

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

**DARFON ELECTRONICS CORP.  
AND SUBSIDIARIES**

**Consolidated Financial Statements**

**December 31, 2017 and 2016**

**(With Independent Auditors' Report Thereon)**

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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 Darfon Electronics Corp. 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 "Consolidated Financial Statements" endorsed and issued into effect by the Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Darfon Electronics Corp. and its Subsidiaries do not prepare a separate set of combined financial statements.

Hereby declare

Darfon Electronics Corp.  
Kai-Chien Su  
Chairman  
March 2, 2018



安侯建業聯合會計師事務所

KPMG

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## Independent Auditors' Report

To the Board of Directors  
Darfon Electronics Corp.:

### Opinion

We have audited the consolidated financial statements of Darfon Electronics Corp. and subsidiaries (the “Group”), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards, International Accounting Standards, interpretations as well as related guidance endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and 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 of our opinion.

### Key Audit Matters

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

Key audit matters for the Group’s consolidated financial statements for the year ended December 31, 2017 are stated as follows:

#### 1. Revenue recognition

Please refer to notes 4(p) and 6(r) for the accounting policy on revenue recognition and "Revenue" for the related disclosures, respectively, of the notes to consolidated financial statements.

Description of key audit matter:

Revenue generation is the primary operating activity for the sustainable operations of the entity, and is relevant to the business performance, wherein there is higher inherent risk of fraud in revenue recognition. In consideration of its business volume, the Group provided sales allowances to specific customers and the sales allowance was recorded as a reduction in revenue. Consequently, revenue recognition has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matters above, our principal audit procedures included testing the design and operating effectiveness of internal controls of the Group over its financial reporting in the sales and collection cycle; inspecting contracts with customers or customers' orders on a sample basis, and assessing whether the accounting treatment of the related contracts (including sales terms) is applied appropriately and conforms to the Group's accounting policies; performing the trend analysis on revenue of top 10 customers; obtaining the sales allowances calculation and comparing them with the related internal or external sources.

2. Valuation of inventories

Please refer to notes 4(h), 5 and 6(e) of the notes to consolidated financial statements for the accounting policies on measuring inventory, assumptions used and uncertainties considered in determining net realizable value, and the disclosure of the amounts of inventory write-downs, respectively.

Description of key audit matter:

Inventories are measured at the lower of cost and net realizable value. Due to the rapid technological changes, the Group's product price may decline rapidly. Furthermore, the stocks for products may exceed customers' demands thus becoming obsolete. These factors result in a risk wherein the carrying amount of inventory may exceed its net realizable value. Particularly, the estimation of net realizable value requires the management's subjective judgments. Therefore, the valuation of inventories has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included reviewing the inventory of aging report and analyzing the fluctuation of inventory aging; selecting samples to verify the accuracy of inventory aging; evaluating whether valuation of inventories was accounted for in accordance with the Group's accounting policies; and assessing the historical reasonableness of management's estimates of inventory provisions. Moreover, comparing the inventory provisions recognized in the current year to evaluate their reasonableness.

**Other Matter**

Darfon Electronics Corp. has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2017 and 2016, on which we have issued an unmodified audit opinion.

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

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

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

Those charged with governance (including 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 exercised professional judgment and maintained professional skepticism throughout the audit. We also:

1. Identified and assessed 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. Obtained 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. Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Concluded 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. Evaluated 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. Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remained solely responsible for our audit opinion.

We communicated 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 identified during our audit.

We also provided 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 determined those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined 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 Tzu-Chieh Tang and Wei-Ming Shih.

KPMG

Taipei, Taiwan (Republic of China)

March 2, 2018

#### Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and 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.

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(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**December 31, 2017 and 2016**

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2017		December 31, 2016	
		Amount	%	Amount	%
	<b>Current assets:</b>				
1100	Cash and cash equivalents (notes 6(a) & (u))	\$ 1,015,392	7	1,344,070	8
1110	Financial assets at fair value through profit or loss -- current (notes 6(b) & (u))	23,623	-	-	-
1125	Available-for-sale financial assets -- current (notes 6(c) & (u))	202,700	1	84,062	-
1170	Notes and accounts receivable, net (notes 6(d) & (u))	5,525,656	36	5,526,988	33
1180	Accounts receivable from related parties (notes 6(d) & (u) and 7)	35,554	-	19,303	-
1200	Other receivables (notes 6(d) & (u) and 8)	29,350	-	51,208	-
1210	Other receivables from related parties (notes 6(d) & (u) and 7)	-	-	74	-
1310	Inventories (note 6(e))	2,033,609	13	2,174,474	13
1410	Prepaid expenses and other current assets	458,161	3	379,611	2
1476	Other financial assets -- current (notes 6(f) & (u))	704,810	5	1,794,526	11
	<b>Total current assets</b>	<u>10,028,855</u>	<u>65</u>	<u>11,374,316</u>	<u>67</u>
	<b>Non-current assets:</b>				
1550	Investments accounted for using equity method (note 6(g))	11,244	-	-	-
1600	Property, plant and equipment (notes 6(h) and 8)	5,029,588	33	5,298,102	31
1780	Intangible assets (note 6(i))	17,137	-	29,991	-
1840	Deferred income tax assets (note 6(o))	126,516	1	169,077	1
1920	Refundable deposits (note 6(u))	27,931	-	11,014	-
1975	Net defined benefit asset -- non-current (note 6(n))	14,826	-	10,530	-
1985	Long-term prepaid rents	61,329	1	67,749	1
1990	Other non-current assets	30,151	-	29,249	-
	<b>Total non-current assets</b>	<u>5,318,722</u>	<u>35</u>	<u>5,615,712</u>	<u>33</u>
	<b>Total assets</b>	<u>\$ 15,347,577</u>	<u>100</u>	<u>16,990,028</u>	<u>100</u>

(Continued)

See accompanying notes to consolidated financial statements.



(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Consolidated Balance Sheets (Continued)**

**December 31, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

		<u>December 31, 2017</u>		<u>December 31, 2016</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>Liabilities and Equity</b>					
<b>Current liabilities:</b>					
2100	Short-term borrowings (notes 6(j) & (u))	\$ 501,312	3	738,775	4
2120	Financial liabilities at fair value through profit or loss — current (notes 6(b) & (u))	-	-	18,121	-
2170	Notes and accounts payable (note 6(u))	3,631,363	24	4,028,615	24
2180	Accounts payable to related parties (notes 6(u) and 7)	708	-	6,585	-
2200	Other payables (notes 6(s) & (u))	2,390,308	15	2,340,246	14
2220	Other payables to related parties (notes 6(u) and 7)	5,971	-	5,191	-
2399	Other current liabilities	145,599	1	238,708	1
	<b>Total current liabilities</b>	<u>6,675,261</u>	<u>43</u>	<u>7,376,241</u>	<u>43</u>
<b>Non-current liabilities:</b>					
2540	Long-term borrowings (notes 6(k) & (u) and 8)	480,000	3	1,080,000	6
2550	Provisions — non-current (note 6(l))	79,976	1	85,203	1
2570	Deferred income tax liabilities (note 6(o))	6,574	-	-	-
2640	Net defined benefit liability — non-current (note 6(n))	77,261	1	86,051	1
2670	Other non-current liabilities	10,354	-	10,226	-
	<b>Total non-current liabilities</b>	<u>654,165</u>	<u>5</u>	<u>1,261,480</u>	<u>8</u>
	<b>Total liabilities</b>	<u>7,329,426</u>	<u>48</u>	<u>8,637,721</u>	<u>51</u>
<b>Equity attributable to shareholders of the Company (note 6(p)):</b>					
3110	Common stock	<u>2,800,000</u>	<u>18</u>	<u>2,979,020</u>	<u>17</u>
3200	Capital surplus	<u>4,026,120</u>	<u>26</u>	<u>4,351,038</u>	<u>26</u>
Retained earnings:					
3310	Legal reserve	723,947	5	677,107	4
3350	Unappropriated earnings	766,741	5	654,568	4
		<u>1,490,688</u>	<u>10</u>	<u>1,331,675</u>	<u>8</u>
Other components of equity:					
3410	Foreign currency translation differences	(315,244)	(2)	26,335	-
3425	Unrealized gain (loss) from available-for-sale financial assets	16,427	-	4,466	-
3445	Remeasurement of defined benefit obligation	(30,230)	-	(28,098)	-
		<u>(329,047)</u>	<u>(2)</u>	<u>2,703</u>	<u>-</u>
3500	Treasury stock	-	-	(341,721)	(2)
	Equity attributable to shareholders of the Company	<u>7,987,761</u>	<u>52</u>	<u>8,322,715</u>	<u>49</u>
36XX	Non-controlling interests	30,390	-	29,592	-
	<b>Total equity</b>	<u>8,018,151</u>	<u>52</u>	<u>8,352,307</u>	<u>49</u>
	<b>Total liabilities and equity</b>	<u>\$ 15,347,577</u>	<u>100</u>	<u>16,990,028</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
4000 Net sales (notes 6(r), 7 and 14)	\$ 17,664,072	100	18,681,618	100
5000 Cost of sales (notes 6(e), (h), (m), (n) & (s), 7 and 12)	14,831,503	84	15,887,803	85
Gross profit	2,832,569	16	2,793,815	15
Operating expenses (notes 6(d), (h), (i), (l), (m), (n) & (s), 7 and 12):				
6100 Selling expenses	936,150	5	967,214	5
6200 Administrative expenses	495,771	3	545,761	3
6300 Research and development expenses	766,695	4	795,077	4
6000 Total operating expenses	2,198,616	12	2,308,052	12
Operating income	633,953	4	485,763	3
Non-operating income and loss (notes 6(c), (g), (t) & (u)):				
7010 Other income	78,936	-	124,471	-
7020 Other gains and losses	55,729	-	13,709	-
7050 Finance costs	(39,215)	-	(34,753)	-
7060 Share of the losses of joint ventures accounted for using the equity method	(1,769)	-	-	-
Total non-operating income and loss	93,681	-	103,427	-
7900 Income before income tax	727,634	4	589,190	3
7950 Income tax expenses (note 6(o))	144,590	1	116,800	-
Net income	583,044	3	472,390	3
Other comprehensive income:				
8310 Items that will not be reclassified subsequently to profit or loss (notes 6(n), (o) & (p)):				
8311 Remeasurements of defined benefit plans	(2,553)	-	(5,313)	-
8349 Income tax related to items that will not be reclassified subsequently to profit or loss	421	-	784	-
	(2,132)	-	(4,529)	-
8360 Items that may be reclassified subsequently to profit or loss (notes 6(g) & (p)):				
8361 Exchange differences on translation of foreign operations	(341,288)	(2)	(415,136)	(3)
8362 Change in fair value of available-for-sale financial assets	11,961	-	26,798	-
8370 Share of the other comprehensive income of joint ventures accounted for using the equity method	(344)	-	-	-
8399 Income tax related to items that may be reclassified subsequently to profit or loss	-	-	-	-
	(329,671)	(2)	(388,338)	(3)
Other comprehensive income for the year, net of income tax	(331,803)	(2)	(392,867)	(3)
Total comprehensive income for the year	\$ 251,241	1	79,523	-
Net income attributable to:				
8610 Shareholders of the Company	\$ 580,693	3	468,400	3
8620 Non-controlling interests	2,351	-	3,990	-
	\$ 583,044	3	472,390	3
Total comprehensive income attributable to:				
8710 Shareholders of the Company	\$ 248,943	1	75,533	-
8720 Non-controlling interests	2,298	-	3,990	-
	\$ 251,241	1	79,523	-
Earnings per share (in New Taiwan dollars) (note 6(q)) :				
9750 Basic earnings per share	\$ 2.07		1.58	
9850 Diluted earnings per share	\$ 2.05		1.56	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**DARFON ELECTRONICS CORP. AND 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 shareholders of the Company										Total equity	
	Retained earnings			Other components of equity				Equity attributable to shareholders of the Company				
	Common stock	Capital Surplus	Legal reserve	Unappropriated earnings	Subtotal	Foreign currency translation differences	Unrealized gain (loss) from available-for-sale financial assets	Remeasurements of defined benefit plans	Treasury stock	Non-controlling interests		
Balance at January 1, 2016	\$ 2,979,020	4,351,038	614,647	844,432	1,459,079	441,471	(22,332)	(23,569)	-	9,184,707	38,452	9,223,159
Appropriation approved by the stockholders:												
Appropriation of legal reserve	-	-	62,460	(62,460)	-	-	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	-	(595,804)	(595,804)	-	-	-	-	(595,804)	-	(595,804)
Purchase of treasury stock	-	-	-	-	-	-	-	-	(341,721)	(341,721)	-	(341,721)
Acquisition of subsidiary's interests from non-controlling interests	-	-	-	-	-	-	-	-	-	-	(12,850)	(12,850)
Net income in 2016	-	-	-	468,400	468,400	-	-	-	-	468,400	3,990	472,390
Other comprehensive income in 2016, net of income tax	-	-	-	-	-	(415,136)	26,798	(4,529)	-	(392,867)	-	(392,867)
Total comprehensive income in 2016	-	-	-	468,400	468,400	(415,136)	26,798	(4,529)	-	(392,867)	-	(392,867)
Balance at December 31, 2016	\$ 2,979,020	4,351,038	677,107	654,568	1,331,675	26,335	4,466	(28,098)	(341,721)	8,322,715	29,592	8,352,307
Appropriation approved by the stockholders:												
Appropriation of legal reserve	-	-	46,840	(46,840)	-	-	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	-	(421,680)	(421,680)	-	-	-	-	(421,680)	-	(421,680)
Cash dividends from capital surplus	-	(138,320)	-	-	-	-	-	-	-	(138,320)	-	(138,320)
Purchase of treasury stock	-	-	-	-	-	-	-	-	(23,897)	(23,897)	-	(23,897)
Retirement of treasury stock	(179,020)	(186,598)	-	-	-	-	-	-	365,618	-	-	-
Acquisition of subsidiary's interests from non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,500)	(1,500)
Net income in 2017	-	-	-	580,693	580,693	-	-	-	-	580,693	2,351	583,044
Other comprehensive income in 2017, net of income tax	-	-	-	-	-	(341,579)	11,961	(2,132)	-	(331,750)	(53)	(331,803)
Total comprehensive income in 2017	-	-	-	580,693	580,693	(341,579)	11,961	(2,132)	-	(331,750)	2,298	(331,803)
Balance at December 31, 2017	\$ 2,800,000	4,026,120	723,947	766,741	1,490,688	(315,244)	16,427	(30,230)	-	7,987,761	30,390	8,018,151

