

**CREATIVE SENSOR INC. AND  
SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REVIEW REPORT OF INDEPENDENT  
ACCOUNTANTS  
SEPTEMBER 30, 2017 AND 2016**

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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.

## REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Creative Sensor Inc.

We have reviewed the accompanying consolidated balance sheets of Creative Sensor Inc. and subsidiaries (collectively the “Creative Sensor Group”) as of September 30, 2017 and 2016, and the related consolidated statements of comprehensive income for the three months and nine months then ended, as well as the consolidated statements of changes in equity and of cash flows for the nine months then ended. These consolidated financial statements are the responsibility of the Creative Sensor Group's management. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the Statement of Auditing Standards No. 36 “Engagements to Review Financial Statements” in the Republic of China. A review consists primarily of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting”, as endorsed by the Financial Supervisory Commission.

Chang, Shu-Chiung

Audrey Tseng

For and on behalf of PricewaterhouseCoopers, Taiwan

November 9, 2017

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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.

**CREATIVE SENSOR INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2017 and 2016 are reviewed, not audited)

Assets	Notes	<u>September 30, 2017</u>		<u>December 31, 2016</u>		<u>September 30, 2016</u>	
		AMOUNT	%	AMOUNT	%	AMOUNT	%
<b>Current assets</b>							
1100	Cash and cash equivalents	\$ 765,412	17	\$ 610,524	13	\$ 650,077	14
1110	Financial assets at fair value						
	through profit or loss - current	328,245	7	510,522	11	493,985	11
1170	Accounts receivable, net	637,866	14	548,939	12	800,601	17
1180	Accounts receivable due from						
	related parties, net	1,177	-	1,161	-	3,415	-
130X	Inventories, net	249,822	5	278,012	6	236,461	5
1476	Other current financial assets	1,115,864	24	1,064,242	23	856,581	18
1479	Other current assets, others	35,805	1	27,954	1	50,068	1
11XX	<b>Current Assets</b>	<u>3,134,191</u>	<u>68</u>	<u>3,041,354</u>	<u>66</u>	<u>3,091,188</u>	<u>66</u>
<b>Non-current assets</b>							
1523	Non-current available-for-sale						
	financial assets, net	398,342	9	394,459	9	388,032	8
1550	Investments accounted for using						
	equity method	319,067	7	308,183	7	302,349	6
1600	Property, plant and equipment, net	658,176	15	786,190	17	823,202	18
1780	Intangible assets	5,143	-	6,369	-	6,563	-
1840	Deferred income tax assets	12,574	-	17,560	-	23,233	1
1900	Other non-current assets	55,396	1	58,637	1	60,862	1
15XX	<b>Non-current assets</b>	<u>1,448,698</u>	<u>32</u>	<u>1,571,398</u>	<u>34</u>	<u>1,604,241</u>	<u>34</u>
1XXX	<b>Total assets</b>	<u>\$ 4,582,889</u>	<u>100</u>	<u>\$ 4,612,752</u>	<u>100</u>	<u>\$ 4,695,429</u>	<u>100</u>

(Continued)

**CREATIVE SENSOR INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of September 30, 2017 and 2016 are reviewed, not audited)

Liabilities and Equity	Notes	September 30, 2017		December 31, 2016		September 30, 2016	
		AMOUNT	%	AMOUNT	%	AMOUNT	%
<b>Current liabilities</b>							
2120	Financial liabilities at fair value	6(10)					
	through profit or loss - current		\$ 2,098	-	\$ 7,425	-	\$ -
2170	Accounts payable		685,624	15	671,477	15	765,842
2180	Accounts payable to related parties	7	99,498	2	90,718	2	117,145
2200	Other payables	6(11)	307,784	7	328,707	7	296,695
2230	Income tax payable		27,601	1	32,431	1	66,182
2300	Other current liabilities		10,559	-	14,187	-	16,178
21XX	<b>Current Liabilities</b>		<u>1,133,164</u>	<u>25</u>	<u>1,144,945</u>	<u>25</u>	<u>1,262,042</u>
<b>Non-current liabilities</b>							
2570	Deferred income tax liabilities		48,298	1	53,367	1	49,853
25XX	<b>Non-current liabilities</b>		<u>48,298</u>	<u>1</u>	<u>53,367</u>	<u>1</u>	<u>49,853</u>
2XXX	<b>Total Liabilities</b>		<u>1,181,462</u>	<u>26</u>	<u>1,198,312</u>	<u>26</u>	<u>1,311,895</u>
<b>Equity attributable to owners of parent</b>							
<b>Share capital</b> 6(13)							
3110	Capital stock - common stock		1,270,550	28	1,270,550	28	1,270,550
<b>Capital surplus</b> 6(14)							
3200	Capital surplus		677,467	14	677,467	15	677,467
<b>Retained earnings</b> 6(15)							
3310	Legal reserve		418,414	9	392,660	8	392,660
3320	Special reserve		39,847	1	39,847	1	39,847
3350	Unappropriated retained earnings		691,497	15	710,659	15	671,418
<b>Other equity interest</b> 6(16)							
3400	Other equity interest		303,652	7	323,257	7	331,592
31XX	<b>Equity attributable to owners of the parent</b>		<u>3,401,427</u>	<u>74</u>	<u>3,414,440</u>	<u>74</u>	<u>3,383,534</u>
3XXX	<b>Total equity</b>		<u>3,401,427</u>	<u>74</u>	<u>3,414,440</u>	<u>74</u>	<u>3,383,534</u>
<b>Significant contingent liabilities and unrecognized contract commitments</b> 9							
3X2X	<b>Total liabilities and equity</b>		<u>\$ 4,582,889</u>	<u>100</u>	<u>\$ 4,612,752</u>	<u>100</u>	<u>\$ 4,695,429</u>

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

**CREATIVE SENSOR INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Expressed in thousands of New Taiwan dollars, except earnings per share amount)  
(UNAUDITED)

Items	Notes	Three months ended September 30				Nine months ended September 30				
		2017		2016		2017		2016		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	
4000	<b>Net revenue</b>	7	\$ 1,103,343	100	\$ 1,325,018	100	\$ 3,033,298	100	\$ 3,313,208	100
5000	<b>Cost of revenue</b>	6(4)(19) and 7	( 942,189)	( 86)	( 1,092,948)	( 82)	( 2,576,020)	( 85)	( 2,803,952)	( 85)
5900	<b>Gross profit</b>		<u>161,154</u>	<u>14</u>	<u>232,070</u>	<u>18</u>	<u>457,278</u>	<u>15</u>	<u>509,256</u>	<u>15</u>
	<b>Operating expenses</b>	6(19)								
6100	Selling expenses		( 26,631)	( 2)	( 24,028)	( 2)	( 68,571)	( 2)	( 60,272)	( 2)
6200	General and administrative expenses		( 40,402)	( 4)	( 50,431)	( 4)	( 114,515)	( 4)	( 128,073)	( 4)
6300	Research and development expenses		( 23,215)	( 2)	( 27,472)	( 2)	( 66,616)	( 2)	( 73,432)	( 2)
6000	<b>Total operating expenses</b>		<u>( 90,248)</u>	<u>( 8)</u>	<u>( 101,931)</u>	<u>( 8)</u>	<u>( 249,702)</u>	<u>( 8)</u>	<u>( 261,777)</u>	<u>( 8)</u>
6900	<b>Income from operations</b>		<u>70,906</u>	<u>6</u>	<u>130,139</u>	<u>10</u>	<u>207,576</u>	<u>7</u>	<u>247,479</u>	<u>7</u>
	<b>Non-operating income and expenses</b>									
7010	Other income	6(17)	39,289	4	32,726	2	51,400	2	48,581	1
7020	Other gains and losses	6(18)	( 566)	-	( 173)	-	( 7,729)	-	( 8,050)	-
7060	Share of profit of associates and joint ventures accounted for using equity method, net		<u>11,086</u>	<u>1</u>	<u>11,211</u>	<u>1</u>	<u>19,744</u>	<u>-</u>	<u>15,837</u>	<u>1</u>
7000	<b>Total non-operating income and expenses</b>		<u>49,809</u>	<u>5</u>	<u>43,764</u>	<u>3</u>	<u>63,415</u>	<u>2</u>	<u>56,368</u>	<u>2</u>
7900	<b>Profit before income tax</b>		<u>120,715</u>	<u>11</u>	<u>173,903</u>	<u>13</u>	<u>270,991</u>	<u>9</u>	<u>303,847</u>	<u>9</u>
7950	Income tax expense	6(20)	( 21,500)	( 2)	( 43,709)	( 3)	( 61,111)	( 2)	( 84,563)	( 3)
8200	<b>Net income</b>		<u>\$ 99,215</u>	<u>9</u>	<u>\$ 130,194</u>	<u>10</u>	<u>\$ 209,880</u>	<u>7</u>	<u>\$ 219,284</u>	<u>6</u>
	<b>Other comprehensive income</b>									
	<b>Components of other comprehensive income that will be reclassified to profit or loss</b>									
8361	Exchange differences on translation	6(16)	\$ 40,155	4	( \$ 79,933)	( 6)	( \$ 29,025)	( 1)	( \$ 160,955)	( 5)
8362	Unrealized losses on valuation of available-for-sale financial assets	6(6)(16)	( 10,443)	( 1)	4,562	-	3,883	-	( 6,471)	-
8370	Share of other comprehensive loss of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	6(16)	<u>223</u>	<u>-</u>	<u>1,592</u>	<u>-</u>	<u>5,537</u>	<u>-</u>	<u>( 7,794)</u>	<u>-</u>
8360	<b>Components of other comprehensive income that will be reclassified to profit or loss</b>		<u>29,935</u>	<u>3</u>	<u>( 73,779)</u>	<u>( 6)</u>	<u>( 19,605)</u>	<u>( 1)</u>	<u>( 175,220)</u>	<u>( 5)</u>
8500	<b>Total comprehensive income for the period</b>		<u>\$ 129,150</u>	<u>12</u>	<u>\$ 56,415</u>	<u>4</u>	<u>\$ 190,275</u>	<u>6</u>	<u>\$ 44,064</u>	<u>1</u>
9750	<b>Basic earnings per share</b>	6(21)	<u>\$ 0.78</u>		<u>\$ 1.02</u>		<u>\$ 1.65</u>		<u>\$ 1.73</u>	
9850	<b>Diluted earnings per share</b>	6(21)	<u>\$ 0.77</u>		<u>\$ 1.01</u>		<u>\$ 1.63</u>		<u>\$ 1.70</u>	

