TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2016 AND 2015

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

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REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR16000236

To the Board of Directors and Shareholders of Transcend Information, Inc.

Opinion

We have audited the accompanying consolidated balance sheets of Transcend Information, Inc. and its subsidiaries (the "Group") as at December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

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Key audit matters

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

Evaluation of inventories

Description

Please refer to Notes 4(9), 5(2) and 6(5) to the consolidated financial statements for the details of the information about Group's inventory accounting policy, estimates and assumption and allowance for inventory evaluation losses.

The percentage of the Group's inventories in total assets is material and the Group applies judgments and estimates in determing the net realizable value of inventories on balance sheet date. The Group mainly produces DRAM and flash memory, and due to those products having short life cycle and belong to a highly competitive industry, the market prices change frequently. Since the Group's inventories and the allowance for inventories evaluation losses are material to its financial statements, the evaluation of inventories has been identified as a key audit matter.

How our audit addressed the matter

Our audit procedures performed in respect of the above key audit matter included the following:

A. Obtained an understanding of the Group's operation and industry. Assessed the reasonableness of the policy and procedures to recognise allowance for inventory evaluation losses.

B. Obtained an understanding of the Group's inventory control procedures. Reviewed annual inventory count plan and observed the annual physical count of inventory in order to assess the effectiveness of inventory internal control.

C. Obtained relevant evaluation reports of inventory and tested the logic and accuracy of information to assess the reasonableness of allowance for inventory evaluation losses.

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Estimation of allowance for sales discount

Description

In consideration of business volume, the Group provides a variety of business incentives to specific customers or products, and based on that, the Group can estimate the allowance for sales discount monthly. Please refer to Note 6(4) to the consolidated financial statements for the details of the information about estimation of allowance for sales allowance.

Since the contracts are numerous and the result could affect the net revenue in the consolidated financial statements, the estimation of allowance for sales discount has been identified as a key audit matter.

How our audit addressed the matter

Our audit procedures performed in respect of the above key audit matter included the following:

A. Obtained an understanding of the Group's operation, industry and the procedure to recognise allowance for sales discount.

B. Obtained an understanding of the Group's sales procedures and interviewed management to assess the appropriateness of sales allowance contracts and internal control on estimation of allowance.

C. Obtained the evaluation list of allowance for sales discount, and tested material sales allowance contracts and recalculated it to assess the reasonableness of allowance in the Group's determination.

Other matter –Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of Transcend Information, Inc. as at and for the years ended December 31, 2016 and 2015.

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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 Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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 audit committee, are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS 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 ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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.

- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We 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.

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

Lin, Chun-Yao Chou, Chien-Hung

Lin, Chun-Yao Chou, Chien-Hung

For and on behalf of PricewaterhouseCoopers, Taiwan

March 9, 2017

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2016 AMOUNT	%	December 31, 2015 AMOUNT	%
Current assets					
Cash and cash equivalents	6(1)	$ 1,842,670	8	$ 2,663,362	11
Financial assets at fair value through profit or loss - current	6(2)	-	-	15,768	-
Investment in debt instrument without active market - current	6(3)	366,295	2	897,180	4
Notes receivable, net		5,348	-	959	-
Accounts receivable, net	6(4)	2,841,228	12	3,203,340	13
Accounts receivable- related parties, net	7	21,369	-	9,347	-
Other receivables		146,619	1	129,031	1
Inventories	6(5)	5,166,821	23	4,513,756	19
Other current financial assets	6(6)	8,702,590	38	8,532,006	35
Other current assets, others		36,389	-	52,486	-
Current Assets		19,129,329	84	20,017,235	83
Non-current assets					
Available-for-sale financial assets - non-current	6(7)	179,580	1	184,304	1
Investments accounted for using equity method	6(8)	282,610	1	317,555	1
Property, plant and equipment	6(9), 7 and 8	2,740,210	12	2,995,091	13
Investment property, net	6(10)	277,316	1	290,581	1
Deferred tax assets	6(22)	77,759	-	72,777	-
Other non-current assets	6(11)	204,250	1	185,706	1
Non-current Assets		3,761,725	16	4,046,014	17
Total Assets		$ 22,891,054	100	$ 24,063,249	100

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TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	December 31, 2016 AMOUNT	%	December 31, 2015 AMOUNT	%
Current liabilities					
Short-term borrowings	6(12)	$ -	-	$ 901,425	4
Financial liabilities at fair value through profit or loss - current	6(2)	-	-	13	-
Accounts payable		1,740,266	8	1,589,112	7
Accounts payable - related parties	7	48,218	-	58,560	-
Other payables		390,533	2	366,932	2
Current tax liabilities		96,138	-	280,861	1
Other current liabilities		44,415	-	36,092	-
Current Liabilities		2,319,570	10	3,232,995	14
Non-current liabilities					
Deferred tax liabilities	6(22)	167,817	1	259,348	1
Other non-current liabilities	6(13)	76,733	-	68,825	-
Non-current Liabilities		244,550	1	328,173	1
Total Liabilities		2,564,120	11	3,561,168	15
Equity attributable to owners of parent					
Share capital	6(14)				
Common stock		4,307,617	19	4,307,617	18
Capital surplus	6(15)				
Capital surplus		4,799,075	21	4,799,075	20
Retained earnings	6(16)				
Legal reserve		3,748,946	16	3,426,756	14
Special reserve		21,691	-	-	-
Unappropriated retained earnings		7,595,294	33	7,990,324	33
Other equity interest	6(17)				
Other equity interest		(145,689)	-	(21,691)	-
Total Equity		20,326,934	89	20,502,081	85
Significant contingent liabilities and unrecognized contract commitments	9				
Significant events after the balance sheet date	11				
Total Liabilities and Equity		$ 22,891,054	100	$ 24,063,249	100

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

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan Dollars, except Earnings Per Share)

Items	Notes	2016 AMOUNT	2016 %	2015 AMOUNT	2015 %
Operating Revenue	6(18) and 7	$ 22,104,915	100	$ 24,913,287	100
Operating Costs	6(5) and 7	(17,153,222)	(78)	(20,211,736)	(81)
Gross Profit		4,951,693	22	4,701,551	19
Operating Expenses	6(21)				
Sales and marketing expenses		(1,089,435)	(5)	(1,096,006)	(4)
Administrative expenses		(403,824)	(2)	(419,887)	(2)
Research and development expenses		(150,689)	-	(134,062)	(1)
Total operating expenses		(1,643,948)	(7)	(1,649,955)	(7)
Operating Profit		3,307,745	15	3,051,596	12
Non-operating Income and Expenses					
Other income	6(19)	138,978	1	162,637	1
Other gains and losses	6(20)	(166,253)	(1)	517,669	2
Finance costs		(2,502)	-	(3,636)	-
Share of loss of associates and joint ventures accounted for under equity method	6(8)	(34,601)	-	(15,038)	-
Total non-operating income and expenses		(64,378)	-	661,632	3
Profit before Income Tax		3,243,367	15	3,713,228	15
Income tax expense	6(22)	(360,730)	(2)	(491,326)	(2)
Profit for the Year		$ 2,882,637	13	$ 3,221,902	13
Other Comprehensive Income					
Components of other comprehensive income that will not be reclassified to profit or loss					
Losses on remeasurements of defined benefit plans	6(13)	($ 4,263)	-	($ 2,283)	-
Share of other comprehensive income of associates and joint ventures accounted for under equity method, components of other comprehensive income that will not be reclassified to profit or loss		(344)	-	-	-
Components of other comprehensive income that will be reclassified to profit or loss					
Exchange differences on translation of foreign financial statements	6(17)	(143,703)	(1)	(33,575)	-
Unrealized loss on available-for-sale financial assets	6(7)(17)	(4,724)	-	(48,335)	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(17)(22)	24,429	-	5,708	-
Total Comprehensive Income		$ 2,754,032	12	$ 3,143,417	13
Net Profit attributable to:					
Owners of parent		$ 2,882,637	13	$ 3,221,902	13
Comprehensive Income attributable to:					
Owners of parent		$ 2,754,032	12	$ 3,143,417	13
Earnings Per Share	6(23)				
Basic earnings per share		$	6.69	$	7.48
Diluted earnings per share		$	6.68	$	7.47

Year ended December 31.