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the years ended December 31, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

	2017	2016
<b>Cash flows from operating activities:</b>		
Income before income tax	\$ 727,634	589,190
<b>Adjustments for:</b>		
Depreciation	540,060	581,882
Amortization	59,948	98,472
(Reversal of provision for bad debts) bad debt expenses	952	(695)
Interest expense	39,215	34,753
Interest income	(39,576)	(55,000)
Dividend income	(4,191)	(3,601)
Share of the losses of joint ventures	1,769	-
Gains on disposal and retirement of property, plant and equipment, net	(44,329)	(40,311)
Property, plant and equipment transferred to expenses	175	-
Gains on disposal of investments	(8,123)	(9,959)
Impairment losses on financial assets	-	39,878
Unrealized foreign exchange profit	-	(14,375)
Subtotal	<u>545,900</u>	<u>631,044</u>
<b>Changes in operating assets:</b>		
Increase in financial assets at fair value through profit or loss	(23,623)	-
Decrease (increase) in notes and accounts receivable	380	(919,393)
Decrease (increase) in accounts receivable from related parties	(16,251)	2,219
Decrease in other receivables	5,703	361,218
Decrease (increase) in other receivables from related parties	74	(74)
Decrease in inventories	140,865	372,356
Decrease (increase) in prepaid expenses and other current assets	(110,495)	290,948
Decrease in other non-current assets	-	117,169
Net changes in operating assets	<u>(3,347)</u>	<u>224,443</u>
<b>Changes in operating liabilities:</b>		
Increase (decrease) in financial liabilities at fair value through profit or loss	(18,121)	18,121
Increase (decrease) in notes and accounts payable	(397,252)	304,474
Decrease in accounts payable to related parties	(5,877)	(2,027)
Increase in other payables	68,215	392,802
Increase (decrease) in other payables to related parties	780	(8,613)
Decrease in provisions	(5,227)	(17,376)
Increase (decrease) in other current liabilities	(93,109)	134,676
Decrease in other non-current liabilities	(11,139)	(2,581)
Net changes in operating liabilities	<u>(461,730)</u>	<u>819,476</u>
<b>Total changes in operating assets and liabilities</b>	<u>(465,077)</u>	<u>1,043,919</u>
<b>Total adjustments</b>	<u>80,823</u>	<u>1,674,963</u>
Cash inflow generated from operations	808,457	2,264,153
Interest received	47,257	55,225
Interest paid	(39,592)	(34,391)
Income taxes paid	(86,160)	(232,120)
<b>Net cash provided by operating activities</b>	<u>729,962</u>	<u>2,052,867</u>

(Continued)

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows (Continued)**

**For the years ended December 31, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from investing activities:</b>		
Purchase of available-for-sale financial assets	(163,411)	(8,377)
Proceeds from sale of available-for-sale financial assets	64,857	5,275
Purchase of investments accounted for using equity method	(13,357)	-
Additions to property, plant and equipment	(495,592)	(442,894)
Proceeds from disposal of property, plant and equipment	116,628	54,844
Decrease (increase) in refundable deposits	(16,917)	1,531
Decrease in other receivables	-	244,031
Decrease (increase) in other financial assets-current	1,089,716	(760,250)
Decrease (increase) in other non-current assets	(46,298)	113,428
Decrease (increase) in restricted cash in banks	8,474	(194)
Dividends received	4,191	3,601
<b>Net cash provided by (used in) investing activities</b>	<u>548,291</u>	<u>(789,005)</u>
<b>Cash flows from financing activities:</b>		
Decrease in short-term borrowings	(237,463)	(126,875)
Increase in long-term borrowings	808,720	1,431,638
Repayment of long-term borrowings	(1,408,720)	(1,444,000)
Cash dividends distributed to shareholders	(421,680)	(595,804)
Cash dividends from capital surplus	(138,320)	-
Purchase of treasury stock	(23,897)	(325,880)
Acquisition of subsidiary's interests from non-controlling interests	(1,500)	(12,850)
<b>Net cash used in financing activities</b>	<u>(1,422,860)</u>	<u>(1,073,771)</u>
<b>Effects of exchange rate changes</b>	<u>(184,071)</u>	<u>(191,778)</u>
<b>Net decrease in cash and cash equivalents</b>	(328,678)	(1,687)
<b>Cash and cash equivalents at beginning of year</b>	<u>1,344,070</u>	<u>1,345,757</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 1,015,392</u>	<u>1,344,070</u>
<b>Cash paid for additions to property, plant and equipment:</b>		
Additions to property, plant and equipment	\$ 496,898	377,727
Plus (less): change in payables	(1,306)	65,167
<b>Cash paid</b>	<u>\$ 495,592</u>	<u>442,894</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**For the years ended December 31, 2017 and 2016**

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

**1. Organization and business**

Darfon Electronics Corp. (the “Company”) was incorporated on May 8, 1997, as a company limited by shares under the laws of the Republic of China (“R.O.C.”). The address of the Company’s registered office is No. 167, Shan-Ying Road, Gueishan, Taoyuan, Taiwan. In November 2007, the Company’s shares were listed on Taiwan Stock Exchange.

The Company and subsidiaries (hereinafter jointly referred to as the “Group”) are engaged in the manufacture and sale of computer peripheral devices and electronic components.

**2. Authorization of the consolidated financial statements**

These consolidated financial statements were authorized for issuance by the Board of Directors on March 2, 2018.

**3. Application of new and revised accounting standards and interpretations:**

- (a) Impact of adoption of new, revised or amended standards and interpretations endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”).

In preparing the accompanying consolidated financial statements, the Group has adopted the following International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”), and Interpretations that have been issued by the International Accounting Standards Board (“IASB”) (collectively, “IFRSs”) and endorsed by the FSC, with effective date from 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 <i>Investment Entities: Applying the Consolidation Exception</i>	January 1, 2016
Amendments to IFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i>	January 1, 2016
IFRS 14 <i>Regulatory Deferral Accounts</i>	January 1, 2016
Amendment to IAS 1 <i>Presentation of Financial Statements – Disclosure Initiative</i>	January 1, 2016
Amendments to IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>	January 1, 2016
Amendments to IAS 16 and IAS 41 <i>Agriculture: Bearer Plants</i>	January 1, 2016
Amendments to IAS 19 <i>Defined Benefit Plans: Employee Contributions</i>	July 1, 2014
Amendment to IAS 27 <i>Equity Method in Separate Financial Statement</i> ”	January 1, 2016
Amendments to IAS 36 <i>Impairment of Non-Financial assets – Recoverable Amount Disclosures for Non – Financial Assets</i>	January 1, 2014

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IAS 39 <i>Financial Instruments – Novation of Derivatives and Continuation of Hedge Accounting</i>	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 <i>Levies</i>	January 1, 2014

The initial application of the above IFRSs did not have any material impact on the Group's consolidated financial statements.

(b) Impact of IFRSs endorsed by FSC but not yet in effect

According to Ruling No. 1060025773 issued by the FSC on July 14, 2017, commencing from 2018, the Company is required to adopt the IFRSs that have been endorsed by the FSC with effective date from January 1, 2018. The related new, revised or amended standards and interpretations are set out below:

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

Except for the items discussed below, the Group believes that the initial adoption of the above IFRSs would not have any material impact on the consolidated financial statements :

(i) IFRS 9 *Financial Instruments*

The new standard will replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains classification and measurement (including measurement of financial instruments) and introduces a new hedge accounting model.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

1) Classification and measurement of 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 classification of financial assets under IAS 39 which are held to maturity, loans and receivables and available-for-sale.

Based on the Group's assessment, the application of new classification requirement would not have any material impact to the accounting treatment of accounts receivable, investments in debt instruments and investments in equity instruments which are managed on a fair value basis. As of December 31, 2017, the Group had investments in equity instruments classified as available-for-sale, with a fair value of \$202,700, which were held for long-term strategic purposes. At initial application of IFRS 9, the Group has designated these investments as measured at FVOCI. Consequently, all gains and losses arising from fair value changes 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 that the application of classification requirements under IFRS 9 would not have any material impact on the consolidated financial statements.

2) Impairment of 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 for financial assets 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.

If the credit risk of a financial instrument has increased significantly since initial recognition, a loss allowance is measured at an amount equal to lifetime expected credit losses; if the credit risk has not significantly increased, the loss allowance is measured at an amount equal to the 12-month expected credit losses. If the financial instrument is determined to have low credit risk at the reporting date, it may assume that the credit risk thereof has not increased significantly since initial recognition. However, lifetime expected credit loss measurement always applies for trade receivables and contract assets without a significant financing component. The Group elected to apply the simplified

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

approach for trade receivables and contract assets to measure the loss allowance at an any amount equal to lifetime expected credit losses.

The Group estimated the application of impairment model under IFRS 9 would not have any material impact on the consolidated financial statements.

3) Disclosures

IFRS 9 includes extensive disclosures requirements, particularly the disclosure credit risk and expected credit losses.

4) Transition

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

- The Group will not restate its comparative information for the prior periods with respect to the classification and measurement (including impairment) changes as a result of the election of exemption. The cumulative effect of initially applying IFRS 9 shall be recognized in retained earnings or other equity 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 business model within which a financial asset is held.
  - The designation and revocation of financial assets and financial liabilities previously designated as measured at FVTPL.
  - The designation of investments in equity instruments not held for trading as measured at FVOCI.

(ii) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a five-step model framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

1) Sales of goods

For the sale of goods, revenue is currently recognized based on the individual terms of each sales agreement when the related significant risks and rewards of ownership are transferred to the customers. 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 assessed that the point at which the significant risks and rewards of ownership transfer and customers obtain controls are similar and would not have any material impact on the consolidated financial statements.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

2) Transition

The Group elected to apply IFRS 15 using the cumulative effect method. Therefore, the comparative information will not be restated. The cumulative effect of initially applying IFRS 15 will be recognized as an adjustment to its retained earnings at January 1, 2018. The Group chose to use the practical expedient for completed contracts, which means, contracts that are completed at the date of the initial application ( i.e. January 1, 2018) will not be restated.

The Group estimated the application of IFRS 15 would not have any material impact on the consolidated financial statements.

(iii) Amendments to IAS 7 *Disclosure Initiative*

The amendments require an entity to provide 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.

The Group expects to disclose a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities to meet the abovementioned disclosure requirements.

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

(c) Impact of IFRS issued by IASB but not yet endorsed by the FSC

A summary of new standards and amendments issued by the IASB but not yet endorsed by the FSC is set out below:

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

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

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 <i>Leases</i>	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> <li>• 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 accrued on the lease liability separately from the depreciation expense charged on the right-of-use asset during the lease term.</li> <li>• A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</li> </ul>

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

**4. Summary of significant accounting policies**

The significant accounting policies presented in the consolidated financial statements are summarized as follows and have been applied consistently to all periods presented in these financial statements.

(a) Statement of compliance

The Group's accompanying consolidated financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" (the "Regulations") and the IFRSs, IASs, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (collectively as "Taiwan-IFRSs").

(b) Basis of preparation

(i) Basis of measurement

The accompanying consolidated financial statements have been prepared on a historical cost basis except for the following items in the balance sheets:

- 1) Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
- 2) Available-for-sale financial assets measured at fair value; and

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

3) Defined benefit liabilities (assets) are recognized as the present value of the defined benefit obligation less fair value of the plan assets and the effect of the asset ceiling mentioned in note 4(q).

(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The Group's consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional currency. Except when otherwise indicated, all financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The accompanying consolidated financial statements incorporate the financial statements of the Company and its controlled entities (the subsidiaries). The Company controls an investee when it is exposed, or has right, to variable returns from its involvement with the investee and has the ability to affect those returns through its control over the investee.

The financial statements of the 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 profit and loss arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, the financial statements of subsidiaries are adjusted to align their accounting policies with those adopted by the Company.

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. The difference between the adjustment of the non-controlling interests and the fair value of the payment or receipt is recognized as equity, which belongs to the Company.

When the Group's lose control over a subsidiary, a gain or loss recognized in profit or loss, which is calculated as the difference between (1) the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost, and (2) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interest. All amounts recognized in other comprehensive income in relation to the subsidiary are accounted for on the same basis as would be required if the Group had directly disposed of the related assets and liabilities.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(ii) List of subsidiaries in the consolidated financial statements

The subsidiaries included in the consolidated financial statements were as follows:

Name of Investor	Name of Investee	Main Business	Percentage of Ownership	
			December 31, 2017	December 31, 2016
The Company	Darfon (BVI) Corporation (DFBVI)	Trading of electronic products	100.00 %	100.00 %
The Company	Darfon (Labuan) Corporation (DFLB)	Investment holding	100.00 %	100.00 %
The Company	Darfon Materials Corp. (DMC)	Manufacture and sale of MLCC, inductors and paste	100.00 %	100.00 %
The Company	Darfon Gemmy Corp. (DZL)	Investment holding	100.00 %	100.00 %
The Company	Darfon Innovation Corp. (DTC)	Manufacture of lighting equipment, design and sale of intelligent products	52.00 %	52.00 %
The Company	Darfon Europe B.V.(DFeu)	Trading of green devices	100.00 %	100.00 %
DFBVI/DFLB	Darfon Electronics (Suzhou) Co., Ltd. (DFS)	Manufacture and sale of the Company's products	100.00 %	100.00 %
DFBVI/DFLB	Darfon Electronics, Shenzhen (DFZ)	Manufacture and sale of the Company's products	100.00 %	100.00 %
DFLB	Darfon Electronics Czech s.r.o (DFC)	Trading of electronic products	100.00 %	100.00 %
DFLB	Darfon America Corp. (DFA)	Trading of electronic products	100.00 %	100.00 %
DFLB	Huaian Darfon Electronics Co., Ltd. (DFH)	Manufacture and sale of the Company's products	100.00 %	100.00 %
DFLB	Darfon Korea Co., Ltd. (DFK)	Trading of electronic products	100.00 %	100.00 %
DFLB	Darfon Precision Holdings Co., Ltd. (DPH)	Investment holding	100.00 %	100.00 %
DFLB	Darfon Electronics, Chongqing (DFQ)	Manufacture and sale of the Company's products	100.00 %	100.00 %
DPH	Darfon Precision (Suzhou) Co., Ltd. (DPS)	Mold development and manufacture	100.00 %	100.00 %
DZL	Darfon Innovation Corp. (DTC)	Manufacture of lighting equipment, design and sale of intelligent products	32.60 %	31.85 %

(iii) List of subsidiaries which are not included in the consolidated financial statements: None.

