

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**ARCADYAN TECHNOLOGY CORPORATION
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of ARCADYAN TECHNOLOGY CORPORATION as of and for the year ended December 31, 2017 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, ARCADYAN TECHNOLOGY CORPORATION and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: ARCADYAN TECHNOLOGY CORPORATION
Chairman: Jui-Tsung Chen (Ray Chen)
Date: March 14, 2018



安侯建業聯合會計師事務所

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Independent Auditors' Report

To the Board of Directors of Arcadyan Technology Corporation:

Opinion

We have audited the consolidated financial statements of Arcadyan Technology Corporation and its subsidiaries (“the Group”), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, the consolidated statement of comprehensive income, changes in equity and cash flows for the year ended December 31, 2017 and 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

1. Inventory valuation

Please refer to Note (4)(h) and Note (5) for the accounting policy of inventory valuation, as well as the estimation and assumption uncertainly of the valuation of inventory, respectively. Information regarding the inventory is shown in Note (6)(f) of the consolidated financial statements.

Description of key audit matters:

Inventory is measured at the lower of cost and net realizable value. The Group's primarily products are broadband internet access products, wireless networking products, digital home and mobile office multimedia gateway products, mobile broadband products and wireless audio products. The significant change in supply and competitive market of demand may cause fluctuation in product price. Consequently, the book value of inventory may exceed its net realizable value. Therefore, the valuation of inventory is one of the key audit matters.

Audit procedure:

Our principal audit procedure included : assessing the rationality of the Group's accounting policies, such as the policy of provision for inventory loss due to price decline, obsolete, and slow moving inventories; inspecting the Group's inventory aging reports' accuracy and analyzing the changes of inventory aging which are in accordance with the Group's accounting policies; sampling and inspecting the Group's sales price, as well as verifying the calculation of the lower of cost or net realizable value; and assessing the disclosure of provision for inventory valuation and obsolescence was appropriate.

2. Provisions

Please refer to Note (4)(n) and Note (5) for the accounting policy of provisions, as well as the estimation and assumption uncertainly of provisions, respectively. Information regarding the provisions is shown in Note (6)(k) of the consolidated financial statements.

Description of key audit matters:

Assessment of provisions is subject to significant judgment and estimation from management. Accounting estimate and assumption are included in the estimate of provision expenses as a percentage of sales.

Audit procedure:

Our principal audit procedure included : understanding the method of estimation of provision, the sources of the data; confirming the policy of Group whether it is in accordance with the accounting principles; confirming whether the accounting estimates were conducted and the disclosure of provision was appropriate; performing retrospective testing for the amount of provision, testing the method of estimation, and recalculating the rationality of amount of provision.

Other Matter

Arcadyan Technology Corporation has prepared its parent-company-only financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Kuan-Ying Kuo and Hsin-Fu Yen.

KPMG

Taipei, Taiwan (Republic of China)
March 14, 2018

Notes to Readers

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2017		December 31, 2016		December 31, 2017		December 31, 2016		
	Amount	%	Amount	%	Amount	%	Amount	%	
Assets									
Current assets:									
1100 Cash and cash equivalents (note (6)(e))	\$ 3,811,289	24	2,530,846	17	2100 Short-term borrowings (note (6)(j))	\$ 717,073	5	11,865	-
1110 Current financial assets at fair value through profit or loss (note (6)(b))	3,192	-	61,312	-	2120 Current financial liabilities at fair value through profit or loss (note (6)(b))	20,187	-	2,108	-
1170 Notes and accounts receivable, net (note (6)(c))	5,235,397	34	5,578,518	37	2170 Notes and accounts payable (including related parties) (note (7))	3,920,643	25	4,121,194	27
1200 Other receivables (note (6)(c))	95,747	1	108,953	1	2230 Current tax liabilities	133,727	1	315,860	2
1310 Inventories, net (note (6)(f))	3,743,030	24	3,793,392	25	2250 Current provisions (note (6)(k))	230,535	2	234,820	2
1410 Prepayments	197,570	1	233,622	1	2200 Other payables (note (7))	827,740	5	1,039,654	7
1470 Other current assets (note (8))	34,907	-	43,553	-	2300 Other current liabilities	645,590	4	261,790	2
	<u>13,121,132</u>	<u>84</u>	<u>12,350,196</u>	<u>81</u>		<u>6,495,495</u>	<u>42</u>	<u>5,987,291</u>	<u>40</u>
Non-current assets:									
1550 Investments accounted for using equity method (note (6)(g))	361,047	2	619,130	4	2640 Non-current net defined benefit liabilities (note (6)(m))	93,679	1	90,128	-
1543 Non-current financial assets at cost (note (6)(d))	48,709	-	66,547	-	2570 Deferred tax liabilities (note (6)(n))	66,462	-	42,515	-
1600 Property, plant and equipment (note (6)(h) and (8))	1,779,566	12	1,916,931	13	2670 Other non-current liabilities	1,805	-	2,040	-
1780 Intangible assets (note (6)(i))	70,862	1	91,776	1		<u>161,946</u>	<u>1</u>	<u>134,683</u>	<u>-</u>
1840 Deferred tax assets (note (6)(n))	148,588	1	111,527	1	Total liabilities	<u>6,657,441</u>	<u>43</u>	<u>6,121,974</u>	<u>40</u>
1900 Other non-current assets (note (8))	51,944	-	61,030	-	Equity attributable to owners of parent (note (6)(o)):				
	<u>2,460,716</u>	<u>16</u>	<u>2,866,941</u>	<u>19</u>	3110 Ordinary shares	1,891,190	12	1,891,190	12
					3200 Capital surplus	2,656,323	17	2,655,927	18
					3300 Retained earnings	4,035,172	26	4,169,403	27
					3410 Exchange differences on translation of foreign financial statements	(79,288)	(1)	(15,242)	-
						<u>8,503,397</u>	<u>54</u>	<u>8,701,278</u>	<u>57</u>
					Non-controlling interests	421,010	3	393,885	3
					Total equity	<u>8,924,407</u>	<u>57</u>	<u>9,095,163</u>	<u>60</u>
					Total liabilities and equity	<u>\$ 15,581,848</u>	<u>100</u>	<u>\$ 15,217,137</u>	<u>100</u>

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars, except net income per share amounts)

	2017		2016	
	Amount	%	Amount	%
4000 Operating Revenues, net (note (6)(c)):				
4100 Sales revenue, net	\$ 20,011,676	100	23,808,262	100
4800 Other operating revenue, net	<u>98,533</u>	-	<u>102,217</u>	-
	20,110,209	100	23,910,479	100
5000 Operating costs (note (6)(f), and (12))	<u>17,308,220</u>	<u>86</u>	<u>20,044,635</u>	<u>84</u>
Gross profit	<u>2,801,989</u>	<u>14</u>	<u>3,865,844</u>	<u>16</u>
Operating expenses (notes (7) and (12)):				
6100 Selling expenses	498,198	2	693,708	3
6200 Administrative expenses	352,325	2	370,714	2
6300 Research and development expenses	<u>1,032,930</u>	<u>5</u>	<u>1,007,239</u>	<u>4</u>
Total operating expenses	<u>1,883,453</u>	<u>9</u>	<u>2,071,661</u>	<u>9</u>
Net operating income	<u>918,536</u>	<u>5</u>	<u>1,794,183</u>	<u>7</u>
Non-operating income and expenses:				
7100 Interest income	19,920	-	7,256	-
7101 Other income	11,815	-	31,527	-
7225 Gains on disposals of investments (note(6)(g))	100,959	1	-	-
7230 Foreign exchange gains (losses), net	764	-	(441,024)	(2)
7235 Gains on financial assets (liabilities) at fair value through profit or loss (note (6)(b))	(297,081)	(2)	316,756	1
7370 Share of profit of associates and joint ventures accounted for using equity method (note (6)(g))	64,556	-	59,996	-
7210 Gains on disposals of property, plant and equipment	398	-	3,008	-
7510 Interest expense	(13,132)	-	(8,897)	-
7590 Miscellaneous disbursements	(1,569)	-	-	-
7671 Impairment loss on financial assets	<u>(17,838)</u>	-	<u>(64,860)</u>	-
	<u>(131,208)</u>	<u>(1)</u>	<u>(96,238)</u>	<u>(1)</u>
7900 Profit before tax	787,328	4	1,697,945	6
7950 Less: Tax expense (note (6)(n))	<u>137,018</u>	<u>1</u>	<u>324,943</u>	<u>1</u>
Profit	<u>650,310</u>	<u>3</u>	<u>1,373,002</u>	<u>5</u>
8300 Other comprehensive income:				
8310 Items that will not be reclassified subsequently to profit or loss				
8311 Remeasurements of the defined benefit plan	(4,711)	-	(15,718)	-
8349 Less: income tax relating to components that will not be reclassified subsequently to profit or loss	<u>(801)</u>	-	<u>(2,672)</u>	-
	<u>(3,910)</u>	-	<u>(13,046)</u>	-
8360 Items that may be reclassified subsequently to profit or loss				
8361 Exchange differences on translating foreign operations	(76,342)	-	(52,721)	-
8363 Gains (losses) on the hedging instrument relating to the effective portion of cash flow hedges (note (6)(c))	-	-	(21,360)	-
8370 Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified subsequently to profit or loss	20	-	(12)	-
8399 Less: income tax relating to components that will be reclassified subsequently to profit or loss	<u>(12,330)</u>	-	<u>(8,807)</u>	-
	<u>(63,992)</u>	-	<u>(65,286)</u>	-
8300 Other comprehensive income, net	<u>(67,902)</u>	-	<u>(78,332)</u>	-
Total comprehensive income	<u>\$ 582,408</u>	<u>3</u>	<u>\$ 1,294,670</u>	<u>5</u>
Profit, attributable to:				
Owners of parent	\$ 607,243	3	1,357,473	5
Non-controlling interests	<u>43,067</u>	-	<u>15,529</u>	-
	<u>\$ 650,310</u>	<u>3</u>	<u>\$ 1,373,002</u>	<u>5</u>
Comprehensive income attributable to:				
Owners of parent	\$ 539,335	3	1,281,371	5
Non-controlling interests	<u>43,073</u>	-	<u>13,299</u>	-
	<u>\$ 582,408</u>	<u>3</u>	<u>\$ 1,294,670</u>	<u>5</u>
Earnings per share (note (6)(q))				
9750 Basic earnings per share	\$	<u>3.21</u>	\$	<u>7.19</u>
9850 Diluted earnings per share	\$	<u>3.18</u>	\$	<u>7.06</u>

See accompanying notes to financial statements.

(English Translation of Consolidated and Report Originally Issued in Chinese)
ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Retained earnings					Total other equity interest							
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchanges on differences on translation of foreign financial statements	Uncearned employee benefit and others	Gains (losses) on effective portion of cash flow hedges	Total other equity interest	Total equity to owners of parent		
Balance at January 1, 2016	1,891,438	2,656,430	509,475	11,441	2,607,114	3,128,030	26,454	(4,578)	21,360	43,236	7,719,134	387,859	8,106,993
Profit for the year ended December 31, 2015	-	-	-	-	1,357,473	1,357,473	-	-	(21,360)	(63,056)	1,357,473	15,529	1,373,002
Other comprehensive income	-	-	-	-	(13,046)	(13,046)	(41,696)	-	-	(63,056)	(76,102)	(2,230)	(78,332)
Comprehensive income	-	-	-	-	1,344,427	1,344,427	(41,696)	-	-	(63,056)	1,281,371	13,299	1,294,670
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	57,446	(11,441)	(57,446)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	(11,441)	11,441	-	-	-	-	-	(302,630)	-	(302,630)
Cash dividends of ordinary share	-	-	-	-	(302,630)	(302,630)	-	-	-	-	279	-	279
Changes in equity of associates and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in equity of associates and joint ventures accounted for using equity method	-	-	(81)	-	(424)	(424)	-	-	-	-	(505)	-	(505)
Difference between consideration and carrying amount of subsidiaries acquired or disposed	(248)	(701)	-	-	-	-	-	4,578	-	4,578	3,629	(7,273)	3,629
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	(15,242)	-	-	(15,242)	8,701,278	393,885	9,095,163
Balance at December 31, 2016	1,891,190	2,655,927	566,921	-	3,603,482	4,169,403	-	-	-	-	8,701,278	393,885	9,095,163
Profit for the year ended December 31, 2016	-	-	-	-	607,243	607,243	-	-	-	-	607,243	43,067	650,310
Other comprehensive income	-	-	-	-	(3,910)	(3,910)	(63,998)	-	-	(63,998)	(67,908)	6	(67,902)
Comprehensive income	-	-	-	-	603,333	603,333	(63,998)	-	-	(63,998)	539,335	43,073	582,408
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	195,747	15,242	(135,747)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	(15,242)	(15,242)	-	-	-	-	-	(737,564)	(6,493)	(744,057)
Cash dividends of ordinary share	-	-	-	-	(737,564)	(737,564)	-	-	-	-	198	-	198
Changes in equity of associates and joint ventures	-	198	-	-	-	-	-	-	-	-	-	-	-
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	-	-	-	-	-	-	-	(48)	-	(48)
Disposal of subsidiaries or investments accounted for using equity method	-	(49)	-	-	-	-	(48)	-	-	(48)	(97)	-	(97)
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	247	-	-	-	-	-	-	-	-	247	-	247
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(9,455)	(9,455)
Balance at December 31, 2017	1,891,190	2,656,323	702,668	15,242	3,317,262	4,035,172	(79,288)	-	-	(79,288)	8,503,397	421,010	8,924,407

