# TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

# CONSOLIDATED FINANCIAL STATEMENTS AND

# REPORT OF INDEPENDENT ACCOUNTANTS

# DECEMBER 31, 2017 AND 2016

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

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REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR17000300

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

## *Opinion*

We have audited the accompanying consolidated balance sheets of Transcend Information, Inc. and its subsidiaries (the "Group") as at December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 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 Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

## *Basis for opinion*

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



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## *Key audit matters*

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

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

**Evaluation of inventories**

Description

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

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

How our audit addressed the matter

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

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

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

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

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**Estimation of allowance for sales discount**

Description

In consideration of business volume, the Group provides a variety of business incentives to specific customers or products, and based on that, the Group can estimate the allowance for sales discount monthly. Please refer to Note 6(3) to the consolidated financial statements for the details of the information about estimation of allowance for sales allowance.

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

How our audit addressed the matter

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

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

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

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

## *Other matter –Parent company only financial reports*

We have audited and expressed an unqualified opinion on the parent company only financial statements of Transcend Information, Inc. as at and for the years ended December 31, 2017 and 2016.

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***Responsibilities of management and those charged with governance for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee, are responsible for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Lin, Chun-Yao

Chou, Chien-Hung

For and on behalf of PricewaterhouseCoopers, Taiwan

March 8, 2018

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

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

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

| | | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|---|
| Assets | Notes | AMOUNT | % | AMOUNT | % |
| **Current assets** | | | | | |
| Cash and cash equivalents | 6(1) | $ 3,645,914 | 16 | $ 1,842,670 | 8 |
| Investment in debt instrument without active market - current | 6(2) | 738,877 | 3 | 366,295 | 2 |
| Notes receivable, net | | 5,862 | - | 5,348 | - |
| Accounts receivable, net | 6(3) | 2,499,773 | 11 | 2,841,228 | 12 |
| Accounts receivable- related parties, net | 7 | - | - | 21,369 | - |
| Other receivables | | 114,346 | 1 | 146,619 | 1 |
| Inventories, net | 6(4) | 5,241,150 | 23 | 5,166,821 | 23 |
| Other current financial assets | 6(5) | 6,899,661 | 30 | 8,702,590 | 38 |
| Other current assets, others | | 44,210 | - | 36,389 | - |
| **Current Assets** | | 19,189,793 | 84 | 19,129,329 | 84 |
| **Non-current assets** | | | | | |
| Available-for-sale financial assets - non-current | 6(6) | 68,874 | - | 179,580 | 1 |
| Investments accounted for using equity method | 6(7) | 173,122 | 1 | 282,610 | 1 |
| Property, plant and equipment, net | 6(8), 7 and 8 | 2,706,923 | 12 | 2,740,210 | 12 |
| Investment property, net | 6(9) | 269,462 | 1 | 277,316 | 1 |
| Deferred tax assets | 6(20) | 133,954 | 1 | 77,759 | - |
| Other non-current assets | 6(10) | 228,353 | 1 | 204,250 | 1 |
| **Non-current Assets** | | 3,580,688 | 16 | 3,761,725 | 16 |
| **Total Assets** | | $ 22,770,481 | 100 | $ 22,891,054 | 100 |

(Continued)

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

| Liabilities and Equity | Notes | December 31, 2017 AMOUNT | % | December 31, 2016 AMOUNT | % |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Accounts payable | | $ 1,237,552 | 5 | $ 1,740,266 | 8 |
| Accounts payable - related parties | 7 | 37,454 | - | 48,218 | - |
| Other payables | | 347,619 | 2 | 390,533 | 2 |
| Other payables - related parties | | 233 | - | - | - |
| Current tax liabilities | | 412,345 | 2 | 96,138 | - |
| Other current liabilities | | 31,414 | - | 44,415 | - |
| **Current Liabilities** | | 2,066,617 | 9 | 2,319,570 | 10 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 6(20) | 158,463 | 1 | 167,817 | 1 |
| Other non-current liabilities | 6(11) | 47,106 | - | 76,733 | - |
| **Non-current Liabilities** | | 205,569 | 1 | 244,550 | 1 |
| **Total Liabilities** | | 2,272,186 | 10 | 2,564,120 | 11 |
| **Equity attributable to owners of parent** | | | | | |
| **Share capital** | 6(12) | | | | |
| Common stock | | 4,307,617 | 19 | 4,307,617 | 19 |
| **Capital surplus** | 6(13) | | | | |
| Capital surplus | | 4,691,385 | 20 | 4,799,075 | 21 |
| **Retained earnings** | 6(14) | | | | |
| Legal reserve | | 4,037,210 | 18 | 3,748,946 | 16 |
| Special reserve | | 145,689 | 1 | 21,691 | - |
| Unappropriated retained earnings | | 7,363,641 | 32 | 7,595,294 | 33 |
| **Other equity interest** | 6(15) | | | | |
| Other equity interest | | ( 47,247) | - | ( 145,689) | - |
| **Total Equity** | | 20,498,295 | 90 | 20,326,934 | 89 |
| **Significant contingent liabilities and unrecognized contract commitments** | 9 | | | | |
| **Significant events after the balance sheet date** | 11 | | | | |
| **Total Liabilities and Equity** | | $ 22,770,481 | 100 | $ 22,891,054 | 100 |