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

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan Dollars)

		Equity attributable to owners of the parent									
			Capital Reserves			Retained Earnings			Other equity interest		
	Notes	Common stock	Additional paid-in capital	Donated assets receive	Net assets from merger	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gain or loss on available-for-sale financial assets	Total equity
Year ended December 31, 2015											
Balance at January 1, 2015		$ 4,307,617	$ 4,759,841	$ 4,106	$ 35,128	$ 3,053,235	$ -	$ 8,504,167	$ 104,927	($ 50,416)	$20,718,605
Appropriations of 2014 earnings	6(16)										
Legal reserve		-	-	-	-	373,521	-	(373,521)	-	-	-
Cash dividends		-	-	-	-	-	-	(3,359,941)	-	-	(3,359,941)
Net income for the year		-	-	-	-	-	-	3,221,902	-	-	3,221,902
Other comprehensive loss for the year	6(7)(17)	-	-	-	-	-	-	(2,283)	(27,867)	(48,335)	(78,485)
Balance at December 31, 2015		$ 4,307,617	$ 4,759,841	$ 4,106	$ 35,128	$ 3,426,756	$ -	$ 7,990,324	$ 77,060	($ 98,751)	$20,502,081
Year ended December 31, 2016											
Balance at January 1, 2016		$ 4,307,617	$ 4,759,841	$ 4,106	$ 35,128	$ 3,426,756	$ -	$ 7,990,324	$ 77,060	($ 98,751)	$20,502,081
Appropriation of 2015 earnings	6(16)										
Legal reserve		-	-	-	-	322,190	-	(322,190)	-	-	-
Special reserve		-	-	-	-	-	21,691	(21,691)	-	-	-
Cash dividends		-	-	-	-	-	-	(2,929,179)	-	-	(2,929,179)
Net income for the year		-	-	-	-	-	-	2,882,637	-	-	2,882,637
Other comprehensive loss for the year	6(7)(17)	-	-	-	-	-	-	(4,607)	(119,274)	(4,724)	(128,605)
Balance at December 31, 2016		$ 4,307,617	$ 4,759,841	$ 4,106	$ 35,128	$ 3,748,946	$ 21,691	$ 7,595,294	($ 42,214)	($ 103,475)	$20,326,934

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

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of New Taiwan Dollars)

	Notes	Years ended December 31 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 3,243,367	$ 3,713,228
Adjustments			
Adjustments to reconcile profit (loss)			
Net loss on financial assets at fair value through profit or loss	6(2)(20)	15,768	37,778
Loss (gain) on disposal of financial assets	6(3)(20)	9,100	(4,888)
Share of loss of associates and joint ventures accounted for using equity method	6(8)	34,601	15,038
Provision for bad debt expense	6(4)	1,449	2,549
Net (gain) loss on financial liabilities at fair value through profit or loss	6(2)(20)	(13)	13
Depreciation	6(21)	229,566	243,897
Interest income	6(19)	(120,589)	(143,861)
Interest expense		2,502	3,636
Dividend income	6(20)	(8,574)	(11,016)
Loss on disposal of property, plant and equipment	6(20)	289	960
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(4,389)	(959)
Accounts receivable		361,242	(213,426)
Accounts receivable - related parties		(12,022)	(9,347)
Other receivables		(968)	118,240
Inventories		(653,065)	1,851,231
Other current assets, others		16,097	(7,971)
Changes in operating liabilities			
Notes payable		-	(8)
Accounts payable		151,154	(1,613,419)
Accounts payable - related parties		(10,342)	(15,625)
Other payables		23,601	(108,120)
Other current liabilities		8,323	(23,971)
Other non-current liabilities		3,645	12,351
Cash inflow generated from operations		3,290,742	3,846,310
Cash dividends received		8,574	11,016
Interest received		109,279	179,906
Interest paid		(2,502)	(3,636)
Income tax paid		(622,848)	(731,172)
Net cash flows from operating activities		2,783,245	3,302,424
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in other current financial assets		(170,584)	(2,202,894)
Acquisition of investment in debt instrument without active markets	6(9)	(2,795,477)	(1,722,585)
Proceeds from disposal of investment in debt instrument without active markets	6(9)	3,309,487	1,463,601
Acquisition of property, plant and equipment (including investment property)		(47,607)	(87,083)
Proceeds from disposal of property, plant and equipment		147	381
(Increase) decrease in other current financial assets		(18,544)	48,532
Net cash flows from (used in) investing activities		277,422	(2,500,048)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in short-term borrowings		(940,725)	(14,025)
Payment of cash dividends	6(16)	(2,929,179)	(3,359,941)
Net cash flows used in financing activities		(3,869,904)	(3,373,966)
Effect of exchange rate changes on cash and cash equivalents		(11,455)	(1,280)
Net decrease in cash and cash equivalents		(820,692)	(2,572,870)
Cash and cash equivalents at beginning of year		2,663,362	5,236,232
Cash and cash equivalents at end of year		$ 1,842,670	$ 2,663,362

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

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31 2016 AND 2015
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Transcend Information, Inc. (the "Company") was incorporated under the provisions of the Company Law of the Republic of China (R.O.C.) in August 1989. The main activities of the Company and its subsidiaries (collectively referred herein as the "Group") are manufacturing, processing and the sale of computer software and hardware, peripheral equipment and other computer components. The Securities and Futures Commission of the Republic of China had approved the Company's shares to be listed on the Taiwan Stock Exchange and the shares started trading on May 3, 2001.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on March 9, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

None.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments issued by IASB and included in the IFRSs endorsed by the FSC effective from 2017:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. Amendments to IAS 1, 'Disclosure initiative'

This amendment clarifies the presentation of materiality, aggregation and subtotals, the framework of financial report, and the guide for accounting disclosure.

B. Annual improvements to IFRSs 2010-2012 cycle

(a) IFRS 8, 'Operating segments'

The standard is amended to require disclosure of judgements made by management in aggregating operating segments. This amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only when segment asset is provided to chief operating decision-maker regularly.

(b) IAS 24, 'Related party disclosures'

The standard is amended to include, as a related party, an entity (or any member of a group of which it is a part) that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').

C. Annual improvements to IFRSs 2011-2013 cycle

IAS 40, 'Investment property'

This amendment clarifies that preparers should refer to the guidance in IFRS 3 to determine whether the acquisition of a property is an asset acquisition or a business combination, and refer to the guidance in IAS 40 to distinguish between owner-occupied property and investment property.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC effective from 2017:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 'Financial instruments'with IFRS 4'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, 'Financial instruments'

(a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

(b) The impairment losses of debt instruments are assessed using an ‘expected credit loss’ approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses (‘ECL’) or lifetime ECL (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

B. Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’

The amendments resolve a current inconsistency between IFRS 10 and IAS 28. The gain or loss resulting from a transaction that involves sales or contribution of assets between an investor and its associates or joint ventures is recognized either in full or partially depending on the nature of the assets sold or contributed:

(a) If sales or contributions of assets that constitute a ‘business’, the full gain or loss is recognized;

(b) If sales or contributions of assets that do not constitute a ‘business’, the partial gain or loss is recognized only to the extent of unrelated investors’ interests in the associate or joint venture.

C. IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenue from contracts with customers" replaces IAS 11 "Construction contracts", IAS 18 "Revenue" and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer

Step 2: Identify separate performance obligations in the contract(s)

Step 3: Determine the transaction price

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

D. IFRS 16, ‘Leases’

IFRS 16, ‘Leases’, replaces IAS 17, ‘Leases’ and related interpretations and SICs. The standard requires lessees to recognise a ‘right-of-use asset’ and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

E. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

F. Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'

These amendments clarify the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, and they clarify several of the general principles underlying the accounting for deferred tax assets. The amendments clarify that a deductible temporary difference exists whenever an asset is measured at fair value and that fair value is below the asset's tax base. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, it considers a deductible temporary difference in combination with all of its other deductible temporary differences unless there are tax law restrictions, and the tax deduction resulting from temporary differences is excluded from estimated future taxable profits.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

(a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit (loss).

(b) Available-for-sale financial assets measured at fair value.

(c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligations.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) <u>Basis of consolidation</u>

A. Basis for preparation of consolidated financial statements:

(a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%) December 31, 2016	Ownership (%) December 31, 2015	Description
Transcend Taiwan	Saffire Investment Ltd. (Saffire)	Investment holding company	100	100	-
〃	Transcend Japan Inc. (Transcend Japan)	Wholesaler and import of computer memory modules and peripheral products	100	100	-
〃	Transcend Information Inc. (Transcend USA)	Wholesaler and import of computer memory modules and peripheral products	100	100	-
〃	Transcend Korea Inc. (Transcend Korea)	Wholesaler and import of computer memory modules and peripheral products	100	100	-
Saffire Investment Ltd.	Memhiro Pte. Ltd. (Memhiro)	Investment holding company	100	100	-
Memhiro Pte. Ltd.	Transcend Information Europe B.V. (Transcend Europe)	Wholesaler and import of computer memory modules and peripheral products	100	100	-
〃	Transcend Information Trading GmbH, Hamburg (Transcend Germany)	Wholesaler and import of computer memory modules and peripheral products	100	100	-
〃	Transcend Information (Shanghai), Ltd. (Transcend Shanghai)	Distribution of computer memory modules, storage products and disks	100	100	-
〃	Transtech Trading (Shanghai) Co., Ltd. (Transtech Shanghai)	Wholesaler, agent, import and export and retailer of computer memory modules, storage products and computer components	100	100	-
〃	Transcend Information (Hong Kong), Ltd. (Transcend Hong Kong)	Wholesaler and import of computer memory modules and peripheral products	100	100	-

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustment for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in New Taiwan dollars, which is the Company’s functional and the Group’s presentation currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are retranslated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within'other gains and losses'.