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from (used in) operating activities:		
Profit before tax	\$ 787,328	1,697,945
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	214,766	208,176
Amortization expense	36,937	33,346
Provision (reversal of provision) for bad debt expense	(9,537)	9,527
Interest expense	13,132	8,897
Interest income	(19,920)	(7,256)
Share of loss (profit) of associates accounted for using equity method	(64,556)	(59,996)
Acquisition of cash dividends accounted for using equity method	8,942	31,299
Gain on disposal of property, plant and equipment	(398)	(3,008)
Loss (gain) on disposal of investments accounted for using equity method	(100,959)	-
Impairment loss on financial assets	17,838	64,860
Impairment loss on non-financial assets	1,567	-
Compensation cost of restricted employee share	1,289	4,918
Total adjustments to reconcile profit (loss)	99,101	290,763
Changes in operating assets and liabilities:		
Changes in operating assets:		
Change in financial assets at fair value through profit or loss	76,199	(73,210)
Decrease (increase) in notes and accounts receivable	352,658	74,823
Decrease (increase) in inventories	50,362	(555,002)
Decrease (increase) in other receivable	14,301	11,448
Decrease (increase) in other current assets	44,698	(15,725)
	538,218	(557,666)
Changes in operating liabilities:		
Increase (decrease) in notes and accounts payable	(200,551)	480,009
Increase (decrease) in other payable and other current liabilities	165,734	363,280
Other	(1,160)	(1,204)
	(35,977)	842,085
Total changes in operating assets and liabilities	502,241	284,419
Total adjustments	601,342	575,182
Cash inflow generated from operations	1,388,670	2,273,127
Interest received	18,825	7,223
Interest paid	(12,523)	(9,963)
Income taxes paid	(319,134)	(166,533)
Net cash flows from (used in) operating activities	1,075,838	2,103,854
Cash flows from (used in) investing activities:		
Increase in pledged assets	9,086	(15,819)
Acquisition of financial assets at cost	-	(49,709)
Proceeds from disposal of investments accounted for using equity method	413,257	-
Acquisition of intangible assets	(16,060)	(26,565)
Acquisition of investments accounted for using equity method	-	(223,606)
Acquisition of property, plant and equipment	(103,259)	(229,834)
Proceeds from disposal of property, plant and equipment	1,005	5,430
Net cash flows from (used in) investing activities	304,029	(540,103)
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term loans	705,208	11,865
Cash dividends paid	(737,564)	(302,630)
Changes in non-controlling interests	(6,493)	-
Acquisition of shareholding from subsidiaries	(10,496)	(8,643)
Increase (decrease) in other non-current liabilities	(235)	(252)
Net cash flows from (used in) financing activities	(49,580)	(299,660)
Effect of exchange rate changes on cash and cash equivalents	(49,844)	(45,513)
Net increase (decrease) in cash and cash equivalents	1,280,443	1,218,578
Cash and cash equivalents at beginning of period	2,530,846	1,312,268
Cash and cash equivalents at end of period	\$ 3,811,289	2,530,846

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

Arcadyan Technology Corporation (the "Company") was incorporated in May 9, 2003 and merged with BroadNet Technology, Inc. on May 1, 2006.

The consolidated financial statements of the Company as of and for the year ended December 31, 2016 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group's parent company is Compal Electronics Inc.. The Company is primarily engaged in the research, development, manufacture and sale of broadband internet access products, wireless networking products, digital home and mobile office multimedia gateway products, mobile broadband products and wireless audio products. Please refer to note (4) (c) (ii) for related information of the Group primarily business activities.

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

These consolidated financial statements were authorized for issuance by the board of directors on March 14, 2018.

(3) New standards, amendments and interpretations adopted:

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

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

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IAS 39 "Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

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

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliably. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. At December 31, 2017, the Group had equity investments classified as financial assets measured at cost of 48,709 thousand that are held for long-term strategic purposes. At initial application of IFRS 9, the Group has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The Group estimated the application of IFRS 9's classification requirements on January 1, 2018 will not have a material impact on reserves, retained earnings, and non-controlling interests.

2) Impairment-Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group estimated the application of IFRS 9's impairment requirements on January 1, 2018 will not cause a material impact.

3) Hedge accounting

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group has chosen to apply the requirements of IAS 39.

4) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

5) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

1) Sales of goods

For the sale of the Group's products, revenue is currently recognized when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The group does not believe that the amendments will cause material impact since it estimates that the point in time at which the related risks and rewards of ownership transfer is similar with the point in time at which control of the goods transfer.

(iii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

(iv) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Loss"

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The Group estimated the application of the amendments will not cause major financial impact. The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019

Those which may be relevant to The Group are set out below:

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
January 13, 2016	IFRS 16 "Leases"	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
June 7, 2017	IFRIC 23 "Uncertainty over Income Tax Treatments"	<ul style="list-style-type: none"> • In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations. • If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.
October 12, 2017	Amendments to IAS 28 "Long-term interests in associates and joint ventures"	The amendment to IAS 28, which addresses equity-accounted loss absorption by long-term interests, will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). It also involves the dual application of IAS 28 and IFRS 9 Financial Instruments.

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

(4) Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for those specifically mentioned, the following accounting policies were applied consistently throughout the presented periods in the consolidated financial statements.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and IFRSs, IASs, IFRIC interpretations and SIC Interpretations endorsed by the FSC ("IFRSs endorsed by the FSC").

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on the historical cost basis:

- 1) Financial instruments (including derivative financial instruments) measured at fair value through profit or loss are measured at fair value;
- 2) Available-for-sale financial assets are measured at fair value;
- 3) The defined benefit liability (or assets) is recognized as the present value of the defined benefit obligation less the fair value of plan assets and the effect of the asset ceiling (please refer to note 4(p)).

(ii) Functional and presentation currencies

The functional currency of each Group entities is determined based on the primary economic environment in which the entities operate. The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency. All financial information presented in New Taiwan Dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Total comprehensive income (loss) applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

If an entity of the group uses accounting policies other than those adopted in the consolidated financial statement, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the parent.

(ii) List of subsidiaries in the consolidated financial statements

Investor	Name of Subsidiary	Nature of operation	Percentage ownership		Description
			31, 2017	31, 2016	
The Company	Arcadyan Technology N.A. Corp. ("Arcadyan USA")	Sale of wireless networking products	100 %	100 %	
"	Arcadyan Germany Technology GmbH ("Arcadyan Germany")	Sale and technical support of wireless networking products	100 %	100 %	
"	Arcadyan Technology Corporation Korea ("Arcadyan Korea")	Sale of wireless networking products	100 %	100 %	
The Company	Arcadyan Holding (BVI) Corp. ("Arcadyan Holding")	Investment	100 %	100 %	
The Company and ZHI-PAL	Arcadyan do Brasil Ltda (Arcadyan Brasil)	Sale of wireless networking products	100 %	100 %	
The Company	ZHI-PAL Technology Inc. ("ZHI-PAL")	Investment	100 %	100 %	
"	Tatung Technology Inc. ("TTI")	Research and sale of digital home products	61 %	60 %	
"	AcBel Telecom Inc. ("AcBel Telecom")	Investment	51 %	51 %	
"	Arcadyan Technology (Arcadyan UK)	Technical support of wireless networking products	100 %	100 %	Note 1
"	Arcadyan Technology Australia Pty Ltd (Arcadyan AU)	Sale of wireless networking products	100 %	- %	Note 2
Arcadyan Holding	Sinoprime Global Inc. ("Sinoprime")	Sale of wireless networking products	100 %	100 %	
Arcadyan Holding	Arcadyan Technology (Shanghai) Corp. ("SVA")	Research and sale of wireless networking products	100 %	100 %	
"	Arch Holding (BVI) Corp. ("Arch Holding")	Investment	100 %	100 %	

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Investor</u>	<u>Name of Subsidiary</u>	<u>Nature of operation</u>	<u>Percentage ownership</u>		<u>Description</u>
			<u>December 31, 2017</u>	<u>December 31, 2016</u>	
Arch Holding	Compal Networking (Kunshan) Co., Ltd. ("CNC")	Manufacturing of wireless networking products	100 %	100 %	
TTI	Quest International Group Co., Ltd. ("Quest")	Investment	100 %	100 %	
TTI	Tatung Technology of Japan Co., Ltd. ("TTJC")	"	100 %	- %	Note 3
Quest	Exquisite Electronic Co., Ltd. ("Exquisite")	"	100 %	100 %	
Exquisite	Tatung Home Appliances (Wujiang) Co., Ltd. ("THAC")	Manufacturing of household electronics products	100 %	100 %	
AcBel Telecom	Leading Images Ltd. ("Leading Images")	Investment	100 %	100 %	
"	Great Arch Group Ltd. ("Great Arch")	Sale of wireless networking products	100 %	100 %	
Leading Images	Astoria Networks GmbH ("Astoria GmbH")	Sale of wireless networking products	100 %	100 %	

Note 1: The subsidiaries were incorporated and acquired on December 2, 2016.

Note 2: The subsidiaries were incorporated and acquired on March 28, 2017.

Note 3: The subsidiaries were incorporated and acquired on November 22, 2017.

(d) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rates at the dates of the transactions. Monetary items denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and the payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the following differences which are recognized in other comprehensive income arising on the retranslation:

- available-for-sale financial assets;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent the hedge is effective

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Group's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(e) Classification of current and non-current assets and liabilities

An entity shall classify an asset as current when:

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

An entity shall classify a liability as current when:

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

(f) Cash and cash equivalents

Cash comprise cash on hand and demand deposits. Cash equivalents are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

The time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are reclassified as cash equivalents.

Bank overdrafts are part of cash management from the Group and should be repaid immediately. Therefore, the Group recognized them as cash and cash equivalents in its statements of cash flow.

(g) Financial instruments

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

(i) Financial assets

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. This type of financial asset is measured at fair value at the time of initial recognition, and attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Investments in equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured, are measured at their cost less impairment loss, and are included in financial assets at cost.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in non-operating income and expenses.

3) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprised trade receivables, other receivables, and refundable deposits. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Interest income is recognized in profit or loss, and it is included in non-operating income and expenses.

4) Impairment of financial assets

A financial asset is impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

The objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before the impairment was recognized at the reversal date.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

Impairment losses and recoveries are recognized in profit or loss. Recovery and loss on doubtful debts of account receivables is included in operating expense, others are included in non-operating income and expense.

5) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in non-operating income or expenses.

The Group separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss, and is included in non-operating income or expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less, the direct cost of issuing.

Interest related to the financial liability is recognized in profit or loss, and is included in non-operating income or expenses. On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

2) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if acquired principally for the purpose of selling in the short term. This type of financial liability is measured at fair value at the time of initial recognition, and attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, which take into account any interest expense, are recognized in profit or loss, and are included in non-operating income or expenses.

3) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as fair value through profit or loss, which comprise loans and borrowings, and trade and other payable, are measured at fair value, plus, any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method other than significant interest on short-term loans and payables. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in non-operating income or expenses.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements**

4) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or expires. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income or expenses.

5) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(iii) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, and are included in non-operating income and expenses.

When a derivative is designated as a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

The Group designates its hedging instruments (for a hedge of a foreign currency risk) as fair value hedge, cash flow hedge, or hedge of a net investment in a foreign operation. Foreign exchange risk of firm commitments are treated as a fair value hedge. On initial designation of a derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, and whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedged item attributable to the hedged risk.

Changes in the fair value of a hedging instrument designated and qualified as a fair value hedge are recognized in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average-cost principle and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Net realizable value is the estimated selling price in the ordinary course of business, less, the estimated costs of completion and selling expenses.

(i) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition, less, any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that significant influence ceases. When the associates incur changes in equity arising from non-profit-or-loss items and other comprehensive income, the Group recognizes the changes in equity proportionately to shareholding percentage as capital surplus.

Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other gains and losses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a systematic basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- 1) Buildings: 50 years
- 2) Machinery and equipment: 3~10 years
- 3) Research equipment: 3~6 years
- 4) Modeling equipment: 2~3 years
- 5) Other equipment: 1~10 years

The main construction of property, plant and equipment are factory buildings and firefighting facilities. All facilities are depreciated by using the useful life depreciation method.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change(s) is accounted for as a change in an accounting estimate.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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(k) Leases

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Contingent rent is recognized as expense in the periods in which it is incurred.

(l) Intangible assets

(i) Goodwill

1) Initial recognition

Goodwill arising from acquisition of subsidiaries is included in intangible assets.