(d) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates at the end of the period ("the reporting date") of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

Non-monetary assets and liabilities denominated in foreign currencies which are measured at fair value are retranslated at the exchange rate prevailing at the date when the fair value is determined. Exchange differences arising on the translation of non-monetary items are recognized in profit or loss, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items denominated in a foreign currency that are measured at historical cost are not retranslated.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisition, are translated into the presentation currency of the Group's consolidated financial statement at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated into the presentation currency of the Group's consolidated financial statements at the average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, the monetary item is, in substance, a part of net investment in that foreign operation, and the related foreign exchange gains and losses thereon are recognized as other comprehensive income.

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

An asset is classified as current when one of following criteria is met; all other assets are classified as non-current assets.

- (i) It is expected to be realized, or sold or consumed in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting date; or
- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

A liability is classified as current when one of following criteria is met; all other liabilities are classified as non-current liabilities:

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting date; or
- (iv) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(f) Cash and cash equivalents**

Cash consists of cash on hand, checking deposits, and demand deposits. Cash equivalents consist of short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits that meet the aforesaid criteria and are not held for investing purposes are also classified as cash equivalents.

**(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**

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. Regular way purchases or sales of financial assets are recognized or derecognized on a trade-date basis.

**1) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss consist of financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as financial assets at fair value through profit or loss unless they are designated as hedges.

At initial recognition, financial assets carried at fair value through profit or loss are recognized at fair value. Any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to the initial recognition, changes in fair value are recognized in profit or loss.

**2) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables comprise accounts receivable, other receivable, other financial assets and refundable deposits. At initial recognition, such assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized as "non-operating income and expenses-other income".

**3) 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. At initial recognition, available-for-sale financial assets are recognized at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, these assets 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 monetary financial assets, are recognized in other comprehensive income and presented in "unrealized gain/loss from available-for-sale financial assets" in

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

equity. When the financial asset is derecognized, the gain or loss previously accumulated in equity is reclassified to profit or loss.

Dividends received from equity investments are recognized as non-operating income on the date of entitlement to receive dividends (usually the ex-dividend date).

4) Impairment of financial assets

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

Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, indications that the debtor or issuer will probably enter bankruptcy or other financial reorganization, and the disappearance of an active market for that financial asset because of financial difficulties. For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, such asset is included in a group of financial assets with similar credit risk characteristics which are then collectively assessed for impairment. Objective evidence that receivables are impaired includes the Group's collection experience in the past, an increase in delayed payments, and national or local economic conditions that correlate with overdue receivables.

An impairment loss is recognized by reducing the carrying amount of the respective financial assets with the exception of receivables, where the carrying amount is reduced through an allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

An impairment loss in respect of a financial asset measured at amortized cost is measured as the excess of the asset's carrying amount over the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

When an impairment loss is recognized for an available-for-sale asset, the cumulative gains or loss that had been recognized in other comprehensive income is reclassified from equity to 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. If, in a subsequent period, the fair value of an impaired

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

5) **Derecognition of financial assets**

Financial assets are derecognized when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfer out substantially all the risks and rewards of ownership of the financial assets to other enterprises.

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 accumulated in other equity— unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in the non-operating income and loss of the consolidated statement of comprehensive income.

On derecognition of part of a financial asset, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of relative fair values of those parts on the date of transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received or receivable for the part of the financial asset derecognized and the cumulative gain or loss that had been recognized in other comprehensive income allocated to the part derecognized is charged to profit or loss. 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**

1) **Financial liabilities at fair value through profit or loss**

A financial liability is classified in this category if it is classified as held for trading or is designated as a financial liability at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also categorized as financial liabilities at fair value through profit or loss unless they are designated as hedges.

At initial recognition, this type of financial liability is recognized at fair value, and any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, the financial liabilities are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss and included in the non-operating income and loss of the consolidated statement of comprehensive income.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
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2) Financial liabilities measured at amortized cost

Financial liabilities not classified as held for trading or not designated as at fair value through profit or loss, which comprise loans and borrowings, accounts payable, and other payables, are measured at fair value plus any directly attributable transaction cost at initial recognition. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

3) Derecognition of financial liabilities

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

(iii) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis only 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.

(iv) Derivative financial instruments

Derivative financial instruments are held to hedge the Group's foreign currency 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 included in non-operating income and loss. If the valuation of a derivative instrument results in a positive fair value, it is classified as a financial asset; otherwise, it is classified as a financial liability.

(h) Inventories

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition ready for sale. Inventories are measured individually at the lower of cost or net realizable value. The cost of inventories is based on the standard cost method. The difference between standard cost and actual cost is allocated to inventory and cost of sales on a proportional basis except for inefficient fixed manufacturing overheads, which are charged to cost of sales. Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs of completion and necessary selling expenses at the balance sheet date.

(i) Joint arrangements

A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers. Joint venturers should account the rights from the joint arrangement as an investment, and account it for using equity method according to IAS 28, unless, the entity is exempted from applying the equity method as specified in the standard.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The Group considered the infrastructure, legal form of the vehicle, provisions of the joint arrangement and other facts and situations when evaluating the classification of the joint arrangement.

Investments in joint ventures are accounted for using the equity method and are recognized initially at cost, plus, any transaction costs. The carrying amount of the investment in joint ventures includes goodwill identified on acquisition, net of any accumulated impairment losses. When necessary, the entire carrying amount of the investment (including goodwill) will be tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group's share of its joint venture's post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized as other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When changes in an joint venture's equity are not recognized in profit or loss or other comprehensive income of the joint venture, and such changes do not affect the Group's ownership percentage of the joint venture, the Group recognizes the change in ownership interests of its joint venture as "capital surplus" in proportion to its ownership.

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

(j) Property, plant and equipment

(i) Recognition and measurement

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 and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and any borrowing cost that is eligible for capitalization. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The gain or loss arising from the disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized as non-operating income and loss.

(ii) Reclassification to investment property

A property is reclassified to investment property at its carrying amount when the purpose of the property changes from owner-occupied to investment.

(iii) Subsequent costs

Subsequent costs are capitalized only when it is probable that future economic benefits associated with the costs will flow to the Group and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognized in profit or loss. All other repairs and maintenance are charged to expense as incurred.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
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(iv) Depreciation

Depreciation is provided for property, plant and equipment over the estimated useful lives using the straight-line method. When an item of property, plant and equipment comprises significant individual components for which different depreciation methods or useful lives are appropriate, each component is depreciated separately. Land is not depreciated. The depreciation is recognized in profit or loss.

The estimated useful lives for the current and comparative periods of property, plant and equipment are as follows: machinery and equipment: 2 to 10 years; furniture, fixtures, and other equipment: 3 to 10 years; buildings— main structure and other equipment pertaining to buildings: 4 to 40 years; buildings—electronic and air-conditioning facilities: 20 to 30 years.

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

(k) Leases

Payments made under operating leases (excluding insurance and maintenance expense) are charged to expense over the lease term on a straight-line basis.

(l) Intangible assets

Acquired software is carried at cost. Subsequent to the initial recognition, acquired software is carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss on a straight-line basis. The estimated useful lives of acquired software for the current and comparative periods are 4 to 10 years.

The residual value, amortization period, and amortization method are reviewed at least at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

(m) Impairment of non-financial assets

Non-financial assets other than inventories, deferred income tax assets, and assets arising from employee benefits are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. When there exists an indication of impairment for an asset, the recoverable amount of the asset is then estimated. If the recoverable amount of an individual asset cannot be determined, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset has been allocated.

The recoverable amount for an individual asset or a CGU is the higher of its fair value less costs to sell or its value in use. When the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount, and an impairment loss is recognized in profit or loss immediately.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
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The Group assesses at each reporting date whether there is any evidence that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If so, an impairment loss recognized in prior periods for an asset other than goodwill is reversed, and the carrying amount of the asset or CGU is increased to its revised estimate of recoverable amount. The increased carrying amount shall not exceed the carrying amount (net of amortization or depreciation) that would have been determined had no impairment loss been recognized in prior years.

(n) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax discount 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 costs.

A provision for warranties is recognized when the underlying products are sold. This provision reflects the historical warranty claim rate experience and the weighting of all possible outcomes against their associated probabilities.

(o) Treasury stock

Common stock repurchased by the Group treated as treasury stock (a contra-equity account) is reported at acquisition cost (including all directly accountable costs). When treasury stock is sold, the excess of sales proceeds over cost is accounted for as capital surplus—treasury stock. If the sales proceeds are less than the cost, the deficiency is accounted for as a reduction of the remaining balance of capital surplus—treasury stock. If the remaining balance of capital surplus—treasury stock is insufficient to cover the deficiency, the remainder is recorded as a reduction of retained earnings. The cost of treasury stock is computed using the weighted-average method.

If a treasury stock is retired, the weighted-average cost of the retired treasury stock is written off against the par value and the capital surplus premium, if any, of the stock retired on a pro rata basis. If the weighted-average cost written off exceeds the sum of the par value and the capital surplus, the difference is accounted for as a reduction of capital surplus—treasury stock, or a reduction of retained earnings for any deficiency where capital surplus—treasury stock is insufficient to cover the difference. If the weighted-average cost written off is less than the sum of the par value and capital surplus, if any, of the stock retired, the difference is accounted for as an increase in capital surplus—treasury stock.

(p) Revenue recognition

(i) Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, rebates, and other similar discounts. Sales returns are estimated based on historical experience and other relevant factors. Revenue from the sale of goods is recognized when all the following conditions have been satisfied: (a) the significant risks and rewards of ownership of the goods have been transferred to the buyer; (b) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d)

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it is probable that the economic benefits associated with the transaction will flow to the Group; and (e) the cost incurred or to be incurred in respect of the transaction can be measured reliably.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. Revenue is not recognized for the sale of key components to an original design manufacturer for manufacture or assembly as the significant risks and rewards of the ownership of materials are not transferred.

(ii) Royalties

Royalty revenue shall be recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably.

Revenue arising from royalties shall be recognized on an accrual basis in accordance with the substance of the relevant agreement.

(iii) Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

(q) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are expensed during the year in which employees render services.

(ii) Defined benefit plans

The liability recognized in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The discount rate for calculating the present value of the defined benefit obligation refers to the interest rate of high-quality government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. The defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method.

When the benefits of a plan are improved, the expense related to the increased obligations resulting from the services rendered by employees in the past years are recognized in profit or loss immediately.

The remeasurements of the net defined benefit liability (asset) comprise (i) actuarial gains and losses, (ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). The

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remeasurements of the net defined benefit liabilities (asset) are recognized in other comprehensive income and then transferred to other equity.

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 or settlement comprises any resulting change in the fair value of plan assets and any change in the present value of the defined benefit obligation.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed during the period in which employees render services. 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 make such payments as a result of past service provided by the employees, and the obligation can be estimated reliably.

(r) Income taxes

Income tax expenses include both current taxes and deferred taxes. Current and deferred taxes are recognized in profit or loss unless they relate to business combinations or items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for:

- (i) Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss;
- (ii) Temporary differences arising from investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences, and it is probable that the differences will not reverse in the foreseeable future; and
- (iii) Temporary differences arising from initial recognition of goodwill.

Deferred tax is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
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Deferred tax assets are recognized for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(s) Earnings per share (“EPS”)

The basic and diluted EPS attributable to stockholders of the Company are disclosed in the consolidated financial statements. Basic EPS is calculated by dividing net income attributable to stockholders of the Company by the weighted-average number of common shares outstanding during the year. In calculating diluted EPS, the net income attributable to stockholders of the Company and weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common shares. The Group’s dilutive potential common shares are profit sharing for employees to be settled in the form of common stock.

(t) 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 on the allocation of resources to the segment and to assess its performance for which discrete financial information is available.

**5. Critical accounting judgments and key sources of estimation uncertainty**

The preparation of the consolidated financial statements in conformity with the Regulations and Taiwan-IFRSs 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and the future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included as follows:

**Valuation of inventory**

Inventories are measured at the lower of cost and net realizable value. Due to the rapid technological changes, the Group’s product price may decline rapidly. Furthermore, the stocks for products may exceed customers’ demands thus becoming obsolete. These factors result in a risk wherein the carrying amount of inventory may exceed its net realizable value. Particularly, the estimation of net realizable value requires the management’s subjective judgments. Also, the estimation is mainly determined based on assumptions of future demand within a specific time horizon, which could result in significant adjustments.