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

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

| Items | Notes | 2017 AMOUNT | 2017 % | 2016 AMOUNT | 2016 % |
|---|---|---|---|---|---|
| **Operating Revenue** | 6(16) and 7 | $ 20,964,853 | 100 | $ 22,104,915 | 100 |
| **Operating Costs** | 6(4)(19) and 7 | ( 15,438,009) | ( 74) | ( 17,153,222) | ( 78) |
| **Gross Profit** | | 5,526,844 | 26 | 4,951,693 | 22 |
| **Operating Expenses** | 6(19) | | | | |
| Sales and marketing expenses | | ( 945,861) | ( 4) | ( 1,089,435) | ( 5) |
| Administrative expenses | | ( 414,097) | ( 2) | ( 403,824) | ( 2) |
| Research and development expenses | | ( 169,238) | ( 1) | ( 150,689) | - |
| **Total operating expenses** | | ( 1,529,196) | ( 7) | ( 1,643,948) | ( 7) |
| **Operating Profit** | | 3,997,648 | 19 | 3,307,745 | 15 |
| **Non-operating Income and Expenses** | | | | | |
| Other income | 6(17) | 163,495 | 1 | 138,978 | 1 |
| Other gains and losses | 6(18) and 7 | ( 739,406) | ( 4) | ( 166,253) | ( 1) |
| Finance costs | | ( 297) | - | ( 2,502) | - |
| Share of loss of associates and joint ventures accounted for under equity method | 6(7) | ( 108,858) | - | ( 34,601) | - |
| **Total non-operating income and expenses** | | ( 685,066) | ( 3) | ( 64,378) | - |
| **Profit before Income Tax** | | 3,312,582 | 16 | 3,243,367 | 15 |
| Income tax expense | 6(20) | ( 656,865) | ( 3) | ( 360,730) | ( 2) |
| **Profit for the Year** | | $ 2,655,717 | 13 | $ 2,882,637 | 13 |
| **Other Comprehensive Income (Loss)** | | | | | |
| **Components of other comprehensive income (loss) that will not be reclassified to profit or loss** | | | | | |
| Gains (losses) on remeasurements of defined benefit plans | 6(11) | $ 2,402 | - | ($ 4,263) | - |
| Share of other comprehensive loss of associates and joint ventures accounted for under equity method, components of other comprehensive loss that will not be reclassified to profit or loss | | ( 630) | - | ( 344) | - |
| **Components of other comprehensive income (loss) that will be reclassified to profit or loss** | | | | | |
| Exchange differences on translation of foreign financial statements | 6(15) | ( 30,179) | - | ( 143,703) | ( 1) |
| Unrealized gain (loss) on available-for-sale financial assets | 6(6)(15) | 123,490 | - | ( 4,724) | - |
| Income tax related to components of other comprehensive income that will be reclassified to profit or loss | 6(15)(20) | 5,131 | - | 24,429 | - |
| **Other comprehensive income (loss) for the year** | | $ 100,214 | - | ($ 128,605) | ( 1) |
| **Total Comprehensive Income** | | $ 2,755,931 | 13 | $ 2,754,032 | 12 |
| **Net profit attributable to:** | | | | | |
| Owners of parent | | $ 2,655,717 | 13 | $ 2,882,637 | 13 |
| **Comprehensive income attributable to:** | | | | | |
| Owners of parent | | $ 2,755,931 | 13 | $ 2,754,032 | 12 |
| **Earnings Per Share** | 6(21) | | | | |
| **Basic earnings per share** | | | $ 6.17 | | $ 6.69 |
| **Diluted earnings per share** | | | $ 6.16 | | $ 6.68 |