2) Subsequent measurement

Goodwill is measured at cost, less, any accumulated impairment losses.

Goodwill related to an associate or a joint venture is included in the carrying amount of the investment, and not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate or joint venture.

(ii) Research & Development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

- 1) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- 2) Its intention to complete the intangible asset and use or sell it.
- 3) Its ability to use or sell the intangible asset.
- 4) How the intangible asset will generate probable future economic benefits.
- 5) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- 6) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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Capitalized development expenditure is measured at cost, less, accumulated amortization and any accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost, less, accumulated amortization and any accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(v) Amortization

The amortizable amount is the cost of an asset or other amount substituted for cost, less, its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with all indefinite useful life, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- 1) Copyright: 10 years
- 2) Authorization fee: amortized over the contract period by using the straight-line method.
- 3) Computer software: 1~10 years

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

(m) Impairment – non-derivative financial assets

The Group assesses non-derivative financial assets (other than inventories, deferred tax assets, assets arising from employee benefits and non-current assets classified as held for sale) for impairment for and estimates the recoverable amounts for any impaired assets at the end of each reporting period. If it is not possible to determine the recoverable amount (fair value, less, cost to sell and value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less, costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount, as a reversal of a previously recognized impairment loss.

The Group assesses goodwill and intangible assets, which have indefinite useful lives and are not available for use, on an annual basis and recognizes an impairment loss on excess of carrying value over the recoverable amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units or group of units. If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

(n) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Under the first-time adoption of IFRIC 21 "Levies", the Group recognized liabilities when the activity that triggers payment of the levy in accordance with the relevant legislation occurs.

(o) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by the employees is recognized in profit or loss. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings or other equity. If the amounts recognized in other comprehensive income are transferred to other equity, they shall not be reclassified to profit or loss or recognized in retained earnings in a subsequent period. Net interest expense and other expenses related to the defined benefit plans are recognized in retained earnings.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed when related service are provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(q) Share-based payment

The grant-date fair value of share-based payment awards granted to employee is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards when grant-date is the date subscription price and shares are determined. The amount recognized as an expense is adjusted to reflect the number of awards whose the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of award that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities over the period that the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and settlement date. Any changes in the fair value of the liability are recognized as personnel expenses in profit or loss.

(r) Income Taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations, or those recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate; they also include tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the following exceptions:

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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Deferred tax assets and liabilities shall be measured at the tax rates that are expected to be applied to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - 1) levied by the same taxing authority; or
 - 2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and they shall be adjusted based on the probability that the future taxable profit that will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

The 10% surtax on unappropriated earnings is recoded as current tax expense in the following year after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

(s) **Business combination**

Goodwill is measured as an aggregation of the consideration transferred (which generally is measured at fair value at the acquisition date) and as an amount of any non-controlling interest in the acquiree, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed (generally at fair value). If the residual balance is negative, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase thereafter.

All the transaction costs incurred for business combination are recognized immediately as the Group's expenses when incurred, except for the issuance of debt or equity instruments.

If the business combination is achieved in stages, the Group shall measure any non-controlling equity interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

In a business combination achieved in stages, the Group shall re-measure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the Group may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the Group had disposed directly of the previously held equity interest. If the disposal of the equity interest required a reclassification to profit or loss, such an amount shall be reclassified to profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group shall retrospectively adjust the provisional amounts recognized at the acquisition date, or recognize additional assets or liabilities to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date.

The Group should recognized all the business combination cost as current expense except for issuance bond or equity instruments.

(t) Earnings per share

The Group discloses the basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise employee stock options, restricted employee shares and employee compensation and remuneration not yet approved by the board of directors.

(u) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

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

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

There are no critical judgments in applying the accounting policies that have significant effects on the amounts recognized in the consolidated financial statements.

Information about assumptions and estimation uncertainties made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

(a) Inventory valuation

As inventories are supposed to be measured based on the lower of cost or net realizable value, which is based on the estimated sales price; therefore, the value of inventories may vary due to the nature of the industry. Please refer to note (6)(f) of the consolidated financial statement for inventory valuation.

(b) Recognition and measurement of provisions

Provision for warranty is estimated when product revenue is recognized. The estimate has been made based on the estimate of provision expenses as a percentage of sales. The Group reviews regularly the basis of the estimate, and if necessary, amends it as appropriate. There could be a significant impact on the provision for warranty for any changes in the basis of the estimate. Please refer to note 6(k) of the consolidated financial statement for recognition and measurement of provisions.

(6) Explanation of significant accounts:

(a) Cash and cash Equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand	\$ 2,276	2,769
Checking accounts and demand deposits	2,763,608	1,661,374
Time deposits	<u>1,045,405</u>	<u>866,703</u>
	<u>\$ 3,811,289</u>	<u>2,530,846</u>

Please refer to note 6(s) for the interest rate risk and the fair value sensitivity analysis of the financial assets and liabilities of the Group.

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

(i) Details are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Financial assets at fair value through profit or loss:		
Financial assets held for trading:		
Derivative instruments not used for hedging	<u>3,192</u>	<u>61,312</u>

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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	December 31, 2017	December 31, 2016
Financial liabilities at fair value through profit or loss:		
Financial liabilities held for trading:		
Derivative instruments not used for hedging	\$ <u>20,187</u>	<u>2,108</u>

Please refer to note 6(s) for the exposure to credit risk of the financial instruments.

- (ii) The Group uses derivative financial instruments to hedge foreign exchange risk the Group is exposed to arising from its operating activities. The Group held the following derivative financial instruments not designated as hedging instruments presented as held-for-trading financial assets as of December 31, 2017 and 2016:

December 31, 2017			
	Contract amount (in thousands)	Currency	Maturity date
Derivative financial assets:			
Foreign exchange contracts:			
Forward exchange purchased	USD 2,000	USD to MXN	January 30, 2018
Derivative financial liabilities:			
Foreign exchange contracts:			
Forward exchange sold	EUR 40,000	EUR to USD	January 12, 2018~ April 13, 2018
December 31, 2016			
	Contract amount (in thousands)	Currency	Maturity date
Derivative financial assets:			
Foreign exchange contracts:			
Forward exchange sold	EUR 31,000	EUR to USD	January 13, 2017~ April 13, 2017
Forward exchange sold	GBP 3,000	GBP to USD	January 13, 2017~ March 14, 2017
Forward exchange purchased	USD 13,000	USD to MXN	February 24, 2017~ March 14, 2017
Derivative financial liabilities:			
Foreign exchange contracts:			
Forward exchange sold	EUR 9,000	EUR to USD	March 14, 2017~ April 7, 2017
Forward exchange purchased	USD 500	EUR to BRL	March 30, 2017

(Continued)

ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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(c) Derivative financial instruments used for hedging

(i) Cash flow hedge

The Group's strategy is to enter into forward exchange contracts to hedge its foreign currency exposure risk in relation to the forecast sales. As of December 31, 2017 and 2016, the Group did not enter into any hedge contract.

(ii) Adjustments on reclassification from other comprehensive income

As of December 31, 2017 and 2016, the details of adjustments on reclassification from other comprehensive income were as follows:

	<u>2017</u>	<u>2016</u>
Cash flow hedge		
Profit (loss) in current year	\$ (141,364)	107,945
Less: Net income (loss) of adjustments on reclassification from other comprehensive income which belongs to net income (loss)	<u>(141,364)</u>	<u>129,305</u>
	<u>\$ -</u>	<u>(21,360)</u>

(iii) For the years ended December 31, 2017 and 2016, gain or loss of adjustments from reclassification of other equity, deriving from the changes of fair-value hedge instruments, were recognized under sales in income statement.

(iv) For the year ended in 2017 and 2016, the ineffective portion of cash flow hedge recognized in profit (loss) amounted of \$(53,182) and \$1,049, based on the "Gains (losses) on financial assets (liabilities) at fair value through profit or loss".

(d) Financial assets carried at cost – noncurrent

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Fund unlisted in domestic markets	\$ 48,709	48,709
Preferred stock unlisted in foreign markets	<u>-</u>	<u>17,838</u>
	<u>\$ 48,709</u>	<u>66,547</u>

(i) The aforementioned stock unlisted on domestic and foreign markets held by the Group are measured at cost, less, accumulated impairment losses on the reporting date. The fair values of these investments cannot be measured reliably because the range of reasonable fair value estimates is large and the probabilities for each estimate cannot be reasonably determined.

(ii) Parts of the value of the Group's financial assets carried at cost had indications of impairment losses; therefore, the Group recognized the impairment loss of \$17,838 and \$64,860, which was recorded under "Non-operating income and expenses".

(iii) As of December 31, 2017 and 2016, the Group did not provide any financial assets carried at cost– noncurrent as collaterals for its loans.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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(e) Notes and accounts receivable and other receivables

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Notes receivable	\$ 152,671	63,137
Accounts receivable	5,121,103	5,548,128
Other receivables	<u>95,747</u>	<u>108,953</u>
	5,369,521	5,720,218
Less: allowance for uncollectible accounts	(17,499)	(27,036)
allowance for sales return	<u>(20,878)</u>	<u>(5,711)</u>
	<u>\$ 5,331,144</u>	<u>5,687,471</u>

The ageing analysis of notes and accounts receivable and other receivables which were past due but not impaired was as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Past due 1~30 days	\$ 505,024	850,969
Past due 31~60 days	107,805	183,484
Past due 61~90 days	32,345	171,541
Past due 91~180 days	-	47,430
Past due over 181 days	<u>16,068</u>	<u>3,714</u>
	<u>\$ 661,242</u>	<u>1,257,138</u>

The change of allowance for receivable and other receivable for the years ended December 31, 2017 and 2016 were as follows:

	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance at January 1, 2017	\$ 7,827	19,209	27,036
Impairment loss reversed	<u>(7,827)</u>	<u>(1,710)</u>	<u>(9,537)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>17,499</u>	<u>17,499</u>
	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance at January 1, 2016	\$ -	17,509	17,509
Impairment loss recognized	<u>7,827</u>	<u>1,700</u>	<u>9,527</u>
Balance at December 31, 2016	<u>\$ 7,827</u>	<u>19,209</u>	<u>27,036</u>

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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Impairment allowance results from economic environment, and the Group expects several customers will not be able to pay off the receivables. Based on the historic payment and broad analysis of the customers' credit rating, the Group believes that the trade receivables past due but not yet recognized as impairment allowance are collectible.

As of December 31, 2017 and 2016, the Group did not provide any aforementioned notes and accounts receivable and other receivables as collateral for its loans.

The Group entered into accounts receivable factoring agreements with banks. Based on the agreements, the Group is not responsible for guaranteeing the ability of the account receivable obligor to make payment when it is affected by credit risk. Thus, this is non-recourse accounts receivable factoring. After the transfer of the accounts receivable, the Group can request partial proceeds, while the interest calculated at an agreed rate is paid to the bank until the account receivable is paid. The remaining amounts are received when the accounts receivable are paid by the customers. As of December 31, 2017 and 2016 the proceeds not yet received amounted to \$17,247, and \$36,488, respectively, and they are accounted for as other receivables.

The details of the factored accounts receivable were as follows:

		December 31, 2017				
Purchaser	Object	Accounts receivable factored (gross)	Proceed received	Collateral	Significant transfer of conditions	Amount derecognized
Non-related parties	Financial Institutions	\$ 159,527	142,280	-	-	159,527

		December 31, 2016				
Purchaser	Object	Accounts receivable factored (gross)	Proceed received	Collateral	Significant transfer of conditions	Amount derecognized
Non-related parties	Financial Institutions	\$ 411,379	374,891	-	-	374,891

During the years ended December 31, 2017 and 2016, the agreed interest rate are both 0.8%~1.8% in the contract mentioned above.

(f) Inventories

(i) A summary of the Group's financial information for inventions at the reporting date were as follows:

	December 31, 2017	December 31, 2016
Raw materials	\$ 1,950,986	1,629,733
Work in progress	202,758	285,778
Finished goods	1,589,286	1,877,881
	<u>\$ 3,743,030</u>	<u>3,793,392</u>

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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- (ii) Inventory cost recognized as cost of sales for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Cost of sales	\$ 17,252,340	20,066,088
Inventory valuation loss (gain) and obsolescence	<u>55,880</u>	<u>(21,453)</u>
	<u>\$ 17,308,220</u>	<u>20,044,635</u>

In 2017, write-down of inventories amounted to \$55,880, and was recorded under cost of goods sold. In 2016, the reversal of write-down amounted to \$21,453 due to sales or obsolescence.