B. Translation of foreign operations

The operating results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

(b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

(c) All resulting exchange differences are recognised in other comprehensive income.

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realised within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be settled within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settled within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. 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.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Receivables

A. Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

B. Investments in debt instrument without active market

(a) Investments in debt instrument without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:

i. Not designated on initial recognition as at fair value through profit or loss;

ii. Not designated on initial recognition as available-for-sale;

iii. Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(b) On a regular way purchase or sale basis, investments in debt instrument without active market are recognised and derecognised using trade date accounting.

(c) Investments in debt instrument without active market are initially recognised at fair value on the trade date plus transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Amortisation of a premium or a discount on such assets is recognised in profit or loss.

(8) Financial assets / liabilities at fair value through profit or loss

A. Derivatives are also categorized as financial assets / liabilities held for trading unless they are designated as hedges.

B. On a regular way purchase or sale basis, financial assets / liabilities at fair value through profit or loss are recognised and derecognised using settlement date accounting.

C. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(9) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on actual operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(10) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.

C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income.

(11) Impairment of financial assets

A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

(a) Significant financial difficulty of the issuer or debtor;

(b) A breach of contract, such as a default or delinquency in interest or principal payments;

(c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) The disappearance of an active market for that financial asset because of financial difficulties;

(f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;

(h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(a) Investments in bonds without active market

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. 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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(12) <u>Derecognition of financial assets</u>

The Group derecognises a financial asset when one of the following conditions is met:

A. The contractual rights to receive the cash flows from the financial asset expire.

B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.

C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(13) <u>Investments accounted for using equity method / associates</u>

A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.

B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

C. When changes in an associate's equity that are not recognised in profit or loss or other comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognises change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.

D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.

F. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(14) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.

B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	2 ~ 55 years
Machinery and equipment	2 ~ 10 years
Transportation equipment	3 ~ 5 years
Office equipment and others	3 ~ 5 years

(15) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 8 ~ 55 years.

(16) Operating leases

Rent income (expense) made under an operating lease are recognised in profit or loss on a straight-line basis over the lease term.

(17) Long-term prepaid rents

Long-term prepaid rents mainly are paid for Transcend Shanghai's land use right, are amortised on a straight-line basis over the usable period of 50 years.

(18) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(19) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(20) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(21) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

ii. Remeasurement arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Past-service costs are recognised immediately in profit or loss.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(22) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

E. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology and research and development expenditures to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(23) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(24) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(25) Revenue recognition

The Group manufactures and sells computer software and hardware, peripheral equipment and other computer components products. Revenue is measured at the fair value of the consideration received or receivable taking into account of returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(26) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chairmen of the Board of Directors that makes strategic decisions.

5. CRITICALACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

Investment property

The Group uses a portion of the property for its own use and another portion to earn rentals or for capital appreciation. When these portions cannot be sold separately and cannot be leased out separately under a finance lease, the property is classified as investment property only if the own use portion accounts is not significant of the property.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation. As of December 31, 2016, the carrying amount of inventories was $5,166,821.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand and petty cash	$ 1,040	$ 1,399
Checking accounts and demand deposits	1,323,718	765,955
Cash equivalents		
Time deposits	-	1,487,972
Bonds with repurchase agreement	517,912	408,036
Total	$ 1,842,670	$ 2,663,362

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Group has no cash and cash equivalents pledged to others.

C. The cash equivalents –time deposits are 90-day highly-liquid cash equivalents. As of December 31, 2016 and 2015, time deposits which do not match with the definition of cash equivalents amounting to $8,702,590 and $8,532,006, respectively, have been transferred to "other current financial assets".

D. The bonds with repurchase agreement recognized as cash equivalents are 30-day highly-liquid investments with annual interest rate of 1.50%~1.70%.

(2) Financial assets/liabilities at fair value through profit or loss

Items	December 31, 2016	December 31, 2015
Current item :		
Financial assets held for trading		
Non-hedging derivatives	$ -	$ 15,768
Financial liabilities held for trading		
Non-hedging derivatives	$ -	($ 13)

A. The Group recognized net (loss) gain of ($22,899) and $121,316 on financial assets/liabilities held for trading for the years ended December 31, 2016 and 2015, respectively.

B. The non-hedging derivative transactions and contract information are as follows:

There was no transaction and contract as at December 31, 2016.

(Unit: in thousand dollars)

	December 31, 2015		
Derivative financial assets	Contract Amount (Notional Principal)		Contract Period
Current items:			
Forward foreign exchange contracts	JPY	1,000,000	August 26, 2015 to February 16, 2016
〃	EUR	800	July 8, 2015 to January 4, 2016
〃	〃	5,800	August 25, 2015 to February 8, 2016
〃	〃	16,000	December 4, 2015 to May 31, 2016

Derivative financial liabilities	Contract Amount (Notional Principal)		Contract Period
Current items:			
Forward foreign exchange contracts	HKD	6,000	September 4, 2015 to February 1, 2016

The Group entered into forward foreign exchange contracts to buy USD (sell EUR, JPY and HKD) to hedge exchange rate risk of export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

C. The Group has no financial assets at fair value through profit or loss pledged to others.

(3) Investments in debt instrument without active markets-current

Items	December 31, 2016	December 31, 2015
Current items：		
Funds-bonds	$ -	$ 289,263
Bonds with repurchase agreement	366,295	607,917
	$ 366,295	$ 897,180

A. The Group's funds-bonds are from Bank of China and Industrial and Commercial Bank of China which are well-known banks in Mainland China. The Group's investments in debt instrument with repurchase agreement are from Yuanta Asset Management Limited.

B. The Group recognized gain on disposal of financial assets of $12,908 and $23,763 in profit or loss for the years ended December 31, 2016 and 2015, respectively.

C. No investments in debt instrument without active market were pledged to others.

(4) Accounts receivable

	December 31, 2016	December 31, 2015
Accounts receivable	$ 3,043,191	$ 3,447,516
Less: Provision for sales discounts and allowances	(169,513)	(212,596)
Allowance for bad debts	(32,450)	(31,580)
	$ 2,841,228	$ 3,203,340

A. The Group has insured credit insurance that covers accounts receivable of its major customers. Should bad debt occur, the Group will receive 90% of the losses resulting from non-payment.

B. The ageing analysis of financial assets that were past due but not impaired is as follows:

	December 31, 2016	December 31, 2015
Up to 30 days	$ 583,946	$ 494,992
31 to 90 days	9,798	14,396
91 to 180 days	471	-
Over 181 days	805	95
	$ 595,020	$ 509,483

The above ageing analysis was based on past due date.

C. Movement analysis of financial assets that were impaired is as follows:

(a) As of December 31, 2016 and 2015, the Group's accounts receivable that were impaired amounted to $32,450 and $31,580, respectively.

(b) Movements on the Group's provision for impairment of accounts receivable are as follows:

	2016		
	Individual provision	Group provision	Total
At January 1	$ 31,580	$ -	$ 31,580
Provision of impairment loss	1,449	-	1,449
Net exchange differences	(579)	-	(579)
At December 31	$ 32,450	$ -	$ 32,450

	2015		
	Individual provision	Group provision	Total
At January 1	$ 33,224	$ -	$ 33,224
Provision of impairment loss	2,549	-	2,549
Write-offs during the period	(4,861)	-	(4,861)
Net exchange differences	668	-	668
At December 31	$ 31,580	$ -	$ 31,580

D. The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

	December 31, 2016	December 31, 2015
Group 1	$ 934,670	$ 1,042,437
Group 2	1,311,538	1,651,420
	$ 2,246,208	$ 2,693,857

Group 1: Customers with credit line under $20,000, after a comprehensive consideration of revenues, capital, and operational performance.

Group 2: Customers with credit line over $20,000, after a comprehensive consideration of revenues, capital, and operational performance.

E. The Group does not hold any collateral as security.

(5) Inventories

	December 31, 2016		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 2,858,764	($ 26,854)	$ 2,831,910
Work in process	870,078	(3,576)	866,502
Finished goods	1,483,892	(15,483)	1,468,409
Total	$ 5,212,734	($ 45,913)	$ 5,166,821

	December 31, 2015		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 2,248,645	($ 37,532)	$ 2,211,113
Work in process	1,005,839	(7,184)	998,655
Finished goods	1,330,171	(26,183)	1,303,988
Total	$ 4,584,655	($ 70,899)	$ 4,513,756

A. The cost of inventories recognized as expense for the period:

	Years ended December 31,	
	2016	2015
Cost of goods sold	$ 17,178,208	$ 20,267,820
Gain on reversal of decline in market value of inventory	(24,986)	(56,084)
	$ 17,153,222	$ 20,211,736

The gain on reversal of decline in market value of inventory for the years ended December 31, 2016 and 2015 was due to the Group’s disposal of slow-moving inventory.