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

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

| | | Equity attributable to owners of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Capital surplus | | | Retained earnings | | | Other equity interest | | |
| | Notes | Common stock | Additional paid-in capital | Donated assets received | Net assets from merger | Legal reserve | Special reserve | Unappropriated retained earnings | Exchange differences on translation of foreign financial statements | Unrealized gain or loss on available-for-sale financial assets | Total equity |
| Year ended December 31, 2016 | | | | | | | | | | | |
| Balance at January 1, 2016 | | $ 4,307,617 | $ 4,759,841 | $ 4,106 | $ 35,128 | $ 3,426,756 | $ - | $ 7,990,324 | $ 77,060 | ($ 98,751 ) | $20,502,081 |
| Appropriation of 2015 earnings | 6(14) | | | | | | | | | | |
| Legal reserve | | - | - | - | - | 322,190 | - | ( 322,190 ) | - | - | - |
| Special reserve | | - | - | - | - | - | 21,691 | ( 21,691 ) | - | - | - |
| Cash dividends | | - | - | - | - | - | - | ( 2,929,179 ) | - | - | ( 2,929,179 ) |
| Net income for the year | | - | - | - | - | - | - | 2,882,637 | - | - | 2,882,637 |
| Other comprehensive loss for the year | 6(6)(15) | - | - | - | - | - | - | ( 4,607 ) | ( 119,274 ) | ( 4,724 ) | ( 128,605 ) |
| Balance at December 31, 2016 | | $ 4,307,617 | $ 4,759,841 | $ 4,106 | $ 35,128 | $ 3,748,946 | $ 21,691 | $ 7,595,294 | ($ 42,214 ) | ($ 103,475 ) | $20,326,934 |
| Year ended December 31, 2017 | | | | | | | | | | | |
| Balance at January 1, 2017 | | $ 4,307,617 | $ 4,759,841 | $ 4,106 | $ 35,128 | $ 3,748,946 | $ 21,691 | $ 7,595,294 | ($ 42,214 ) | ($ 103,475 ) | $20,326,934 |
| Appropriation of 2016 earnings | 6(14) | | | | | | | | | | |
| Legal reserve | | - | - | - | - | 288,264 | - | ( 288,264 ) | - | - | - |
| Special reserve | | - | - | - | - | - | 123,998 | ( 123,998 ) | - | - | - |
| Cash dividends | | - | - | - | - | - | - | ( 2,476,880 ) | - | - | ( 2,476,880 ) |
| Cash payment from capital surplus | 6(14) | - | ( 107,690 ) | - | - | - | - | - | - | - | ( 107,690 ) |
| Net income for the year | | - | - | - | - | - | - | 2,655,717 | - | - | 2,655,717 |
| Other comprehensive income (loss) for the year | 6(6)(15) | - | - | - | - | - | - | 1,772 | ( 25,048 ) | 123,490 | 100,214 |
| Balance at December 31, 2017 | | $ 4,307,617 | $ 4,652,151 | $ 4,106 | $ 35,128 | $ 4,037,210 | $ 145,689 | $ 7,363,641 | ($ 67,262 ) | $ 20,015 | $20,498,295 |

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

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan Dollars)

| | Notes | Years ended December 31 2017 | 2016 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | $ 3,312,582 | $ 3,243,367 |
| Adjustments | | | |
| Adjustments to reconcile profit (loss) | | | |
| Net loss on financial assets at fair value through profit or loss | | - | 15,768 |
| Share of loss of associates and joint ventures accounted for using equity method | 6(7) | 108,858 | 34,601 |
| (Gain on reversal of bad debts) provision for bad debt expense | 6(3) | ( 6,353 ) | 1,449 |
| Loss on disposal of investments | 6(6)(18) | 106,075 | - |
| Net gain on financial liabilities at fair value through profit or loss | 6(18) | - | ( 13 ) |
| (Gain) loss on disposal of property, plant and equipment | 6(18) | ( 10,421 ) | 289 |
| Depreciation | 6(19) | 205,723 | 229,566 |
| Interest income | 6(17) | ( 145,127 ) | ( 120,589 ) |
| Interest expense | | 297 | 2,502 |
| Dividend income | 6(18) | ( 8,973 ) | ( 8,574 ) |
| Changes in operating assets and liabilities | | | |
| Changes in operating assets | | | |
| Notes receivable | | ( 514 ) | ( 4,389 ) |
| Accounts receivable | | 349,976 | 361,242 |
| Accounts receivable - related parties | | 21,369 | ( 12,022 ) |
| Other receivables | | 36,118 | ( 968 ) |
| Inventories | | ( 74,329 ) | ( 653,065 ) |
| Other current assets, others | | ( 7,821 ) | 16,097 |
| Changes in operating liabilities | | | |
| Accounts payable | | ( 502,714 ) | 151,154 |
| Accounts payable - related parties | | ( 10,764 ) | ( 10,342 ) |
| Other payables | | ( 42,914 ) | 23,601 |
| Other payables - related parties | | 233 | - |
| Other current liabilities | | ( 13,001 ) | 8,323 |
| Other non-current liabilities | | ( 27,225 ) | 3,645 |
| Cash inflow generated from operations | | 3,291,075 | 3,281,642 |
| Dividends received | | 8,973 | 8,574 |
| Interest received | | 141,282 | 109,279 |
| Interest paid | | ( 297 ) | ( 2,502 ) |
| Income tax paid | | ( 401,076 ) | ( 622,848 ) |
| Net cash flows from operating activities | | 3,039,957 | 2,774,145 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Increase in other current financial assets | | ( 2,112,846 ) | ( 4,931,250 ) |
| Decrease in other current financial assets | | 3,915,775 | 4,760,666 |
| Acquisition of investment in debt instrument without active markets | | ( 2,734,320 ) | ( 2,786,377 ) |
| Proceeds from disposal of investment in debt instrument without active markets | | 2,361,738 | 3,309,487 |
| Proceeds from disposal of available-for-sale financial assets | | 128,121 | - |
| Acquisition of property, plant and equipment | 6(8) | ( 195,132 ) | ( 47,607 ) |
| Proceeds from disposal of property, plant and equipment | 6(8) | 16,725 | 147 |
| Increase in other current financial assets | | ( 24,103 ) | ( 18,544 ) |
| Net cash flows from investing activities | | 1,355,958 | 286,522 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Decrease in short-term borrowings | | - | ( 940,725 ) |
| Cash dividends paid (including cash payment from capital surplus ) | 6(14) | ( 2,584,570 ) | ( 2,929,179 ) |
| Net cash flows used in financing activities | | ( 2,584,570 ) | ( 3,869,904 ) |
| Effect of exchange rate changes on cash and cash equivalents | | ( 8,101 ) | ( 11,455 ) |
| Net increase (decrease) in cash and cash equivalents | | 1,803,244 | ( 820,692 ) |
| Cash and cash equivalents at beginning of year | | 1,842,670 | 2,663,362 |
| Cash and cash equivalents at end of year | | $ 3,645,914 | $ 1,842,670 |