- (iii) As of December 31, 2017 and 2016, the Group did not provide any inventories as collaterals for its loans.
- (g) Investments accounted for using equity method

A summary of the Group's financial information for equity-accounted investees at the reporting date were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates	<u>\$ 361,047</u>	<u>619,130</u>

- (i) The following is the related information of significant associate

<u>Name</u>	<u>Nature of the relationship</u>	<u>Principal place of business/ Country of incorporation</u>	<u>Effective ownership interest and voting right</u>	
		<u>Taiwan</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Compal Broadband Network Inc. ("CBN")	Manufacturing and sale of broadband networking product	Taiwan	23% (Note 2)	46% (Note 1)

Note 1: At December 28, 2016, the capital increase by cash for Compal Broadband Network Inc. amounted to \$214,875, and the Group obtained 16% of the equity interest.

Note 2: The Group disposed 23% of CBN's equity on September 29, October 31, and December 25, 2017, respectively, and the total disposal price was \$413,257. The gains on disposals amounted to \$100,959, and were recorded under gains on disposals of investments. The aforementioned gains on disposals include the amount recorded under other comprehensive income and capital surplus reclassified to profit or loss.

The following table summarizes the information of the Group's material associate adjusted for any differences in accounting policies and reconciles the information to the carrying amount of the Group's interest in the associate.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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1) Summarized financial information of Compal Broadband Network Inc.

	December 31, 2017	December 31, 2016
Current assets	\$ 4,147,391	4,718,683
Non current assets	285,032	249,854
Current liabilities	(2,884,239)	(3,590,840)
Non current liabilities	(71)	(4,296)
Net assets	<u>\$ 1,548,113</u>	<u>1,373,401</u>
Net assets belongs to non-controlling interest	<u>\$ -</u>	<u>-</u>
Net assets belongs to investee company	<u>\$ 1,548,113</u>	<u>1,373,401</u>
	2017	2016
Revenue	<u>\$ 6,817,464</u>	<u>5,221,031</u>
Profit (loss) from continuing operations	182,145	133,949
Other comprehensive income	124	(26)
Total comprehensive income	<u>\$ 182,269</u>	<u>133,923</u>
Other comprehensive income belongs to non-controlling interest	<u>\$ -</u>	<u>-</u>
Other comprehensive income belongs to investee company	<u>\$ 182,269</u>	<u>133,923</u>
	2017	2016
Beginning balance of net assets owned by the Group	\$ 613,392	366,730
Capital increase by cash	-	214,875
Dividends receivable	(8,942)	(31,299)
Comprehensive income attributable to the Group	68,747	63,169
Disposal	(312,298)	-
Changes on net value from investment in associates by equity method	148	(83)
Share of net assets of affiliates (the carrying amount of the Group's interests)	<u>\$ 361,047</u>	<u>613,392</u>

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (ii) The Group's equity-accounted investment in all individually immaterial associates and the Group's share of the operating results are summarized below:

	December 31, 2017	December 31, 2016
The carrying amount of the Group's interests in all individually immaterial associates	\$ -	5,738

The Group's share of the net income (loss) of associates:

	2017	2016
Profit from continuing operations	\$ (4,171)	(3,185)
Other comprehensive income	-	-
Total comprehensive income	\$ (4,171)	(3,185)

Parts of the value of the Group's associates accounted for using equity method had indications of impairment losses; therefore, the Group recognized the impairment loss of \$1,567 in 2017, which was recorded under "Non-operating income and expense".

- (iii) As of December 31, 2017 and 2016, the Group did not provide any investment accounted for using equity method as collateral for its loans.

(h) Property, plant and equipment

The cost, depreciation, of the property, plant and equipment and of the Group for the years ended December 31, 2017 and 2016 were as follows:

	Land	Buildings and construction	Machinery and equipment	Research and development equipment	Molding equipment	Leasehold improvement and other equipment	Under construction and prepayment for purchase of equipment	Total
Cost or deemed cost:								
Balance at January 1, 2017	\$ 463,262	826,069	1,730,539	342,917	206,348	388,991	8,842	3,966,968
Additions	-	-	32,282	26,373	19,489	10,904	15,488	104,536
Reclassifications	-	-	-	726	3,848	6,612	(11,337)	(151)
Disposals and derecognitions	-	-	(30,989)	(2,337)	-	(17,295)	-	(50,621)
Effect of movements in exchange rates	-	-	(117,444)	(1,995)	-	(11,912)	(21)	(131,372)
Balance at December 31, 2017	\$ 463,262	826,069	1,614,388	365,684	229,685	377,300	12,972	3,889,360
Balance at January 1, 2016	\$ 465,370	673,712	1,725,650	333,652	189,083	589,117	96,522	4,073,106
Additions	-	-	67,262	12,431	17,868	26,865	100,197	224,623
Reclassifications	(2,108)	152,357	15,076	-	295	20,380	(188,108)	(2,108)
Disposals and derecognitions	-	-	(49,593)	(2,743)	(898)	(239,939)	-	(293,173)
Effect of movements in exchange rates	-	-	(27,856)	(423)	-	(7,432)	231	(35,480)
Balance at December 31, 2016	\$ 463,262	826,069	1,730,539	342,917	206,348	388,991	8,842	3,966,968

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Land	Buildings and construction	Machinery and equipment	Research and development equipment	Molding equipment	Leasehold improvement and other equipment	Under construction and prepayment for purchase of equipment	Total
Depreciation and impairment loss:								
Balance at January 1, 2017	\$ -	27,727	1,438,222	252,480	163,741	167,867	-	2,050,037
Additions	-	18,709	92,282	32,450	27,175	44,150	-	214,766
Reclassifications	-	-	(132)	-	-	-	-	(132)
Disposals and derecognitions	-	-	(30,479)	(2,330)	-	(17,205)	-	(50,014)
Effect of movements in exchange rates	-	-	(95,064)	(1,514)	-	(8,285)	-	(104,863)
Balance at December 31, 2017	<u>\$ -</u>	<u>46,436</u>	<u>1,404,829</u>	<u>281,086</u>	<u>190,916</u>	<u>186,527</u>	<u>-</u>	<u>2,109,794</u>
Balance at January 1, 2016	\$ -	10,776	1,420,821	221,833	140,355	367,184	-	2,160,969
Depreciation for the period	-	16,951	89,146	33,538	24,286	44,255	-	208,176
Disposals and derecognitions	-	-	(49,480)	(2,566)	(898)	(237,680)	-	(290,624)
Effect of movements in exchange rates	-	-	(22,265)	(325)	(2)	(5,892)	-	(28,484)
Balance at December 31, 2016	<u>\$ -</u>	<u>27,727</u>	<u>1,438,222</u>	<u>252,480</u>	<u>163,741</u>	<u>167,867</u>	<u>-</u>	<u>2,050,037</u>
Carrying amounts:								
Balance at December 31, 2017	<u>\$ 463,262</u>	<u>779,633</u>	<u>209,559</u>	<u>84,598</u>	<u>38,769</u>	<u>190,773</u>	<u>12,972</u>	<u>1,779,566</u>
Balance at December 31, 2016	<u>\$ 463,262</u>	<u>798,342</u>	<u>292,317</u>	<u>90,437</u>	<u>42,607</u>	<u>221,124</u>	<u>8,842</u>	<u>1,916,931</u>
Balance at January 1, 2016	<u>\$ 465,370</u>	<u>662,936</u>	<u>304,829</u>	<u>111,819</u>	<u>48,728</u>	<u>221,933</u>	<u>96,522</u>	<u>1,912,137</u>

As of December 31, 2017 and 2016, part of the Group's property, plant and equipment are provided as collateral for long-term borrowings. Please see note 8.

In order to build a research and development center and operational headquarters, the Group entered into an agreement with its non-related parties for \$941,900 to construct an office building during March 2012 to September 2014. As of December 31, 2017 and 2016, the payments are paid, and the total capitalized borrowing costs amounted to \$15,591.

(i) Intangible Assets

Changes in cost and accumulated amortization of intangible assets for the years ended December 31, 2017 and 2016, were as follows:

	Goodwill	Authorization fee	Copyright	Computer software and others	Total
Cost:					
Balance at January 1, 2017	\$ 6,556	124,677	18,496	103,700	253,429
Additions	-	-	-	16,060	16,060
Disposals	-	(4,400)	-	(13,567)	(17,967)
Balance at December 31, 2017	<u>\$ 6,556</u>	<u>120,277</u>	<u>18,496</u>	<u>106,193</u>	<u>251,522</u>
Balance at January 1, 2016	\$ 6,556	139,906	18,496	83,031	247,989
Additions	-	323	-	26,242	26,565
Disposals	-	(15,552)	-	(5,573)	(21,125)
Balance at December 31, 2016	<u>\$ 6,556</u>	<u>124,677</u>	<u>18,496</u>	<u>103,700</u>	<u>253,429</u>

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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	<u>Goodwill</u>	<u>Authorization fee</u>	<u>Copyright</u>	<u>Computer software and others</u>	<u>Total</u>
Accumulated amortization:					
Balance at January 1, 2017	\$ -	85,031	15,069	61,553	161,653
Amortization for the period	-	9,755	2,741	24,441	36,937
Disposals	-	(4,400)	-	(13,567)	(17,967)
Effects of movement in exchange rate	-	-	-	37	37
Balance at December 31, 2017	<u>\$ -</u>	<u>90,386</u>	<u>17,810</u>	<u>72,464</u>	<u>180,660</u>
Balance at January 1, 2016	\$ -	90,250	12,328	46,770	149,348
Amortization for the period	-	10,334	2,741	20,271	33,346
Disposals	-	(15,553)	-	(5,573)	(21,126)
Effects of movement in exchange rate	-	-	-	85	85
Balance at December 31, 2016	<u>\$ -</u>	<u>85,031</u>	<u>15,069</u>	<u>61,553</u>	<u>161,653</u>
Book value:					
Balance at December 31, 2017	<u>\$ 6,556</u>	<u>29,891</u>	<u>686</u>	<u>33,729</u>	<u>70,862</u>
Balance at December 31, 2016	<u>\$ 6,556</u>	<u>39,646</u>	<u>3,427</u>	<u>42,147</u>	<u>91,776</u>
Balance at January 1, 2016	<u>\$ 6,556</u>	<u>49,656</u>	<u>6,168</u>	<u>36,261</u>	<u>98,641</u>

Amortization expenses amounting to \$36,937 and \$33,346 were recognized as operating costs and expenses for the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the Group did not provide any intangible assets as collaterals for its loans.

(j) Short-term borrowings

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Credit loans	<u>\$ 717,073</u>	<u>11,865</u>
Unused credit line for short-term borrowings	<u>\$ 6,263,298</u>	<u>5,767,964</u>
Annual interest rates	<u>0.69%~2.14%</u>	<u>0.69%~1.4%</u>

For the information on the Group's interest risk, foreign currency risk and liquidity risk, please see note 6(s).

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Notes to the Consolidated Financial Statements

(k) Provisions

	<u>Warranties</u>
Balance at January 1, 2017	\$ 234,820
Provisions made during the period	268,391
Provisions used during the period	(234,142)
Provisions reversed during the period	<u>(38,534)</u>
Balance at December 31, 2017	<u>\$ 230,535</u>
Balance at January 1, 2016	\$ 222,827
Provisions made during the period	250,761
Provisions used during the period	<u>(228,568)</u>
Provisions reversed during the period	<u>(10,200)</u>
Balance at December 31, 2016	<u>\$ 234,820</u>

Provisions related to sales of products are assessed based on the historical experience.

(l) The Group as lessee

Non-cancellable operating lease rentals are payable as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Less than one year	\$ 101,450	100,883
Between two and five years	<u>137,302</u>	<u>229,645</u>
	<u>\$ 238,752</u>	<u>330,528</u>

The Group leased office places, warehouse and plants under operating leases. The leases typically run for a period of 1 to five years, with an option to renew the leases after that date. For the years ended December 31, 2017 and 2016, expenses recognized in profit or loss under operating leases amounted to \$102,398 and \$90,645, respectively.