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**6. Significant account disclosures**

(a) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand	\$ 3,384	3,263
Demand deposits and checking accounts	576,417	582,350
Time deposits with original maturities less than three months	<u>435,591</u>	<u>758,457</u>
	<u>\$ 1,015,392</u>	<u>1,344,070</u>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Financial assets at fair value through profit or loss:		
Foreign currency forward contracts	<u>\$ 23,623</u>	<u>-</u>
Financial liabilities at fair value through profit or loss:		
Foreign currency forward contracts	<u>\$ -</u>	<u>(18,121)</u>

The Group entered into derivative contracts to manage foreign currency exchange risk resulting from its operating activities. The derivative financial instruments that did not conform to the criteria for hedge accounting were classified as financial assets and liabilities at fair value through profit or loss.

At each reporting date, the outstanding derivative contracts that did not conform to the criteria for hedge accounting consisted of the following :

<u>December 31, 2017</u>		
<u>Contract amount ( in thousands)</u>	<u>Currency</u>	<u>Maturity Period</u>
USDS <u>49,000</u>	CNY Buy / USD Sell	107.01~107.10
<u>December 31, 2016</u>		
<u>Contract amount ( in thousands)</u>	<u>Currency</u>	<u>Maturity Period</u>
USDS <u>12,000</u>	CNY Buy / USD Sell	106.02~106.03

(c) Available-for-sale financial assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Domestic listed stocks—current	\$ 194,158	73,777
Domestic emerging stocks—current	<u>8,542</u>	<u>10,285</u>
	<u>\$ 202,700</u>	<u>84,062</u>

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
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In 2016, the Group determined its investment in domestic listed stock as impaired due to a prolonged decline in the fair value of equity instrument below its cost, resulting in an impairment loss on its financial assets of \$39,878, which was recognized in “non-operating income and loss — other gains and losses”.

(d) Notes and accounts receivable, and other receivables

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Notes and accounts receivable	\$ 5,558,557	5,559,725
Less: allowance for doubtful receivables	<u>(32,901)</u>	<u>(32,737)</u>
	5,525,656	5,526,988
Accounts receivable from related parties	35,554	19,303
Other receivables	29,350	51,208
Other receivables from related parties	<u>-</u>	<u>74</u>
	<u>\$ 5,590,560</u>	<u>5,597,573</u>

(i) Movements of the allowance for doubtful receivables were as follows:

	<b>Individually assessed impairment</b>
Balance at January 1, 2017	\$ 32,737
Impairment loss	952
Write-off	(536)
Effect of exchange rate changes	<u>(252)</u>
Balance at December 31, 2017	<u>\$ 32,901</u>
	<b>Individually assessed impairment</b>
Balance at January 1, 2016	\$ 35,374
Impairment loss	(695)
Effect of exchange rate changes	<u>(1,942)</u>
Balance at December 31, 2016	<u>\$ 32,737</u>

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
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- (ii) Aging analysis of notes and accounts receivable, and other receivables that are overdue but not impaired is as follows:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Past due 1~30 days	\$ 960,265	1,288,089
Past due 31~120 days	<u>171,623</u>	<u>254,313</u>
	<u>\$ 1,131,888</u>	<u>1,542,402</u>

The allowance for doubtful receivables is assessed by referring to the collectability of receivables based on historical payment behavior, an analysis of specific customer credit quality, and subsequent payment collections. Notes and accounts receivable that are past due but for which the Group have not recognized a specific allowance for doubtful receivables after the assessment are still considered recoverable.

- (iii) The Group entered into factoring contracts with financial institutions to sell its accounts receivable without recourse. According to these contracts, the Group is not responsible for any risk of uncollectible accounts receivable, but only the risk of loss due to commercial disputes. Thus, these contracts met the conditions of financial asset derecognition. As of December 31, 2017 and 2016, details of these contracts were as follows:

<u>December 31, 2017</u>					
<u>Underwriting bank</u>	<u>Factored amount</u>	<u>Factoring credit limit</u>	<u>Advance amount</u>	<u>Range of interest rates</u>	<u>Collateral</u>
E. Sun Bank	\$ 243,842	447,600	243,842		-
Far Eastern international Bank	<u>478,084</u>	<u>895,200</u>	<u>478,084</u>		-
	<u>\$ 721,926</u>	<u>1,342,800</u>	<u>721,926</u>	1.57%~2.7801%	<u>-</u>
<u>December 31, 2016</u>					
<u>Underwriting bank</u>	<u>Factored amount</u>	<u>Factoring credit limit</u>	<u>Advance amount</u>	<u>Range of interest rates</u>	<u>Collateral</u>
Taipei Fubon Bank	\$ -	161,250	-		-
Yuanta Bank	231,313	1,161,000	231,313		-
E. Sun Bank	201,416	483,750	201,416		-
Far Eastern international Bank	387,167	967,500	387,167		-
China Citic Bank	<u>135,878</u>	<u>1,386,750</u>	<u>122,290</u>		-
	<u>\$ 955,774</u>	<u>4,160,250</u>	<u>942,186</u>	0.9129%~2.6633%	<u>-</u>

As of December 31, 2017 and 2016, the factored accounts receivable, net of the advance amount, were \$0 and \$13,588, respectively, and were classified as other receivables in the accompanying consolidated balance sheets.

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## (e) Inventories

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Raw materials	\$ 774,323	849,367
Work in process	221,065	215,050
Finished goods	<u>1,038,221</u>	<u>1,110,057</u>
	<u>\$ 2,033,609</u>	<u>2,174,474</u>

For the years ended December 31, 2017 and 2016, the amounts of inventories which recognized as cost of sales were as follows:

	<u>2017</u>	<u>2016</u>
Cost of inventories sold	\$ 14,539,486	15,512,807
Write-downs of inventories to net realizable value	77,682	44,738
Loss on scrap	<u>214,335</u>	<u>330,258</u>
	<u>\$ 14,831,503</u>	<u>15,887,803</u>

The write-downs of inventories to net realizable value was recognized as cost of sales.

## (f) Other financial assets—current

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Principal protected currency deposit in CNY	\$ 704,810	1,618,319
Time deposits with original maturities more than three months	<u>-</u>	<u>176,207</u>
	<u>\$ 704,810</u>	<u>1,794,526</u>

## (g) Investments accounted for using equity method

Aggregate financial information of the above joint ventures, that is not individually material, was summarized as follows. The financial information was included in the Group's consolidated financial statement:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Carrying amount	\$ <u>11,244</u>	<u>-</u>
	<u>2017</u>	<u>2016</u>
Attributable to the Group:		
Net loss	\$ (1,769)	-
Other comprehensive income	<u>(344)</u>	<u>-</u>
Total comprehensive income	<u>\$ (2,113)</u>	<u>-</u>

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(h) Property, plant and equipment

The movements of cost, and accumulated depreciation and impairment loss of the property, plant and equipment were as follows:

	Land	Building	Machinery	Furniture and fixtures	Other equipment	Construction in progress	Total
<b>Cost:</b>							
Balance at January 1, 2017	\$ 606,960	6,069,354	4,844,755	70,198	301,424	55,753	11,948,444
Additions	-	4,963	368,890	759	7,140	115,146	496,898
Disposals	-	(4,766)	(536,900)	(1,116)	(18,216)	-	(560,998)
Reclassification	-	(2,315)	6,184	-	(386)	(3,483)	-
Effect of exchange rate changes	-	(167,373)	(196,511)	(834)	(2,463)	1,350	(365,831)
Balance at December 31, 2017	<u>\$ 606,960</u>	<u>5,899,863</u>	<u>4,486,418</u>	<u>69,007</u>	<u>287,499</u>	<u>168,766</u>	<u>11,518,513</u>
Balance at January 1, 2016	\$ 606,960	6,207,587	4,825,344	80,453	332,571	58,985	12,111,900
Additions	-	35,527	321,317	1,322	6,706	12,855	377,727
Disposals	-	(16,152)	(215,461)	(8,502)	(18,557)	-	(258,672)
Reclassification	-	1,336	10,382	-	-	(11,718)	-
Effect of exchange rate changes	-	(158,944)	(96,827)	(3,075)	(19,296)	(4,369)	(282,511)
Balance at December 31, 2016	<u>\$ 606,960</u>	<u>6,069,354</u>	<u>4,844,755</u>	<u>70,198</u>	<u>301,424</u>	<u>55,753</u>	<u>11,948,444</u>
<b>Accumulated depreciation and impairment losses:</b>							
Balance at January 1, 2017	\$ -	2,096,417	4,239,226	64,927	249,772	-	6,650,342
Depreciation	-	234,227	278,640	3,852	23,341	-	540,060
Disposals	-	(1,205)	(471,129)	(1,009)	(15,181)	-	(488,524)
Reclassification	-	(679)	(183)	1,030	(168)	-	-
Effect of exchange rate changes	-	(63,008)	(147,074)	(663)	(2,208)	-	(212,953)
Balance at December 31, 2017	<u>\$ -</u>	<u>2,265,752</u>	<u>3,899,480</u>	<u>68,137</u>	<u>255,556</u>	<u>-</u>	<u>6,488,925</u>
Balance at January 1, 2016	\$ -	1,904,692	4,204,916	71,878	255,105	-	6,436,591
Depreciation	-	247,049	303,485	4,406	26,942	-	581,882
Disposals	-	(8,724)	(211,080)	(8,349)	(15,986)	-	(244,139)
Effect of exchange rate changes	-	(46,600)	(58,095)	(3,008)	(16,289)	-	(123,992)
Balance at December 31, 2016	<u>\$ -</u>	<u>2,096,417</u>	<u>4,239,226</u>	<u>64,927</u>	<u>249,772</u>	<u>-</u>	<u>6,650,342</u>
<b>Carrying amount:</b>							
Balance at December 31, 2017	<u>\$ 606,960</u>	<u>3,634,111</u>	<u>586,938</u>	<u>870</u>	<u>31,943</u>	<u>168,766</u>	<u>5,029,588</u>
Balance at December 31, 2016	<u>\$ 606,960</u>	<u>3,972,937</u>	<u>605,529</u>	<u>5,271</u>	<u>51,652</u>	<u>55,753</u>	<u>5,298,102</u>

Please refer to note 8 for details of the property, plant and equipment pledged as collateral as of December 31, 2017 and 2016.

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

## (i) Intangible assets

The movements of costs and accumulated amortization of intangible assets were as follows:

	<u>Software</u>
<b>Costs:</b>	
Balance at January 1, 2017 (Balance at December 31, 2017)	\$ <u>102,577</u>
Balance at January 1, 2016 (Balance at December 31, 2016)	\$ <u>102,577</u>
<b>Accumulated amortization:</b>	
Balance at January 1, 2017	\$ 72,586
Amortization	<u>12,854</u>
Balance at December 31, 2017	\$ <u>85,440</u>
Balance at January 1, 2016	\$ 59,733
Amortization	<u>12,853</u>
Balance at December 31, 2016	\$ <u>72,586</u>
<b>Carrying amounts:</b>	
Balance at December 31, 2017	\$ <u>17,137</u>
Balance at December 31, 2016	\$ <u>29,991</u>

For the years ended December 31, 2017 and 2016, amortization of intangible assets reported under the consolidated statements of comprehensive income was as follows:

	<u>2017</u>	<u>2016</u>
Operating expenses	\$ <u>12,854</u>	<u>12,853</u>

## (j) Short-term borrowings

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unsecured bank borrowings	\$ <u>501,312</u>	<u>738,775</u>
Unused credit facilities	\$ <u>9,035,398</u>	<u>8,969,115</u>
Interest rate	<u>0.74%~2.22%</u>	<u>0.89%~1.62%</u>

## (k) Long-term borrowings

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Secured bank borrowings	\$ <u>480,000</u>	<u>1,080,000</u>
Unused credit facilities	\$ <u>2,999,184</u>	<u>2,436,000</u>
Interest rate	<u>1.14%~2.22%</u>	<u>1.13%~1.47%</u>

Refer to note 8 for a description of pledged property related to the secured long-term borrowings.

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

## (l) Provision — non-current

	<u>Warranties</u>
Balance at January 1, 2017	\$ 85,203
Amount reversed	(5,097)
Amount utilized	<u>(130)</u>
Balance at December 31, 2017	<u>\$ 79,976</u>
Balance at January 1, 2016	\$ 102,579
Amount reversed	(7,259)
Amount utilized	<u>(10,117)</u>
Balance at December 31, 2016	<u>\$ 85,203</u>

As of December 31, 2017 and 2016, the provision for warranties mainly related to the selling of computer peripheral devices, and electronic components. The provision for warranties is estimated based on historical warranty data associated with similar products.

## (m) Operating lease

The future operating leases are as follows:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Not later than 1 year	\$ 47,484	49,432
Later than 1 year but not later than 5 years	<u>34,818</u>	<u>78,287</u>
	<u>\$ 82,302</u>	<u>127,719</u>

The Group have leased offices, warehouses, and employee dormitories under operating leases. The leases typically run for a period of 1 to 10 years. The consolidated subsidiaries in China have the land use rights for a leasing period of 50 years, recognized as “long-term prepaid rent”.

The rental expenses of operating leases as of and for the years ended December 31, 2017 and 2016 were \$90,647 and \$84,348, respectively.

## (n) Employee benefits

## (i) Defined benefit plans

Present value of defined benefit obligations in excess of fair value of plan assets:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Present value of benefit obligations	\$ 185,710	193,132
Fair value of plan assets	<u>(108,449)</u>	<u>(107,081)</u>
	77,261	86,051
Effects of the asset ceiling	<u>-</u>	<u>-</u>
Net defined benefit liabilities	<u>\$ 77,261</u>	<u>86,051</u>

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

Fair value of plan assets in excess of present value of defined benefit obligations:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Present value of benefit obligations	\$ -	4,152
Fair value of plan assets	<u>(14,826)</u>	<u>(14,682)</u>
	(14,826)	(10,530)
Effects of the asset ceiling	<u>-</u>	<u>-</u>
Net defined benefit assets	<u>\$ (14,826)</u>	<u>(10,530)</u>

The Company and its domestic subsidiaries make defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pension benefits for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive a payment based on years of service and average salary for the six months prior to the employee's retirement.

