>							
	Jih Sun Money Market Fund	-	Financial assets at fair value through profit or loss - current	611	8,999	-	8,999	

TABLE 4

HU LANE ASSOCIATE INC. AND SUBSIDIARIES

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares	Amount
Hu Lane Associate Inc.	<u>Domestic quoted shares</u> Chunghwa Telecom Co., Ltd.	Financial assets at fair value through profit or loss-current			-	\$ -	1,850	\$ 194,527	1,850	\$ 196,517	\$ 194,527	\$ 1,990	-	\$ -
	Hon Hai Precision Industry Co., Ltd.	Financial assets at fair value through profit or loss-current			-	-	2,300	247,953	2,300	249,840	247,953	1,887	-	-
	Taiwan Semiconductor Manufacturing Co., Ltd.	Financial assets at fair value through profit or loss-current			-	-	2,450	521,642	2,300	484,148	484,990	(842)	150	34,425
	<u>Mutual funds</u> Fubon SSE180 Leveraged 2X Index ETF	Financial assets at fair value through profit or loss-current			-	-	7,271	274,527	7,271	275,225	274,527	698	-	-
	Yuanta/P-Shrs CSI 300 2X ETF	Financial assets at fair value through profit or loss-current			-	-	28,612	450,939	28,612	453,069	450,939	2,130	-	-

TABLE 5

HU LANE ASSOCIATE INC. AND SUBSIDIARIES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Hulane Electronics (Nanjing) Limited	Hu Lane Associate Inc.	Parent company	Sale	\$ (248,347)	(22)	90 days			\$ 21,731	3	
Hu Lane Associate Inc.	Dongguan Hulane Puguang Trading Co., Ltd.	Subsidiary	Sale	(115,810)	(5)	270 days			112,146	8	
Dongguan Hulane Electronics Technology	Dongguan Hulane Puguang Trading Co., Ltd. Hu Lane Associate Inc.	Related in substance Parent company	Sale	(1,480,277)	(81)	270 days			892,866	88	
			Sale	(290,619)	(16)	90 days			62,291	6	
Hulane Electronics (Nanjing) Limited	Dongguan Hulane Puguang Trading Co., Ltd.	Related in substance	Sale	(829,383)	(75)	270 days			697,505	83	
Hu Lane Associate Inc.	Dongguan Hulane Electronics Technology	Subsidiary	Sale	(1,010,739)	(42)	270 days			993,271	71	
Dongguan Hulane Electronics Technology	Hu Lane Associate Inc.	Parent company	Purchase	1,010,739	65	270 days			(993,271)	(83)	
Dongguan Hulane Puguang Trading Co., Ltd.	Hu Lane Associate Inc.	Parent company	Purchase	115,810	5	270 days			(112,146)	(7)	
Hu Lane Associate Inc.	Dongguan Hulane Electronics Technology	Subsidiary	Purchase	290,619	22	90 days			(62,291)	(27)	
Dongguan Hulane Puguang Trading Co., Ltd.	Dongguan Hulane Electronics Technology	Related in substance	Purchase	1,480,277	61	270 days			(892,866)	(52)	
Hu Lane Associate Inc.	Hulane Electronics (Nanjing) Limited	Subsidiary	Purchase	248,347	18	90 days			(21,731)	(10)	
Dongguan Hulane Puguang Trading Co., Ltd.	Hulane Electronics (Nanjing) Limited	Related in substance	Purchase	829,383	34	270 days			(697,505)	(41)	

TABLE 6

HU LANE ASSOCIATE INC. AND SUBSIDIARIES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Hu Lane Associate Inc.	Dongguan Hulane Puguang Trading Co., Ltd.	Subsidiary	\$ 112,146	0.20	\$ 1	-	\$ 112,146	\$ -
Hulane Electronics (Nanjing) Limited	Dongguan Hulane Puguang Trading Co., Ltd.	Related in substance	697,505	1.32	-	-	55,593	-
Dongguan Hulane Electronics Technology	Dongguan Hulane Puguang Trading Co., Ltd.	Related in substance	892,866	3.15	-	-	42,233	-
Hu Lane Associate Inc.	Dongguan Hulane Electronics Technology	Subsidiary	993,271	2.03	211,245	-	-	-

TABLE 7

HU LANE ASSOCIATE INC. AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands of New Taiwan Dollars)**