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

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

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

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 8, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 28, 'Investment entities: applying the consolidation exception' | January 1, 2016 |
| Amendments to IFRS 11, 'Accounting for acquisition of interests in joint operations' | January 1, 2016 |
| IFRS 14,'Regulatory deferral accounts' | January 1, 2016 |
| Amendments to IAS 1, 'Disclosure initiative' | January 1, 2016 |
| Amendments to IAS 16 and IAS 38, 'Clarification of acceptable methods of depreciation and amortisation' | January 1, 2016 |
| Amendments to IAS 16 and IAS 41, 'Agriculture: bearer plants' | January 1, 2016 |
| Amendments to IAS 19, 'Defined benefit plans: employee contributions' | July 1, 2014 |
| Amendments to IAS 27, 'Equity method in separate financial statements' | January 1, 2016 |
| Amendments to IAS 36, 'Recoverable amount disclosures for non-financial assets' | January 1, 2014 |
| Amendments to IAS 39, 'Novation of derivatives and continuation of hedge accounting' | January 1, 2014 |

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| IFRIC 21, 'Levies' | January 1, 2014 |
| Annual improvements to IFRSs 2010-2012 cycle | July 1, 2014 |
| Annual improvements to IFRSs 2011-2013 cycle | July 1, 2014 |
| Annual improvements to IFRSs 2012-2014 cycle | January 1, 2016 |

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

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

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions' | January 1, 2018 |
| Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts' | January 1, 2018 |
| IFRS 9, 'Financial instruments' | January 1, 2018 |
| IFRS 15, 'Revenue from contracts with customers' | January 1, 2018 |
| Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers' | January 1, 2018 |
| Amendments to IAS 7, 'Disclosure initiative' | January 1, 2017 |
| Amendments to IAS 12, 'Recognition of deferred tax assets for unrealized losses' | January 1, 2017 |
| Amendments to IAS 40, 'Transfers of investment property' | January 1, 2018 |
| IFRIC 22, 'Foreign currency transactions and advance consideration' | January 1, 2018 |
| Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards' | January 1, 2018 |
| Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities' | January 1, 2017 |
| Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures' | January 1, 2018 |

A. Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(a) IFRS 9, 'Financial instruments'

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

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

(b) IFRS 15 'Revenue from contracts with customers'

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

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

Step 1: Identify contracts with customer

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

Step 3: Determine the transaction price

Step 4: Allocate the transaction price.

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

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

(c) Amendments to IAS 7, 'Disclosure initiative'

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

The Group expects to provide additional disclosure to explain the changes in liabilities arising from financing activities.

(d) Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealized losses’

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

B. When adopting the new standards endorsed by the FSC effective from 2018, the Group will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. Further, the Group expects to adopt IFRS 15 using the modified retrospective approach. The significant effects of applying the new standards as of January 1, 2018 are summarized below:

(a) In accordance with IFRS 9, the Group expects to reclassify available-for-sale financial assets in the amounts of $68,874, and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income, increasing retained earnings and decreasing other equity interest in the amounts of $68,874, $30,000 and $30,000, respectively.

(b) In accordance with IFRS 9, the Group expects to reclassify investments in debt instrument without active market of $738,877, by increasing financial assets at amortised cost in the amount of $738,877.

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

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments to IFRS 9, ‘Prepayment features with negative compensation’ | January 1, 2019 |
| Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’ | To be determined by International Accounting Standards Board |
| IFRS 16, ‘Leases’ | January 1, 2019 |
| IFRS 17, ‘Insurance contracts’ | January 1, 2021 |
| Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’ | January 1, 2019 |
| Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’ | January 1, 2019 |
| IFRIC 23, ‘Uncertainty over income tax treatments’ | January 1, 2019 |
| Annual improvements to IFRSs 2015-2017 cycle | January 1, 2019 |