1) Composition of plan assets

The pension fund (the "Fund") contributed by the Company and its domestic subsidiaries is managed and administered by the Bureau of Labor Funds of the Ministry of Labor (the Bureau of Labor Funds). According to the *Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund*, with regard to the utilization of the Fund, minimum annual earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

As of December 31, 2017 and 2016, the Group's labor pension fund account balance at Bank of Taiwan amounted to \$123,275 and \$121,763, respectively. Refer to the website of the Bureau of Labor Funds for information on the labor pension assets including the asset portfolio and yield of the Fund.

2) Movements in present value of defined benefit obligations

In 2017 and 2016, the movements in present value of the defined benefit obligations of the Group were as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit obligations at January 1	\$ 197,284	196,091
Current service costs and interest expense	3,477	4,409
Remeasurement on the net defined benefit liabilities (assets):		
— Actuarial losses (gains) arising from experience adjustments	7,711	(9,526)
— Actuarial losses (gains) arising from changes in financial assumptions	(5,685)	13,375
Curtailment gain	(12,674)	-
Benefits paid by the plan	(6,167)	(7,065)
Effect of employee transfers	1,764	-
Defined benefit obligations at December 31	<u>\$ 185,710</u>	<u>197,284</u>

(Continued)



**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
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3) Movements of fair value of plan assets

In 2017 and 2016, the movements of fair value of plan assets of the Group were as follows:

	<u>2017</u>	<u>2016</u>
Fair value of plan assets at January 1	\$ 121,763	121,472
Interest income	1,726	2,320
Remeasurement on the net defined benefit liabilities (assets):		
Returns on plan assets (excluding the amounts included in the net interest expense)	(527)	(1,464)
Contributions by the employer	6,480	6,500
Benefits paid by the plan	<u>(6,167)</u>	<u>(7,065)</u>
Fair value of plan assets at December 31	<u>\$ 123,275</u>	<u>121,763</u>

4) Changes in the effect of the asset ceiling

In 2017 and 2016, there was no effect of the asset ceiling.

5) Expenses recognized in profit or loss

In 2017 and 2016, the expenses recognized in profit or loss were as follows:

	<u>2017</u>	<u>2016</u>
Current service costs	\$ 771	751
Net interest expense on the net defined benefit liability (asset)	980	1,338
Curtailement gain	(12,674)	-
Effect of employee transfers	<u>1,764</u>	<u>-</u>
	<u>\$ (9,159)</u>	<u>2,089</u>
Cost of sales	\$ (2,782)	(67)
Selling expenses	(303)	460
Administrative expenses	(1,823)	679
Research and development expenses	<u>(4,251)</u>	<u>1,017</u>
	<u>\$ (9,159)</u>	<u>2,089</u>

6) Remeasurement of the net defined benefit liabilities (assets) recognized in other comprehensive income

In 2017 and 2016, the remeasurement of the net defined benefit liabilities (assets) recognized in other comprehensive income were as follows:

	<u>2017</u>	<u>2016</u>
Cumulative amount at January 1	\$ 33,637	28,324
Recognized during the period	<u>2,553</u>	<u>5,313</u>
Cumulative amount at December 31	<u>\$ 36,190</u>	<u>33,637</u>

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

7) Actuarial assumptions

The principal assumptions of the actuarial valuation were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate	1.625 %	1.375%~1.5%
Future salary increases rate	2.000 %	2.000 %

The Group expects to make the contribution of \$6,480 to the defined benefit plans in the year following December 31, 2017.

The weighted average duration of the defined benefit plan is 18 years.

8) Sensitivity analysis

The following table summarizes the impact of a change in the assumptions on the present value of the defined benefit obligation on December 31, 2017 and 2016.

	<b>Increase (decrease) in present value of defined benefit obligations</b>	
	<u>0.25% Increase</u>	<u>0.25% Decrease</u>
	December 31, 2017	
Discount rate	\$ (6,276)	6,526
Future salary increase	6,394	(6,182)
December 31, 2016		
Discount rate	(6,889)	7,234
Future salary increase	7,068	(6,773)

Each sensitivity analysis considers the change in one assumption at a time, leaving the other assumptions unchanged. This approach shows the isolated effect of changing one individual assumption but does not take into account that some assumptions are related. The method used to carry out the sensitivity analysis is the same as the calculation of the net defined benefit liabilities recognized in the balance sheets.

The method used to carry out the sensitivity analysis is the same as in the prior year.

(ii) Defined contribution plans

The Company and its domestic subsidiaries contribute monthly an amount equal to 6% of each employee's monthly wages to the employee's individual pension fund account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Foreign subsidiaries make contributions in compliance with their respective local regulations. Under these defined contribution plans, the Group have no legal or constructive obligation to pay any additional amounts after contributing a fixed amount.

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

For the years ended December 31, 2017 and 2016, the Group recognized pension expenses of \$248,056 and \$276,360, respectively, in relation to the defined contribution plans.

(o) Income taxes

(i) In 2017 and 2016, the components of income tax expense were as follows:

	<u>2017</u>	<u>2016</u>
Current income tax expense		
Current period	\$ 58,450	136,328
Adjustment for prior years	<u>36,584</u>	<u>(3,552)</u>
	<u>95,034</u>	<u>132,776</u>
Deferred income tax expense (benefit)		
Origination and reversal of temporary differences	70,463	14,606
Changes in tax losses	(2,558)	-
Change in unrecognized deductible temporary differences	<u>(18,349)</u>	<u>(30,582)</u>
	<u>49,556</u>	<u>(15,976)</u>
Income tax expense	<u>\$ 144,590</u>	<u>116,800</u>

In 2017 and 2016, there was no income tax recognized directly in equity.

In 2017 and 2016, the components of income tax recognized in other comprehensive income were as follows:

	<u>2017</u>	<u>2016</u>
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of the defined benefit plans	<u>\$ 421</u>	<u>784</u>

Reconciliation of income tax expense and income before income tax for 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Income before income taxes	<u>\$ 727,634</u>	<u>589,190</u>
Income tax using the Company's statutory tax rate	\$ 123,698	100,162
Effect of different tax rates in foreign jurisdictions	11,906	31,731
Investment tax credits	(9,752)	(14,725)
Adjustments for prior-year income tax expense	14,531	(1,493)
Non-deductible expense	2,451	4,253
Recognition of previously unrecognized tax losses	(2,949)	(37,366)
Unrecognized tax benefits relating to current year's tax loss	1,317	4,861
Changes in unrecognized temporary differences	(18,349)	(30,582)
Others	<u>21,737</u>	<u>59,959</u>
Income tax expense	<u>\$ 144,590</u>	<u>116,800</u>

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(ii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

The Group determined that it is not probable that future taxable profits will be available against which the temporary differences and tax losses can be utilized, these items which were not recognized as deferred income tax assets were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Deductible temporary differences	\$ 247,201	208,638
Tax losses	19,881	37,450
	<b><u>\$ 267,082</u></b>	<b><u>246,088</u></b>

As of December 31, 2017, the unrecognized tax losses and the respective expiry years were as follows:

<u>Tax losses</u>	<u>Income tax effect of tax losses</u>	<u>Expiration year</u>
\$ 942	160	2022
79,723	13,553	2023
13,489	2,293	2026
<u>22,792</u>	<u>3,875</u>	2027
<b><u>\$ 116,946</u></b>	<b><u>19,881</u></b>	

2) Unrecognized deferred income tax liabilities

The Company was able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2017 and 2016, and management believed that it was probable that the temporary differences would not reverse in the foreseeable future, such temporary differences which were not recognized as deferred income tax liabilities were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Aggregate taxable temporary differences associated with investments in subsidiaries	\$ 451,517	394,605

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

3) Recognized deferred income tax assets and liabilities

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

Deferred income tax assets:

	Depreciation adjustments for tax purposes	Defined benefit liabilities	Tax losses	Deferred inter- company profits	Warranty provisions	Sales allowance	Others	Total
Balance at January 1, 2017	\$ 21,706	14,629	-	47,119	14,485	64,956	6,182	169,077
Recognized in profit or loss	(6,484)	(1,916)	2,558	7,807	(889)	(46,020)	1,962	(42,982)
Recognized in other comprehensive income	-	421	-	-	-	-	-	421
Balance at December 31, 2017	\$ 15,222	13,134	2,558	54,926	13,596	18,936	8,144	126,516
Balance at January 1, 2016	\$ 36,622	14,556	-	33,980	17,438	49,911	-	152,507
Recognized in profit or loss	(14,916)	(711)	-	13,139	(2,953)	15,045	6,182	15,786
Recognized in other comprehensive income	-	784	-	-	-	-	-	784
Balance at December 31, 2016	\$ 21,706	14,629	-	47,119	14,485	64,956	6,182	169,077

Deferred income tax liabilities:

	Unrealized foreign currency exchange gain	Defined benefit assets	Total
Balance at January 1, 2017	\$ -	-	-
Recognized in profit or loss	(4,054)	(2,520)	(6,574)
Balance at December 31, 2017	\$ (4,054)	(2,520)	(6,574)
Balance at January 1, 2016	\$ (190)	-	(190)
Recognized in profit or loss	190	-	190
Balance at December 31, 2016	\$ -	-	-

As of December 31, 2017, the recognized tax losses carryforwards and the respective expiry years were as follows:

Tax loss	Income tax effect of tax loss carryforwards	Expiration year
\$ 15,046	2,558	2026

- (iii) The R.O.C. income tax authorities have examined the income tax returns of the Company for all fiscal years through December 31, 2015.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
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(iv) Information about the imputation tax system:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Unappropriated retained earnings commencing from January 1, 1998	(Note)	\$ <u>654,568</u>
Balance of imputation credit account	(Note)	\$ <u>9,477</u>
	<b>2017 (estimated)</b>	<b>2016 (actual)</b>
Creditable ratio for earnings distribution to R.O.C. resident	(Note)	<u>8.66 %</u>

The abovementioned integrated income tax information was prepared in accordance with Decree No. 10204562810 announced by the Ministry of Finance of the 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.

(p) Capital and other equity

(i) Common stock

As of December 31, 2017 and 2016, the Company's authorized shares of common stock consisted of 400,000 thousand shares at \$10 par value per share, of which 280,000 thousand shares and 297,902 thousand shares, respectively, were issued and outstanding.

(ii) Capital surplus

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Paid-in capital in excess of par value	\$ 3,787,940	4,177,288
Treasury stock transactions	<u>238,180</u>	<u>173,750</u>
	<b>\$ <u>4,026,120</u></b>	<b><u>4,351,038</u></b>

Pursuant to the Company Act, any realized capital surplus is initially used to cover an accumulated deficit, and the balance, if any, could be transferred to common stock as stock dividends based on the original shareholding ratio or distributed as cash dividends pursuant to a resolution approved by the stockholders. Realized capital surplus includes the premium derived from the issuance of shares of stock in excess of par value and donations from stockholders received by the Company. In accordance with the *Regulations Governing the Offering and Issuance of Securities by Securities Issuers*, distribution of stock dividends from capital surplus in any one year shall not exceed 10% of paid-in capital.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

On June 16, 2017, the Company's stockholders decided to distribute cash dividend from capital surplus of \$138,320.

The Board meeting on March 2, 2018, proposed the distribution of cash dividend from capital surplus of \$224,000, and the appropriations are still subject to approval by the stockholders. Related information can be available on the Market Observation Post System website after the approval by the stockholders.

(iii) Legal reserve

According to the Company Act, the Company must retain 10% of its annual income as a legal reserve until such retention equals the amount of paid-in capital. If a company has no accumulated deficit, it may, pursuant to a resolution approved by the stockholders, distribute its legal reserve to shareholders by issuing new shares or by distributing cash for the portion in excess of 25% of the paid-in capital.

(iv) Special reserve

In accordance with Ruling No. 1010012865 issued by the Financial Supervisory Commission on April 6, 2012, a special reserve equal to the total amount of items that were accounted for as deductions from stockholders' equity was set aside from current and prior-year earnings. This special reserve shall revert to retained earnings and be made available for distribution when the items that are accounted for as deductions from stockholders' equity are reversed in subsequent periods.

(v) Earnings distribution

The Company's articles of incorporation stipulate that at least 10% of annual net income after deducting an accumulated deficit, if any, must be retained as a legal reserve until such retention equals the amount of paid-in capital. In addition, a special reserve should be set aside or reversed in accordance with applicable laws and regulations. The remaining balance of the annual net income, together with unappropriated earnings from previous years, if any, can be distributed as dividends after the earnings distribution plan proposed by the Board of Directors is approved during the stockholders' meeting.

Profits of the Company may be distributed in the form of cash dividends and/or stock dividends. As the Company is a technology- and capital-intensive enterprise in its growth phase, the Company has adopted a remaining earnings appropriation method as its dividend policy in order to meet long-term capital needs and cash requirements of stockholders, and thereby maintain continuous development and steady growth. The ratio for cash dividends shall not be less than 10% of the total distribution, but the ratio can be adjusted in accordance with the actual profit or the operating condition.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

The appropriation of 2016 and 2015 earnings was approved by the shareholders at meetings on June 16, 2017, and June 17, 2016, respectively. The resolved appropriation of the dividends per share were as follows:

	2016		2015	
	Dividend per share (dollars)	Amount	Dividend per share (dollars)	Amount
Dividends per share:				
Cash dividend	\$ 1.506	<u>421,680</u>	2.000	<u>595,804</u>

The Board meeting on March 2, 2018, proposed the distribution of the Company's earnings for 2017 as follows:

	2017	
	Dividend per share (dollars)	Amount
Dividends per share:		
Cash dividend	\$ 1.200	<u>336,000</u>

The above appropriations are still subject to approval by the stockholders. Related information can be available on the Market Observation Post System website after the approval by the stockholders.