No.	Investee Company	Counterparty	Relationship	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Total Sales or Assets
0	Hu Lane Associate Inc.	Hulane Electronics (Nanjing) Limited	a.	Purchase	\$ 248,347	Processed in normal course	6
		Hulane Electronics (Nanjing) Limited	a.	Trade payables from related parties	21,731	Periodical settlement or offset debits credits	-
		Hulane Electronics (Nanjing) Limited	a.	Other receivables	65,662	Periodical settlement or offset debits credits	1
		Hulane Electronics (Nanjing) Limited	a.	Other income	42,802	Processed in normal course	1
		Lihoo Electronics (Shenzhen) Limited	a.	Other payables	28,686	Periodical settlement or offset debits credits	-
		Dongguan Hulane Puguang Trading Co., Ltd.	a.	Sales	115,810	Processed in normal course	3
		Dongguan Hulane Puguang Trading Co., Ltd.	a.	Trade receivables from related parties	112,146	Periodical settlement or offset debits credits	2
		Fortune Master Development Limited	a.	Sales	30,087	Processed in normal course	1
		Fortune Master Development Limited	a.	Other receivables	15,073	Periodical settlement or offset debits credits	-
		Hulane Electronics (Vietnam) Limited	a.	Trade payables from related parties	11,713	Periodical settlement or offset debits credits	-
		Hulane Electronics (Vietnam) Limited	a.	Purchase	26,375	Processed in normal course	1
		Hulane Electronics (Vietnam) Limited	a.	Sales	33,477	Processed in normal course	1
		Dongguan Hulane Electronics Technology	a.	Trade payables from related parties	62,291	Periodical settlement or offset debits credits	1
		Dongguan Hulane Electronics Technology	a.	Trade receivables from related parties	993,271	Periodical settlement or offset debits credits	14
		Dongguan Hulane Electronics Technology	a.	Other receivables	41,239	Periodical settlement or offset debits credits	1
		Dongguan Hulane Electronics Technology	a.	Sales	1,010,739	Processed in normal course	25
		Dongguan Hulane Electronics Technology	a.	Purchase	290,619	Processed in normal course	7
1	Evervalue Investments Limited	Dongguan Hulane Electronics Technology	c.	Other receivables	15,264	Periodical settlement or offset debits credits	-
		Hulane Electronics (Shenzhen) Limited	c.	Temporary credits	11,522	Periodical settlement or offset debits credits	-
2	Telford Investments Limited	Dongguan Hulane Electronics Technology	c.	Other receivables	120,834	Periodical settlement or offset debits credits	2
3	Fortune Master Development Limited	Hulane Electronics (Vietnam) Limited	c.	Trade receivables from related parties	15,900	Periodical settlement or offset debits credits	-
4	Hulane Electronics (Nanjing) Limited	Dongguan Hulane Puguang Trading Co., Ltd.	c.	Sales	829,383	Processed in normal course	20
		Dongguan Hulane Puguang Trading Co., Ltd.	c.	Trade receivables from related parties	697,505	Periodical settlement or offset debits credits	10
5	Dongguan Hulane Electronics Technology	Hulane Electronics (Shenzhen) Limited	c.	Trade payables from related parties	17,650	Periodical settlement or offset debits credits	-
		Hulane Electronics (Shenzhen) Limited	c.	Other payables	43,983	Periodical settlement or offset debits credits	1
		Dongguan Hulane Puguang Trading Co., Ltd.	c.	Sales	1,480,277	Processed in normal course	36
		Dongguan Hulane Puguang Trading Co., Ltd.	c.	Trade receivables from related parties	892,866	Periodical settlement or offset debits credits	13
		Dongguan Hulane Puguang Trading Co., Ltd.	c.	Purchase	26,367	Processed in normal course	1
		Hulane Electronics (Nanjing) Limited	c.	Sales	13,393	Processed in normal course	-