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

**CREATIVE SENSOR INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Expressed in thousands of New Taiwan dollars)  
(UNAUDITED)

	Notes	Equity attributable to owners of the parent							Total equity	
		Capital Surplus			Retained Earnings			Other equity interest		
		Capital stock - common stock	Additional paid-in capital	Treasury stock transactions	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations		Unrealized gain or loss on available for- sale financial assets
<b><u>Nine months ended September 30, 2016</u></b>										
Balance at January 1, 2016		\$ 1,270,550	\$ 673,471	\$ 3,996	\$ 363,300	\$ 39,847	\$ 710,193	\$ 380,707	\$ 126,105	\$3,568,169
Appropriations of 2015 earnings	6(15)									
Legal reserve		-	-	-	29,360	-	( 29,360 )	-	-	-
Cash dividends		-	-	-	-	-	( 228,699 )	-	-	( 228,699 )
Net income for the period		-	-	-	-	-	219,284	-	-	219,284
Other comprehensive loss for the period	6(16)	-	-	-	-	-	-	( 161,727 )	( 13,493 )	( 175,220 )
Balance at September 30, 2016		<u>\$ 1,270,550</u>	<u>\$ 673,471</u>	<u>\$ 3,996</u>	<u>\$ 392,660</u>	<u>\$ 39,847</u>	<u>\$ 671,418</u>	<u>\$ 218,980</u>	<u>\$ 112,612</u>	<u>\$3,383,534</u>
<b><u>Nine months ended September 30, 2017</u></b>										
Balance at January 1, 2017		\$ 1,270,550	\$ 673,471	\$ 3,996	\$ 392,660	\$ 39,847	\$ 710,659	\$ 202,102	\$ 121,155	\$3,414,440
Appropriations of 2016 earnings	6(15)									
Legal reserve		-	-	-	25,754	-	( 25,754 )	-	-	-
Cash dividends		-	-	-	-	-	( 203,288 )	-	-	( 203,288 )
Net income for the period		-	-	-	-	-	209,880	-	-	209,880
Other comprehensive (loss) income for the period	6(16)	-	-	-	-	-	-	( 29,967 )	10,362	( 19,605 )
Balance at September 30, 2017		<u>\$ 1,270,550</u>	<u>\$ 673,471</u>	<u>\$ 3,996</u>	<u>\$ 418,414</u>	<u>\$ 39,847</u>	<u>\$ 691,497</u>	<u>\$ 172,135</u>	<u>\$ 131,517</u>	<u>\$3,401,427</u>

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

**CREATIVE SENSOR INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in thousands of New Taiwan dollars)  
(UNAUDITED)

	Notes	Nine months ended September 30,	
		2017	2016
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Profit before tax		\$ 270,991	\$ 303,847
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(8)(19)	120,401	131,361
Amortization	6(19)	3,114	5,813
Net (gain) loss on financial assets or liabilities at fair value through profit or loss	6(2)(10)(18)	( 25,364 )	8,017
Share of profit of associates and joint ventures accounted for using equity method		( 19,744 )	( 15,837 )
Net loss on disposal of property, plant and equipment	6(18)	695	-
Interest income	6(17)	( 14,623 )	( 16,712 )
Dividend income	6(17)	( 14,769 )	( 13,060 )
Reversal of impairment loss on non-financial assets	6(8)(18)	( 999 )	-
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets held for trading		202,314	( 328,802 )
Accounts receivable		( 88,943 )	( 302,410 )
Inventories		11,905	52,792
Other current assets		( 4,528 )	17,340
Changes in operating liabilities			
Accounts payable		53,780	213,707
Accounts payable - related parties		14,464	47,760
Other payables		( 8,127 )	( 35,910 )
Other current liabilities		( 3,628 )	509
Cash inflow generated from operations		496,939	68,415
Interest received		11,161	16,456
Dividends received		29,166	27,455
Income tax paid		( 66,699 )	( 64,199 )
Net cash flows from operating activities		<u>470,567</u>	<u>48,127</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Increase in other financial assets		( 51,622 )	( 319,364 )
Acquisition of property, plant and equipment	6(23)	( 14,447 )	( 66,635 )
Proceeds from disposal of property, plant and equipment		206	-
Acquisition of intangible assets		( 1,572 )	( 1,048 )
Increase in refundable deposits		-	( 193 )
(Increase) decrease in other non-current assets		( 299 )	2,294
Net cash flows used in investing activities		<u>( 67,734 )</u>	<u>( 384,946 )</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITY</u></b>			
Payment of cash dividends	6(15)	( 203,288 )	( 228,699 )
Effect of exchange rate		( 44,657 )	( 90,487 )
Net increase (decrease) in cash and cash equivalents		154,888	( 656,005 )
Cash and cash equivalents at beginning of period		610,524	1,306,082
Cash and cash equivalents at end of period		<u>\$ 765,412</u>	<u>\$ 650,077</u>

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

CREATIVE SENSOR INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,  
EXCEPT AS OTHERWISE INDICATED)  
(REVIEWED, NOT AUDITED)

**1. HISTORY AND ORGANIZATION**

Creative Sensor Inc. (the "Company") was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.). The Company and its subsidiaries (collectively referred herein as the "Group") are primarily engaged in manufacturing and trading of image sensor and its electronic components. Starting from May 17, 2005, the Company's stock was officially listed on the Taiwan Stock Exchange.

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

These consolidated financial statements were reported to the Board of Directors on November 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")**

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows:

<u>New, Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
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
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

New, Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(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 endorsed by the FSC effective from 2018 are as follows:

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
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
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealized 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 financial performance based on the Group’s assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 9, ‘Financial instruments’

- (a) 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 or lifetime expected credit losses (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 Group 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.

(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 are as follows:

<u>New, Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Prepayment features with negative compensation (amendments to IFRS 9)	January 1, 2019
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 16, ‘Leases’	January 1, 2019
IFRS 17, ‘Insurance contracts’	January 1, 2021
IFRIC 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Long-term interests in associates and joint ventures (amendments to IAS 28)	January 1, 2019

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

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.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the compliance statement, basis of preparation and basis of consolidation that are set out below, the rest of the significant accounting policies applied in the preparation of these consolidated financial statements are the same as those disclosed in Note 4 to the consolidated financial statements as of and for the year ended December 31, 2016. The policies have been consistently applied to all the periods presented, unless otherwise stated.

##### (1) Compliance statement

- A. These consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the FSC.
- B. The consolidated financial statements as of and for the nine months ended September 30, 2017 and 2016 should be read together with the consolidated financial statements as of and for the year ended December 31, 2016.