(vi) Treasury stock

In accordance with Article 28-2 of the Securities and Exchange Act, the Company purchased 17,902,000 shares of its own common shares for an aggregate amount of \$365,618 during the period from November 2016 to January 2017 in order to maintain its credit and shareholders' equity. On March 2, 2017, the Board of Directors approved a resolution to retire 17,902,000 shares of treasury stock for which the effective date of the retirement of treasury stock was March 12, 2017. The related registration process has been completed.

According to the Securities and Exchange Act, treasury stock cannot be collateralized. In addition, treasury shares do not bear the shareholders' rights prior to being sold to third parties. Moreover, the number of treasury shares shall not exceed 10% of the number of common shares issued. The total amount of treasury stock shall not exceed the sum of retained earnings, paid-in capital in excess of par value, and other realized capital surplus.

(Continued)



**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
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(vii) Other equity items (net after tax)

	Foreign currency translation differences	Unrealized gains (loss) from available-for- sale financial assets	Rmeasurement of defined benefit plans	Total
Balance at January 1, 2017	\$ 26,335	4,466	(28,098)	2,703
Foreign exchange differences arising from translation of foreign operations	(341,288)	-	-	(341,288)
Changes in fair value of available-for-sale financial assets	-	20,084	-	20,084
Net loss (gain) on disposal of available-for-sale financial assets reclassified to profit or loss	-	(8,123)	-	(8,123)
Remeasurement of defined benefit plans	-	-	(2,132)	(2,132)
Share of the other comprehensive income (loss) of joint ventures accounted for using the equity method	(291)	-	-	(291)
Balance at December 31, 2017	<u>\$ (315,244)</u>	<u>16,427</u>	<u>(30,230)</u>	<u>(329,047)</u>
Balance at January 1, 2016	\$ 441,471	(22,332)	(23,569)	395,570
Foreign exchange differences arising from translation of foreign operations	(415,136)	-	-	(415,136)
Changes in fair value of available-for-sale financial assets	-	(13,080)	-	(13,080)
Reclassification arising from impairment loss on available-for-sale financial assets	-	39,878	-	39,878
Remeasurement of defined benefit plans	-	-	(4,529)	(4,529)
Balance at December 31, 2016	<u>\$ 26,335</u>	<u>4,466</u>	<u>(28,098)</u>	<u>2,703</u>

(q) Earnings per share ("EPS")

(i) Basic earnings per share

	2017	2016
Net income attributable to shareholders of the Company	\$ <u>580,693</u>	<u>468,400</u>
Weighted-average number of ordinary shares outstanding (in thousands)	<u>280,012</u>	<u>296,715</u>
Basic earnings per share (dollars)	\$ <u>2.07</u>	<u>1.58</u>

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(ii) Diluted earnings per share

	<u>2017</u>	<u>2016</u>
Net income attributable to shareholders of the Company	\$ <u>580,693</u>	<u>468,400</u>
Weighted-average number of ordinary shares outstanding (in thousands)	280,012	296,715
Effect of potentially dilutive ordinary shares (in thousands):		
Employee bonuses	<u>2,988</u>	<u>3,161</u>
Weighted-average number of ordinary shares outstanding (after the effect of potentially dilutive ordinary shares) (in thousands)	<u>283,000</u>	<u>299,876</u>
Diluted earnings per share (dollars)	\$ <u>2.05</u>	<u>1.56</u>

(r) Revenue

	<u>2017</u>	<u>2016</u>
Revenue from sale of goods	\$ 17,563,188	18,623,794
Revenue from royalty	<u>100,884</u>	<u>57,824</u>
	<u>\$ 17,664,072</u>	<u>18,681,618</u>

(s) Remuneration to employees and directors

The Company's article of incorporation requires that earnings shall first to be offset against any deficit, then, a range from 5% to 20% will be distributed as remuneration to its employees and no more than 1% to its directors. Employees who are entitled to receive the abovementioned employee remuneration, in shares 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 estimated its remuneration to employees amounting to \$76,400 and \$53,184, respectively, and the remuneration to directors amounting to \$6,000 and \$4,200, respectively. The abovementioned estimated amounts are calculated based on the net profits before tax of each period (excluding the remuneration to employees and directors), multiplied by a certain percentage of the remuneration to employees and directors. The estimations are recognized as cost of sales or operating expenses. If the actual amounts differ from the estimated amounts, the differences shall be accounted as changes in accounting estimates and recognized as profit or loss in next year. The abovementioned estimated remuneration to employees and directors is the same as the amount approved by the Board of Directors and will be paid in cash.

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

## (t) Non-operating income and loss

## (i) Other income

	<u>2017</u>	<u>2016</u>
Interest income from bank deposits	\$ 39,576	55,000
Rental income	324	422
Subsidy revenue	22,716	28,829
Dividend income	4,191	3,601
Others	<u>12,129</u>	<u>36,619</u>
	<u>\$ 78,936</u>	<u>124,471</u>

## (ii) Other gains and losses

	<u>2017</u>	<u>2016</u>
Foreign exchange gains (losses), net	\$ (48,721)	50,271
Gains (losses) on financial assets and liabilities at fair value through profit or loss	54,666	(40,322)
Gains on disposal of investments	8,123	9,959
Impairment loss on financial assets (note 6(c))	-	(39,878)
Gains on disposal of property, plant and equipment, net	44,329	40,311
Others	<u>(2,668)</u>	<u>(6,632)</u>
	<u>\$ 55,729</u>	<u>13,709</u>

## (iii) Finance costs

	<u>2017</u>	<u>2016</u>
Interest expense on bank loans	\$ <u>(39,215)</u>	<u>(34,753)</u>

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

## (u) Financial instruments

## (i) Categories of financial instruments

## 1) Financial assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Financial assets at fair value through profit or loss:		
Held for trading—foreign currency forward contracts	\$ <u>23,623</u>	<u>-</u>
Available-for-sale financial assets	<u>202,700</u>	<u>84,062</u>
Loans and receivables (measured at amortized cost):		
Cash and cash equivalents	1,015,392	1,344,070
Notes and accounts receivable, and other receivables (including related parties)	5,590,560	5,597,573
Other financial assets	704,810	1,794,526
Refundable deposits	<u>27,931</u>	<u>11,014</u>
Subtotal	<u>7,338,693</u>	<u>8,747,183</u>
Total	<u>\$ <u>7,565,016</u></u>	<u><u>8,831,245</u></u>

## 2) Financial liabilities

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Financial liabilities at fair value through profit or loss:		
Held for trading—foreign currency forward contracts	\$ <u>-</u>	<u>18,121</u>
Financial liabilities measured at amortized cost:		
Short-term borrowings	501,312	738,775
Notes and accounts payable and other payables (including related parties)	5,260,257	5,658,470
Long-term borrowings	<u>480,000</u>	<u>1,080,000</u>
Subtotal	<u>6,241,569</u>	<u>7,477,245</u>
Total	<u>\$ <u>6,241,569</u></u>	<u><u>7,495,366</u></u>

## (ii) Credit risk

The maximum exposure to credit risk is equal to the carrying amount of the Group's financial assets. As of December 31, 2017 and 2016, the Group's maximum exposure to credit risk amounted to \$7,565,016 and \$8,831,245, respectively.

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

The majority of the Group's customers are well-known international companies with high financial transparency. Management believes that there is no significant concentration of credit risk due to the Group's large number of customers. Additionally, management of the Group continuously evaluates the credit quality of their customers to lower the credit risk.

(iii) Liquidity risk

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including principal and interest.

	Contractual cash flow	Within 1 year	1-2 years	2-5 years
<b>December 31, 2017</b>				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 502,608	502,608	-	-
Long-term borrowings	487,314	5,553	441,742	40,019
Notes and accounts payable (including related parties)	3,632,071	3,632,071	-	-
Other payables	1,622,215	1,622,215	-	-
Other payables to related parties	5,971	5,971	-	-
	<u>\$ 6,250,179</u>	<u>5,768,418</u>	<u>441,742</u>	<u>40,019</u>
<b>December 31, 2016</b>				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 740,603	740,603	-	-
Long-term borrowings	1,116,590	13,357	13,357	1,089,876
Notes and accounts payable (including related parties)	4,035,200	4,035,200	-	-
Other payables	1,618,079	1,618,079	-	-
Other payables to related parties	5,191	5,191	-	-
Subtotal	<u>7,515,663</u>	<u>6,412,430</u>	<u>13,357</u>	<u>1,089,876</u>
Derivative financial instruments:				
Foreign currency forward contracts— gross settlement:				
Outflow	65,025	65,025	-	-
Inflow	(64,082)	(64,082)	-	-
Foreign currency forward contracts— net settlement	<u>17,178</u>	<u>17,178</u>	<u>-</u>	<u>-</u>
Subtotal	<u>18,121</u>	<u>18,121</u>	<u>-</u>	<u>-</u>
	<u>\$ 7,533,784</u>	<u>6,430,551</u>	<u>13,357</u>	<u>1,089,876</u>

The Group do not expect that the cash flows included in the maturity analysis would occur significantly earlier or at significantly different amounts.

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(iv) Currency risk

At the reporting date, the carrying amounts of the Group's significant monetary assets and liabilities denominated in a currency other than the respective functional currencies of Group were as follows (including the monetary items that have been eliminated in the accompanying consolidated financial statements):

December 31, 2017					
	Foreign currency (in thousands)	Exchange rate	New Taiwan Dollars (in thousands)	Change in magnitude	Pre-tax effect on profit or loss (in thousands)
<b>Financial assets</b>					
USD	\$ 223,837	29.8400	6,679,296	1 %	66,793
CNY	146,334	4.5767	669,727	1 %	6,697
<b>Financial liabilities</b>					
USD	178,643	29.8400	5,330,707	1 %	53,307
CNY	181,229	4.5767	829,431	1 %	8,294
December 31, 2016					
	Foreign currency (in thousands)	Exchange rate	New Taiwan Dollars (in thousands)	Change in magnitude	Pre-tax effect on profit or loss (in thousands)
<b>Financial assets</b>					
USD	\$ 210,585	32.2500	6,791,366	1 %	67,914
CNY	136,805	4.6370	634,365	1 %	6,344
<b>Financial liabilities</b>					
USD	172,172	32.2500	5,552,547	1 %	55,525
CNY	173,934	4.6370	806,532	1 %	8,065

As the Group deal in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. The aggregate of realized and unrealized foreign exchange gain (loss) for the years ended December 31, 2017 and 2016 were \$(48,721) and \$50,271, respectively.

(v) Interest rate risk

The following sensitivity analysis is based on the risk exposure to floating-interest-rate liabilities on the reporting date. The sensitivity analysis assumes the liabilities recorded at the reporting date had been outstanding for the entire period.

If the interest rate had been 100 basis points (1%) higher/lower, with all other variables held constant, pre-tax income for the years ended December 31, 2017 and 2016, would have been \$9,813 and \$18,188 lower/higher, respectively, which mainly resulted from the loans and borrowings with floating interest rates.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(vi) Fair value

1) Financial instruments that are not measured at fair value

The Group's management considers that the carrying amounts of their financial assets and financial liabilities measured at amortized cost approximate their fair values.

2) Financial instruments that are measured at fair value

The Group's financial assets and liabilities at fair value through profit or loss, and available-for-sale financial assets are measured at fair value on a recurring basis.

The table below analyzes financial instruments measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The different levels have been defined as follows:

- a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	December 31, 2017				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss:					
Derivative financial instruments—foreign currency forward contracts	\$ 23,623	-	23,623	-	23,623
Available-for-sale financial assets:					
Domestic listed stocks	\$ 194,158	194,158	-	-	194,158
Domestic emerging stocks	8,542	-	8,542	-	8,542
Subtotal	202,700	194,158	8,542	-	202,700
Total	\$ 226,323	194,158	32,165	-	226,323

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

	December 31, 2016				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Available-for-sale financial assets:					
Domestic listed stocks	\$ 73,777	73,777	-	-	73,777
Domestic emerging stocks	10,285	-	10,285	-	10,285
Total	<u>\$ 84,062</u>	<u>73,777</u>	<u>10,285</u>	<u>-</u>	<u>84,062</u>
Financial liabilities at fair value through profit or loss					
Derivative financial instruments – foreign currency forward contracts	\$ <u>(18,121)</u>	<u>-</u>	<u>(18,121)</u>	<u>-</u>	<u>(18,121)</u>

3) Valuation techniques and assumptions used in fair value measurement

a) Non-derivative financial instruments

The fair value of financial instruments traded in active liquid markets is determined with reference to quoted market prices.

Except for the above-mentioned financial instruments traded in an active market, the fair value of other financial instruments are based on the valuation techniques or quotation from counterparty. The fair value using valuation techniques refers to (i) the current fair value of other financial instruments with similar conditions and characteristics, or (ii) discounted cash flow method, or (iii) other valuation techniques which include model calculating with observable market data at the reporting date.

The Group use the following methods in determining the fair value of their financial assets:

- i) The fair values of listed stocks with standard terms and conditions, and traded in active liquid markets are determined with reference to quoted market prices.
- ii) The fair value of domestic emerging stock is determined based on the average stock price on the emerging market at the reporting date.

b) Derivative financial instruments

The fair value of derivative financial instruments is determined using a valuation technique, with estimates and assumptions consistent with those used by market participants and that are readily available to the Group. The fair value of foreign currency forward contracts is computed individually by each contract using the valuation technique.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

4) Transfer between levels of the fair value hierarchy

There were no transfers among fair value hierarchies for the years ended December 31, 2017 and 2016.

(v) Financial risk management

The Group is exposed to credit risk, liquidity risk, and market risk (including currency risk, interest rate risk, and other market price risk). The Group has disclosed the information on exposure to the aforementioned risks and the Group's policies and procedures to measure and manage those risks below.

The Company's Board of Directors is responsible for developing and monitoring the Group's risk management policies. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor adherence to the controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's operations.

The Group's management monitors and reviews the financial activities in accordance with procedures required by relevant regulations and internal controls. Internal auditors undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Company's Board of Directors.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to financial instruments fails to meet its contractual obligations, which arises principally from the Group's cash and cash equivalents, receivables from customers, and other financial assets. The Group maintains cash and cash equivalents, and enters into derivative transactions with reputable financial institutions. Therefore, the exposure related to the potential default by those counterparties is not considered significant.