The aforementioned leases were entered into many years ago as combined leases of land and buildings. The Group determined that the land and building elements of the leases are operating leases. The rent paid to the landlord is increased to market rent at regular intervals, and the Group does not participate in the residual value of the land and buildings. As a result, it was determined that substantially, all the risks and rewards of the land and buildings are with the landlord.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(m) Employee benefits

(i) Defined benefit plans

The present value of the defined benefit obligations and the fair value adjustments of plan assets for the Company were as follows:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Present value of defined benefit obligations	\$ 198,032	189,401
Fair value of plan assets	<u>(104,353)</u>	<u>(99,273)</u>
	<u>\$ 93,679</u>	<u>90,128</u>

The Company makes defined benefit plan contributions to the pension fund account at the Bank of Taiwan that provides pensions for employees upon retirement. The plans (cover by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$104,353 at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the Company were as follows:

	<u>2017</u>	<u>2016</u>
Balance at January 1	\$ 189,401	170,151
Current service costs and interest	4,325	4,658
Actuarial gains (losses)	<u>4,306</u>	<u>14,592</u>
Balance at December 31	<u>\$ 198,032</u>	<u>189,401</u>

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3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Company were as follows:

	<u>2017</u>	<u>2016</u>
Fair value of plan assets at January 1	\$ 99,273	94,537
Contributions made	4,102	4,052
Expected return on plan assets	1,383	1,810
Actuarial gains (losses)	<u>(405)</u>	<u>(1,126)</u>
Fair value of plan assets at December 31	<u>\$ 104,353</u>	<u>99,273</u>
Actual return on plan assets	<u>\$ 978</u>	<u>684</u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company were as follows:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 1,731	1,596
Actuarial gains (losses)	2,594	3,062
Expected return on plan assets	<u>(1,383)</u>	<u>(1,810)</u>
	<u>\$ 2,942</u>	<u>2,848</u>
Cost of sales	\$ 434	351
Selling expenses	335	320
Administrative expenses	376	375
Research and development expenses	<u>1,797</u>	<u>1,802</u>
	<u>\$ 2,942</u>	<u>2,848</u>

5) Actuarial gains and losses recognized in other comprehensive income

The Company's actuarial gains and losses recognized in other comprehensive income, before tax for the years ended December 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Cumulative amount at January 1	\$ 56,661	40,943
Recognized during the period	<u>4,711</u>	<u>15,718</u>
Cumulative amount at December 31	<u>\$ 61,372</u>	<u>56,661</u>

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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6) Actuarial assumptions

a) The following are the Company's principal actuarial assumptions:

i) Present value of defined benefit obligations

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate as of December 31	1.625 %	1.375 %
Future salary increasing rate	3.000 %	3.000 %

ii) Defined benefit plan cost

	<u>2017</u>	<u>2016</u>
Discount rate as of December 31	1.375 %	1.875 %
Future salary increasing rate	3.000 %	3.000 %

The expected allocation payment made by the Company to the defined benefit plans for the one year period after the reporting date was \$4,143.

The weighted-average duration of the defined benefit obligation is 16.11 years.

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	<u>Increased 0.25%</u>	<u>Decreased 0.25%</u>
December 31, 2017		
Discount rate	(5,844)	6,103
Future salary increasing rate	5,899	(5,684)
December 31, 2016		
Discount rate	(5,860)	6,133
Future salary increasing rate	5,925	(5,688)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2017 and 2016.

8) There were no payment for pension made by the Company for the years ended December 31, 2017 and 2016.

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(ii) Defined contribution plans

The Company and all subsidiaries in domestic allocate 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of the Labor Insurance without additional legal or constructive obligations.

The Company and all subsidiaries in domestic recognized the pension costs under the defined contribution method amounting to \$36,951 and \$33,540 for the years ended December 31, 2017 and 2016, respectively. Payment was made to the Bureau of Labor Insurance.

Other subsidiaries recognized the pension expense, basic endowment insurance expense, and social welfare expenses amounting to \$53,232 and \$67,971 for the years ended December 31, 2017 and 2016, respectively.

(n) Income taxes

(i) Income tax expense (benefit)

- 1) The amount of income tax for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Current tax expense		
Recognized during the period	\$ 124,692	317,803
10% surtax on unappropriated earnings	45,658	22,259
Adjustment for prior periods	<u>(33,349)</u>	<u>(9,286)</u>
	<u>137,001</u>	<u>330,776</u>
Deferred tax expense		
Origination and reversal of temporary differences	<u>17</u>	<u>(5,833)</u>
	<u>17</u>	<u>(5,833)</u>
Income tax expense	<u>\$ 137,018</u>	<u>324,943</u>

- 2) The amount of income tax recognized in other comprehensive income for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Foreign currency translation differences for foreign operations	\$ 12,330	8,807
Defined benefit plan actuarial gains (losses)	<u>801</u>	<u>2,672</u>
	<u>\$ 13,131</u>	<u>11,479</u>

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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- 3) Reconciliation of income tax and profit before tax for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Tax rate</u>	<u>Amount</u>	<u>Tax rate</u>	<u>Amount</u>
Income tax using the Company's domestic tax rate		\$ 170,099		322,782
Effect of tax rates in foreign jurisdiction		9,720		17,471
Tax-exempt income		(80,016)		(35,499)
Changes in unrecognized temporary differences		4,009		(1,838)
Under (over) provision in prior periods		(33,349)		(9,286)
10% surtax on unappropriated earnings		45,658		22,259
Other		20,897		9,054
		<u>\$ 137,018</u>		<u>324,943</u>

(ii) Deferred tax assets and liabilities

- 1) Unrecognized deferred tax liabilities: None.
- 2) Unrecognized deferred tax assets:

Details of unrecognized under deferred tax assets are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Tax effect of deductible temporary differences	\$ 29,257	24,848
Tax effect of loss carryforward	3,558	25,666
	<u>\$ 32,815</u>	<u>50,514</u>

The tax losses mentioned above could be used to offset future taxable income. Because of the uncertainty of future taxable income, the Company did not recognize the deferred tax assets arising from the tax losses. The ROC Income tax Act allows losses for tax purposes, as assessed by the tax authorities, to be offset against taxable income in the following ten years. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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3) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2017 and 2016 were as follows:

	Investment income recognized under the equity method method (overseas)	Foreign currency translation adjustment	Defined benefit plans	Reserve for loss on outward investment	Others	Total	
Deferred Tax Liabilities:							
Balance at January 1, 2017	\$ 42,503	-	-	-	12	42,515	
Recognized in profit or loss	<u>13,860</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,087</u>	<u>23,947</u>	
Balance at December 31, 2017	<u>56,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,099</u>	<u>66,462</u>	
Balance at January 1, 2016	\$ 25,576	5,412	-	-	17	31,005	
Recognized in profit or loss	<u>16,927</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5)</u>	<u>16,922</u>	
Recognized in other comprehensive income	<u>-</u>	<u>(5,412)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,412)</u>	
Balance at December 31, 2016	<u>42,503</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12</u>	<u>42,515</u>	
Deferred Tax Assets:							
	Defined benefit plans	Foreign currency translation adjustment	Loss on inventory valuation	Unrealized exchange losses, net	Loss carryforward	Others	Total
Balance at January 1, 2017	\$ 9,629	3,395	20,238	21,001	14,801	42,463	111,527
Recognized in profit or loss	<u>-</u>	<u>-</u>	<u>1,853</u>	<u>13,639</u>	<u>441</u>	<u>7,997</u>	<u>23,930</u>
Recognized in other comprehensive income	<u>801</u>	<u>12,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,131</u>
Balance at December 31, 2017	<u>10,430</u>	<u>15,725</u>	<u>22,091</u>	<u>34,640</u>	<u>15,242</u>	<u>50,460</u>	<u>148,588</u>
Balance at January 1, 2016	\$ 6,957	-	19,112	6,134	12,224	38,278	82,705
Recognized in profit or loss	<u>-</u>	<u>-</u>	<u>1,126</u>	<u>14,867</u>	<u>2,577</u>	<u>4,185</u>	<u>22,755</u>
Recognized in other comprehensive income	<u>2,672</u>	<u>3,395</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,067</u>
Balance at December 31, 2016	<u>9,629</u>	<u>3,395</u>	<u>20,238</u>	<u>21,001</u>	<u>14,801</u>	<u>42,463</u>	<u>111,527</u>

- (iii) The ROC tax authorities have examined the income tax expenses of the Company, TTI, Acbel Telecom and ZHI-PAL through 2015.
- (iv) The ROC Income Tax Act allows losses for tax purposes, as assessed by the tax authorities, to offset taxable income over a period of ten years. Acbel Telecom estimated tax losses which can be used to offset future taxable income as of December 31, 2017, were as follows:

Year of loss	Unused amount	Expiry year
2008	\$ <u>20,929</u>	2018

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(v) Information related to the ICA is summarized follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unappropriated earnings retained after January 1, 1998	(Note)	\$ <u>3,602,482</u>
Balance of imputation credit account	(Note)	\$ <u>520,937</u>
	<u>2017(Estimated)</u>	<u>2016(actual)</u>
Creditable ratio for earnings distribution to ROC resident	(Note)	<u>20.28 %</u>

The above stated information was prepared in accordance with the information letter No. 10204562810 announced by the Ministry of Finance of R.O.C. on October 17, 2013.

Note: According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

(o) Capital and other equities

As of December 31, 2017 and 2016, the authorized common stocks were both \$2,500,000, of which both 189,119 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

(i) Ordinary shares

Reconciliation of shares outstanding for 2017 and 2016 were as follows:

(in thousands of shares)	<u>Ordinary shares</u>	
	<u>2017</u>	<u>2016</u>
Balance on January 1	\$ 189,119	189,144
Retirement of new restricted employee share	-	(25)
Balance on December 31	\$ <u>189,119</u>	<u>189,119</u>

25 shares of employee restricted shares were cancelled in 2016 because certain employees of the Company did not meet the vested requirements.

(ii) Capital surplus

The balances of capital surplus were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Additional paid-in capital	\$ 2,651,544	2,651,544
Difference between consideration and carry amount of subsidiaries disposed	3,706	3,459
Changes in equity of associates and joint ventures accounted for using equity method	<u>1,073</u>	<u>924</u>
	\$ <u>2,656,323</u>	<u>2,655,927</u>

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of the total common stock outstanding.

(iii) Retained earnings

The Company's article of incorporation stipulate that Company's net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve. The legal reserve can be exempted if it equals the paid-in capital, besides, special reserves are supposed to be set aside or reversed in accordance with the relevant regulations or as required by the government. And then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

According to the Company's stable dividend policy, the type of dividends should be determined after considering the business environment, operating performance, financial structure, etc. Cash dividends to stockholders shall not be lower than 10% of total cash and stock dividends.

1) Legal reserve

In accordance with the Company Act as amended, 10 percent of net income after tax should be set aside as legal reserve, until it is equal to authorized capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 percent of the paid-in capital.

2) Special reverse

A portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the total net current-period reduction of other shareholders' equity resulting from the carrying amount of special earnings reserve as stated above. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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(iv) Earnings distributed

Earnings distribution for 2016 and 2015 was approved by the shareholders during their annual meeting held on June 28, 2016 and June 23, 2015, respectively. The relevant dividend distribution to shareholders, employee bonus and the directors' remuneration were as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Amount per share</u>	<u>Total amount</u>	<u>Amount per share</u>	<u>Total amount</u>
Cash dividends distributed to common shareholders	3.90	\$ <u>737,564</u>	1.06	<u>302,630</u>

(p) Share-based payment

(i) The Company -- Employee restricted stock

At the meeting held on June 25, 2013, the Company's board of directors decided to issue 2,800,000 shares of employee restricted shares to those the Company's full-time employees who meet certain requirements. The restricted shares have been registered with and approved by the Securities and Futures Bureau of FSC. The board of directors decided to issue all the restricted shares on August 8, 2013, which is also the effective date of the share issuance.

2,100,000 shares of the aforementioned restricted shares are issued without consideration. 40%, 30% and 30% of the 2,100,000 restricted shares are vested respectively when the employees continue to provide service for at least 1 year, 2 years and 3 years from the registration and the effective date, and at the same time, meet the performance requirement. In addition, when earnings per share in two continuous and complete fiscal years from the registration and effective date are no less than 4 New Taiwan dollars and at the same time, the employees with the restricted shares meet the performance requirement, the other 70,000 shares of the restricted shares are vested 100% at the date the shareholders approved the financial statements for the second fiscal year. The earnings per share mentioned above is calculated based on the profit approved by the shareholders, and the weighted average number of ordinary shares outstanding at the date of the restricted shares have been approved by the authority.

After the issuance, the restricted shares are kept by a trust, which is appointed by the Company, before they are vested. These restricted shares shall not be sold, pledged, transferred, gifted or by any other means of disposal to third parties during the custody period. The voting rights of these shares are executed by the custodian, and the custodian shall act based on the law and regulations. If the shares remain unvested after the vesting period, the Company will purchase all the unvested shares without consideration and cancel the shares thereafter. Restricted shares could receive cash and stock dividends, and could join cash injection. The aforementioned new shares are not considered as restricted shares.

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The information of the Company's restricted stock is as follows:

	2016
Outstanding unit at January 1	619
Vested during the period	(594)
Canceled during the period	(25)
Outstanding unit at December 31	-

Unit: in thousands of shares

The compensation cost related to the restricted stock amounted to \$3,629 for the years ended December 31, 2016.

(ii) TTI—employee stock options

The information about share-based payment of TTI in 2017 and 2016 was as follows:

	Employee stock options
Grant date	2015.10.29
Granted amount	1,000
Contract period	7 years
Granted object	Employees of TTI
Vested condition	Please refer to the issuance terms of the stock options.

The issuance terms of the stock options are as follows:

- 1) Exercise price: NT\$13.5 per share.
- 2) Exercisable duration: The employees who received stock options that exceed two years and meet the performance requirements can exercise a specific percentage in each period as below. The exercisable duration of the options is seven years. No transfer is allowed except for inheritance.