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

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

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

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

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

B. IFRS 16, 'Leases'

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

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

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

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

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

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

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

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

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

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

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

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

B. Subsidiaries included in the consolidated financial statements:

| Name of Investor | Name of Subsidiary | Main Business Activities | Ownership (%) December 31, 2017 | Ownership (%) December 31, 2016 |
|---|---|---|---|---|
| Transcend Taiwan | Saffire Investment Ltd. (Saffire) | Investment holding company | 100 | 100 |
| 〃 | Transcend Japan Inc. (Transcend Japan) | Wholesaler and import of computer memory modules and peripheral products | 100 | 100 |
| 〃 | Transcend Information Inc. (Transcend USA) | Wholesaler and import of computer memory modules and peripheral products | 100 | 100 |
| 〃 | Transcend Korea Inc. (Transcend Korea) | Wholesaler and import of computer memory modules and peripheral products | 100 | 100 |
| Saffire Investment Ltd. | Memhiro Pte. Ltd. (Memhiro) | Investment holding company | 100 | 100 |
| Memhiro Pte. Ltd. | Transcend Information Europe B.V. (Transcend Europe) | Wholesaler and import of computer memory modules and peripheral products | 100 | 100 |
| 〃 | Transcend Information Trading GmbH, Hamburg (Transcend Germany) | Wholesaler and import of computer memory modules and peripheral products | 100 | 100 |
| 〃 | Transcend Information (Shanghai), Ltd. (Transcend Shanghai) | Manufacturer and seller of computer memory modules, storage products and disks | 100 | 100 |
| 〃 | Transtech Trading (Shanghai) Co., Ltd. (Transtech Shanghai) | Wholesaler, agent, import and export and retailer of computer memory modules, storage products and computer components | 100 | 100 |
| 〃 | Transcend Information (Hong Kong), Ltd. (Transcend Hong Kong) | Wholesaler and import of computer memory modules and peripheral products | 100 | 100 |

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

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

E. Significant restrictions: None.

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

(4) Foreign currency translation

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

A. Foreign currency transactions and balances

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

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

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

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

B. Translation of foreign operations

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

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

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

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

(5) <u>Classification of current and non-current items</u>

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

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

(b) Assets held mainly for trading purposes;

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

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

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

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

(b) Liabilities arising mainly from trading activities;

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

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

(7) Receivables

A. Accounts receivable

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

B. Investments in debt instrument without active market

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

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

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

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

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

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

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

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

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

(9) Inventories

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

(10) Available-for-sale financial assets

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

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

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

(11) Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

(a) Investments in debt instrument without active market

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b) Available-for-sale financial assets

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

(12) Derecognition of financial assets

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

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

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

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

(13) Investments accounted for using equity method / associates

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

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

C. When changes in an associate's equity that do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.

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

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

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

(14) Property, plant and equipment

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

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

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

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

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

(15) Investment property

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

(16) Operating leases

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

(17) Long-term prepaid rents

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

(18) Impairment of non-financial assets

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

(19) Notes and accounts payable

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

(20) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

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

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

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

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

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

(21) Income tax

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

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

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

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

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

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

(22) Share capital

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

(23) Dividends

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

(24) Revenue recognition

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

(25) Operating segments

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

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

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

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

Investment property

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

(2) Critical accounting estimates and assumptions

Evaluation of inventories

As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. The valuation of inventories was based on recent market price and demand of products in the future specific period, thus there might be significant changes in the valuation. As of December 31, 2017, the carrying amount of inventories was $5,241,150.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Cash on hand and petty cash | $ 693 | $ 1,040 |
| Checking accounts and demand deposits | 3,645,221 | 1,323,718 |
| Cash equivalents | | |
| Bonds with repurchase agreement | - | 517,912 |
| Total | $ 3,645,914 | $ 1,842,670 |

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

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

### (2) Investments in debt instrument without active markets - current

| Items | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Current items： | | |
| Bonds with repurchase agreement | $ 738,877 | $ 366,295 |

A. The counterparties of the Group's investments have good credit quality ; the Group's investments in debt instrument with repurchase agreement are from Yuanta Asset Management Limited.

B. The Group recognized gain on disposal of financial assets of $11,288 and $12,908 in profit or loss for the years ended December 31, 2017 and 2016, respectively.

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

### (3) Accounts receivable

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Accounts receivable | $ 2,639,912 | $ 3,043,191 |
| Less: Provision for sales discounts and allowances | ( 116,210) | ( 169,513) |
| Allowance for bad debts | ( 23,929) | ( 32,450) |
| | $ 2,499,773 | $ 2,841,228 |

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

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

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Up to 30 days | $ 477,941 | $ 583,946 |
| 31 to 90 days | 6,905 | 9,798 |
| 91 to 180 days | 3,719 | 471 |
| Over 181 days | 4,813 | 805 |
| | $ 493,378 | $ 595,020 |

The above ageing analysis was based on past due date.

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

(a) As of December 31, 2017 and 2016, the Group's accounts receivable that were impaired amounted to $23,929 and $32,450, respectively.