B. No inventories were pledged to others.

(6) Other current financial assets

	December 31, 2016	December 31, 2015
Time deposits with original maturity of more than three months	$ 8,702,590	$ 8,532,006

(7) Available-for-sale financial assets - non-current

Items	December 31, 2016	December 31, 2015
Non-current items：		
Listed stocks	$ 281,930	$ 281,930
Others	31,125	31,125
Subtotal	313,055	313,055
Valuation adjustments of available-for-sale financial assets	(103,475)	(98,751)
Accumulated impairment	(30,000)	(30,000)
Total	$ 179,580	$ 184,304

A. The Group recognized $4,724 and $48,335 in other comprehensive for fair value change for the years ended December 31, 2016 and 2015, respectively.

B. No available-for-sale financial assets were pledged to others.

(8) Investments accounted for using equity method

Investee Company	December 31, 2016	December 31, 2015
Taiwan IC Packaging Corp.	$ 282,610	$ 317,555

A. The basic information of the associate that is material to the Group is as follows:

Associate name	Principal place of business	Shareholding ratio		Nature of relationship	Method of measurement
		December 31, 2016	December 31, 2015		
Taiwan IC Packaging Corp.	Taiwan	12.70%	12.88%	Note	Equity method

Note: Taiwan IC Packaging Corp. is engaged in IC packaging and testing and is the upstream supplier in the IT and semiconductor industries. In order to reach synergy of vertical integration, Taiwan IC Packaging Corp. processes the raw materials provided by the Group into relevant semi-finished goods.

B. The summarized financial information of the associate that is material to the Group is as follows:

Balance sheets

	Taiwan IC Packaging Corp.	
	December 31, 2016	December 31, 2015
Current assets	$ 1,721,637	$ 2,185,495
Non-current assets	1,941,925	1,721,692
Current liabilities	(409,078)	(376,768)
Non-current liabilities	(33,010)	(52,011)
Total net assets	$ 3,221,474	$ 3,478,408
Share in associate's net assets	$ 409,003	$ 448,027
Net equity differences	(126,393)	(130,472)
	$ 282,610	$ 317,555

Statements of comprehensive income

	Taiwan IC Packaging Corp.	
	Years ended December 31,	
	2016	2015
Revenue	$ 1,742,285	$ 1,840,628
Loss for the period from continuing operations	($ 273,814)	($ 109,560)
Total comprehensive loss	($ 278,773)	($ 112,234)
Dividends received from associates	$ -	$ -

C. Share of loss of associates accounted for using the equity method is as follows:

	Years ended December 31,	
Investee Company	2016	2015
Taiwan IC Packaging Corp.	($ 34,601)	($ 15,038)

D. The Group's investment in Taiwan IC Packaging Corporation has quoted market price. The fair value of Taiwan IC Packaging Corporation was $386,230 and $414,225 as of December 31, 2016 and 2015, respectively.

(9) Property, plant and equipment

	Land	Buildings	Machinery	Vehicles	Office Equipment	Others	Total
At January 1, 2016							
Cost	$ 728,131	$ 2,774,915	$ 847,161	$ 7,452	$ 46,682	$ 66,614	$ 4,470,955
Accumulated depreciation	-	(836,426)	(556,193)	(5,512)	(32,701)	(45,032)	(1,475,864)
	$ 728,131	$ 1,938,489	$ 290,968	$ 1,940	$ 13,981	$ 21,582	$ 2,995,091
2016							
Opening net book amount	$ 728,131	$ 1,938,489	$ 290,968	$ 1,940	$ 13,981	$ 21,582	$ 2,995,091
Additions	-	3,119	38,325	-	1,087	5,076	47,607
Disposals	-	(4)	(275)	(74)	(64)	(19)	(436)
Depreciation charge	-	(116,168)	(96,166)	(943)	(3,806)	(4,825)	(221,908)
Net exchange differences	610	(63,805)	(14,788)	(59)	(460)	(1,642)	(80,144)
Closing net book amount	$ 728,741	$ 1,761,631	$ 218,064	$ 864	$ 10,738	$ 20,172	$ 2,740,210
At December 31, 2016							
Cost	$ 728,741	$ 2,668,305	$ 678,618	$ 6,354	$ 41,055	$ 65,023	$ 4,188,096
Accumulated depreciation	-	(906,674)	(460,554)	(5,490)	(30,317)	(44,851)	(1,447,886)
	$ 728,741	$ 1,761,631	$ 218,064	$ 864	$ 10,738	$ 20,172	$ 2,740,210

	Land	Buildings	Machinery	Vehicles	Office Equipment	Others	Total
At January 1, 2015							
Cost	$ 724,203	$ 2,774,759	$ 824,587	$ 9,402	$ 48,271	$ 64,797	$ 4,446,019
Accumulated depreciation	-	(730,255)	(467,879)	(6,120)	(36,300)	(44,491)	(1,285,045)
	$ 724,203	$ 2,044,504	$ 356,708	$ 3,282	$ 11,971	$ 20,306	$ 3,160,974
2015							
Opening net book amount	$ 724,203	$ 2,044,504	$ 356,708	$ 3,282	$ 11,971	$ 20,306	$ 3,160,974
Additions	-	27,829	44,435	-	6,753	6,716	85,733
Disposals	-	(650)	(1)	(148)	(332)	(210)	(1,341)
Depreciation charge	-	(117,922)	(107,656)	(1,196)	(4,237)	(5,034)	(236,045)
Net exchange differences	3,928	(15,272)	(2,518)	2	(174)	(196)	(14,230)
Closing net book amount	$ 728,131	$ 1,938,489	$ 290,968	$ 1,940	$ 13,981	$ 21,582	$ 2,995,091
At December 31, 2015							
Cost	$ 728,131	$ 2,774,915	$ 847,161	$ 7,452	$ 46,682	$ 66,614	$ 4,470,955
Accumulated depreciation	-	(836,426)	(556,193)	(5,512)	(32,701)	(45,032)	(1,475,864)
	$ 728,131	$ 1,938,489	$ 290,968	$ 1,940	$ 13,981	$ 21,582	$ 2,995,091

Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

(10) Investment property

	Land	Buildings	Total
At January 1, 2016			
Cost	$ 137,037	$ 233,860	$ 370,897
Accumulated depreciation and impairment	-	(80,316)	(80,316)
	$ 137,037	$ 153,544	$ 290,581
2016			
Opening net book amount	$ 137,037	$ 153,544	$ 290,581
Depreciation charge	-	(7,658)	(7,658)
Net exchange differences	-	(5,607)	(5,607)
Closing net book amount	$ 137,037	$ 140,279	$ 277,316
At December 31, 2016			
Cost	$ 137,037	$ 222,427	$ 359,464
Accumulated depreciation and impairment	-	(82,148)	(82,148)
	$ 137,037	$ 140,279	$ 277,316

	Land	Buildings	Total
At January 1, 2015			
Cost	$ 137,037	$ 236,633	$ 373,670
Accumulated depreciation and impairment	-	(75,056)	(75,056)
	$ 137,037	$ 161,577	$ 298,614
2015			
Opening net book amount	$ 137,037	$ 161,577	$ 298,614
Additions	-	1,350	1,350
Depreciation charge	-	(7,852)	(7,852)
Net exchange differences	-	(1,531)	(1,531)
Closing net book amount	$ 137,037	$ 153,544	$ 290,581
At December 31, 2015			
Cost	$ 137,037	$ 233,860	$ 370,897
Accumulated depreciation and impairment	-	(80,316)	(80,316)
	$ 137,037	$ 153,544	$ 290,581

A. Rental income from the investment property and direct operating expenses arising from investment property are shown below:

	Years ended December 31,	
	2016	2015
Rental income from investment property	$ 18,389	$ 18,776
Direct operating expenses arising from investment property that generated rental income in the year	$ 6,805	$ 6,956
Direct operating expenses arising from investment property that did not generate rental income in the year	$ 853	$ 896

B. The fair value of the investment property held by the Group was $1,590,260 and $1,496,157 as of December 31, 2016 and 2015, respectively, which was based on the transaction prices of similar properties in the same area.

C. No investment property was pledged to others.

(11) Other non-current assets

	December 31, 2016	December 31, 2015
Long-term prepaid rents	$ 101,625	$ 112,799
Guarantee deposits paid	32,224	36,793
Others	70,401	36,114
	$ 204,250	$ 185,706

In May 2005, the Group signed a land-use right contract with the People's Republic of China for the use of land with a term of 50 years. All rentals had been paid on the contract date. The Group recognized rental expenses of $2,785 and $2,895 for the years ended December 31, 2016 and 2015, respectively.

(12) Short-term borrowings

There was no transaction as of December 31, 2016.