The Group have established a credit policy under which each customer is analyzed individually for creditworthiness for purposes of setting the credit limit. Additionally, the Group continuously evaluate the credit quality of customers and utilize insurance to minimize the credit risk.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in settling their financial liabilities by delivering cash or another financial asset. The Group manage liquidity risk by monitoring regularly the current and mid- to long-term cash demand, and by maintaining adequate cash and banking facilities. As of December 31, 2017 and 2016, the Group had unused credit facilities of \$12,034,582 and \$11,405,115, respectively.

(iii) 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 their financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

The Group utilize derivative financial instruments to manage foreign currency risks and the volatility of profit or loss. All such transactions are carried out within the guidelines set by the Board of Directors.

1) Currency risk

The Group are exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities. In addition to using foreign currency borrowing transactions, the Group utilize foreign currency forward contracts to hedge their foreign currency exposure with respect to their sales and purchases.

2) Interest rate risk

The Group's short-term borrowings and long-term borrowings carried floating interest rates. To manage the interest rate risk, the Group periodically assess the interest rates of bank loans and maintain good relationships with financial institutions to obtain lower financing costs. The Group also manage working capital to reduce the dependence on bank loans as well as the risk arising from fluctuation of interest rates.

3) Other market price risk

The Group are exposed to the risk of price fluctuation in the securities market due to investment in equity financial instruments.

Assuming a hypothetical increase or decrease of 1% in equity price of the equity investment at each reporting date, the other comprehensive income for the years ended December 31, 2017 and 2016, would have increased or decreased by \$2,027 and \$841, respectively.

(w) Capital management

In consideration of industry dynamics and future development, as well as external environment factors, the Company manages its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, research and development activities, dividend payments, and other business requirements of continuing operations.

For the years ended December 31, 2017 and 2016, there were no changes in the Group's approach to capital management.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**7. Related-party transactions**

(a) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(b) Related party name and categories

The transactions between the Group and its related parties during the reporting period are set out as follows:

<u>Name of related party</u>	<u>Relationship with the Group</u>
Qisda Corporation ("Qisda")	The entity with significant influence over the Group
BESV JAPAN Co., Ltd. ("BESVJ")	Joint venture of the Group
All divectors, president and vice president	Key management personnel of the Group
Other related parties:	
Qisda (Suzhou) Co., Ltd. ("QCSZ")	Subsidiary of Qisda
Qisda Optronics (Suzhou) Co., Ltd. ("QCOS")	Subsidiary of Qisda
Qisda Electronics (Suzhou) Co., Ltd. ("QCES")	Subsidiary of Qisda
Qisda Sdn. Bhd. ("QLPG")	Subsidiary of Qisda
BenQ Japan Co., Ltd. ("BQJP")	Subsidiary of Qisda
BenQ Technology (Shanghai) Co., Ltd. ("BQIs")	Subsidiary of Qisda
BenQ Corp. ("BenQ")	Subsidiary of Qisda
BenQ Co., Ltd. ("BQC")	Subsidiary of Qisda
BenQ ESCO Corp. ("BES")	Subsidiary of Qisda
BenQ Asia Pacific Corp. ("BQP")	Subsidiary of Qisda
BenQ Material Corp. ("BMC")	Subsidiary of Qisda
BenQ Material (Suzhou) Co., Ltd. ("BMS")	Subsidiary of Qisda

(c) Significant transactions with related parties

(i) Sales

	<u>2017</u>	<u>2016</u>
Investor with significant influence	\$ 57	310
Joint Venture	21,525	-
Other related parties	<u>83,797</u>	<u>59,970</u>
	<u>\$ 105,379</u>	<u>60,280</u>

The sales prices and collection terms for related parties were not significant different from those of sales to third-party customers. The collection terms for related parties were EOM60 to EOM120 days.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

## (ii) Purchases and processing charges

	<u>2017</u>	<u>2016</u>
Other related parties	\$ <u>4,302</u>	<u>22,721</u>

There were no significant differences between the purchase prices for related parties and those for third-party suppliers. The payment terms of OA70 days showed no significant difference between related parties and third-party suppliers.

## (iii) Leases

The Group leased an employee dormitory from a related party. The rental amount referred to market price in the adjacent area. For the years ended December 31, 2017 and 2016, the related rental expenses were \$10,683 and \$10,933, respectively.

## (iv) Receivables

<u>Account</u>	<u>Related-party categories</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable	Investor with significant influence	\$ 1	27
Accounts receivable	Joint venture	3,391	-
Accounts receivable	Other related parties	32,162	19,276
Other receivables	Other related parties	-	74
		<u>\$ 35,554</u>	<u>19,377</u>

## (v) Payables

<u>Account</u>	<u>Related-party categories</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts payable	Other related parties	\$ 708	6,585
Other payables	Investor with significant influence	9	28
Other payables	Other related parties	5,962	5,163
		<u>\$ 6,679</u>	<u>11,776</u>

## (d) Compensation for directors and key management personnel

	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 60,200	55,139
Post-employment benefits	908	998
	<u>\$ 61,108</u>	<u>56,137</u>

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**8. Pledged assets**

The carrying amounts of assets pledged as collateral are detailed below:

<u>Pledged assets</u>	<u>Pledged to secure</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Land and building	Credit lines of bank loans	\$ 1,532,455	1,593,916
Certificate of time deposit	Guarantees for customs duties and security deposit of the court	960	9,434
		<u>\$ 1,533,415</u>	<u>1,603,350</u>

The above-mentioned certificates of time deposit were classified as "other receivables".

**9. Significant commitments and contingencies**

In addition to those in note 6(m), the Group had the following significant commitments:

For the purpose of guaranteeing customs duties, the Group asked financial institutions to provide guarantee letters as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Guarantees for customs duties	<u>\$ 20,470</u>	<u>107,878</u>

**10. Significant loss from casualty:None.**

**11. Significant subsequent events**

According to the amendments to the ROC Income Tax Act enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing year 2018 onwards. This increase does not affect the amounts of the current or deferred income taxes recognized on December 31, 2017. However, this amendment will increase the Group's income tax charge accordingly in the future. Assuming the new tax rate is applied in calculating the taxable temporary differences and unused tax losses carry forwards recognized on December 31, 2017, the deferred tax assets and deferred tax liabilities would increase by \$12,634 and \$1,160, respectively.

**12. Others**

Employee benefits, depreciation and amortization, categorized by function:

	2017			2016		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits:						
Salaries	2,305,173	1,024,391	3,329,564	2,503,053	1,070,521	3,573,574
Labor and health insurance	135,841	91,106	226,947	145,237	90,837	236,074
Pension	188,960	49,937	238,897	210,741	67,708	278,449
Others	125,469	55,645	181,114	142,991	71,901	214,892
Depreciation	409,843	130,217	540,060	445,265	136,617	581,882
Amortization	14,675	45,273	59,948	38,853	59,619	98,472

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**13. Additional disclosures**

(a) Information on significant transactions:

The Group in accordance with the requirements of the Regulations discloses the following information on significant transactions:

- (i) Financing provided to other parties for the year ended December 31, 2017: None
- (ii) Guarantees and endorsement provided to other parties: None.
- (iii) Marketable securities held as of December 31, 2017 (excluding investments in subsidiaries, associates, and jointly controlled entities):

(In Thousands of Shares (Units))

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	Ending Balance				Maximum percentage of ownership during 2017		Note
				Number of Shares	Carrying Value	Percentage of Ownership	Fair value	Shares	Percentage of Ownership	
The Company	Qisda Corp.	Investor with significant influence	Available-for-sale financial assets—current	5,000	105,750	0.25 %	105,750	5,000	0.25 %	-
DZL	Raydium Semiconductor Corporation	-	Available-for-sale financial assets—current	150	8,542	0.21 %	8,542	190	0.26 %	-
DZL	Qisda Corp.	Investor with significant influence	Available-for-sale financial assets—current	4,037	85,383	0.21 %	85,383	4,037	0.21 %	-
DZL	DFI Inc.	-	Available-for-sale financial assets—current	50	3,025	0.04 %	3,025	50	0.04 %	-
DPS	Bank of China—Principal protected currency deposit in CNY	-	Other financial assets—current	-	68,650	-	68,650	-	-	-
DPS	"Li Duo Duo" Structural Deposits—Principal protected currency deposit in CNY	-	Other financial assets—current	-	343,252	-	343,252	-	-	-
DFQ	Bank of China—Principal protected currency deposit in CNY	-	Other financial assets—current	-	137,301	-	137,301	-	-	-
DFH	Bank of China—Principal protected currency deposit in CNY	-	Other financial assets—current	-	155,607	-	155,607	-	-	-

- (iv) Marketable securities for which the accumulated purchase or sale amounts exceed \$300 million or 20% of the paid-in capital for the year ended December 31, 2017:

(Expressed in thousands)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Name of Relationship	Beginning Balance		Acquisitions		Disposal			Ending Balance		
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Value	Gain (loss) on disposal	Shares	Amount
DPS	Bank of China—Principal protected currency deposit in CNY	Other financial assets—current	Bank of China	-	-	1,094,337 (CNY236,000)	-	888,300 (CNY199,000)	-	1,913,987 (CNY420,000)	1,913,987 (CNY420,000)	-	-	68,650 (CNY15,000)
DPS	"Li Duo Duo" Structural Deposits—Principal protected currency deposit in CNY	Other financial assets—current	Shanghai Pudong Development Bank	-	-	-	-	343,252 (CNY75,000)	-	-	-	-	-	343,252 (CNY75,000)
DFH	Bank of China—Principal protected currency deposit in CNY	Other financial assets—current	Bank of China	-	-	343,139 (CNY74,000)	-	152,776 (CNY34,000)	-	340,308 (CNY74,000)	340,308 (CNY74,000)	-	-	155,607 (CNY34,000)

- (v) Acquisition of real estate which exceeds \$300 million or 20% of the paid-in capital for the year ended December 31, 2017: None.
- (vi) Disposal of real estate which exceeds \$300 million or 20% of the paid-in capital for the year ended December 31, 2017: None.

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

- (vii) Total purchases from and sales to related parties which exceed \$100 million or 20% of the paid-in capital for the year ended December 31, 2017:

Company Name	Related Party	Relationship	Transaction Details				Transactions with Terms Different from Others		Note/Account (Payable) Receivable		Note
			Purchase/ (Sale)	Amount	% of Total Purchases/ (Sales)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
The Company	DFBVI	Parent-subsiary	Sale	388,182	3 %	OA90	Normal price	OA90 to EOM 120	314,739	7 %	-
The Company	DFC	Parent-subsiary	Sale	122,285	1 %	OA135	Normal price	OA90 to EOM 120	73,596	2 %	-
The Company	DFA	Parent-subsiary	Sale	355,521	2 %	OA90	Normal price	OA90 to EOM 120	195,115	4 %	-
The Company	DTC	Parent-subsiary	Sale	136,991	1 %	OA90	Normal price	OA90 to EOM 120	58,757	1 %	-
The Company	DFBVI	Parent-subsiary	Purchase	12,319,862	97 %	OA90	Note 2	OA90	(3,624,723)	93 %	-
DFBVI	The Company	Parent-subsiary	Sale	12,319,862	88 %	OA90	Note 1	Note 1	3,624,723	91 %	-
DFBVI	DFS	Affiliates	Sale	920,319	7 %	OA90	Note 1	Note 1	198,170	5 %	-
DFBVI	DFQ	Affiliates	Sale	650,652	5 %	OA90	Note 1	Note 1	175,194	4 %	-
DFBVI	The Company	Parent-subsiary	Purchase	388,182	3 %	OA90	Note 1	Note 1	(314,739)	8 %	-
DFBVI	DFS	Affiliates	Purchase	5,979,354	45 %	OA90	Note 1	Note 1	(1,947,388)	48 %	-
DFBVI	DFH	Affiliates	Purchase	3,540,379	27 %	OA90	Note 1	Note 1	(1,060,959)	26 %	-
DFBVI	DFQ	Affiliates	Purchase	3,340,077	25 %	OA90	Note 1	Note 1	(755,495)	18 %	-
DFS	DFBVI	Affiliates	Sale	5,979,354	58 %	OA90	Normal price	OA30 to EOM 120	1,947,388	59 %	-
DFS	DFH	Affiliates	Sale	428,911	4 %	OA90	Normal price	OA30 to EOM 120	101,482	3 %	-
DFS	DFQ	Affiliates	Sale	267,591	3 %	OA90	Normal price	OA30 to EOM 120	51,029	2 %	-
DFS	DFBVI	Affiliates	Purchase	920,319	10 %	OA90	Note 2	OA30 to EOM 120	(198,170)	9 %	-
DFH	DFBVI	Affiliates	Sale	3,540,379	96 %	OA90	Note 2	OA30 to EOM 120	1,060,959	94 %	-
DFH	DFS	Affiliates	Purchase	428,911	12 %	OA90	Normal price	OA30 to EOM 150	(101,482)	12 %	-
DFQ	DFBVI	Affiliates	Sale	3,340,077	99 %	OA90	Normal price	OA30 to EOM 150	755,495	100 %	-
DFQ	DFBVI	Affiliates	Purchase	650,652	20 %	OA90	Normal price	OA30 to EOM 150	(175,194)	19 %	-
DFQ	DFS	Affiliates	Purchase	267,591	8 %	OA90	Normal price	OA30 to EOM 150	(51,029)	6 %	-
DFC	The Company	Parent-subsiary	Purchase	122,285	98 %	OA135	Normal price	OA30 to EOM 120	(73,596)	99 %	-
DFA	The Company	Parent-subsiary	Purchase	355,521	98 %	OA90	Normal price	OA30 to EOM 120	(195,115)	99 %	-
DTC	The Company	Parent-subsiary	Purchase	136,991	100 %	OA90	Normal price	OA30 to EOM 120	(58,757)	100 %	-

Note 1: There is no comparable transaction available.