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

| | 2017 | | |
|---|---|---|---|
| | Individual provision | Group provision | Total |
| At January 1 | $ 32,450 | $ - | $ 32,450 |
| Reversal of impairment | ( 6,353) | - | ( 6,353) |
| Net exchange differences | ( 2,168) | - | ( 2,168) |
| At December 31 | $ 23,929 | $ - | $ 23,929 |

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

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

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Group 1 | $ 885,338 | $ 934,670 |
| Group 2 | 1,121,057 | 1,311,538 |
| | $ 2,006,395 | $ 2,246,208 |

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

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

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

(4) Inventories

| | December 31, 2017 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Raw materials | $ 3,081,401 | ($ 23,064) | $ 3,058,337 |
| Work in progress | 574,309 | ( 1,133) | 573,176 |
| Finished goods | 1,619,886 | ( 10,249) | 1,609,637 |
| Total | $ 5,275,596 | ($ 34,446) | $ 5,241,150 |

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

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

| | Years ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Cost of goods sold | $ 15,548,340 | $ 17,178,208 |
| Revenue from disposal of scraps | ( 98,864) | - |
| Gain on reversal of decline in market value of inventory | ( 11,467) | ( 24,986) |
| | $ 15,438,009 | $ 17,153,222 |

B. The gain on reversal of decline in market value of inventory for the years ended December 31, 2017 and 2016 was due to the rising prices of raw materials and products and the Group’s disposal of slow-moving inventory.

C. No inventories were pledged to others.

(5) Other current financial assets

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Time deposits with original maturity of more than three months | $ 6,899,661 | $ 8,702,590 |

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

| Items | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Non-current items： | | |
| Listed stocks | $ 47,734 | $ 281,930 |
| Others | 31,125 | 31,125 |
| Subtotal | 78,859 | 313,055 |
| Valuation adjustments of available-for-sale financial assets | 20,015 | ( 103,475) |
| Accumulated impairment | ( 30,000) | ( 30,000) |
| Total | $ 68,874 | $ 179,580 |

A. The Group recognized $123,490 and ($4,724) in other comprehensive income (loss) for fair value change and reclassified $106,075 and $0 from equity to profit or (loss) for the years ended December 31, 2017 and 2016, respectively.

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

(7) Investments accounted for using equity method

| Investee Company | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Taiwan IC Packaging Corp. | $ 173,122 | $ 282,610 |

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

| Associate name | Principal place of business | Shareholding ratio December 31, 2017 | Shareholding ratio December 31, 2016 | Nature of relationship | Method of measurement |
|---|---|---|---|---|---|
| Taiwan IC Packaging Corp. | Taiwan | 12.73% | 12.70% | Note | Equity method |

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

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

Balance sheet

| | Taiwan IC Packaging Corp. | |
|---|---|---|
| | December 31, 2017 | December 31, 2016 |
| Current assets | $ 1,189,868 | $ 1,721,637 |
| Non-current assets | 1,546,981 | 1,941,925 |
| Current liabilities | ( 332,000) | ( 409,078) |
| Non-current liabilities | ( 26,944) | ( 33,010) |
| Total net assets | $ 2,377,905 | $ 3,221,474 |
| Share in associate's net assets | $ 302,648 | $ 409,003 |
| Net equity differences | ( 129,526) | ( 126,393) |
| | $ 173,122 | $ 282,610 |

Statement of comprehensive income

| | Taiwan IC Packaging Corp. | |
|---|---|---|
| | Years ended December 31, | |
| | 2017 | 2016 |
| Revenue | $ 1,409,149 | $ 1,742,285 |
| Loss for the period from continuing operations | ($ 857,930) | ($ 273,814) |
| Total comprehensive loss | ($ 840,929) | ($ 278,773) |
| Dividends received from associates | $ - | $ - |

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

| | Years ended December 31, | |
|---|---|---|
| Investee Company | 2017 | 2016 |
| Taiwan IC Packaging Corp. | ($ 108,858) | ($ 34,601) |

D. The Group’s investment in Taiwan IC Packaging Corporation has quoted market price. The fair value of Taiwan IC Packaging Corporation was $291,876 and $386,230 as of December 31, 2017 and 2016, respectively.

(8) Property, plant and equipment

| | Land | Buildings and structures | Machinery | Vehicles | Office Equipment | Others | Total |
|---|---|---|---|---|---|---|---|
| At January 1, 2017 | | | | | | | |
| Cost | $ 728,741 | $ 2,668,305 | $ 678,618 | $ 6,354 | $ 41,055 | $ 65,023 | $ 4,188,096 |
| Accumulated depreciation | - | ( 906,674) | ( 460,554) | ( 5,490) | ( 30,317) | ( 44,851) | ( 1,447,886) |
| | $ 728,741 | $ 1,761,631 | $ 218,064 | $ 864 | $ 10,738 | $ 20,172 | $ 2,740,210 |
| 2017 | | | | | | | |
| Opening net book amount | $ 728,741 | $ 1,761,631 | $ 218,064 | $ 864 | $ 10,738 | $ 20,172 | $ 2,740,210 |
| Additions (including transfers) | - | 4,380 | 165,942 | 6,551 | 2,843 | 15,416 | 195,132 |
| Disposals | - | - | ( 6,209) | - | ( 95) | - | ( 6,304) |
| Depreciation charge | - | ( 108,620) | ( 79,183) | ( 428) | ( 2,791) | ( 7,675) | ( 198,697) |
| Net exchange differences | ( 6,198) | ( 14,743) | ( 2,184) | ( 50) | ( 57) | ( 186) | ( 23,418) |
| Closing net book amount | $ 722,543 | $ 1,642,648 | $ 296,430 | $ 6,937 | $ 10,638 | $ 27,727 | $ 2,706,923 |
| At December 31, 2017 | | | | | | | |
| Cost | $ 722,543 | $ 2,611,665 | $ 629,436 | $ 11,780 | $ 39,427 | $ 77,178 | $ 4,092,029 |
| Accumulated depreciation | - | ( 969,017) | ( 333,006) | ( 4,843) | ( 28,789) | ( 49,451) | ( 1,385,106) |
| | $ 722,543 | $ 1,642,648 | $ 296,430 | $ 6,937 | $ 10,638 | $ 27,727 | $ 2,706,923 |