TABLE 8

HU LANE ASSOCIATE INC. AND SUBSIDIARIES

**INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2017			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2017	December 31, 2016	Shares	%	Carrying Amount			
Hu Lane Associate Inc.	Evervalue Investments Limited	Offshore Chambers, P.O. Box 217, Apia, Samoa	Investment	\$ 555,033	\$ 555,033	\$ 17,738	100.00	\$ 2,035,469	\$ 387,903	\$ 387,903	
	Telford Investments Limited	"	Investment	38,490	38,490	1,034	100.00	157,237	(8,559)	(8,559)	
	Chiren Investment Limited	Taipei City	Investment	10,000	10,000	1,000	100.00	12,350	6	6	
	Hulane Electronics (Vietnam) Limited	Vietnam	Manufacture	182,033	182,033	6,300	100.00	176,979	17,440	17,440	
	Pt Delta Hulane Pacific Co., Limited	Indonesia	Manufacture	12,412	12,412	400	40.00	12,400	10,559	4,224	
	PT Hulane Tech Manufacturing	Indonesia	Trading	15,472	-	800	80.00	15,472	-	-	
Evervalue Investments Limited	Hulane Electronics (Shenzhen) Limited	Baoan District, Shenzhen City Guardiong Province, China	Manufacture	48,837	48,837	1,400	100.00	108,505	(2,074)	(2,074)	
	Lihoo Electronics (Shenzhen) Limited	"	Manufacture	38,639	38,639	880	100.00	94,589	(4,818)	(4,818)	
	Hulane Electronics (Nanjing) Limited	Jiangning District, Nanjing City China	Manufacture	275,946	275,946	8,500	100.00	1,308,966	129,996	129,996	
	Fortune Master Development Limited	Hong Kong	Investment	277,993	277,993	9,400	100.00	585,823	271,082	271,082	
Fortune Master Development Limited	Dongguan Hulane Electronics Technology	Dalant Town, Dongguan City, Guandong Province, China	Manufacture	236,287	236,287	8,000	100.00	485,247	258,628	258,628	
	Dongguan Hulane Puguang Trading Co., Ltd.	"	Trading	41,706	41,706	1,400	100.00	98,074	11,184	11,184	

TABLE 9

HU LANE ASSOCIATE INC. AND SUBSIDIARIES

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2017	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2017	Accumulated Repatriation of Investment Income as of December 31, 2017
					Outward	Inward						
Hulane Electronics (Shenzhen) Limited	Manufacture and sales of terminals, bales of wire, connectors and molds.	US\$ 1,400	Note	\$ 48,837	\$ -	\$ -	\$ 48,837	\$ (2,074)	100.00	\$ (2,074)	\$ 108,505	\$ 30,059
Lihoo Electronics (Shenzhen) Limited	Manufacture and sales of electronic connection wires.	US\$ 1,119	Note	38,639	-	-	38,639	(4,818)	100.00	(4,818)	94,589	-
Hulane Electronics (Nanjing) Limited	Manufacture and sales of terminals, bales of wire, connectors and molds.	US\$ 8,500	Note	275,946	-	-	275,946	129,996	100.00	129,996	1,308,966	-
Dongguan Hulane Electronics Technology	Manufacture and sales of terminals, bales of wire, connectors and molds.	US\$ 8,000	Note	236,287	-	-	236,287	258,628	100.00	258,628	485,247	-
Dongguan Hulane Puguang Trading Co., Ltd.	Sales of terminals, bales of wire, connectors and molds.	US\$ 1,400	Note	41,706	-	-	41,706	11,184	100.00	11,184	98,074	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
US\$20,419 thousand (NT\$607,669 thousand)	US\$20,419 thousand	\$4,541,752 thousand × 60% = \$2,725,051 thousand

Note: Investment through companies incorporated in the third region.

TABLE 10

HU LANE ASSOCIATE INC. AND SUBSIDIARIES

**SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)**

Investee Company	Transaction Type	Amount	Price	Payment Term	Comparison with Normal Transaction	Ending Balance	%	Unrealized (Gain) Loss
Hulane Electronics (Shenzhen) Limited	Sales	\$ -	No significant differences to other customers	No significant differences to other customers	No significant differences to other customers	\$ 6,385	100	\$ -
	Purchase	-	No significant differences to other customers	No significant differences to other customers	No significant differences to other customers	-	-	-
Lihoo Electronics (Shenzhen) Limited	Sales	-	No significant differences to other customers	No significant differences to other customers	No significant differences to other customers	-	-	-
	Purchase	-	No significant differences to other customers	No significant differences to other customers	No significant differences to other customers	-	-	-
Hulane Electronics (Nanjing) Limited	Sales	1,086,876	No significant differences to other customers	No significant differences to other customers	No significant differences to other customers	724,795	86	-
	Purchase	54,990	No significant differences to other customers	No significant differences to other customers	No significant differences to other customers	(14,974)	(6)	-
Dongguan Hulane Puguang Trading Co., Ltd.	Sales	26,752	No significant differences to other customers	365 days	Credit conditions adjusted based on China's trading practice	1,885	-	-
	Purchase	2,422,608	No significant differences to other customers	No significant differences to other customers	No significant differences to other customers	(1,703,214)	(100)	-
Dongguan Hulane Electronics Technology	Sales	1,784,289	No significant differences to other customers	270 days	Credit conditions adjusted based on China's trading practice	962,321	95	-
	Purchase	1,053,931	No significant differences to other customers	No significant differences to other customers	No significant differences to other customers	(1,038,329)	(87)	-