Type of borrowings	December 31, 2015	Interest rate	Collateral
Bank borrowings:			
Secured borrowings	$ 409,050	0.38-0.65%	Transcend Japan's Land and Buildings
Unsecured borrowings	492,375	0.90%	-
	$ 901,425		

(13) Pensions

A.(a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with the Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

	December 31, 2016	December 31, 2015
Present value of defined benefit obligations	$ 40,894	$ 42,426
Fair value of plan assets	(20,691)	(25,435)
Net defined benefit liability	$ 20,203	$ 16,991

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan asset	Net defined benefit liability
Year ended December 31, 2016			
Balance at January 1	$ 42,426	($ 25,435)	$ 16,991
Current service cost	694	-	694
Interest expense (revenue)	635	(392)	243
	43,755	(25,827)	17,928
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	236	236
Change in demographic assumptions	144	-	144
Change in financial assumptions	721	-	721
Experience adjustments	3,162	-	3,162
	4,027	236	4,263
Pension fund contribution	-	(1,988)	(1,988)
Paid Pension	(6,888)	6,888	-
Balance at December 31	$ 40,894	($ 20,691)	$ 20,203

	Present value of defined benefit obligations	Fair value of plan asset	Net defined benefit liability
Year ended December 31, 2015			
Balance at January 1	$ 50,576	($ 27,307)	$ 23,269
Current service cost	649	-	649
Interest expense (revenue)	1,008	(560)	448
Past service cost	(1,796)	-	(1,796)
	50,437	(27,867)	22,570
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	(199)	(199)
Change in demographic assumptions	360	-	360
Change in financial assumptions	3,809	-	3,809
Experience adjustments	(1,687)	-	(1,687)
	2,482	(199)	2,283
Pension fund contribution	-	(2,199)	(2,199)
Paid Pension	(10,493)	4,830	(5,663)
Balance at December 31	$ 42,426	($ 25,435)	$ 16,991

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-thecounter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2016 and 2015 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Discount rate	1.375%	1.500%
Future salary increases	2.000%	2.000%

Assumptions regarding future mortality experience are set based on 2011 Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2016				
Effect on present value of defined benefit obligation	($ 1,447)	$ 1,518	$ 1,474	($ 1,413)
December 31, 2015				
Effect on present value of defined benefit obligation	($ 1,666)	$ 1,752	$ 1,739	($ 1,662)

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(f) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2017 amounts to $2,003.

(g) As of December 31, 2016, the weighted average duration of that retirement plan is 16 years.

B.(a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) Transcend Shanghai, Transtech Shanghai and Transcend Hong Kong have defined contribution plans. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on certain percentage of employees' monthly salaries and wages, ranging from 12.5% to 22%. Other than the monthly contributions, the Group has no further obligations.

(c) Transcend Japan, Transcend Korea, Transcend USA, Transcend Europe and Transcend Germany have defined contribution plans. Monthly contributions are based on a certain percentage of employees’ monthly salaries and wages and are recognized as pension costs accordingly. Other than the monthly contributions, the Group has no further obligations.

(d) The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2016 and 2015 were $43,654 and $51,459, respectively.

(14) Share capital

As of December 31, 2016, the Company's authorized capital was $5,000,000, consisting of 500,000 thousand shares of ordinary stock (including 25,000 thousand shares reserved for employee stock options). The paid-in capital was $4,307,617 with a par value of $10 (in dollars) per share, consisting of 430,762 thousand shares of ordinary stock outstanding. All proceeds from shares issued have been collected.

(15) Capital surplus

Pursuant to the R.O.C. Company Law, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve shall not be used to cover accumulated deficit unless the legal reserve is insufficient.

(16) Retained earnings

A. In accordance with the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and to offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. The Company shall also set aside special reserve in accordance with the regulations. On the premise that there is no effect on the Company's normal operations and no violation of regulations, the Company shall reserve certain amount for maintaining stability of dividends. The remainder, if any, is distributable earnings to be appropriated as resolved by stockholders at the stockholders' meeting.

B. The Company distributes dividends taking into consideration the Company's economic environment, growth phases, future demands of funds, long-term financial planning and the cash flow needs of stockholders. Cash dividends shall account for at least 5% of the total dividend distributed.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

E.(a) The appropriation of earnings of years 2015 and 2014 had been resolved at the stockholders' meeting on June 14, 2016 and June 12, 2015, respectively. Details are summarized below:

	Year ended December 31, 2015		Year ended December 31, 2014	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 322,190		$ 373,521	
Special reserve	21,691		-	
Cash dividends	2,929,179	$ 6.8	3,359,941	$ 7.8
Total	$ 3,273,060		$ 3,733,462	

	Year ended December 31, 2014
Directors' remuneration	$ 6,049
Employees' cash bonus	30,243
	$ 36,292

Actual distribution of retained earnings of 2015 and 2014 are in agreement with the amounts resolved at stockholder's meeting.

(b) The appropriation of earnings of year 2016 has been proposed at the Board of Directors meeting on March 9, 2017. Details are summarized below:

	Year ended December 31, 2016	
	Amount	Dividends per share (in dollars)
Legal reserve	$ 288,264	
Special reserve	123,998	
Cash dividends	2,476,880	$ 5.75
Total	$ 2,889,142	

	Amount	Cash payment per share (in dollars)
Capital surplus cash payment	$ 107,690	$ 0.25

The above appropriation of earnings of year 2016 has not been resolved at the stockholders' meeting yet.

F. Please refer to Note 6(21) for the information relating to employees' compensation and directors' remuneration.

(17) Other equity items

	Unrealized gain or loss on available-for-sale financial assets	Exchange differences on translation of foreign financial statements	Total
At January 1, 2016	($ 98,751)	$ 77,060	($ 21,691)
Change in unrealized gains or losses for available-for-sale financial assets	(4,724)	-	(4,724)
Currency translation differences	-	(143,703)	(143,703)
Effect from income tax	-	24,429	24,429
At December 31, 2016	($ 103,475)	($ 42,214)	($ 145,689)

	Unrealized gain or loss on available-for-sale financial assets	Exchange differences on translation of foreign financial statements	Total
At January 1, 2015	($ 50,416)	$ 104,927	$ 54,511
Change in unrealized gains or losses for available-for-sale financial assets	(48,335)	-	(48,335)
Currency translation differences	-	(33,575)	(33,575)
Effect from income tax	-	5,708	5,708
At December 31, 2015	($ 98,751)	$ 77,060	($ 21,691)

(18) Operating revenue

	Years ended December 31,	
	2016	2015
Sales revenue	$ 22,104,915	$ 24,913,287

(19) Other income

	Years ended December 31,	
	2016	2015
Interest income	$ 120,589	$ 143,861
Rental income	18,389	18,776
Total	$ 138,978	$ 162,637

(20) Other gains and losses

	Years ended December 31, 2016	Years ended December 31, 2015
Net (loss) gain on financial assets at fair value through profit or loss	($ 22,912)	$ 122,759
Net gain (loss) on financial liabilities at fair value through profit or loss	13	(1,443)
Gain on disposal of financial assets	12,908	23,763
Loss on disposal of property, plant and equipment	(289)	(960)
Net currency exchange (loss) gain	(209,138)	326,013
Dividends revenue	8,574	11,016
Others	44,591	36,521
Total	($ 166,253)	$ 517,669

(21) Expenses by nature

	Years ended December 31, 2016	Years ended December 31, 2015
Wages and salaries	$ 1,403,922	$ 1,445,730
Labor and health insurance fees	153,668	157,657
Pension costs	44,591	50,760
Other personnel expenses	89,557	74,097
Depreciation on property, plant and equipment (including investment property)	229,566	243,897

A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be lower than 1% for employees' compensation and shall not be higher than 0.2% for directors and supervisors' remuneration.

B. For the years ended December 31, 2016 and 2015, employees' compensation was accrued at $33,439 and $34,909, respectively, and directors' remuneration was accrued at $4,681 and $6,329, respectively. The aforementioned amounts were recognised in salary expenses.

   The employees' compensation and directors' remuneration were estimated and accrued based on 1% and 0.2% of distributable profit of current year for the year ended December 31, 2016. The employees' compensation and supervisors' remuneration resolved by the Board of Directors were $32,042 and $4,239 and the employees' compensation will be distributed in the form of cash.

   The difference between employees' compensation and directors' remuneration as resolved by the Board of Directors and the amount recognised in the 2015 financial statements by $494 had been adjusted in the profit or loss of 2016.