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

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

(9) Investment property

| | Land | Buildings and structures | Total |
|---|---|---|---|
| At January 1, 2017 | | | |
| Cost | $ 137,037 | $ 222,427 | $ 359,464 |
| Accumulated depreciation and impairment | - | ( 82,148) | ( 82,148) |
| | $ 137,037 | $ 140,279 | $ 277,316 |
| 2017 | | | |
| Opening net book amount | $ 137,037 | $ 140,279 | $ 277,316 |
| Depreciation charge | - | ( 7,026) | ( 7,026) |
| Net exchange differences | - | ( 828) | ( 828) |
| Closing net book amount | $ 137,037 | $ 132,425 | $ 269,462 |
| At December 31, 2017 | | | |
| Cost | $ 137,037 | $ 221,037 | $ 358,074 |
| Accumulated depreciation and impairment | - | ( 88,612) | ( 88,612) |
| | $ 137,037 | $ 132,425 | $ 269,462 |

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

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

| | Years ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Rental income from investment property | $ 18,368 | $ 18,389 |
| Direct operating expenses arising from investment property that generated rental income | $ 6,173 | $ 6,805 |
| Direct operating expenses arising from investment property that did not generate rental income | $ 853 | $ 853 |

B. The fair value of the investment property held by the Group was $1,701,941 and $1,590,260 as of December 31, 2017 and 2016, respectively, which was based on the transaction prices of similar properties in the same area.

C. No investment property was pledged to others.

(10) Other non-current assets

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Long-term prepaid rents | $ 97,843 | $ 101,625 |
| Guarantee deposits paid | 32,617 | 32,224 |
| Prepayments for business facilities | 81,374 | 53,628 |
| Others | 16,519 | 16,773 |
| | $ 228,353 | $ 204,250 |

In May 2005, the Group signed a land-use right contract with the People's Republic of China for the use of land with a term of 50 years. All rentals had been paid on the contract date. The Group recognized rental expenses of $2,580 and $2,785 for the years ended December 31, 2017 and 2016, respectively.

(11) Pensions

A. Defined benefit plan

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

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

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Present value of defined benefit obligations | $ 38,109 | $ 40,894 |
| Fair value of plan assets | ( 21,161) | ( 20,691) |
| Net defined benefit liability | $ 16,948 | $ 20,203 |

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

| | Present value of defined benefit obligations | Fair value of plan assets | Net defined benefit liability |
|---|---|---|---|
| 2017 | | | |
| Balance at January 1 | $ 40,894 | ($ 20,691) | $ 20,203 |
| Current service cost | 490 | - | 490 |
| Interest expense (income) | 563 | ( 298) | 265 |
| | 41,947 | ( 20,989) | 20,958 |
| Remeasurements: | | | |
| Return on plan asset (excluding amounts included in interest income or expense) | - | 92 | 92 |
| Change in demographic assumptions | 127 | - | 127 |
| Change in financial assumptions | 639 | - | 639 |
| Experience adjustments | ( 3,260) | - | ( 3,260) |
| | ( 2,494) | 92 | ( 2,402) |
| Pension fund contribution | - | ( 1,608) | ( 1,608) |
| Paid pension | ( 1,344) | 1,344 | - |
| Balance at December 31 | $ 38,109 | ($ 21,161) | $ 16,948 |

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

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-thecounter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

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

| | Years ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Discount rate | 1.250% | 1.375% |
| Future salary increases | 2.000% | 2.000% |

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

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

| | Discount rate | | Future salary increases | |
|---|---|---|---|---|
| | Increase 0.25% | Decrease 0.25% | Increase 0.25% | Decrease 0.25% |
| December 31, 2017 | | | | |
| Effect on present value of defined benefit obligation | ($ 1,284) | $ 1,344 | $ 1,304 | ($ 1,252) |
| December 31, 2016 | | | | |
| Effect on present value of defined benefit obligation | ($ 1,447) | $ 1,518 | $ 1,474 | ($ 1,413) |

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

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

(f) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2018 amount to $1,608.

(g) As of December 31, 2017, the weighted average duration of the retirement plan is 15 years.

B. Defined contribution plans.

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

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

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

(d) The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2017 and 2016 were $46,320 and $43,654, respectively.