##### (2) Basis of preparation

- A. Except for the following items, these 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 or 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 obligation.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

The basis for preparation of these consolidated financial statements is the same as that for the preparation of the consolidated financial statements as of and for the year ended December 31, 2016.

B. Subsidiaries included in the consolidated financial statements:

<u>Name of investor</u>	<u>Name of subsidiary</u>	<u>Main business activities</u>	<u>Ownership (%)</u>		
			<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Creative Sensor Inc.	Creative Sensor Inc. (BVI)	Holding company	100	100	100
Creative Sensor Inc.	Creative Sensor (USA) Co.	Collection of marketing information and maintaining relationship with customers	100	100	100
Creative Sensor Inc. (BVI)	Creative Sensor Co. Ltd.	Holding company	100	100	100
Creative Sensor Co., Ltd.	Wuxi Creative Sensor Technology Co., Ltd.	Manufacturing of image sensor	100	100	100
Creative Sensor Co., Ltd.	Nanchang Creative Sensor Technology Co., Ltd.	Manufacturing of image sensor	100	100	100

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

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

E. Significant restrictions on fund remittance from subsidiaries to the parent company: None.

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

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

There was no significant change during this period. Please refer to Note 5 to the consolidated financial statements as of and for the year ended December 31, 2016 for related information.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Cash on hand and revolving funds	\$ 168	\$ 327	\$ 297
Checking accounts and demand deposits	550,141	342,401	391,531
Time deposits	215,103	267,796	258,249
Total	<u>\$ 765,412</u>	<u>\$ 610,524</u>	<u>\$ 650,077</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to diversify 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.

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

<u>Items</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Current items:			
Financial assets held for trading	\$ 327,104	\$ 527,863	\$ 507,591
Beneficiary certificates			
Non-hedging derivatives	-	-	3,259
	327,104	527,863	510,850
Valuation adjustment	1,141	( 17,341)	( 16,865)
Total	<u>\$ 328,245</u>	<u>\$ 510,522</u>	<u>\$ 493,985</u>

A. The Group recognized net gain of \$2,747, \$7,639, \$20,037 and \$8,017 on financial assets held for trading for the three months ended September 30, 2017 and 2016, and the nine months ended September 30, 2017 and 2016, respectively.

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

C. The derivative instruments transaction not accounted for using hedge accounting and contract information are as follows:

	<u>September 30, 2016</u>	
	<u>Contract amount (notional principal) (in thousands)</u>	<u>Maturity date of the contract</u>
Derivative instruments		
Current items:		
Forward foreign exchange contracts	USD 2,000	2016.10.26
Cross currency swap	USD 4,000	2016.10.13
Cross currency swap	USD 3,000	2016.12.28

The Group entered into cross currency swap contracts and forward foreign exchange contracts between foreign currencies to hedge exchange rate risk. However, these cross currency swap contracts do not meet the criteria for hedging accounting and thus are not accounted for under hedge accounting.

(3) Accounts receivable

	September 30, 2017	December 31, 2016	September 30, 2016
Accounts receivable	<u>\$ 637,866</u>	<u>\$ 548,939</u>	<u>\$ 800,601</u>

The Group does not hold any collateral as security.

(4) Inventories

	September 30, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 103,731	(\$ 1,764)	\$ 101,967
Work in process	23,572	-	23,572
Finished goods	128,777	( 4,494)	124,283
Inventory in transit	2	( 2)	-
Total	<u>\$ 256,082</u>	<u>(\$ 6,260)</u>	<u>\$ 249,822</u>

	December 31, 2016		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 104,801	(\$ 1,473)	\$ 103,328
Work in process	6,187	-	6,187
Finished goods	153,667	( 2,110)	151,557
Inventory in transit	16,942	( 2)	16,940
Total	<u>\$ 281,597</u>	<u>(\$ 3,585)</u>	<u>\$ 278,012</u>

	September 30, 2016		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 76,312	(\$ 838)	\$ 75,474
Work in process	30,812	( 60)	30,752
Finished goods	131,524	( 1,290)	130,234
Inventory in transit	2	( 1)	1
Total	<u>\$ 238,650</u>	<u>(\$ 2,189)</u>	<u>\$ 236,461</u>

The cost of inventories recognized as expense for the period:

	<u>Three months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Cost of goods sold	\$ 940,369	\$ 1,094,137
Inventory valuation loss	2,537	-
Gain from price recovery of inventory (Note)	-	( 362)
Others	( 717)	( 827)
Total	<u>\$ 942,189</u>	<u>\$ 1,092,948</u>

  

	<u>Nine months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Cost of goods sold	\$ 2,575,489	\$ 2,806,069
Loss on scrapping inventory	-	3,301
Inventory valuation loss	2,675	-
Gain from price recovery of inventory (Note)	-	( 3,731)
Others	( 2,144)	( 1,687)
Total	<u>\$ 2,576,020</u>	<u>\$ 2,803,952</u>

Note: Gain from price recovery of inventory was caused by the reversal of loss on market value decline and obsolete and slow-moving inventories when the related inventory items were scrapped or sold.

(5) Other current financial assets

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Time deposits	\$ 1,115,864	\$ 1,064,242	\$ 856,581

It refers to time deposits with original maturity over three months.

(6) Available-for-sale financial assets

<u>Items</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Current items:			
Listed stocks	\$ 286,186	\$ 286,186	286,186
Unlisted stocks	3,590	3,590	3,590
Subtotal	289,776	289,776	289,776
Valuation adjustments of available-for-sale financial assets	112,156	108,273	101,846
Accumulated impairment	( 3,590)	( 3,590)	( 3,590)
Total	<u>\$ 398,342</u>	<u>\$ 394,459</u>	<u>\$ 388,032</u>

A. The Group recognized (\$10,443), \$4,562, \$3,883 and (\$6,471) in other comprehensive income (loss) for fair value change for the three months ended September 30, 2017 and 2016, and the nine months ended September 30, 2017 and 2016, respectively.

B. The Group has no available-for-sale financial assets pledged to others.

(7) Investments accounted for using equity method

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
K9 Inc.	\$ -	\$ -	\$ -
Teco Image Systems Co., Ltd	<u>319,067</u>	<u>308,183</u>	<u>302,349</u>
	<u>\$ 319,067</u>	<u>\$ 308,183</u>	<u>\$ 302,349</u>

(a) The basic information of the associates that are material to the Group is as follows:

<u>Company name</u>	<u>Principal place of business</u>	<u>Shareholding ratio</u>		<u>Nature of relationship</u>	<u>Methods of measurement</u>
		<u>September 30, 2017</u>	<u>December 31, 2016</u>		
Teco Image Systems Co., Ltd	Taiwan	10.66%	10.66%	Buyer	Equity method

<u>Company name</u>	<u>Principal place of business</u>	<u>Shareholding ratio</u>		<u>Nature of relationship</u>	<u>Methods of measurement</u>
		<u>September 30, 2016</u>			
Teco Image Systems Co., Ltd	Taiwan		10.66%	Buyer	Equity method

(b) The summarized financial information of the associates that are material to the Group is as follows:

Balance sheet

	<u>Teco Image Systems Co., Ltd</u>		
	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Current assets	\$ 1,906,270	\$ 1,945,741	\$ 1,915,727
Non-current assets	893,662	845,183	832,704
Current liabilities	( 868,443)	( 883,954)	( 900,470)
Non-current liabilities	( 33,903)	( 45,689)	( 47,190)
Total net assets	<u>\$ 1,897,586</u>	<u>\$ 1,861,281</u>	<u>\$ 1,800,771</u>
Share in associate's net assets	\$ 202,031	\$ 191,147	\$ 185,313
Goodwill	<u>117,036</u>	<u>117,036</u>	<u>117,036</u>
Carrying amount of the associate	<u>\$ 319,067</u>	<u>\$ 308,183</u>	<u>\$ 302,349</u>

## Statement of comprehensive income

	Three months ended September 30,	
	2017	2016
Revenue	\$ 670,575	\$ 651,505
Profit for the period from continuing operations	\$ 103,990	\$ 100,577
Other comprehensive income, net of tax	4,452	13,668
Total comprehensive income	\$ 108,442	\$ 114,245

	Nine months ended September 30,	
	2017	2016
Revenue	\$ 1,748,110	\$ 1,812,888
Profit for the period from continuing operations	\$ 185,276	\$ 143,968
Other comprehensive income (loss), net of tax	51,931	( 75,377)
Total comprehensive income	\$ 237,207	\$ 68,591

- (c) The Group's material associate, Teco Image Systems Co., Ltd, has quoted market prices. As of September 30, 2017, December 31, 2016 and September 30, 2016, the fair value was \$191,936, \$158,947 and \$141,557, respectively.
- (d) The Group owns less than 20% of the voting rights in Teco Image Systems Co., Ltd, but holds one-third seats (2 out of 7 board seats) in the Board of Directors of Teco Image. The Group is a substantial shareholder of Teco Image and evaluates its investment accounted for under the equity method.
- (e) In January 2008, the Group invested US\$1,000,000 in K9 Inc. Due to the underperformance of K9 Inc. and changes in the Group's investment strategies, the Group adopted the conservatism principle and wrote-off the original investment amount of US\$1,000,000 (approximately NT\$32,314 thousand) in June 2008. As of September 30, 2017, December 31, 2016 and September 30, 2016, the Group's shareholding ratio in K9 Inc. and the ending balance of investment was all 33.82% and \$0, respectively. For the three months ended September 30, 2017 and 2016, and the nine months ended September 30, 2017 and 2016, the investment income (loss) were all \$0.