Exercisable percentage	Period and performance requirements to exercise options
40 %	The share purchase right is effectively vested after the satisfaction of 2 conditions: (1) Years of service must exceed 2 years after the issuance of the right. (2) Upon vesting, the average earnings per share of the Company for the past 2 years must exceed NT\$3. If the criteria for the said earnings per share are not fulfilled, then the measurement period will be extended to 3 years; under this extension, the average of the earnings per share of any 2 years within the 3 year period must exceed NT\$3.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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<u>Exercisable percentage</u>	<u>Period and performance requirements to exercise options</u>
30 %	The share purchase right is effectively vested after the satisfaction of 2 conditions: (1) Years of service must exceed 3 years after the issuance of the right. (2) Upon vesting, the performance requirements need to be met, otherwise, the earnings per share of the Company for the following year must exceed NT\$3. If the criteria for the said earnings per share are not fulfilled, then the measurement period will be extended to another 1 year; the earnings per share must exceed NT\$3 during the extension period.
30 %	The share purchase right is effectively vested after the satisfaction of 2 conditions: (1) Years of service must exceed 4 years after the issuance of the right. (2) Upon vesting, the performance requirements need to be met, otherwise, the earnings per share of the Company for the following year must exceed NT\$3. If the criteria for the said earnings per share are not fulfilled, then the measurement period will be extended to another 1 year; the earnings per share must exceed NT\$3 during the extension period. The total measurement periods mentioned above may not exceed 6 years. °

The earnings per share mentioned above are based on the financial statements that had been audited and certified by a certified public accountant.

- 3) Exercise method: TTI would issue new shares as the options is exercised.
- 4) Exercise procedure: In accordance with TTI's issuance and exercise rules. After receiving the payment for share options, the entitlement certification of share options exercised is registered as ordinary shares.

The information on total options issued were as follow:

	<u>2017</u>		<u>2016</u>	
	<u>Weighted- average exercise price (NT dollars)</u>	<u>Shares</u>	<u>Weighted- average exercise price (NT dollars)</u>	<u>Shares</u>
Balance at January 1, outstanding shares	13.5	1,000	13.5	1,000
Current shares issued	13.5	-	13.5	-
Current shares for feinted	13.5	-	13.5	-
Current shares exercised	13.5	-	13.5	-
Current shares expired	13.5	-	13.5	-
Balance at December 31, outstanding units	13.5	<u>1,000</u>	13.5	<u>1,000</u>
Balance at December 31, exercisable units	13.5	<u>-</u>	-	<u>-</u>

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The exercise price range of TTI's outstanding employee stock options and weighted-average remaining contractual life of the outstanding options are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Range of exercise price	13.5	13.5
Weighted average of remaining contractual period	4.83	5.83

The compensation cost related to the share-based payment amounted to \$1,289 for the years ended December 31, 2017 and 2016.

(q) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share for the year 2017 and 2016 were as follows:

1) Profit attributable to ordinary shareholders of the Company

	<u>2017</u>	<u>2016</u>
Profit attributable to ordinary shareholders of the Company	<u>\$ 607,243</u>	<u>1,357,473</u>

2) Weighted-average number of ordinary shares (thousands)

	<u>2017</u>	<u>2016</u>
Issued ordinary shares at January 1	189,119	188,525
Effects of restricted employee shares vested	-	248
Weighted-average number of ordinary shares at December 31	<u>189,119</u>	<u>188,773</u>
Basic earnings per share (dollars)	<u>\$ 3.21</u>	<u>7.19</u>

(ii) Diluted earnings per share

The calculation of diluted earnings per share for the year 2017 and 2016 was as follows:

1) Profit attributable to ordinary shareholders of the Company (diluted)

	<u>2017</u>	<u>2016</u>
Profit attributable to ordinary shareholders of the Company(basic) (diluted)	<u>\$ 607,243</u>	<u>1,357,473</u>

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2) Weighted-average number of ordinary shares (diluted) (thousands)

	2017	2016
Weighted-average number of outstanding ordinary shares (basic)	189,119	188,773
Effect of employee compensation	1,859	3,117
Effect of restricted employee shares unvested	-	361
Weighted-average number of ordinary shares (diluted)	190,978	192,251
Diluted earnings per share (dollars)	\$ 3.18	7.06

(r) Remuneration to employees and directors

Based on the Company's articles of incorporation, if there is any profit in a fiscal year, it shall be distributed to employees as remuneration in an amount of not less than five percent (5%) and to directors as remuneration in an amount of not more than two percent (2%) of such profits. In the event that the Company has accumulated losses, the Company shall reserve an amount to offset its accumulated losses. Employees who are entitled to receive the above mentioned employee remuneration, in share or cash, include the employees of the subsidiaries of the Company who meet certain specific requirement.

For the years ended December 31, 2017 and 2016, the Company accrued and recognized its employee remuneration of \$71,221 and \$162,947, and directors' remuneration of \$6,673 and \$9,777, respectively. The estimated amounts mentioned above are based on the net profit before tax without the remuneration to employees and directors of each respective ending period, multiplied by the percentage of remuneration to employees and directors as specified in the Company's articles. The estimations were recorded under operating expenses during 2017 and 2016.

The Company accrued its remuneration to employee and directors amounting to \$162,947 and \$9,777 in 2016, respectively. There were no differences between the amounts approved in the board of directors' meeting and those recognized in the 2016 financial statements. Related information can be accessed through the Market Observation Post System website.

(s) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

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2) Concentration of credit risk

The Company's customers are mainly from the high-tech industry; therefore, the Company does not concentrate on a specific customer and the sales regions are widely spread, thus, there should be no concern on the significant concentrations of accounts receivable credit risk. And in order to mitigate accounts receivable credit risk, the Company constantly assesses the financial status of its customers, wherein it does not require its customers to provide any collateral.

(ii) Liquidity risk

The following are the contractual maturities of financial liabilities, excluding estimated interest payments.

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>1 ~ 2 years</u>	<u>Over 2 years</u>
December 31, 2017					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 717,073	(717,073)	(717,073)	-	-
Notes and accounts payable	3,920,643	(3,920,643)	(3,920,643)	-	-
Other payables	331,292	(331,292)	(331,292)	-	-
Derivative financial liabilities					
Forward exchange contracts:	20,187				
Outflow	-	(1,422,800)	(1,422,800)	-	-
Inflow	-	(1,407,687)	(1,407,687)	-	-
	<u>\$ 4,989,195</u>	<u>(7,799,495)</u>	<u>(7,799,495)</u>	<u>-</u>	<u>-</u>
December 31, 2016					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 11,865	(11,865)	(11,865)	-	-
Notes and accounts payable	4,121,694	(4,121,694)	(4,121,694)	-	-
Other payables	581,356	(581,356)	(581,356)	-	-
Derivative financial liabilities					
Forward exchange contracts:	2,108				
Outflow	-	(322,169)	(322,169)	-	-
Inflow	-	321,304	321,304	-	-
	<u>\$ 4,717,023</u>	<u>(4,715,780)</u>	<u>(4,715,780)</u>	<u>-</u>	<u>-</u>

The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

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(iii) Currency risk

1) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follows:

	December 31, 2017			December 31, 2016		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD	\$ 131,250	USD/TWD = 29.76	3,906,000	130,013	USD/TWD = 32.25	4,192,919
EUR	69,566	EUR/TWD = 35.57	2,474,463	50,746	EUR/TWD = 33.90	1,720,289
CNY	112,427	CNY/USD = 0.153	511,912	73,130	CNY/USD = 0.143	351,092
MXN	89,568	MXN/TWD = 1.513	135,543	275,494	MXN/TWD = 1.558	429,178
Non-monetary items						
Financial liabilities						
USD	121,911	USD/TWD = 29.760	3,628,071	147,312	USD/TWD = 32.250	4,750,812
EUR	19,335	EUR/TWD = 35.57	687,746	5,239	EUR/TWD = 33.90	177,602
CNY	114,609	CNY/USD = 0.153	521,847	135,392	CNY/USD = 0.143	624,394
Non-monetary items						

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables (including related parties), loans and borrowings, notes and accounts payable and other payables (including related parties) that are denominated in foreign currency. The analysis assumes that all other variables remain constant. A strengthening (weakening) 5% of each foreign currency against the functional currency on December 31, 2017 and 2016 would have affected the net profit before tax as follows. The analysis is performed on the same basis for both periods:

	December 31, 2017	December 31, 2016
USD (against the TWD)		
Strengthening 5%	\$ 13,896	(27,895)
Weakening 5%	(13,896)	27,895

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	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
EUR (against the TWD)		
Strengthening 5%	\$ 89,336	77,134
Weakening 5%	(89,336)	(77,134)
CNY (against the USD)		
Strengthening 5%	\$ (497)	(13,665)
Weakening 5%	497	13,665
MXN (against the TWD)		
Strengthening 5%	\$ 6,777	21,459
Weakening 5%	(6,777)	(21,459)

3) Exchange gains and losses of monetary items

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. In 2017 and 2016, the foreign exchange gain or loss, including both realized and unrealized, amounted to \$764 and \$(441,024), respectively.

(iv) Interest rate analysis

The Group's risk exposure to interest rate on financial assets and liabilities was as follows:

	<u>Book value</u>	
	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Fixed rate financial instrument:		
Financial assets	\$ 1,045,405	866,703
Financial liabilities	<u>(717,073)</u>	<u>(11,865)</u>
	<u>\$ 328,332</u>	<u>854,838</u>
Variable rate financial instrument		
Financial assets	<u>\$ 2,763,572</u>	<u>1,661,286</u>

The following sensitivity analysis is based on the risk exposure to interest rate on the non-derivative financial instruments on the reporting date. Regarding the assets and liabilities with variable interest rates, the analysis is on the basis of the assumption that the amount of assets and liabilities outstanding at the reporting date were outstanding throughout the year. The rate of change is expressed as the interest rate increase or decrease by 0.25% when reporting to management internally, which also represents management of the Group's assessment on the reasonably possible interval of interest rate change.

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If the interest rate had increased or decreased by 0.25%, the net profit before tax would have increased or decreased by \$6,909 and \$4,153 for the years ended December 31, 2017 and 2016, respectively, which would be mainly resulted from the bank savings and borrowings with variable interest rates.

(v) Fair value

1) The kinds of financial instruments and fair value

The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required :

	December 31, 2017				
	Book value	Fair Value			Total
	Level 1	Level 2	Level 3		
Financial assets at fair value through profit or loss					
Derivative financial assets	\$ 3,192	-	3,192	-	3,192
Financial asset at cost	48,709	-	-	-	-
Loans and receivables					
Cash and cash equivalents	3,811,289	-	-	-	-
Notes and Accounts receivable, net	5,235,397	-	-	-	-
Other receivables	95,747	-	-	-	-
Subtotal	9,142,433				
Total	\$ 9,194,334				
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	\$ 20,187	-	20,187	-	20,187
Financial liabilities at amortized cost through profit or loss					
Short-term borrowings	717,073	-	-	-	-
Notes and Accounts payable	3,920,643	-	-	-	-
Other payables	331,292	-	-	-	-
Subtotal	4,969,008				
Total	\$ 4,989,195				

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	December 31, 2016				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Derivative financial assets	\$ <u>61,312</u>	-	61,312	-	61,312
Financial asset at cost	<u>66,547</u>	-	-	-	-
Loans and receivables					
Cash and cash equivalents	2,530,846	-	-	-	-
Notes and Accounts receivable, net	5,578,518	-	-	-	-
Other receivables	<u>108,953</u>	-	-	-	-
Subtotal	<u>8,218,317</u>				
Total	<u>\$ 8,346,176</u>				
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	\$ <u>2,108</u>	-	2,108	-	2,108
Financial liabilities at amortized cost through profit or loss					
Short-term borrowings	11,865	-	-	-	-
Notes and Accounts payable	4,121,194	-	-	-	-
Other payables	<u>581,356</u>	-	-	-	-
Subtotal	<u>4,714,415</u>				
Total	<u>\$ 4,716,523</u>				

2) Fair value valuation techniques of financial instruments not measured at fair value

The Group's estimates financial instruments that not measured at fair value by methods and assumptions as follows:

- a) Debt instrument Investment without on active market and financial liabilities measured at amortized cost

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

3) Fair value valuation technique of financial instruments measured at fair value

- a) Non-derivative financial instruments

Financial instruments trade in active markets are based on quoted market prices. The quoted price of a financial instrument obtained from main exchanges and on-the-run bonds from Taipei Exchange can be used as a basis to determine the fair value of the listed companies' equity instrument and debt instrument of the quoted price in an active market.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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b) Derivative financial instruments

Measurement of fair value of derivative instruments is based on the valuation techniques that are generally accepted by the market participants. For instance, discount method or option pricing models. Fair value of forward currency exchange is usually determined by using the forward currency rate.

There were no transfers from one level to another in 2017 and 2016.

(t) Financial risk management

(i) Briefings

The Group is exposed to the following risks arising from financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

In this note expressed the information on risk exposure and objectives, policies and procedures of risk measurement and management. For detailed information, please refer to the related notes of each risk.