   Information about employees' compensation and directors' remuneration of the Company as approved by the meeting of Board of Directors and resolved by the stockholders at their meeting will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(22) Income tax

A. Income tax expense

(a)Components of income tax expense:

	Years ended December 31, 2016	Years ended December 31, 2015
Current tax:		
Current tax on profits for the period	$ 470,590	$ 679,008
Tax on undistributed surplus earnings	-	166
Prior year income tax (over) underestimation	(37,775)	12,932
Total current tax	432,815	692,106
Deferred tax:		
Origination and reversal of temporary differences	(72,085)	(200,780)
Total deferred tax	(72,085)	(200,780)
Income tax expense	$ 360,730	$ 491,326

(b)The income tax relating to components of other comprehensive income is as follows:

	Years ended December 31, 2016	Years ended December 31, 2015
Exchange differences on translation of foreign financial statements	($ 24,429)	($ 5,708)

B. Reconciliation between income tax expense and accounting profit

	Years ended Decmber 31, 2016	Years ended Decmber 31, 2015
Tax calculated based on profit before tax and statutory tax rate	$ 576,238	$ 635,569
Effect from expenses disallowed by tax regulation (included effect from tax exempted income by tax regulation)	(177,733)	(157,341)
Tax on undistributed earnings	-	166
Prior year income tax underestimation	(37,775)	12,932
Income tax expense	$ 360,730	$ 491,326

C. Amounts of deferred tax assets or liabilities as a result of temporary difference are as follows:

	2016			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Deferred tax assets				
Over provision for allowance for uncollectable accounts	$ 2,743	($ 799)	$ -	$ 1,944
Pension recognised amount over contributed amount	6,043	(178)	-	5,865
Unused compensated absences	1,414	3,220	-	4,634
Unrealised sales discounts and allowances	34,834	(5,492)	-	29,342
Unrealised gross margin	9,770	16,087	-	25,857
Unrealised loss on market price decline and slow-moving inventory	12,105	(4,794)	-	7,311
Others	5,868	(3,062)	-	2,806
Total	$ 72,777	$ 4,982	$ -	$ 77,759
Deferred tax liabilities				
Unrealised exchange gain	($ 24,275)	$ 20,343	$ -	($ 3,932)
Valuation gain on financial assets	(2,678)	2,678	-	-
Unrealised gain on disposal of financial assets	(16,435)	-	-	(16,435)
Translation differences for foreign operations differences	(51,161)	-	24,429	(26,732)
Net gain on investments accounted for using equity method	(164,475)	43,891	-	(120,584)
Others	(324)	190	-	(134)
Total	($ 259,348)	$ 67,102	$ 24,429	($ 167,817)

	2015			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Deferred tax assets				
Over provision for allowance for uncollectable accounts	$ 12,440	($ 9,697)	$ -	$ 2,743
Pension recognised amount over contributed amount	7,498	(1,455)	-	6,043
Unused compensated absences	6,695	(5,281)	-	1,414
Unrealised sales discounts and allowances	17,644	17,190	-	34,834
Unrealised gross margin	17,858	(8,088)	-	9,770
Unrealised loss on market price decline and slow-moving inventory	21,637	(9,532)	-	12,105
Others	8,547	(2,679)	-	5,868
Total	$ 92,319	($ 19,542)	$ -	$ 72,777
Deferred tax liabilities				
Unrealised exchange gain	($ 45,522)	$ 21,247	$ -	($ 24,275)
Valuation gain on financial assets	(4,153)	1,475	-	(2,678)
Unrealised gain on disposal of financial assets	(16,435)	-	-	(16,435)
Translation differences for foreign operations differences	(56,869)	-	5,708	(51,161)
Net gain on investments accounted for using equity method	(362,056)	197,581	-	(164,475)
Others	(343)	19	-	(324)
Total	($ 485,378)	$ 220,322	$ 5,708	($ 259,348)

D. The amount of deductible temporary difference that are not recognised as deferred tax assets are as follows:

	Years ended December 31,	
	2016	2015
Deductible temporary differences	$ 73,173	$ 73,173

E. The investment plan of the Company to increase capital to expand the business of “manufacturing of computers, electronic products and optical products, printing and reproduction of recorded media, and computer system designing services” qualified for “The Guidelines for the Calculation of Exempt Income for the Five-year Profit-seeking Enterprise Income Tax Exemption by Manufacturing Industries and their Related Technical Services Industries Increasing New Investment from July 1, 2008 to December 31, 2009”, which indicates the Company is entitled to operating income tax exemption for 5 consecutive years (ending December 2016).

F. As of December 31, 2016, the Company’s income tax returns through 2013 have been assessed and approved by the National Taxation Bureau of Taipei, Ministry of Finance.

G. Unappropriated retained earnings:

	December 31, 2016	December 31, 2015
Earnings generated in and before 1997	$ 121,097	$ 121,097
Earnings generated in and after 1998	7,474,197	7,869,227
	$ 7,595,294	$ 7,990,324

H. As of December 31, 2016 and 2015, the balance of the imputation tax credit account was $989,048 and $928,556, respectively. The creditable tax rate was 14.75% for 2015 and is estimated to be 14.44% for 2016.

(23) Earnings per share

	Year ended December 31, 2016		
	Profit after tax	Weighted-average outstanding common shares (in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 2,882,637	430,762	$ 6.69
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 2,882,637	430,762	
Assumed conversion of all dilutive potential ordinary shares			
Employees’ compensation	-	565	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 2,882,637	431,327	$ 6.68

	Year ended December 31, 2015		
	Profit after tax	Weighted-average outstanding common shares (in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 3,221,902	430,762	$ 7.48
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 3,221,902	430,762	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	522	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 3,221,902	431,284	$ 7.47

(24) Operating leases

A. The Group leases land and buildings to others under operating lease agreements. Rental revenue of $18,389 and $18,776 were recognized for these leases in profit or loss for the years ended December 31, 2016 and 2015, respectively. The leases for buildings have terms expiring between 2016 and 2017, and all these lease agreements are not renewable at the end of the lease period. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	December 31, 2016	December 31, 2015
Not later than one year	$ 13,834	$ 19,075
Later than one year but not later than five years	36,720	5,035
	$ 50,554	$ 24,110

B. On April 8, 2009, the Company signed a land lease contract with its major stockholders, Won Chin and Cheng Chuan, to build a new plant on the leased land. The lease has a term of 10 years from April 10, 2009 to April 9, 2019. The annual rental payment is $35,633 (exclusive of tax), which was determined based on the average rent of land near the leased land shown in the appraisal report issued by CCIS Real Estate Joint Appraisers Firm. Rent was paid on the contract date and becomes payable on the same date each following year until the end of the lease. For the years ended December 31, 2016 and 2015, the rental expense were both $35,633. The future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

	December 31, 2016	December 31, 2015
Not later than one year	$ 37,415	$ 37,415
Later than one year but not later than five years	49,886	87,301
	$ 87,301	$ 124,716

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

A. Operating revenue

	Years ended December 31,	
	2016	2015
Sales		
Associates accounted for using equity method	$ 911	$ -
Other related parties	131,935	53,640
	$ 132,846	$ 53,640

The sales prices charged to related parties are approximate to those charged to third parties. The credit term to Taiwan IC Packaging Corporation and Hitron Tech. Inc. are both 30 days after receipt of goods. The credit term to third parties is 30 to 60 days after monthly billings.

B. Purchases

	Years ended December 31,	
	2016	2015
Purchases of goods		
Associates accounted for using equity method	$ 317,627	$ 415,868
Other related parties	50,637	-
	$ 368,264	$ 415,868

The purchase prices charged by related parties are approximate to those charged by third parties. The credit term from Taiwan IC Packaging Corporation and Alcor Micro Corporation are both 30 days after monthly billings. The credit term from third parties is 30 to 45 days after monthly billings.

C. Receivables from related parties

	December 31, 2016	December 31, 2105
Accounts receivable		
Other related parties	$ 21,369	$ 9,347

The receivables from related parties arise mainly from sales transactions. The credit term to Hitron Tech. Inc. is 30 days after receipt of goods. The receivables are unsecured and bear no interest. There are no provisions for receivables from related parties.

D. Payables to related parties

	December 31, 2016	December 31, 2015
Accounts payable		
Associates accounted for using equity method	$ 36,835	$ 58,560
Other related parties	11,383	-
	$ 48,218	$ 58,560

The payables to related parties arise mainly from purchase transactions and are due 30 days after the date of purchase. The payables bear no interest.

E. Property transactions

For the year ended December 31, 2015, the Group purchased property, plant and equipment from Taiwan IC Packaging Corporation, the investment accounted for using equity method, at book value of $117. The Group had no property transactions for the year ended December 31, 2016.

F. Lease contracts

On April 8, 2009, the Company signed a land lease contract with its major stockholders, Won Chin and Cheng Chuan, to build a new plant on the leased land. Please refer to Note 6(24) for details.

(2) Key management compensation

	Years ended December 31,	
	2016	2015
Salaries and other employee benefits	$ 31,405	$ 80,248

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

	Book value		
Pledged of assets	December 31, 2016	December 31, 2015	Pledge purpose
Property, plant and equipment	$ 156,240	$ 156,561	Collaterals for general credit limit granted by financial institutions

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

As of December 31, 2016, except for the provision of endorsements and guarantees mentioned in Note 13(1) B and the lease contract described in Notes 6(24) and 7, there are no other significant commitments.

10. SIGNIFICANT DIASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

Please refer to Note 6(16)E(b).

12. OTHERS

(1) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group's own funds are currently sufficient, daily operations can create stable cash inflows, and there are no significant capital expenditure plans in the short term. Except for obtaining loans to reduce the exchange rate exposure, the Group has sufficient funds to cover its own needs. Debt financing is not desirable and not necessary.