(8) Property, plant and equipment

	<u>Buildings</u>	<u>Machinery</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Other equipment</u>	<u>Construction in progress and equipment to be inspected</u>	<u>Total</u>
<u>At January 1, 2017</u>							
Cost	\$ 654,501	\$ 1,529,585	\$ 51,925	\$ 77,968	\$ 31,431	\$ 63,266	\$ 2,408,676
Accumulated depreciation and impairment	( 367,295)	( 1,121,475)	( 42,771)	( 61,967)	( 28,071)	( 907)	( 1,622,486)
	<u>\$ 287,206</u>	<u>\$ 408,110</u>	<u>\$ 9,154</u>	<u>\$ 16,001</u>	<u>\$ 3,360</u>	<u>\$ 62,359</u>	<u>\$ 786,190</u>
<u>2017</u>							
Opening net book value as at January 1	\$ 287,206	\$ 408,110	\$ 9,154	\$ 16,001	\$ 3,360	\$ 62,359	\$ 786,190
Additions	-	201	66	-	-	7,564	7,831
Disposals	-	( 32)	-	-	-	( 869)	( 901)
Transfer	-	66,493	155	-	106	( 66,754)	-
Reclassifications	-	-	-	-	-	( 367)	( 367)
Gain on reversal of impairment	-	130	-	-	-	869	999
Depreciation	( 35,064)	( 76,973)	( 2,788)	( 4,355)	( 1,221)	-	( 120,401)
Net exchange differences	( 5,491)	( 7,886)	( 152)	( 90)	( 66)	( 1,490)	( 15,175)
Closing net book value as at September 30	<u>\$ 246,651</u>	<u>\$ 390,043</u>	<u>\$ 6,435</u>	<u>\$ 11,556</u>	<u>\$ 2,179</u>	<u>\$ 1,312</u>	<u>\$ 658,176</u>
<u>At September 30, 2017</u>							
Cost	\$ 643,724	\$ 1,554,045	\$ 50,133	\$ 41,955	\$ 30,775	\$ 1,312	\$ 2,321,944
Accumulated depreciation and impairment	( 397,073)	( 1,164,002)	( 43,698)	( 30,399)	( 28,596)	-	( 1,663,768)
	<u>\$ 246,651</u>	<u>\$ 390,043</u>	<u>\$ 6,435</u>	<u>\$ 11,556</u>	<u>\$ 2,179</u>	<u>\$ 1,312</u>	<u>\$ 658,176</u>

	<u>Buildings</u>	<u>Machinery</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Other equipment</u>	<u>Construction in progress and equipment to be inspected</u>	<u>Total</u>
<u>At January 1, 2016</u>							
Cost	\$ 711,755	\$ 1,622,442	\$ 55,550	\$ 82,124	\$ 33,863	\$ 1,436	\$ 2,507,170
Accumulated depreciation and impairment	( 346,608)	( 1,123,146)	( 41,063)	( 60,455)	( 27,945)	-	( 1,599,217)
	<u>\$ 365,147</u>	<u>\$ 499,296</u>	<u>\$ 14,487</u>	<u>\$ 21,669</u>	<u>\$ 5,918</u>	<u>\$ 1,436</u>	<u>\$ 907,953</u>
<u>2016</u>							
Opening net book value as at January 1	\$ 365,147	\$ 499,296	\$ 14,487	\$ 21,669	\$ 5,918	\$ 1,436	\$ 907,953
Additions	-	1,562	225	244	-	102,651	104,682
Transfer	-	54,638	-	-	120	( 54,758)	-
Reclassifications	-	( 2,391)	-	4,531	-	-	2,140
Depreciation	( 38,672)	( 82,008)	( 4,032)	( 4,843)	( 1,806)	-	( 131,361)
Net exchange differences	( 24,419)	( 32,844)	( 573)	( 333)	( 267)	( 1,776)	( 60,212)
Closing net book value as at September 30	<u>\$ 302,056</u>	<u>\$ 438,253</u>	<u>\$ 10,107</u>	<u>\$ 21,268</u>	<u>\$ 3,965</u>	<u>\$ 47,553</u>	<u>\$ 823,202</u>
<u>At September 30, 2016</u>							
Cost	\$ 660,422	\$ 1,564,823	\$ 52,083	\$ 83,251	\$ 31,697	\$ 47,553	\$ 2,439,829
Accumulated depreciation and impairment	( 358,366)	( 1,126,570)	( 41,976)	( 61,983)	( 27,732)	-	( 1,616,627)
	<u>\$ 302,056</u>	<u>\$ 438,253</u>	<u>\$ 10,107</u>	<u>\$ 21,268</u>	<u>\$ 3,965</u>	<u>\$ 47,553</u>	<u>\$ 823,202</u>

A. For the three months ended September 30, 2017 and 2016, and the nine months ended September 30, 2017 and 2016, the Group recognised impairment loss amounting to \$0 after assessing and comparing the carrying amount and recoverable amount of property, plant and equipment. The gain on reversal of impairment was \$0, \$0, \$999 and \$0, respectively.

B. The Group has not pledged property, plant and equipment as collateral or capitalized the interest.

(9) Other non-current assets

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Long-term prepaid rents	\$ 44,017	\$ 45,600	\$ 46,298
Prepayments for equipment	-	3,274	11,857
Refundable deposits	4,186	2,610	2,554
Others	7,193	7,153	153
	<u>\$ 55,396</u>	<u>\$ 58,637</u>	<u>\$ 60,862</u>

On June 29, 2007, the Group signed a land use right contract with Gaoxin branch of the Bureau of Land and Resources Bureau in Nanchang City, Jiangxi Province, People's Republic of China with a term of 50 years. All rentals had been paid on the contract date. The Group recognized rental expenses of \$273, \$289, \$814 and \$898 for the three months ended September 30, 2017 and 2016, and the nine months ended September 30, 2017 and 2016, respectively.

(10) Financial liabilities at fair value through profit or loss

<u>Items</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Current items:			
Financial liabilities held for trading			
Non-hedging derivatives	<u>\$ 2,098</u>	<u>\$ 7,425</u>	<u>\$ -</u>

A. The Group recognised net (loss) gain of (\$2,098), \$31, \$5,327 and \$0 on financial liabilities held for trading for the three months ended September 30, 2017 and 2016, and the nine months ended September 30, 2017 and 2016, respectively.

B. The derivative instruments transaction not accounted for using hedge accounting and contract information are as follows:

<u>Derivative instruments</u>	<u>September 30, 2017</u>	
	<u>Contract amount (notional principal) (in thousands)</u>	<u>Maturity date of the contract</u>
Current items:		
Cross currency swap	USD 2,000	2017.10.20
Cross currency swap	USD 1,000	2017.10.30
Cross currency swap	USD 1,500	2017.12.20
Cross currency swap	USD 3,000	2017.12.20
Cross currency swap	USD 4,000	2018.01.22
Cross currency swap	USD 5,500	2018.02.12
Cross currency swap	USD 2,000	2018.03.29

Derivative instruments	December 31, 2016	
	Contract amount (notional principal) (in thousands)	Maturity date of the contract
Current items:		
Cross currency swap	USD 4,000	2017.01.13
Cross currency swap	USD 2,000	2017.01.20
Cross currency swap	USD 1,500	2017.02.14
Cross currency swap	USD 5,500	2017.02.14
Cross currency swap	USD 3,000	2017.06.28

The Group entered into cross currency swap contracts between foreign currencies to hedge exchange rate risk. However, these cross currency swap contracts do not meet the criteria for hedging accounting and thus are not accounted for under hedge accounting.