(ii) Structure of risk management

The Group's risk management policies are set for identifying and analyzing the risk that the Group confronts for setting the appropriate amount of the risk and complying with the policies. The Group continually reviews the risk management policies to reflect the market condition and the changes of the Group's operation. The Group develops a disciplined and constructive environment and makes employees understand their rules and obligations through training, management guidelines, and operating procedures.

Audit Committee ensures that the monitoring of the management is in compliance with the Group's risk management policies and procedures, and reviews the appropriateness of the related risk management framework. The Group's internal auditors assist the Audit Committee to supervise and review the control and procedures of the risk management periodically and aperiodically, and report the findings to the Audit Committee and the board of directors.

(iii) Credit risk

Credit risk is the risk on the financial loss of the Group if a customer or a counterparty fails to meet its contractual obligations. It rises principally from the Group's receivables from customers and investment securities.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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1) Accounts receivable and other receivables

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, and these limits are reviewed periodically.

The Group's customers are mainly from the communications industry. And in order to monitor the credit risk of accounts receivable, the Group constantly assesses the financial status of the customers, and requests the customers to provide guarantee or security if necessary. The Group regularly accesses the collectability of accounts receivable and recognizes the allowance for accounts receivable. The impairment losses are always within management's expectation.

The Group set the allowance for bad debt account to reflect the estimated losses for trade and other receivables. The allowance for bad debt account is based on extensive analysis for customers' creditworthiness and historical collection record.

2) Investments

The credit risks exposure in the bank deposits and other financial instruments are measured and monitored by the Group's finance department. Since the Group's transaction counterparties and the contractually obligated counterparties are banks, financial institutes and corporate organizations with good credits, there are no compliance issues, and therefore, no significant credit risk.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures in compliance with the terms of the loan agreements. The loans and borrowings from the bank form an important source of liquidity for the Group. As of December 31, 2017 and 2016, for the information of the unused credit lines of short-term, please see note (6)(j).

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

In order to manage market risk, there are some financial liabilities incurred by the Group from its buying and selling of derivatives. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the Group, primarily USD and EUR.

The Group aims to hedge its estimate exchange rate for the next six months sales, and the Group uses its forward foreign exchange contract (within a year) as hedge standard for its currency rate.

As for other monetary assets and liabilities denominated in other foreign currencies, when short-term imbalance takes place, the Group buys or sells foreign currencies at spot rate to ensure that the net exposure is kept on an acceptable level.

2) Interest rate risk

The Group borrows funds with a stable combination of fix and variable interest rates to maintain its interest rate risk. The Group periodically assess these hedge activities to provide the best cost effect and risk assessment.

(u) Capital management

The Group maintains the capital based on the current operating characteristics of the industry, future development and changes in external environment to assure there is financial resource and operating plan to support working capital, capital expenditures, research & development expense, debt redemption and dividend payment and so on. The management decides the optimized capital structure by using the appropriate debt-to-equity ratio. To maintain a strong capital base, the Group enhances the return on equity by optimizing debt-to-equity ratio. The Company's debt-to-equity ratio at the end of the reporting date is as follows:

	December 31, 2017	December 31, 2016
Total liabilities	\$ 6,657,441	6,121,974
Total equity	8,924,407	9,095,163
Debt-to-equity ratio	75 %	67 %

As of December 31, 2017, there were no changes in the Group's approach to capital management.

(7) Related-party transactions:

(a) Parent company and ultimate controlling party

Compal Electronics Inc. is both the parent company of the consolidated entity and the ultimate controlling party of the Group. It owns 36 percent of all shares outstanding of the Company, and has issued the Consolidated Financial Statements available for Public Use.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Name and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

<u>Name of related party</u>	<u>Relationship with the Group</u>
Kinpo Group Management Service Company	The chairman of the entity's ultimate parent company is the same as that of the Company.
Compal Electronics, INC.	Parent company

(c) Significant related party transactions

(i) Other expenditures

Parent company and other related parties provided technical support, professional services and other services for the Group, and the related expenses for the years ended December 31, 2017 and 2016 were as follows:

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Parent company	\$ 8,148	-
Other related parties	1,309	1,132
	<u>\$ 9,457</u>	<u>1,132</u>

(ii) Payable to related parties

The payables to related parties were as follows:

<u>Account</u>	<u>Related party categories</u>	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Other payable	Other related parties	\$ 154	152

(d) Key management personnel compensation

Key management personnel compensation comprised:

	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 65,275	75,072
Post-employment benefits	1,169	972
Share-based payments	-	1,028
	<u>\$ 66,444</u>	<u>77,072</u>

Please refer to note 6(p) for the information of share-based payment.

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ARCADYAN TECHNOLOGY CORPORATION AND ITS SUBSIDIARIES
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(8) Pledged assets:

The carrying values of pledged assets were as follows:

<u>Assets</u>	<u>Subject</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other current asset	Bail for court mandatory execution	\$ 26,510	26,510
Property-land	Long-term loans (note)	463,262	463,262
Other non-current asset	Customs Deposit	13,210	14,561
		<u>\$ 502,982</u>	<u>504,333</u>

Note: Long-term loans had been settled in 2015, but the assets of property-land still were pledged as collaterals.

(9) Commitments and contingencies: None**(10) Losses Due to Major Disasters: None****(11) Subsequent Events: None****(12) Other:**

- (a) A followings are the summary statement of current period employee benefits, depreciation and amortization expenses by function:

By function	2017			2016		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
By item						
Employee benefits						
Salary	716,651	967,388	1,684,039	916,411	973,380	1,889,791
Labor and health insurance	8,845	75,588	84,433	7,585	65,321	72,906
Pension	51,837	41,288	93,125	66,470	37,889	104,359
Others	145,705	73,002	218,707	145,896	69,687	215,583
Depreciation	132,572	82,194	214,766	124,819	83,357	208,176
Amortization	2,833	34,104	36,937	2,668	30,678	33,346

(13) Other disclosures:

- (a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group for 2017:

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(i) Loans to other parties:

Unit: thousand dollars

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower (note 1)	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits (note 2)	Maximum limit of fund financing (note 2)	Note
													Item	Value			
0	The Company	Arcadyan do Brasil Ltda	Other receivables	Yes	250,760 (USD8,000)	238,080 (USD8,000)	47,616 (USD1,600)	1	1	297,600 (USD10,000)	-	-		-	238,080	3,401,359	The transactions had been eliminated in the consolidated financial statements.

Note 1: Number 1 represents the business relationship with the Company; number 2 represents the short-term financing facility, if necessary.

Note 2: According to the policy of the Company on Lending Funds to Other Parties, the amount of loans to others shall not exceed 40% of the net worth of the Company. To borrowers having business relationship with the Company, the total amount of loans to the borrower shall not exceed 80% of the transaction amount in the last fiscal year or the expected amount for the current year, which shall not exceed 20% of the net worth of the Company. Also, the amount shall be combined with the Company's endorsements/guarantees for the borrower upon calculation. When a short-term financing facility is deemed necessary, only the investees of the Company are allowed to borrow. The total amount of loans to the borrower shall not exceed 80% of the its net worth, nor shall it exceed 20% of the net worth of the Company, and it shall be combined with the Company's endorsements/guarantees for the borrower upon calculation.

Note 3: The amounts in New Taiwan Dollars were translated at the exchange rate of \$29.76 based on the year-end date.

(ii) Guarantees and endorsements for other parties:

Unit: thousand dollars

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/guarantees to third parties on behalf of subsidiary (note 2)	Subsidiary endorsements/guarantees to third parties on behalf of parent company (note 2)	Endorsements/guarantees to third parties on behalf of companies in Mainland China (note 2)
		Name	Relationship with the Company										
0	The Company	Arcadyan do Brasil Ltda	100% Owned subsidiary	1,133,786	250,760 (USD8,000)	238,080 (USD8,000)	-	-	2.80 %	3,401,359	Y	N	N

Note 1: According to the policy of the Company for Endorsements and Guarantee, the total amount shall not exceed 40% of the net worth of the latest financial statements audited or reviewed by Certified Public Accountants, and the amount for a single company shall not exceed 1/3 of the total amount.

Note 2: Fill in "Y" if applicable, or "N" if not applicable.

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

Unit: thousand dollars/thousand shares

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Shares/Units (thousand)	Percentage of ownership (%)	
The Company	Geo Things Inc.	-	Financial assets carried at cost, non current	200	-	8.94 %	-	200	8.94 %	
"	AirHop Communication, Inc.	-	"	1,152	-	6.13 %	-	1,152	6.13 %	
"	Adant Technologies Inc.	-	"	349	-	5.51 %	-	349	5.51 %	
"	IOT Eye, Inc.	-	"	60	-	6.00 %	-	60	6.00 %	
"	ITIEF Fund, L.P.	-	"	-	48,709	7.49 %	-	-	7.49 %	

Note 1: The carrying amount included the cumulative impairment.

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- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:

Unit: thousand dollars

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
The Company	Compai Broadband Networks (CBN)	Investment accounted for using equity method	Realtek Investment Co., Ltd., CDIB Capital Growth Partners L.P., KGI Securities Co., Ltd., Yuanta Securities Co., Ltd.	Non-related parties	8,735	219,723	-	-	8,750	303,088	224,051	79,037	533 (Note)	13,583

Note: CBN has distributed stock dividends amounted to 548 thousand shares on October 11, 2017.

- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Unit: thousand dollars

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Arcadyan Germany	Subsidiary	(Sales)	(2,324,292)	(16) %	Net 120 days from delivery	-	-	788,304	23 %	Note 2
The Company	Arcadyan USA	Subsidiary	(Sales)	(751,433)	(5) %	Net 60 days from the end of the month of delivery	-	-	56,400	2 %	Note 2
Sinoprime	The Company	Parent company	(Sales)	(1,345,277)	(100) %	Net 45 days from the end of the month of delivery	According to cost plus pricing	-	71,240	100 %	Note 1 - 2
CNC	The Company	Parent company	(Sales)	(5,222,446)	(41) %	"	"	-	1,168,057	46 %	Note 1 - 2
CNC	Sinoprime	With the same ultimate parent company	(Sales)	(1,345,277) (USD(44,206))	(11) %	"	"	-	16,994 (USD571)	8 %	Note 1 - 2
CNC	THAC	"	(Sales)	(134,969)	(1) %	Net 90 days from delivery	-	-	42,842	2 %	Note 2
Arcadyan Germany	The Company	Parent company	Purchases	2,324,292	100 %	Net 120 days from delivery	-	-	(788,304)	100 %	Note 2

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Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
Arcadyan USA	The Company	Parent company	Purchases	751,433	100 %	Net 60 days from the end of the month of delivery	-	-	(56,400)	(100)%	Note 2
The Company	CNC	Subsidiary	Purchases	5,222,446	26 %	Net 45 days from the end of the month of delivery	According to cost plus pricing	-	(1,168,057)	(46)%	Note 1 - 2
The Company	Sinoprime	Subsidiary	Purchases	1,345,277	7 %	Net 45 days from the end of the month of delivery	According to cost plus pricing	-	(71,240)	(3)%	Note 1 - 2
Sinoprime	CNC	With the same ultimate parent company	Purchases	1,345,277 (USD44,206)	100 %	Net 60 days from the end of the month of delivery	-	-	(16,994) (USD(571))	(100)%	Note 1 - 2
THAC	TTI	With the same ultimate parent company	(Sales)	(524,173)	(40) %	Net 60 days from invoice date	According to cost plus pricing	-	593,517	100 %	Note 1 - 2
TTI	THAC	With the same ultimate parent company	Purchases	524,173	9 %	"	-	-	(593,517)	(61)%	Note 1 - 2
THAC	CNC	With the same ultimate parent company	Purchases	134,969	10 %	Net 90 days from the end of the month of delivery	-	-	(42,842)	(7)%	Note 1 - 2

Note 1: The ending balance derived from the transactions on processing and sales of raw material.

Note 2: The transactions had been eliminated in the consolidated financial statements.

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Unit: In Thousands of TWD and USD

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period (note 1)	Allowance for bad debts
					Amount	Action taken		
The Company TTI	Arcadyan Germany THAC	Subsidiary	788,304	3.79	-	-	358,609	-
		With the same ultimate parent company	535,543 (Note 1)	0.46	-	-	261,659	-
THAC	TTI	With the same ultimate parent company	593,517	2.68	-	-	340,303	-
CNC	The Company	Parent company	1,168,057	4.47	-	-	1,163,391	-

Note 1: Other receivables due to processing and sales of raw material.

Note 2: Balance as of February 28, 2018.