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payable, other payables, current bond investment without active market and other financial assets (presented as "other non-current asset")) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

B. Financial risk management policies

(a) The Company's risk management objective is to identify and analyze all the possible risks (including market risk, credit risk, liquidity risk and cash flow interest rate risk) by examining the impart of the macroeconomic conditions, industrial developments, market competition and the Company's business development plans so as to maintain the best risk position and adequate liquidity position and centralise the management of all market risks.

(b) For the purpose of managing assets, liabilities, revenue and expenditures effectively and reduce foreign exchange risk, the Company uses forward foreign exchange contracts and options as hedging strategy. Hedging in accordance with the Company's net assets and net liabilities and estimated future cash flows to effectively reduce market price risk due to fluctuation of foreign exchange rate.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

i. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

ii. The Group's businesses involve some non-functional currency operations (the Company's functional currency: NTD; the subsidiaries' functional currencies: JPY, KRW, USD, EUR, GBP and RMB, etc.). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2016					
	Foreign Currency		Foreign Currency Amount	Exchange rate		Book value
Financial assets	USD:NTD	$	305,248	32.2500	$	9,844,248
	JPY:NTD		3,952,641	0.2756		1,089,348
	EUR:NTD		8,659	33.9000		293,540
	RMB:NTD		39,025	4.6170		180,178
	KRW:NTD		1,023,560	0.0270		27,636
	GBP:NTD		405	39.6100		16,042
	USD:EUR		2,385	0.9513		76,916
	USD:JPY		2,062	117.6471		66,500
Financial liabilities	USD:NTD	$	42,244	32.2500	$	1,362,369
	RMB:NTD		101,466	4.6170		468,469

	December 31, 2015					
	Foreign Currency		Foreign Currency Amount	Exchange rate		Book value
Financial assets	USD:NTD	$	379,299	32.8250	$	12,450,490
	JPY:NTD		190,272	0.2727		51,887
	EUR:NTD		7,393	35.8800		265,261
	GBP:NTD		195	48.6700		9,491
Financial liabilities	USD:NTD	$	48,231	32.8250	$	1,583,183
	USD:RMB		2,486	6.5703		81,603

The total exchange gain (loss), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2016 and 2015, amounted to ($209,138) and $326,013, respectively.

Sensitivity analyses relating to foreign exchange rate risks are primarily for financial reporting period-end date of foreign currency monetary item. If the New Taiwan Dollar exchange rate to the U.S. Dollar increases or decreases by 1%, the Group's net income will increase or decrease by $84,819 and $108,673 for the years ended December 31, 2016 and 2015, respectively.

Price risk

i. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as available-for-sale. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

ii. The Group's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, equity would have increased/decreased by $1,796 and $1,843, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

Interest rate risk

i. The Group's principal interest-bearing assets are cash and cash equivalents, current bond investment without active market and short-term borrowings. Cash and cash equivalents are due within twelve months. Current bond investment without active market and short-term borrowings are maintained at fixed rates. Therefore, it is assessed that there is no significant cash flow interest rate risk.

ii. The Group has not used any financial instruments to hedge its interest rate risk.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to retail customers, including outstanding receivables.

ii. For the years ended December 31, 2016 and 2015, no credit limits were exceeded during the reporting periods, and management does not except any significant losses from non-performance by these counterparties.

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.

ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts, time deposits, bonds issued under repurchase agreement and current bond investment without active market, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As at December 31, 2016 and 2015, the Group held money market position of $10,911,555 and $12,092,548, respectively, are expected to readily generate cash inflows for managing liquidity risk.

iii. The Group's non-derivative financial liabilities are analysed based on the remaining period at the balance sheet date to the contractual maturity date, and all financial liabilities are due within one year.

(3) Fair value information

A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A. Details of the fair value of the Group's investment property measured at cost are provided in Note 6(10).

B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2016 and 2015 is as follows:

December 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Available-for-sale financial assets				
Equity securities	$ 178,455	$ -	$ 1,125	$ 179,580

December 31, 2015	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Available-for-sale financial assets				
Equity securities	$ 183,179	$ -	$ 1,125	$ 184,304
Financial assets at fair value through profit or loss	$ -	$ 15,768	$ -	$ 15,768
Financial liabilities at fair value through profit or loss	$ -	($ 13)	$ -	($ 13)

D. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price. These instruments are included in level 1. Instruments included in level 1 comprise primarily listed stocks classified as available-for-sale financial assets.

E. Forward foreign exchange contracts' resulting fair value estimates are included in level 2.

F. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

G. The financial instruments of Level 3 had no changes for the years ended December 31, 2016 and 2015.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: Please refer to table 1.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 2.

D. Acquisition or sale of the same security with the accumulated cost exceeding NT$300 million or 20% of the Company's paid-in capital: None.

E. Acquisition of real estate reaching NT$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching NT$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to relate parties reaching NT$100 million or 20% of the Company's paid-in capital or more: Please refer to table 3.

H. Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more: Please refer to table 4.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Note 6(2).

J. Significant inter-company transactions during the reporting periods: Please refer to table 5.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China)：Please refer to table 6.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 7.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: None.

14. SEGMENT INFORMATION

(1) General information

The Group operates business only in a single industry, the Chairman of the Board of Directors who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

(2) Segment information

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

	Years ended December 31,	
	2016	2015
Segment revenue	$ 22,104,915	$ 24,913,287
Segment income	$ 2,882,637	$ 3,221,902

(3) Reconciliation for segment income (loss)

Sales between segments are carried out at arm's length. The revenue from external customers reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income.

(4) Information on products and services

Not applicable as revenues from external customers are derived primarily from the sale of products.

(5) Geographical information

Geographical information for the years ended December 31, 2016 and 2015 is as follows:

	Years ended December 31,			
	2016		2015	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	$ 4,898,914	$ 1,941,770	$ 5,235,654	$ 1,978,041
Asia	8,344,663	1,166,164	9,410,268	1,373,026
America	2,448,306	87,343	2,718,155	90,952
Europe	5,360,295	26,499	6,271,148	29,359
Others	1,052,737	-	1,278,062	-
Total	$ 22,104,915	$ 3,221,776	$ 24,913,287	$ 3,471,378

(6) Major customers' information

Major customers' information for the years ended December 31, 2016 and 2015 is as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
	Revenue	Revenue
A	$ 2,560,736	$ 3,019,485

Transcend Information, Inc.

Provision of endorsements and guarantees to others

Year ended December 31, 2016

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed: Company name	Party being endorsed/guaranteed: Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2016 (Note 4)	Outstanding endorsement/ guarantee amount at December 31, 2016 (Note 4)	Actual amount drawn down (Note 5)	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 6)	Provision of endorsements/ guarantees by parent company to subsidiary (Note 7)	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
0	Transcend Taiwan	Transcend Japan Inc.	2	$ 4,065,387	$ 628,600 (JPY$2,000,000)	$ 551,200 (JPY$2,000,000)	$ -	-	3	$ 8,130,774	Y	-	-	-

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

(a)The Company is ‘0’.

(b)The subsidiaries are numbered in order starting from ‘1’.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following six categories; fill in the number of category each case belongs to:

(a)Having business relationship

(b)The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(c)The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.

(d)The endorsed/guaranteed parent company directly or indirectly owns more than 50% voting shares of the endorser/guarantor subsidiary.

(e)Mutual guarantee of the trade as required by the construction contract.

(f)Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

Note 3: Not exceeding 20% of the Company's net asset value. ($20,326,934*20%=$4,065,387)

Note 4: The maximum outstanding endorsement/guarantee amount during and as of December 31, 2016 is JPY$2,000,000.

Note 5: The actual amount of endorsement drawn down is $0.

Note 6: Not exceeding 40% of the Company’s net asset value. ($20,326,934*40%=$8,130,774)

Note 7: Fill in ‘Y’ for those cases of provision of endorsements/guarantees by listed parent company to subsidiary.

Transcend Information, Inc.

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

Year ended December 31, 2016

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of December 31, 2016 Number of shares	Book value (Note 3)	Ownership (%)	Fair value	Footnote (Note 4)
Transcend Taiwan	Stocks							
	Alcor Micro Corp.	Relative parties	Non-current available-for-sale financial assets	6,220,933	$ 116,643	8	$ 116,643	-
	Hitron Tech. Inc.	〃	〃	3,060,017	61,812	1	61,812	-
	Skyviia Corp.	-	〃	259,812	-	2	-	-
	Dramexchange Tech Inc.	-	〃	60,816	1,125	1	1,125	-
					$ 179,580			
	Bonds							
	Yuanta Asset Management Limited - bond with repurchase agreement rated as investment-grade bonds by S&P	-	Current bond investment without active market	-	$ 366,295	-	-	-

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities within the scope of IAS 39 'Financial instruments: recognition and measurement'.

Note 2: Leave the column blank if the issuer of marketable securities is non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

Transcend Information, Inc.