(11) Other payables

	September 30, 2017	December 31, 2016	September 30, 2016
Accrued employees' compensation and directors' and supervisors' remuneration	\$ 37,779	\$ 46,800	\$ 39,914
Royalties payable	52,191	52,191	52,191
Bonus payable	95,129	101,878	60,778
Wages and salaries payable	38,287	36,739	36,240
Service fees payable	5,797	9,352	8,540
Payables on equipment	22,832	29,448	47,072
Freight payable	3,832	3,544	4,670
Others	51,937	48,755	47,290
	<u>\$ 307,784</u>	<u>\$ 328,707</u>	<u>\$ 296,695</u>

(12) 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 pension 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 Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. In May 2016 and June 2017, the Department of Labor, Taipei City Government approved that the Company stop contributing to the retirement fund temporarily for 2017 and 2018.
- (b) For the aforementioned pension plan, the Group recognised pension costs (benefit) of \$0 for the three months ended September 30, 2017 and 2016, and the nine months ended September 30, 2017 and 2016, respectively.

- (c) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2018 amounts to \$0.
- 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) The Company’s mainland China subsidiaries, Nanchang Creative Sensor Technology Co., Ltd. and Wuxi Creative Sensor Technology Co., Ltd., have a defined contribution plan. 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. Other than the monthly contributions, the Group has no further obligations.
  - (c) The pension costs under defined contribution pension plans of the Group for the three months ended September 30, 2017 and 2016, and the nine months ended September 30, 2017 and 2016, were \$4,007, \$4,043, \$11,564 and \$11,718, respectively.

(13) Capital stock

- A. As of September 30, 2017, the Company’s authorized capital was \$1,600,000, consisting of 160,000 thousand shares of ordinary stock (including 15,000 thousand shares reserved for employee stock options), and the paid-in capital was \$1,270,550 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.
- B. For the nine months ended September 30, 2017 and 2016, there was no movement in the number of the Company’s shares which was both 127,055 thousand shares.

(14) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus 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 surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(15) Retained earnings

- A. Under the Company’s Articles of Incorporation, the current year’s earnings, if any, shall be distributed in the following order:
  - (a) Pay all taxes.
  - (b) Cover accumulated deficit.
  - (c) Set aside 10% for legal reserve until the legal reserve equals the total capital stock balance.
  - (d) Set aside or reverse special reserve in accordance with related regulations.
  - (e) The appropriation of the amount of distributable earnings after deducting items from (a) to (d), along with the accumulated unappropriated earnings, shall be proposed by the Board of Directors and resolved by the shareholders.

The Company operates in a steady growth environment. Since the Company has plans for plant expansion and reinvestment, the current distributable earnings less the amount as legal reserve and special reserve, plus unappropriated earnings in prior years, shall be appropriated as shareholders' bonus that account for 80% of the amount. Dividends to shareholders in the form of cash shall generally account for 50% but shall account for at least 5%.

- B. 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.
- C. 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.
- D. Details of 2016 and 2015 earnings appropriation resolved by the stockholders on June 15, 2017 and June 15, 2016, respectively, are as follows:

	Years ended December 31,			
	2016		2015	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 25,754	\$ -	\$ 29,360	\$ -
Cash dividends	203,288	1.6	228,699	1.8
Total	<u>\$ 229,042</u>		<u>\$ 258,059</u>	

The abovementioned distribution of earnings for the year of 2016 was in agreement with those amounts proposed by the Board of Directors on March 22, 2017.

- E. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6 (19).

(16) Other equity items

	<u>Available-for-sale investment</u>	<u>Currency translation</u>	<u>Total</u>
At January 1, 2017	\$ 121,155	\$ 202,102	\$ 323,257
Valuation adjustment of available- for-sale investments:			
— Group	3,883	-	3,883
— Associates	6,479	-	6,479
Currency translation differences:			
— Group	-	( 29,025)	( 29,025)
— Associates	-	( 942)	( 942)
At September 30, 2017	<u>\$ 131,517</u>	<u>\$ 172,135</u>	<u>\$ 303,652</u>

	<u>Available-for-sale investment</u>	<u>Currency translation</u>	<u>Total</u>
At January 1, 2016	\$ 126,105	\$ 380,707	\$ 506,812
Valuation adjustment of available- for-sale investments:			
— Group	( 6,471)	-	( 6,471)
— Associates	( 7,022)	-	( 7,022)
Currency translation differences:			
— Group	-	( 160,955)	( 160,955)
— Associates	-	( 772)	( 772)
At September 30, 2016	<u>\$ 112,612</u>	<u>\$ 218,980</u>	<u>\$ 331,592</u>

(17) Other income

	<u>Three months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Interest income	\$ 5,449	\$ 5,054
Rental revenue	1,018	1,061
Dividend income	14,769	12,801
Directors' and supervisors' remuneration	14,722	12,067
Other income-others	3,331	1,743
Total	<u>\$ 39,289</u>	<u>\$ 32,726</u>

	Nine months ended September 30,	
	2017	2016
Interest income	\$ 14,623	\$ 16,712
Government grants revenue	-	430
Rental revenue	3,012	3,339
Dividend income	14,769	13,060
Directors' and supervisors' remuneration	14,722	12,067
Other income-others	4,274	2,973
Total	<u>\$ 51,400</u>	<u>\$ 48,581</u>

(18) Other gains and losses

	Three months ended September 30,	
	2017	2016
Gains on financial assets and liabilities at fair value through profit or loss	\$ 649	\$ 7,670
Net currency exchange losses	( 394)	( 6,862)
Others	( 821)	( 981)
Total	<u>(\$ 566)</u>	<u>(\$ 173)</u>

	Nine months ended September 30,	
	2017	2016
Gains on financial assets and liabilities at fair value through profit or loss	\$ 25,364	\$ 8,017
Net currency exchange losses	( 30,903)	( 13,112)
Losses on disposal of property, plant and equipment	( 695)	-
Gain on reversal of impairment loss on non-financial assets	999	-
Others	( 2,494)	( 2,955)
Total	<u>(\$ 7,729)</u>	<u>(\$ 8,050)</u>

(19) Employee benefit expense, depreciation and amortization

For the three months ended September 30, 2017 and 2016, and the nine months ended September 30, 2017 and 2016, employee benefit expense, depreciation and amortization categorized by function were summarized as follows:

	Three months ended September 30, 2017		
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Total</u>
Employee benefit expense			
Wages and salaries	\$ 78,567	\$ 50,249	\$ 128,816
Labor and health insurance fees	7,971	3,056	11,027
Pension costs	2,405	1,602	4,007
Other personnel expense	2,110	1,839	3,949
Depreciation	36,826	4,273	41,099
Amortization	839	417	1,256

	Three months ended September 30, 2016		
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Total</u>
Employee benefit expense			
Wages and salaries	\$ 84,314	\$ 58,862	\$ 143,176
Labor and health insurance fees	9,654	3,075	12,729
Pension costs	2,448	1,595	4,043
Other personnel expense	3,076	2,444	5,520
Depreciation	38,374	4,663	43,037
Amortization	635	485	1,120

	Nine months ended September 30, 2017		
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Total</u>
Employee benefit expense			
Wages and salaries	\$ 210,377	\$ 133,417	\$ 343,794
Labor and health insurance fees	22,981	7,914	30,895
Pension costs	6,853	4,711	11,564
Other personnel expense	6,396	5,554	11,950
Depreciation	107,651	12,750	120,401
Amortization	1,789	1,325	3,114

	Nine months ended September 30, 2016		
	Operating costs	Operating expenses	Total
Employee benefit expense			
Wages and salaries	\$ 231,714	\$ 137,475	\$ 369,189
Labor and health insurance fees	27,800	7,962	35,762
Pension costs	6,964	4,754	11,718
Other personnel expense	8,755	5,765	14,520
Depreciation	116,595	14,766	131,361
Amortization	4,081	1,732	5,813

- A. According to the Articles of Incorporation of the Company, the pre-tax profit before deduction of employees' compensation and directors' and supervisors' remuneration and after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall account for 5%~15% for employees' compensation and shall not be higher than 5% for directors' and supervisors' remuneration.
- B. For the three months ended September 30, 2017 and 2016, and the nine months ended September 30, 2017 and 2016, employees' compensation was accrued at \$13,394, \$17,576, \$28,334 and \$29,603, respectively; directors' and supervisors' remuneration was accrued at \$4,465, \$5,859, \$9,445 and \$9,868, respectively.