- (ix) Trading in derivative instruments: Please refer to notes (6)(b) and (6)(c)

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(x) Business relationships and significant intercompany transactions:

No. (Note 1)	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			Percentage of the consolidated net revenue or total assets
				Account name	Amount	Trading terms	
0	The Company	Arcadyan Germany	1	Sales Revenue	2,324,292	There is no significant difference of price between general customers'. The credit period is net 120 days from delivery.	11.56 %
"	"	"	1	Accounts Receivable	788,304	"	5.06 %
"	"	TTI	1	Accounts Receivable	30,219	The price is based on the operating cost. The credit period is net 90 days from the end of the month of delivery.	0.19 %
"	"	Arcadyan USA	1	Sales Revenue	751,433	There is no significant difference of price between general customers'. The credit period is net 60 days from the end of the month of delivery.	3.74 %
"	"	"	1	Accounts Receivable	56,400	"	0.36 %
1	Sinoprime	The Company	2	Processing Revenue	1,345,277	The price is based on the operating cost. The credit period is net 45 days from the end of the month of delivery and depended on funding demand.	6.69 %
"	"	"	2	Accounts Receivable	71,240	"	0.46 %
2	CNC	The Company	3	Processing Revenue	5,222,446	"	25.97 %
2	"	"	3	Accounts Receivable	1,168,057	"	7.50 %
2	"	Sinoprime	3	Sales Revenue	1,345,277	"	6.69 %
"	"	TCH	3	Processing Revenue	134,969	The price is based on the operating cost. The credit period is net 60 days from invoice date.	0.67 %
"	"	"	3	Accounts Receivable	42,842	"	0.27 %
5	TCH (THAC)	TTI	3	Processing Revenue	524,173	The price is based on the operating cost. The credit period is net 60 days from invoice date	2.61 %
"	"	"	3	Accounts Receivable	593,517	"	3.81 %

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Note 1: The numbers filled in as follows:

1.0 represents the Company.

2. Subsidiaries are sorted in a numerical order starting from 1.

Note 2: Transactions labeled as follows:

1 represents transactions between the parent company and its subsidiaries.

2 represents transactions between the subsidiaries and the parent company.

3 represents transactions between subsidiaries.

(b) Information on investees:

The following is the information on investees for the year 2016 (excluding information on investees in Mainland China):

Unit: thousand dollars

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2017			The highest holdings in the period		Net Income (Losses) of the Investee	Investment Income (losses)	Note
				December 31, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership	Carrying value	Shares (In Thousands)	Percentage of Ownership			
The Company	Arcadyan Holding	British Virgin Islands	Investment activities	962,291	962,291	23,780	100%	857,855	23,780	100 %	89,976	89,976	Note 2 - 5
The Company	Arcadyan USA	USA	Selling of wireless networking products	23,055	23,055	1	100%	58,550	1	100 %	9,608	9,608	"
The Company	Arcadyan Germany	Germany	Selling and technical support of wireless networking products	1,125	1,125	0.5	100%	53,637	0.5	100 %	2,266	2,266	"
The Company	Arcadyan Korea	Korea	Selling of wireless networking products	2,879	2,879	20	100%	4,719	20	100 %	2,351	2,351	"
The Company	Arcadyan do Brasil Ltda	Brazil	Selling of wireless networking products	81,265	81,265	965	99%	43,697	965	99 %	(16,978)	(16,978)	"
The Company	Zhi-Bao	Taipei City	Investment activities	48,000	48,000	34,980	100%	466,989	34,980	100 %	68,819	68,819	"
The Company	TTI	Taipei City	Research and development, and selling digital home appliance	306,925	296,429	24,954	61%	584,756	24,954	61 %	105,459	66,934	"
The Company	AcBel Telecom	Taipei City	Investment activities	23,000	23,000	4,378	51%	43,166	4,378	51 %	2,497	1,276	"
The Company	Arcadyan England	UK	Technical support of wireless networking products	1,980	1,980	50	100%	2,452	50	100 %	365	365	"
The Company	CBN	Hsinchu City	Manufacturing and selling of broadband network products	11,925	214,875	533	1%	13,583	8,735	16 %	182,145	20,647	Note 3 - 4
The Company	Golden Smart home Technology	Taipei City	Selling of hardware and software integration of high-tech systems products	15,692	15,692	1,229	22%	-	1,229	22 %	(19,215)	(4,171)	Note 3

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Name of Investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2017			The highest holdings in the period		Net Income (Losses) of the Investee	Investment Income (losses)	Note	
				December 31, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership	Carrying value	Shares (In Thousands)	Percentage of Ownership				
The Company	Arcadyan AU	Australia	Selling of wireless networking products	1,161	-	50	100%	1,185	50	100 %	26	26	Note 2 - 5	
Arcadyan Holding	Sinoprime	British Virgin Islands	Selling of wireless networking products	1,488 (USD50)	1,488 (USD50)	50	100%	1,428 (USD48)	50	100 %	13 (USD1)		Investment gain(losses) recognized by Arcadyan Holding	"
"	Arch Holding	British Virgin Islands	Investment activities	327,687 (USD11,011)	327,687 (USD11,011)	35	100%	756,797 (USD25,430)	35	100 %	73,767 (USD2,424)			"
TTI	Quest	Samoa	Investment activities	35,712 (USD1,200)	35,712 (USD1,200)	1,200	100%	37,393	1,200	100 %	(8,767)		Investment gain(losses) recognized by TTI	"
TTI	ITJC	Japan	Selling digital home appliance	1,341	-	-	100%	1,321	-	100 %	-			"
Quest	Exquisite	Samoa	Investment activities	34,819 (USD1,170)	34,819 (USD1,170)	1,170	100%	44,372 (USD1,491)	1,170	100 %	(974) (USD(32))		Investment gain(losses) recognized by Quest	"
AcBel Telecom	Leading Images	British Virgin Islands	Investment activities	1,488 (USD50)	1,488 (USD50)	50	100%	81,170	50	100 %	2,869		Investment gain(losses) recognized by AcBel Telecom	Note 2 - 5
AcBel Telecom	Great Arch	British Virgin Islands	Selling of wireless networking products	1,488 (USD50)	1,488 (USD50)	50	100%	1,480	50	100 %	(193)			"
Leading Images	Astoria GmbH	Germany	Selling of wireless networking products	889 (EUR25)	889 (EUR25)	25	100%	80,828 (USD2,716)	25	100 %	2,861 (USD94)		Investment gain(losses) recognized by Leading Images	"
Zhi-Bao	CBN	Hsinchu City	Manufacturing and selling of broadband network products	38,032	48,000	13,640	23%	347,464	15,650	29 %	182,145		Investment gain(losses) recognized by Zhi-Bao	Note 3 - 4

Note 1: The amounts in New Taiwan Dollars were translated at the exchange rate of US\$30.432/EUR\$34.352 based on the yearly average exchange rate for net income(losses) of the investees, others were translated at the exchange rate of US\$29.76/EUR\$35.57 based on the year-end date.

Note 2: The Group has owner control.

Note 3: The Group has significant influence.

Note 4: The Company and Zhi-Bao disposed 3,250 thousand shares on September 29, 2017, respectively. The Company also disposed 4,000 thousand shares and 1,500 thousand shares on October 31 and December 25, 2017 respectively.

Note 5: The transactions had been eliminated in the consolidated financial statements.

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(c) Information on investment in mainland China:

- (i) The names of investees in Mainland China, the main businesses and products, and other information:

Unit: In thousands of TWD and US

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2017	Net income (losses) of the investee	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period	Note
					Outflow	Inflow							
SVA	Research and sale of wireless networking products	389,856 (USD13,100)	Note 1	(Note 4) 548,179 (USD18,420)	-	-	548,179 (USD18,420)	5,265 (USD173)	100%	5,265 (USD173)	115,141 (USD3,869)	-	Note 3
CNC	Manufacturing of wireless networking products	370,512 (USD12,450)	"	(Note 5) 327,687 (USD11,011)	-	-	327,687 (USD11,011)	73,767 (USD2,424)	100%	73,767 (USD2,424)	756,797 (USD25,430)	-	"
THAC	Manufacturing of household electronics products	99,696 (USD3,350)	Notes 1 and 7	34,224 (USD1,150)	-	-	34,224 (USD1,150)	(974) (USD32)	100%	(974) (USD32)	43,866 (USD1,474)	-	"

Note 1: Investment in Mainland China through companies registered in a third region.

Note 2: The amounts in New Taiwan Dollars were translated at the exchange rate of \$US30.432 based on the yearly average exchange rate for net income(losses) of the investees, others were translated at the exchange rate of US\$29.76 based on the year-end date.

Note 3: The amounts are according to the financial statements which have been audited and certified by parent company's independent external CPA.

Note 4: The Company paid US\$18,420 thousands and acquired 100% shares of SVA Arcadyan from Accton Asia through Arcadyan Holding in 2010.

Note 5: The Company paid US\$8,561 thousands and acquired 100% shares of CNC from Just through Arcadyan Holding in 2007.

Note 6: SVA decreased its capital amounting to US\$15,000 to offset its accumulated losses in March 2009.

Note 7: The Company's subsidiary, TTI, obtained control over THAC for US\$1,150 on February 28, 2013 (base date of stock transferring).

- (ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
910,097 (USD30,581)	910,097 (USD30,581)	5,102,038

Note: The amounts in New Taiwan Dollars were translated at the exchange rate of \$29.76 on December 31, 2017.

- (iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China for the year ended December 31, 2017, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions".

(14) Segment information:

- (a) General information

The Group's reportable segments are the networking product segment and the digital set-top box product segment. The networking product segment is primarily engaged in the research, development, manufacture and sale of wireless networking products, integrated access devices, and

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digital home and mobile office multimedia gateway products. The digital set-top box product segment is primarily engaged in the research, development, and sale of set-top boxes and related products. The above segments are managed independently, thus they are single operating segments.

(b) Reportable segments and operating segment information

Accounting policies for the operating segments correspond to those stated in note 4.

The operating segment information was as follows:

	For the years ended December 31, 2017			
	Networking Product Segment	Digital Set Top Box Product Segment	Adjustment & Elimination	Total
Revenue				
Revenue from external customers	\$ 15,256,331	4,853,878	-	20,110,209
Revenue from segments	138,076	-	(138,076)	-
Interest revenue	19,134	786	-	19,920
Total revenue	<u>\$ 15,413,541</u>	<u>4,854,664</u>	<u>(138,076)</u>	<u>20,130,129</u>
Interest expense	5,194	7,938	-	13,132
Depreciation and amortization	227,752	23,951	-	251,703
Investment gain	64,556	-	-	64,556
Gains on disposals of investments	100,959	-	-	100,959
Reportable segment profit	<u>\$ 666,700</u>	<u>120,628</u>	<u>-</u>	<u>787,328</u>

	For the years ended December 31, 2016			
	Networking Product Segment	Set Top Box Product Segment	Adjustment & Elimination	Total
Revenue				
Revenue from external customers	\$ 20,464,881	3,445,598	-	23,910,479
Revenue from segments	88,282	-	(88,282)	-
Interest revenue	6,832	424	-	7,256
Total revenue	<u>\$ 20,559,995</u>	<u>3,446,022</u>	<u>(88,282)</u>	<u>23,917,735</u>
Interest expense	8,222	675	-	8,897
Depreciation and amortization	206,562	34,960	-	241,522
Investment gain	59,996	-	-	59,996
Reportable segment profit	<u>\$ 1,676,871</u>	<u>21,074</u>	<u>-</u>	<u>1,697,945</u>

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(c) Products information

The information of revenue from external customers:

<u>Products and services</u>	<u>2017</u>	<u>2016</u>
Networking products	\$ 11,764,008	16,203,492
Digital Set-top-box products	7,914,810	7,171,092
Sales of materials and others	<u>431,391</u>	<u>535,895</u>
	<u>\$ 20,110,209</u>	<u>23,910,479</u>

(d) Geographic information

Stated below are the geographic information on the Group's sales presented by destination of sales and non-current assets presented by location.

(i) Revenue from external customers:

<u>Country</u>	<u>2017</u>	<u>2016</u>
Germany	\$ 4,959,268	4,367,041
Spain	1,999,400	924,910
France	1,957,778	1,658,575
United States	1,782,539	2,734,620
Japan	1,482,822	1,644,353
Switzerland	1,468,223	2,468,018
UK	1,149,473	990,822
Mexico	805,935	3,966,016
Netherlands	702,042	1,358,679
Others	<u>3,802,729</u>	<u>3,797,445</u>
	<u>\$ 20,110,209</u>	<u>23,910,479</u>

(ii) Non-current assets:

<u>Country</u>	<u>2017</u>	<u>2016</u>
Taiwan	\$ 1,613,551	1,680,965
Mainland China	287,864	388,234
Others	<u>957</u>	<u>538</u>
	<u>\$ 1,902,372</u>	<u>2,069,737</u>

Non-current assets include plant, property, and equipment, intangible assets, and other assets, excluding deferred tax assets.

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(e) Major customers information

	<u>2017</u>	<u>2016</u>
Customer:		
D Company from Networking products segments and digital set-top-box products segments	\$ 3,968,234	2,602,153
G Company from Networking products segments	1,976,590	886,413
C Company from Networking products segments	1,667,318	575,836
E Company from Networking products segments	1,509,012	312,782
A Company from Networking products segments	1,438,470	2,443,421
I Company from Networking products segments	1,265,769	2,087,569
B Company from Networking products segments	<u>683,521</u>	<u>3,706,317</u>
	<u>\$ 12,508,914</u>	<u>12,614,491</u>