Purchases or sales of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more

Year ended December 31, 2016

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

			Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		
Purchaser/seller	Counterparty	Relationship with the counterparty	Sales (purchases)	Amount	Percentage of total sales (purchases)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Transcend Taiwan	Transcend Japan Inc.	The Company's subsidiary	Sales	$ 2,069,796	10	120 days after monthly billings	No significant difference	30 to 60 days after monthly billings to third parties	$ 608,076	20	-
″	Transcend Information Europe B.V.	Subsidiary of Memhiro	″	1,654,743	8	″	″	″	113,980	4	-
″	Transcend Information, Inc.	The Company's subsidiary	″	1,018,485	5	″	″	″	179,643	6	-
″	Transtech Shanghai	Subsidiary of Memhiro	″	655,640	3	″	″	″	149,812	5	-
″	Transcend Korea Inc.	The Company's subsidiary	″	631,108	3	60 days after monthly billings	″	″	27,636	1	-
″	Transcend Information (H.K) Ltd.	Subsidiary of Memhiro	″	464,102	2	120 days after monthly billings	″	″	74,621	2	-
″	Transcend Information Trading GmbH, Hamburg	Subsidiary of Memhiro	″	376,368	2	″	″	″	9,575	-	-
″	Transcend Shanghai	Subsidiary of Memhiro	″	183,965	1	″	″	″	-	-	-
″	Hitron Tech.Inc.	Other related parties	″	131,935	1	30 days after receipt of goods	″	″	21,369	1	
Transcend Information Europe B.V.	Transcend Information Trading GmbH, Hamburg	Together with Transcend Information Europe B.V. are controlled by parent company	″	513,798	28	30 days after receipt of goods	″	7 to 60 days after receipt of goods to third parties	14,738	9	-
Transcend Shanghai	Transtech Shanghai	Together with Transcend Shanghai are controlled by parent company	″	186,523	8	60 days after monthly billings	″	30 to 60 days after monthly billings to third parties	71,160	13	-
Transcend Taiwan	Transcend Shanghai	Subsidiary of Memhiro	(Purchases)	(441,990)	(3)	60 days after receipt of goods	Note 1	7 to 30 days after receipt of goods to third parties	(522,141)	(23)	-
″	Taiwan IC Packaging Corp.	Associate accounted for using the equity method	″	(317,627)	(2)	30 days after monthly billings	No significant difference	30 to 45 days after monthly billings to third parties	(36,835)	(2)	-

Note 1: The purchase transactions between Transcend Taiwan and Transcend Shanghai were attributed to processing of supplied materials. No other similar transactions can be used for comparison.
Note 2: The Company’s sales to subsidiaries were equivalent to subsidiaries' purchases from the Company; accordingly, the Company did not disclose the information on subsidiaries’ purchases from the Company.

Transcend Information, Inc.

Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more

Year ended December 31, 2016

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2016	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
Transcend Taiwan	Transcend Japan Inc.	Subsidiary of the Company	$ 608,077	4.78	$ -	-	$ 372,805	$ -
〃	Transtech shanghai	Subsidiary of Memhiro	149,812	3.43	-	-	91,186	-
〃	Transcend Information Inc.	Subsidiary of the Company	179,643	6.23	-	-	134,164	-
〃	Transcend Information Europe B.V.	Subsidiary of Memhiro	113,980	14.20	-	-	113,980	-
Transcend Shanghai	Transcend Taiwan	Parent company	522,141	0.86	-	-	13,750	-

Transcend Information, Inc.

Significant inter-company transactions during the reporting periods

Year ended December 31, 2016

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction: General ledger account	Transaction: Amount	Transaction: Transaction terms	Transaction: Percentage of consolidated total operating revenues or total assets (%) (Note 3)
0	Transcend Taiwan	Transcend Japan Inc.	1	Sales	$ 2,069,796	There is no significant difference in unit price from those to third parties.	9
〃	〃	Transcend Information Europe B. V.	〃	〃	1,654,743	〃	7
〃	〃	Transcend Information, Inc.	〃	〃	1,018,485	〃	5
〃	〃	Transtech Shanghai	〃	〃	655,640	〃	3
〃	〃	Transcend Korea Inc.	〃	〃	631,108	〃	3
〃	〃	Transcend Information (H.K) Ltd.	〃	〃	464,102	〃	2
〃	〃	Transcend Information Trading GmbH, Hamburg	〃	〃	376,368	〃	2
〃	〃	Transcend Shanghai	〃	Purchases	441,990	Processing with supplied materials. No other similar transactions can be used for comparison.	2
〃	〃	Taiwan IC Packaging Corp.	〃	〃	317,627	30 days after monthly billings	1
〃	〃	Transcend Japan Inc.	〃	Accounts Receivable	608,076	120 days after monthly billings	3
〃	〃	Transcend Shanghai	〃	Accounts Payable	522,141	60 days after receipt of goods	2
1	Transcend Information Europe B. V.	Transcend Information Trading GmbH, Hamburg	3	Sales	513,798	There is no significant difference in unit price from those to third parties.	2

(Individual transactions not exceeding 1% of the consolidated total revenue and total assets are not disclosed.)

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(a) Parent company is "0".

(b) Subsidiaries were numbered from 1.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

(a) Parent company to subsidiary.

(b) Subsidiary to parent company.

(c) Subsidiary to subsidiaries.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Transcend Information, Inc.

Information on investees

Year ended December 31, 2016

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount: Balance as at December 31, 2016	Initial investment amount: Balance as at December 31, 2015	Shares held as at December 31, 2016: Number of shares	Shares held as at December 31, 2016: Ownership (%)	Shares held as at December 31, 2016: Book value	Net profit (loss) of the investee for the year ended December 31, 2016	Investment income (loss) recognised by the Company for the year ended December 31, 2016 (Note 1)	Footnote
Transcend Taiwan	Saffire Investment Ltd.	B.V.I.	Investments holding company	$ 1,202,418	$ 1,202,418	36,600,000	100	$ 1,815,498	$ 19,350	$ 42,836	Note 2
	Transcend Japan Inc.	Japan	Wholesaler of computer memory modules and peripheral products	89,103	89,103	6,400	100	195,176	13,125	13,125	Note 2
	Transcend Information, Inc.	United States of America	Wholesaler of computer memory modules and peripheral products	38,592	38,592	625,000	100	163,267	16,762	16,762	Note 2
	Transcend Korea Inc.	Korea	Wholesaler of computer memory modules and peripheral products	6,132	6,132	40,000	100	43,218	7,901	7,901	Note 2
	Taiwan IC Packaging Corp.	Taiwan	Packaging of Semi-conductors	354,666	354,666	51,842,975	12.70	282,610	(273,814)	(34,601)	Note 5
Saffire Investment Ltd.	Memhiro Pte Ltd.	Singapore	Investments holding company	1,156,920	1,156,920	55,132,000	100	1,851,464	18,977	18,977	Note 3
Memhiro Pte Ltd.	Transcend Information Europe B.V.	Netherlands	Wholesaler of computer memory modules and peripheral products	1,693	1,693	100	100	197,038	16,280	16,263	Note 4
	Transcend Information Trading GmbH, Hamburg	Germany	Wholesaler of computer memory modules and peripheral products	2,288	2,288	-	100	84,932	7,280	7,280	Note 4
	Transcend Information (H.K.) Ltd.	Hong Kong	Wholesaler of computer memory modules and peripheral products	7,636	7,636	2,000,000	100	4,974	(3,825)	(3,825)	Note 4

Note 1: The Company does not directly recognise the investment income (loss) except for the subsidiaries directly held.
Note 2: Subsidiaries of the Company.
Note 3: Subsidiary of Saffire.
Note 4: Subsidiaries of Memhiro.
Note 5: Please refer to Note 6 (8).

Transcend Information, Inc.

Information on investments in Mainland China

Year ended December 31, 2016

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2016	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2016		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016	Net income of investee as of December 31, 2016	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2016 (Note 2)	Book value of investments in Mainland China as of December 31, 2016	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2016	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Transcend Shanghai	Manufacturer and seller of computer memory modules, storage products and disks	$ 1,134,178	(2)	$ 1,134,178	-	-	$ 1,134,178	$ 30,197	100	$ 30,060	$ 1,518,991	$ 1,464,028	-
Transtech Shanghai	Manufacturer and seller of computer memory modules, storage products and disks. Wholesaler and agent of computer memory modules and peripheral products. Retailer of computer components.	16,310	(2)	16,310	-	-	16,310	(446)	100	(446)	22,163	-	-

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Transcend Information (Shanghai), Ltd.	$ 1,134,178	$ 1,134,178	$ -
Transtech Trading (Shanghai) Co., Ltd.	16,310	16,310	-
Total	$ 1,150,488	$ 1,150,488	$ 12,196,160

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

(1) Directly invest in a company in Mainland China.

(2) Through investing in an existing company in the third area (Memhiro Pte Ltd.), which then invested in Mainland China.

(3) Others.

Note 2: The financial statements that are audited and attested by R.O.C. parent company’s CPA.

Note 3: The numbers in this table are expressed in New Taiwan Dollars