Note 2: The selling prices for related parties are not comparable to the sales prices for third-party customers as the specifications of products were different.

Note 3: The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

- (viii) Receivables from related parties which exceed \$100 million or 20% of the paid-in capital for the year ended December 31, 2017:

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
The Company	DFBVI	Parent-subsiary	314,739	1.17	13,583	-	70,505	-
The Company	DFA	Parent-subsiary	195,115	2.31	89,140	-	61,005	-
DFBVI	The Company	Parent-subsiary	3,624,723	3.29	4,291	-	2,148,290	-
DFBVI	DFS	Affiliates	198,170	4.70	10,971	-	57,879	-
DFBVI	DFQ	Affiliates	175,194	6.34	-	-	-	-
DFS	DFBVI	Affiliates	1,947,388	2.98	420,164	-	1,014,647	-
DFS	DFH	Affiliates	101,482	2.93	30	-	33,749	-
DFH	DFBVI	Affiliates	1,060,959	3.29	154,248	-	638,148	-
DFQ	DFBVI	Affiliates	755,495	4.43	-	-	473,259	-

Note: The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

- (ix) Transactions about derivative instruments: Refer to note 6(b)

(Continued)

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(i) Business relationships and significant intercompany transactions for the year ended December 31, 2017:

No. (Note 1)	Company Name	Counterparty	Nature of Relationship (Note 2)	Transaction Details (Note 3)			Percentage of Consolidated Total Operating Revenue or Total Assets (Note 4)
				Account	Amount	Transaction Terms	
0	The Company	DFBVI	1	Sales	388,182	OA90	2 %
0	The Company	DFS	1	Royalty	19,724	EOY45	-
0	The Company	DFC	1	Sales	122,285	OA135	1 %
0	The Company	DFA	1	Sales	355,521	OA90	2 %
0	The Company	DFH	1	Royalty	1,146	EOY45	-
0	The Company	DTC	1	Sales	136,991	OA90	1 %
0	The Company	DMC	1	Sales	11	OA90	-
1	DFBVI	The Company	2	Sales	12,319,862	OA90	70 %
1	DFBVI	DFS	3	Sales	920,319	OA90	5 %
1	DFBVI	DFQ	3	Sales	650,652	OA90	4 %
1	DFBVI	DFH	3	Sales	57,232	OA90	-
2	DFS	DFBVI	3	Sales	5,979,354	OA90	34 %
2	DFS	DFH	3	Sales	428,911	OA90	2 %
2	DFS	DFQ	3	Sales	267,591	OA90	2 %
3	DFH	DFBVI	3	Sales	3,540,379	OA90	20 %
3	DFH	DFS	3	Sales	34,136	OA90	-
3	DFH	DFQ	3	Sales	27,765	OA90	-
4	DFQ	DFBVI	3	Sales	3,340,077	OA90	19 %
4	DFQ	DFS	3	Sales	4,346	OA90	-
4	DFQ	DFH	3	Sales	13,901	OA90	-
5	DMC	The Company	2	Sales	43,834	OA90	-
5	DMC	DFS	3	Sales	12,741	OA90	-
6	DTC	The Company	2	Sales	251	OA90	-
6	DTC	DFA	3	Sales	8,502	OA90	-
6	DTC	DFC	3	Sales	13	OA135	-
6	DTC	DFS	3	Sales	1,550	OA90	-
6	DTC	DFeu	3	Sales	22,270	OA90	-
7	DFC	The Company	2	Sales	19,178	OA90	-
7	DFC	DFeu	3	Sales	4,255	OA90	-
8	DFeu	The Company	2	Sales	1,388	OA90	-
8	DFeu	DFC	3	Sales	2,995	OA90	-
0	The Company	DFBVI	1	Accounts receivable	314,739	OA90	2 %
0	The Company	DFS	1	Accounts receivable	19,430	EOY45	-
0	The Company	DFC	1	Accounts receivable	73,596	OA135	-
0	The Company	DFA	1	Accounts receivable	195,115	OA90	1 %
0	The Company	DFH	1	Accounts receivable	1,120	EOY45	-
0	The Company	DTC	1	Accounts receivable	58,757	OA90	-
0	The Company	DMC	1	Accounts receivable	1,083	OA90	-
1	DFBVI	The Company	2	Accounts receivable	3,624,723	OA90	24 %
1	DFBVI	DFS	3	Accounts receivable	198,170	OA90	1 %
1	DFBVI	DFQ	3	Accounts receivable	175,194	OA90	1 %
1	DFBVI	DFH	3	Accounts receivable	15,542	OA90	-
2	DFS	DFBVI	3	Accounts receivable	1,947,388	OA90	13 %
2	DFS	DFH	3	Accounts receivable	101,482	OA90	1 %
2	DFS	DFQ	3	Accounts receivable	51,029	OA90	-
3	DFH	DFBVI	3	Accounts receivable	1,060,959	OA90	7 %

(Continued)



**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

No. (Note 1)	Company Name	Counterparty	Nature of Relationship (Note 2)	Transaction Details (Note 3)			Percentage of Consolidated Total Operating Revenue or Total Assets (Note 4)
				Account	Amount	Transaction Terms	
3	DFH	DFS	3	Accounts receivable	3,776	OA90	-
3	DFH	DFQ	3	Accounts receivable	6,252	OA90	-
4	DFQ	DFBVI	3	Accounts receivable	755,495	OA90	5 %
4	DFQ	DFS	3	Accounts receivable	342	OA90	-
4	DFQ	DFH	3	Accounts receivable	1,122	OA90	-
6	DTC	DFA	3	Accounts receivable	1,933	OA90	-
6	DTC	DFC	3	Accounts receivable	4	OA135	-
6	DTC	DFeu	3	Accounts receivable	7,529	OA90	-
7	DFC	DFeu	3	Accounts receivable	1,735	OA90	-
8	DFeu	DFC	3	Accounts receivable	125	OA90	-

Note 1: Parties to the intercompany transactions are identified and numbered as follows:

1. "0" represents the Company.
2. Subsidiaries are numbered from "1".

Note 2: The relationships with counterparties are as follows:

- No. "1": The Company to subsidiary.
- No. "2": Subsidiary to the Company.
- No. "3": Between subsidiaries.

Note 3: Intercompany relationships and significant intercompany transactions are disclosed only for sales and accounts receivable. The corresponding purchases and accounts payable are not disclosed.

Note 4: The transaction amount divided by consolidated operating revenues or consolidated total assets.

- (b) Names, locations, and related information of investees over which the Company has controlling power or significant influence for the year ended December 31, 2017 (excluding investee companies in mainland China):

(In Thousands of shares)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2017			Maximum percentage of Ownership during 2017		Net Income (Losses) of the Investee	Investment Income (Loss)	Note
				December 31, 2017	December 31, 2016	Shares	Percentage of Ownership	Carrying Value	Shares	Percentage of Ownership			
The Company	DFBVI	BVI	Trading of electronic products	810,206	870,216	-	100.00 %	1,725,354	-	100.00 %	163,844	163,844	Parent/ Subsidiary
The Company	DFLB	Malaysia	Investment holding	3,087,458	4,232,942	-	100.00 %	4,556,178	-	100.00 %	209,292	209,292	Parent/ Subsidiary
The Company	DMC	Taiwan	Manufacture and sale of MLCC, inductors and paste	51,969	51,969	13,067	100.00 %	117,142	13,067	100.00 %	(13,080)	(13,080)	Parent/ Subsidiary
The Company	DZL	Taiwan	Investment holding	150,000	100,000	15,000	100.00 %	176,758	15,000	100.00 %	8,819	8,819	Parent/ Subsidiary
The Company	DTC	Taiwan	Manufacture of lighting equipment, design and sale of intelligent products	104,000	104,000	10,400	52.00 %	102,615	10,400	52.00 %	14,447	7,512	Parent/ Subsidiary
The Company	DFeu	Netherland	Trading of Green devices	113,117	54,790	-	100.00 %	43,949	-	100.00 %	(38,358)	(38,358)	Parent/ Subsidiary
DZL	DTC	Taiwan	Manufacture of lighting equipment, design and sale of intelligent products	65,200	63,700	6,520	32.60 %	64,332	6,520	32.60 %	14,447	4,584	Parent/ Subsidiary
DFLB	DFC	Czech	Trading of electronic products	299	299	-	100.00 %	22,486	-	100.00 %	(5,135)	(5,135)	Affiliates
DFLB	DFA	USA	Trading of electronic products	6,364	6,364	-	100.00 %	27,182	-	100.00 %	(1,419)	(1,419)	Affiliates
DFLB	DFK	Korea	Trading of electronic products	1,781	1,781	-	100.00 %	783	-	100.00 %	85	85	Affiliates

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2017			Maximum percentage of Ownership during 2017		Net Income (Losses) of the Investee	Investment Income (Loss)	Note
				December 31, 2017	December 31, 2016	Shares	Percentage of Ownership	Carrying Value	Shares	Percentage of Ownership			
DFLB	DPH	BVI	Investment holding	29,314	834,461	-	100.00 %	437,140	-	100.00 %	17,972	17,972	Affiliates
DTC	BESVJ	Japan	Trading of Green devices	13,357	-	4,900	49.00 %	11,244	4,900	49.00 %	(3,612)	(1,769)	Joint Venture

Note: The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

(c) Information on investments in Mainland China

(i) Name and main businesses and products of investee companies in Mainland China:

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Net Income (Loss) of Investee	% of Ownership of Direct or Indirect Investment	Maximum percentage of ownership during 2017		Investment Income (Loss)	Carrying Value as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 2017
					Outflow	Inflow				Shares	Percentage of Ownership			
Darfon Electronics (Suzhou) Co., Ltd. (DFS)	Manufacture and sale of the Company's products	1,647,914 (USD55,225) (Note 3)	Note 1	1,518,856 (USD50,900)	-	-	1,518,856 (USD50,900) (Note 3)	291,842	100.00 %	-	100.00 %	291,842 (Note 2)	3,509,903	-
Darfon Electronics, Shenzhen (DFZ)	Manufacture and sale of the Company's products	537,120 (USD18,000)	Note 1	537,120 (USD18,000)	-	-	537,120 (USD18,000)	2,784	100.00 %	-	100.00 %	2,784 (Note 2)	343,160	-
Huaian Darfon Electronics Co., Ltd. (DFH)	Manufacture and sale of the Company's products	1,462,160 (USD49,000)	Note 1	1,462,160 (USD49,000)	-	-	1,462,160 (USD49,000)	2,830	100.00 %	-	100.00 %	2,830 (Note 2)	1,778,822	-
Darfon Precision (Suzhou) Co., Ltd. (DFS)	Mold development and manufacture	29,840 (USD1,000) (Note 5)	Note 1	866,852 (USD29,050)	-	837,012 (USD28,050)	29,840 (USD1,000)	15,030	100.00 %	-	100.00 %	15,030 (Note 2)	434,180	-
Darfon Electronics, Chongqing (DFQ)	Manufacture and sale of the Company's products	298,400 (USD10,000)	Note 1	298,400 (USD10,000)	-	-	298,400 (USD10,000)	53,667	100.00 %	-	100.00 %	53,667 (Note 2)	426,163	-

Note 1: Indirect investment in Mainland China is through a holding company established in a third country.

Note 2: Investment income or loss was recognized based on the audited financial statements of investee companies.

Note 3: Including US\$4,325 thousand from capitalization of retained earnings.

Note 4: The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

Note 5: DPS decreased its paid-in capital by cash in the amount of USD 33,100 thousand in 2017. As of December 31, 2017, the related inward remittance amounted to USD 28,050 thousand.

(ii) Limits on investments in Mainland China:

Investor Company Name	Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
The Company	3,846,376 (USD128,900)	4,215,646 (USD141,275)	Note

The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1=NT\$29.84.

Note: Since the Company has obtained the certificate of headquarters operation, there is no upper limit on investments in Mainland China.

(iii) Significant transactions with investee companies in Mainland China:

The transactions between the Company and investee companies (the intercompany transactions) have been eliminated when preparing the consolidated financial statements; please refer to "Information on significant transactions" and "Business relationships and significant intercompany transactions".

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**14. Segment information**

(a) General information

The Group is mainly engaged in the R&D design, manufacturing, and sale of computer peripheral devices, and electronic components. The Group only has one reportable segment.

(b) Reportable segments' profit or loss, basis of measurement, and reconciliation

Segment profit or loss, segment assets, and segment liabilities are consistent with the consolidated financial statements. Please refer to the consolidated balance sheets and consolidated statements of comprehensive income.

(c) Product information

Revenues from external customers are detailed below:

	<u>2017</u>	<u>2016</u>
Human interface devices	\$ 14,377,083	15,609,030
Power and energy devices, integrated components and materials and green devices	<u>3,286,989</u>	<u>3,072,588</u>
Total	<u>\$ 17,664,072</u>	<u>18,681,618</u>

(d) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, and segment assets are based on the geographical location of the assets.

Revenues from external customers are detailed below:

<u>Region</u>	<u>2017</u>	<u>2016</u>
Taiwan	\$ 1,410,855	1,582,619
USA	479,875	366,905
Mainland China	14,571,856	16,146,254
Others	<u>1,201,486</u>	<u>585,840</u>
	<u>\$ 17,664,072</u>	<u>18,681,618</u>

Non-current assets:

<u>Region</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Taiwan	\$ 2,003,832	2,186,855
Mainland China	3,127,243	3,229,133
Others	<u>7,130</u>	<u>9,103</u>
	<u>\$ 5,138,205</u>	<u>5,425,091</u>

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**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

The above non-current assets do not include financial instruments, deferred income tax assets, and pension fund assets.

(e) Major customer information

	<u>2017</u>	<u>2016</u>
Sales to Customer A	<u>\$ 2,303,586</u>	<u>2,545,018</u>