Employees' compensation and directors' and supervisors' remuneration of 2016 as resolved by the Board of Directors amounted to \$34,767 and \$11,589, respectively, were in agreement with those amounts recognised in the 2016 financial statements. The aforementioned amounts were recognized in salary expenses.

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

(20) Income tax

A. Income tax expense

	Three months ended September 30,	
	2017	2016
Current tax:		
Total current tax	\$ 28,579	\$ 62,148
Prior year income tax (over) underestimation	266	82
Total current tax	<u>\$ 28,845</u>	<u>\$ 62,230</u>
Deferred tax:		
Origination and reversal of temporary differences	( 6,788)	( 18,745)
Effect of exchange rate	( 557)	224
Total deferred tax	<u>( 7,345)</u>	<u>( 18,521)</u>
Income tax expense	<u>\$ 21,500</u>	<u>\$ 43,709</u>

	Nine months ended September 30,	
	2017	2016
Current tax:		
Total current tax	\$ 56,085	\$ 92,021
Additional 10% income tax imposed on unappropriated earnings	2,948	3,509
Prior year income tax (over) underestimation	2,915	( 2,133)
Total current tax	<u>\$ 61,948</u>	<u>\$ 93,397</u>
Deferred tax:		
Origination and reversal of temporary differences	( 83)	( 8,769)
Effect of exchange rate	( 754)	( 65)
Total deferred tax	<u>( 837)</u>	<u>( 8,834)</u>
Income tax expense	<u>\$ 61,111</u>	<u>\$ 84,563</u>

B. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority.

C. There was no unappropriated earnings generated before January 1, 1998.

D. As of September 30, 2017, December 31, 2016 and September 30, 2016, the balance of the imputation tax credit account was \$77,159, \$89,278 and \$70,824, respectively. The creditable tax rate was 15.18% for the year ended December 31, 2016 and is estimated to be 14.30% for the year ended December 31, 2017.

(21) Earnings per share

	<u>Three months ended September 30, 2017</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 99,215</u>	<u>127,055</u>	<u>\$ 0.78</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 99,215	127,055	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	<u>-</u>	<u>1,140</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 99,215</u>	<u>128,195</u>	<u>\$ 0.77</u>

	<u>Three months ended September 30, 2016</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 130,194</u>	<u>127,055</u>	<u>\$ 1.02</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 130,194	127,055	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	<u>-</u>	<u>1,503</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 130,194</u>	<u>128,558</u>	<u>\$ 1.01</u>

Nine months ended September 30, 2017			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 209,880	127,055	\$ 1.65
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 209,880	127,055	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	1,561	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 209,880	128,616	\$ 1.63

Nine months ended September 30, 2016			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 219,284	127,055	\$ 1.73
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 219,284	127,055	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	2,026	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 219,284	129,081	\$ 1.70

(22) Operating leases

The Group leases in operational assets under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years, and all these lease agreements are renewable at the end of the lease period. Rental is increased every 3 to 5 years to reflect market rental rates. The Group recognized rental expenses of \$4,882, \$4,265, \$14,485 and \$13,278 for these leases in profit or loss for the three months ended September 30, 2017 and 2016, and nine months ended September 30, 2017 and 2016, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Not later than one year	\$ 12,061	\$ 19,506	\$ 11,449
Later than one year but not later than five years	6,237	14,699	16,754
Total	<u>\$ 18,298</u>	<u>\$ 34,205</u>	<u>\$ 28,203</u>

(23) Supplemental cash flow information

Investing activities with partial cash payments:

	<u>Nine months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Purchase of property, plant and equipment	\$ 7,831	\$ 104,682
Add: Opening balance of payable on equipment	29,448	9,025
Less: Ending balance of payable on equipment	( 22,832)	( 47,072)
Cash paid during the period	<u>\$ 14,447</u>	<u>\$ 66,635</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Group</u>
KROM ELECTRONICS CO., LTD	The Group's key management
Teco Image Systems Co., Ltd	Associates
Teco Image Systems (DongGuan) Co., Ltd	Associates

(2) Significant related party transactions and balances

A. Operating revenue

	<u>Three months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Sales of goods:		
— Associates	<u>\$ 1,173</u>	<u>\$ 4,036</u>

	<u>Nine months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Sales of goods:		
— Associates	<u>\$ 3,383</u>	<u>\$ 12,440</u>

Sales to aforementioned related parties are based on the price lists in force and term that would be available to third parties. The term is 30 days after monthly billing upon shipment of goods.

B. Purchases

	<u>Three months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Purchases of goods:		
— The Group's key management		
— KROM ELECTRONICS	<u>\$ 94,933</u>	<u>\$ 116,458</u>

	<u>Nine months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Purchases of goods:		
— The Group's key management		
— KROM ELECTRONICS	<u>\$ 256,166</u>	<u>\$ 272,831</u>

Purchases from related parties are based on the price lists in force and terms that would be available to third parties.

C. Receivables from related parties

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Accounts receivable:			
— Associates	<u>\$ 1,177</u>	<u>\$ 1,161</u>	<u>\$ 3,415</u>

The sales and price term to aforementioned related parties are approximately the same as the third parties which is 30 days after monthly billing upon shipment of goods.

D. Payables to related parties

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Accounts payable:			
— The Group's key management			
— KROM ELECTRONICS	<u>\$ 99,498</u>	<u>\$ 90,718</u>	<u>\$ 117,145</u>

The purchase and price term to aforementioned related parties are approximately the same as the third parties which is 60 days after monthly billing upon the purchase. The payables bear no interest.

(3) Key management compensation

For the three months ended September 30, 2017 and 2016, and nine months ended September 30, 2017 and 2016, the key management compensation (including salaries and other short-term employee benefits) paid to directors, supervisors, general manager and vice general manager was \$17,744, \$17,579, \$38,858 and \$35,840, respectively, including employees' compensation and directors' and supervisors' remuneration accrued in the profit or loss for the three months ended September 30, 2017 and 2016, and nine months ended September 30, 2017 and 2016.

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

Please refer to Note 6(22).

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

There is no significant change in this period. Please refer to Note 12 to the consolidated financial statements as of and for the year ended December 31, 2016 for the related information.

(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, accounts receivable, other receivables, other current financial assets, refundable deposits, accounts payable and other payables) 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

There is no significant change in this period. Please refer to Note 12 to the consolidated financial statements as of and for the year ended December 31, 2016 for the related information.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

A. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities

and net investments in foreign operations.

- B. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Group use cross currency swap and forward foreign exchange contracts, transacted with Group treasury. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.
- C. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: RMB and USD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

September 30, 2017						
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)	Sensitivity analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<b>(Foreign currency: functional currency)</b>						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD : NTD	\$ 44,815	30.38	\$ 1,361,480	1%	\$ 13,615	\$ -
RMB : NTD	66,961	4.58	306,681	1%	3,067	-
USD : RMB	32,101	6.64	975,228	1%	9,752	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD : NTD	\$ 32,765	30.38	\$ 995,401	1%	\$ 9,954	\$ -
USD : RMB	22,297	6.64	677,383	1%	6,774	-

December 31, 2016

	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)	Sensitivity analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<b>(Foreign currency: functional currency)</b>						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD : NTD	\$ 36,567	32.28	\$ 1,180,383	1%	\$ 11,804	\$ -
RMB : NTD	66,584	4.65	309,616	1%	3,096	-
USD : RMB	29,319	6.94	946,417	1%	9,464	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD : NTD	\$ 28,709	32.28	\$ 926,727	1%	\$ 9,267	\$ -
USD : RMB	22,986	6.94	741,988	1%	7,420	-

September 30, 2016

	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)	Sensitivity analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<b>(Foreign currency: functional currency)</b>						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD : NTD	\$ 38,261	31.36	\$ 1,199,865	1%	\$ 11,999	\$ -
RMB : NTD	65,980	4.70	310,106	1%	3,101	-
USD : RMB	2,278	6.68	71,438	1%	714	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD : NTD	\$ 1,565	31.36	\$ 49,078	1%	\$ 491	\$ -
USD : RMB	28,328	6.68	888,366	1%	8,884	-

D. Please refer to the following table for the details of unrealized exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Group.

<u>Three months ended September 30, 2017</u>			
<u>Exchange gain (loss)</u>			
Foreign currency amount			
(In thousands)	<u>Exchange rate</u>	<u>Book value</u>	
<b>(Foreign currency: functional currency)</b>			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	\$ -	30.38	\$ 203
RMB : NTD	-	4.58	6,205
USD : RMB	657	6.64	2,692
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	\$ -	30.38	(\$ 471)
USD : RMB	139	6.64	760

<u>Three months ended September 30, 2016</u>			
<u>Exchange gain (loss)</u>			
Foreign currency amount			
(In thousands)	<u>Exchange rate</u>	<u>Book value</u>	
<b>(Foreign currency: functional currency)</b>			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	\$ -	31.36	(\$ 17,465)
USD : RMB	( 2,725)	6.68	( 13,491)
RMB : NTD	-	4.70	( 8,197)
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	\$ -	31.36	\$ 14,172
USD : RMB	938	6.68	4,777

Nine months ended September 30, 2017				
Exchange gain (loss)				
Foreign currency amount				
(In thousands)				
		Exchange rate		Book value
<b>(Foreign currency: functional currency)</b>				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD : NTD	\$	-	30.38	\$ 4,750
RMB : NTD		-	4.58	11,482
USD : RMB	(	1,760)	6.64	( 8,045)
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD : NTD	\$	-	30.38	(\$ 1,382)
USD : RMB		1,099	6.64	5,025

Nine months ended September 30, 2016				
Exchange gain (loss)				
Foreign currency amount				
(In thousands)				
		Exchange rate		Book value
<b>(Foreign currency: functional currency)</b>				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD : NTD	\$	-	31.36	(\$ 20,241)
USD : RMB		1,128	6.68	5,295
RMB : NTD		-	4.70	( 16,719)
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD : NTD	\$	-	31.36	\$ 16,125
USD : RMB	(	1,107)	6.68	( 5,197)

#### Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. 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. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group has investments in beneficiary certificates and equity securities which 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 10% with all other variables held constant, post-tax profit for the nine months ended September 30, 2017 and 2016 would have increased/decreased by \$32,825 and \$49,073, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$39,834 and \$38,803, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

#### Interest rate risk

- i. The Group's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.
- ii. As of September 30, 2017 and 2016, the borrowing facilities have not been drawn by the Group.

#### (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 cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with good ratings are accepted.
- ii. For the nine months ended September 30, 2017 and 2016, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The credit quality of accounts receivable (included related parties) that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Group 1	\$ 8,657	\$ 4,365	\$ 3
Group 2	9,380	17,176	7,970
Group 3	<u>612,419</u>	<u>520,952</u>	<u>789,472</u>
	<u>\$ 630,456</u>	<u>\$ 542,493</u>	<u>\$ 797,445</u>

Group 1: New customers (less than 6 months from the initial transaction).

Group 2: Existing customers (more than 6 months from the initial transaction) with share capital less than \$500,000.

Group 3: Existing customers (more than 6 months from the initial transaction) with share

capital exceeding \$500,000.

- iv. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Up to 30 days	\$ 8,587	\$ 7,607	\$ 6,570
31 to 90 days	-	-	1
91 to 180 days	-	-	-
Over 180 days	-	-	-
	<u>\$ 8,587</u>	<u>\$ 7,607</u>	<u>\$ 6,571</u>

The above ageing analysis was based on past due date, the credit quality does not change significantly and the related accounts can still be recovered after assessment. There is no concern about impairment.

- v. As of September 30, 2017, December 31, 2016 and September 30, 2016, no impairment was recognized for the Group's accounts receivable.

(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. The table below analyzes the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities

<u>September 30, 2017</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>
Accounts payable (including related parties)	\$ 785,122	\$ -	\$ -
Other payables	307,784	-	-

Derivative financial liabilities

<u>September 30, 2017</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>
Cross currency swap	\$ 2,098	\$ -	\$ -

Non-derivative financial liabilities

<u>December 31, 2016</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>
Accounts payable (including related parties)	\$ 762,195	\$ -	\$ -
Other payables	328,707	-	-

<u>Derivative financial liabilities</u>			
<u>December 31, 2016</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>
Cross currency swap	\$ 7,425	\$ -	\$ -
 <u>Non-derivative financial liabilities</u>			
<u>September 30, 2016</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>
Accounts payable (including related parties)	\$ 882,987	\$ -	\$ -
Other payables	296,695	-	-

- iii. The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(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.
- 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 and beneficiary certificates 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 Groups investment in derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability.

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 September 30, 2017, December 31, 2016 and September 30, 2016 is as follows:

<u>September 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 328,245	\$ -	\$ -	\$ 328,245
Available-for-sale financial assets				
Equity securities	<u>398,342</u>	<u>-</u>	<u>-</u>	<u>398,342</u>
Total	<u>\$ 726,587</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 726,587</u>

Liabilities:				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Cross currency swap	<u>\$ -</u>	<u>\$ 2,098</u>	<u>\$ -</u>	<u>\$ 2,098</u>
Total	<u>\$ -</u>	<u>\$ 2,098</u>	<u>\$ -</u>	<u>\$ 2,098</u>

<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 510,522	\$ -	\$ -	\$ 510,522
Available-for-sale financial assets				
Equity securities	<u>394,459</u>	<u>-</u>	<u>-</u>	<u>394,459</u>
Total	<u>\$ 904,981</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 904,981</u>

Liabilities:				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Cross currency swap	<u>\$ -</u>	<u>\$ 7,425</u>	<u>\$ -</u>	<u>\$ 7,425</u>
Total	<u>\$ -</u>	<u>\$ 7,425</u>	<u>\$ -</u>	<u>\$ 7,425</u>

<u>September 30, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$ 490,726	\$ -	\$ -	\$ 490,726
Forward foreign exchange	-	3,259	-	3,259
Available-for-sale financial assets				
Equity securities	<u>388,032</u>	<u>-</u>	<u>-</u>	<u>388,032</u>
Total	<u>\$ 878,758</u>	<u>\$ 3,259</u>	<u>\$ -</u>	<u>\$ 882,017</u>

D. The methods and assumptions the Group used to measure fair value are as follows:

(a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed shares</u>	<u>Open-end fund</u>
Market quoted price	Closing price	Net assets value

(b) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts and cross currency swap are usually valued based on the current forward exchange rate.

E. For the nine months ended September 30, 2017 and 2016, there was no transfer between Level 1 and Level 2.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

According to the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, the significant transactions for the nine months ended September 30, 2017 are as follows:

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: None.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 1.

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 related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 2.

H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 3.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2)(10) and 12(3).

J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 5.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 6.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland China: Please refer to table 4.

14. SEGMENT INFORMATION

(1) General information

The Group operates business only in a single industry. The Chief Operating Decision-Maker, 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:

	Nine months ended September 30, 2017		
	Single operating segment	Reconciliation and elimination	Total
Reportable segments income			
Revenue from external customers	\$ 3,033,298	\$ -	\$ 3,033,298
Total	<u>\$ 3,033,298</u>	<u>\$ -</u>	<u>\$ 3,033,298</u>
Reportable segments profit	<u>\$ 270,991</u>	<u>\$ -</u>	<u>\$ 270,991</u>
Reportable segments income			
Segment income (loss), including:			
Interest income	\$ 14,623	\$ -	\$ 14,623
Depreciation and amortisation	\$ 123,515	\$ -	\$ 123,515
Share of profit (loss) of associates and joint ventures accounted for using equity method	\$ 19,744	\$ -	\$ 19,744
Income tax expense	<u>\$ 61,111</u>	<u>\$ -</u>	<u>\$ 61,111</u>

	Nine months ended September 30, 2016		
	Single operating segment	Reconciliation and elimination	Total
Reportable segments income			
Revenue from external customers	\$ 3,313,208	\$ -	\$ 3,313,208
Total	<u>\$ 3,313,208</u>	<u>\$ -</u>	<u>\$ 3,313,208</u>
Reportable segments profit	<u>\$ 303,847</u>	<u>\$ -</u>	<u>\$ 303,847</u>
Reportable segments income			
Segment income (loss), including:			
Interest income	\$ 16,712	\$ -	\$ 16,712
Depreciation and amortisation	<u>\$ 137,174</u>	<u>\$ -</u>	<u>\$ 137,174</u>
Share of profit (loss) of associates and joint ventures accounted for using equity method	\$ 15,837	\$ -	\$ 15,837
Income tax expense	<u>\$ 84,563</u>	<u>\$ -</u>	<u>\$ 84,563</u>

(3) Reconciliation for segment income (loss)

The Group has only one reportable operating segment. The profit and assets of the reportable segment are consistent with that in the consolidated financial statements. Related information is as follows:

	Nine months ended September 30,	
	2017	2016
Reportable segments income	<u>\$ 270,991</u>	<u>\$ 303,847</u>
Income before tax from continuing operations	<u>\$ 270,991</u>	<u>\$ 303,847</u>

## Creative Sensor Inc. and subsidiaries

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

Nine months ended September 30, 2017

Table 1

Expressed in thousands of NTD  
(Except as otherwise indicated)

Securities held by	Marketable securities categories (Note 1)	Marketable securities	Relationship with the securities issuer	General ledger account	As of September 30, 2017				Footnote
					Number of shares (in thousands)	Book value (Note 2)	Ownership (%)	Fair value	
The Company	Beneficiary certificate	Prudential Financial Money Market Fund	-	Financial assets at fair value through profit or loss - current	4,282	\$ 67,249	-	\$ 67,249	
The Company	Beneficiary certificate	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	4,295	65,243	-	65,243	
The Company	Beneficiary certificate	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,642	45,355	-	45,355	
The Company	Beneficiary certificate	Jih Sun Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,039	30,000	-	30,000	
The Company	Beneficiary certificate	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss - current	227	40,182	-	40,182	
The Company	Beneficiary certificate	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,422	30,137	-	30,137	
The Company	Beneficiary certificate	CTBC Hua Win Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,741	30,000	-	30,000	
The Company	Beneficiary certificate	Taishin Lucky Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,817		-		
						20,079		20,079	
						<u>\$ 328,245</u>		<u>\$ 328,245</u>	
						As of September 30, 2017			
Securities held by	Marketable securities categories (Note 1)	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value (Note 2)	Ownership (%)	Fair value	Footnote
The Company	Stock	TECO ELECTRIC & MACHINERY CO., LTD.	A company which accounts the Company using equity method	Available-for-sale financial assets - non-current	10,000	\$ 274,000	0.50%	\$ 274,000	
The Company	Stock	Koryo Electronics Co., Ltd.	-	Available-for-sale financial assets - non-current	2,871	68,330	5.54%	68,330	
The Company	Stock	MUTUALPAK	-	Available-for-sale financial assets - non-current	359	-	1.34%	-	
The Company	Stock	Taiwan Pelican Express Co., Ltd.	-	Available-for-sale financial assets - non-current	1,781		2.07%		
						56,012		56,012	
						<u>\$ 398,342</u>		<u>\$ 398,342</u>	

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: 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.

Creative Sensor Inc. and subsidiaries  
Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more  
Nine months ended September 30, 2017

Table 2

Expressed in thousands of NTD  
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction		Percentage of total purchases (sales)	Differences in transaction terms compared to third party transactions			Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount		Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
The Company	Wuxi Creative Sensor Technology Co., Ltd.	The Company's third-tier subsidiary	Purchases	\$ 468,490	18%	75~90 days after monthly billing	\$ -	Note	(\$ 143,550)	15%	-
The Company	Nanchang Creative Sensor Technology Co., Ltd.	The Company's third-tier subsidiary	Purchases	2,200,804	82%	75~90 days after monthly billing	-	Note	( 802,427)	85%	-

Note: The payment term is 45~90 days after monthly billing for third parties and is 75 days after semi-monthly billing for foreign parties.

Creative Sensor Inc. and subsidiaries  
 Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more  
 Nine months ended September 30, 2017

Table 3

Expressed in thousands of NTD  
 (Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at September 30, 2017	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
Wuxi Creative Sensor Technology Co., Ltd.	The Company	Parent company	\$ 143,550	3.89	\$ -	-	\$ 37,191	\$ -
Nanchang Creative Sensor Technology Co., Ltd.	The Company	Parent company	802,427	3.92	-	-	234,237	-

Creative Sensor Inc. and subsidiaries  
Significant inter-company transactions during the reporting periods  
Nine months ended September 30, 2017

Table 4

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	The Company	Wuxi Creative Sensor Technology Co., Ltd.	1	Accounts payable	\$ 143,550	75~90 days after monthly billing	3.13%
0	The Company	Wuxi Creative Sensor Technology Co., Ltd.	1	Purchases	468,490	75~90 days after monthly billing	15.44%
0	The Company	Nanchang Creative Sensor Technology Co., Ltd.	1	Accounts payable	802,427	75~90 days after monthly billing	17.51%
0	The Company	Nanchang Creative Sensor Technology Co., Ltd.	1	Purchases	2,200,804	75~90 days after monthly billing	72.55%

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

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting 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:

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

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.

Note 4: Individual transactions not reaching \$10,000 and their corresponding transactions will not be disclosed.

Creative Sensor Inc. and subsidiaries  
Information on investees  
Nine months ended September 30, 2017

Table 5

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at September 30, 2017			Net profit (loss) of the investee for the nine months ended September 30, 2017	Investment income(loss) recognised by the Company for the nine months ended September 30, 2017	Footnote
				Balance as at September 30, 2017	Balance as at December 31, 2016	Number of shares	Ownership (%)	Book value			
The Company	Creative Sensor Inc.	British Virgin Islands	Holding company	\$ 974,576	\$ 974,576	29,414,994	100	\$ 2,530,441	\$ 22,119	\$ 22,119	Subsidiary
The Company	Creative Sensor (USA) Co.	U.S.A.	Collection of marketing information and maintaining customer relationship	3,169	3,169	100,000	100	3,003	56	56	Subsidiary
The Company	K9 Inc.	South Korea	Packaging for image sensor module	32,314	32,314	845,000	33.82	-	-	-	Investee accounted for using equity method
The Company	Teco Image Systems Co., Ltd.	Taiwan	Design, manufacturing and trading of multi-function printer, fax machine and scanner	271,728	271,728	11,996,000	10.66	319,067	185,276	19,744	Investee accounted for using equity method
Creative Sensor Inc.	Creative Sensor Co., Ltd.	Hong Kong	Holding company	977,388	977,388	29,501,368	100	1,896,629	39,645	-	Subsidiary

Note: Creative Sensor Inc. has not directly recognised the income (loss) on investment in Creative Sensor Co., Ltd.

Creative Sensor Inc. and subsidiaries  
Information on investments in Mainland China  
Nine months ended September 30, 2017

Table 6

Expressed in thousands of NTD  
(Except as otherwise indicated)

A. Information on reinvestment in Mainland Area

Investee in Mainland China	Main business activities	Paid-in capital (Note 2)	Investment method (Note 1)	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the nine months ended September 30, 2017			Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2017 (Note 3)	Net income of investee as of September 30, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the nine months ended September 30, 2017 (Note 4)	Book value of investments in Mainland China as of September 30, 2017	Accumulated amount of investment income remitted back to Taiwan as of September 30, 2017	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Remitted to Mainland China	Remitted back to Taiwan							
Wuxi Creative Sensor Technology Co., Ltd.	Image Sensor	\$ 567,145	Note 1	\$ 453,043	\$ -	\$ -	\$ 453,043	\$ 16,534	100	\$ 16,534	\$ 722,599	\$ 149,550	None
Nanchang Creative Sensor Technology Co., Ltd.	Image Sensor	994,128	Note 1	440,438	-	-	440,438	41,748	100	41,748	1,053,749	-	"

Note 1: Through investing in an existing company in the third area (Creative Sensor Inc.), which then invested in the investee in Mainland China.

Note 2: The paid-in capital of two investee companies in the original currency amounted to RMB\$123,920 thousand and RMB\$217,215 thousand, respectively.

Note 3: Wuxi Creative Sensor Technology Co., Ltd.'s accumulated amount of remittance from Taiwan to Mainland China as of January 1 and September 30, 2017 in the original currency was both US\$14,915 thousand. Nanchang Creative Sensor Technology Co., Ltd.'s accumulated amount of remittance from Taiwan to Mainland China as of January 1 and September 30, 2017 in the original currency was both US\$14,500 thousand.

Note 4: Investment income (loss) recognised for the nine months ended September 30, 2017 was evaluated and disclosed based on the financial statements that are reviewed and attested by R.O.C. parent company's CPA.

B. Ceiling on reinvestments in Mainland Area

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2017	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
The Company	\$ 893,481	\$ 896,214	\$ 2,040,856

Note 1: Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2017 in original currency amounted to US\$29,415 thousand.

Note 2: Investment amount in the original currency approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) amounted to US\$29,505 thousand.

Furthermore, Wuxi Creative Sensor Technology Co., Ltd. distributed dividends to Creative Sensor Co., Ltd., then invested US\$15,300 thousand in Nanchang Creative Sensor Technology Co., Ltd.