(12) Share capital

As of December 31, 2017, the Company's authorized capital was $5,000,000, consisting of 500,000 thousand shares of ordinary stock (including 25,000 thousand shares reserved for employee stock options). Paid-in capital was $4,307,617, the number of outstanding shares for the years ended December 31, 2017 and 2016 was both 430,762 thousand shares with par value of $10 per share at the beginning and the end of the period.

(13) Capital surplus

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

(14) Retained earnings

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

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

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

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

E.(a) The appropriation of earnings and cash payment from capital surplus for the years ended December 31, 2016 and 2015 have been resolved at the stockholders' meeting on June 16, 2017 and June 14, 2016, respectively. Details are summarized below:

| | Year ended December 31, 2016 | | Year ended December 31, 2015 | |
|---|---|---|---|---|
| | Amount | Dividends per share (in dollars) | Amount | Dividends per share (in dollars) |
| Legal reserve | $ 288,264 | | $ 322,190 | |
| Special reserve | 123,998 | | 21,691 | |
| Cash dividends | 2,476,880 | $ 5.75 | 2,929,179 | $ 6.80 |
| Total | $ 2,889,142 | | $ 3,273,060 | |

| | Amount | Cash payment per share (in dollars) |
|---|---|---|
| Cash payment from capital surplus | $ 107,690 | $ 0.25 |

Actual distribution of retained earnings of 2016 and 2015 are in agreement with those resolved at the stockholders' meeting.

(b) The appropriation of earnings of year 2017 has been proposed at the Board of Directors meeting on March 8, 2018. Details are summarized below:

| | Year ended December 31, 2017 | |
|---|---|---|
| | Amount | Dividends per share (in dollars) |
| Legal reserve | $ 265,572 | |
| Cash dividends | 2,498,418 | $ 5.80 |
| Total | $ 2,763,990 | |

| | Amount | Cash payment per share (in dollars) |
|---|---|---|
| Cash payment from capital surplus | $ 86,152 | $ 0.20 |

The above appropriation of earnings of year 2017 has not been resolved at the stockholders' meeting yet.

F. Please refer to Note 6(19) for the information relating to employees' compensation and directors' remuneration.

(15) Other equity items

| | Unrealized gain or loss on available-for-sale financial assets | Exchange differences on translation of foreign financial statements | Total |
|---|---|---|---|
| At January 1, 2017 | ($ 103,475) | ($ 42,214) | ($ 145,689) |
| Change in unrealized gains or losses for available-for-sale financial assets | 123,490 | - | 123,490 |
| Currency translation differences | - | ( 30,179) | ( 30,179) |
| Effect from income tax | - | 5,131 | 5,131 |
| At December 31, 2017 | $ 20,015 | ($ 67,262) | ($ 47,247) |

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

(16) Operating revenue

| | Years ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Sales revenue | $ 20,964,853 | $ 22,104,915 |

(17) Other income

| | Years ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Interest income | $ 145,127 | $ 120,589 |
| Rental income | 18,368 | 18,389 |
| Total | $ 163,495 | $ 138,978 |

(18) Other gains and losses

| | Years ended December 31, 2017 | Years ended December 31, 2016 |
|---|---|---|
| Net loss on financial assets at fair value through profit or loss | $ - | ($ 22,912) |
| Net gain on financial liabilities at fair value through profit or loss | - | 13 |
| Gain on disposal of financial assets | 11,288 | 12,908 |
| Loss on disposal of investments | ( 106,075) | - |
| Gain (loss) on disposal of property, plant and equipment | 10,421 | ( 289) |
| Net currency exchange loss | ( 689,408) | ( 209,138) |
| Dividends income | 8,973 | 8,574 |
| Others | 25,395 | 44,591 |
| Total | ($ 739,406) | ($ 166,253) |

(19) Expenses by nature

| | Years ended December 31, 2017 | Years ended December 31, 2016 |
|---|---|---|
| Wages and salaries | $ 1,341,307 | $ 1,403,922 |
| Labor and health insurance fees | 143,549 | 153,668 |
| Pension costs | 47,075 | 44,591 |
| Other personnel expenses | 67,045 | 89,557 |
| Depreciation on property, plant and equipment (including investment property) | 205,723 | 229,566 |

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

B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at $34,779 and $33,439, respectively; while directors' remuneration was accrued at $4,945 and $4,681, respectively. The aforementioned amounts were recognized in salary expenses.

The employees' compensation and directors' remuneration were estimated and accrued based on 1% and 0.2% of distributable profit of current year for the year ended December 31, 2017. The employees' compensation and supervisors' remuneration resolved by the Board of Directors were $33,280 and $4,500 and the employees' compensation will be distributed in the form of cash.

The difference between employees' compensation and directors' remuneration as resolved by the Board of Directors and the amount recognized in the 2016 financial statements by $1,397 and $442 had been adjusted in the profit or loss of 2017.

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

(20) Income tax

A. Income tax expense

(a) Components of income tax expense:

| | Years ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Current tax: | | |
| Current tax on profits for the year | $ 678,498 | $ 470,590 |
| Prior year income tax underestimation (overestimation) | 38,785 | ( 37,775) |
| Total current tax | 717,283 | 432,815 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | ( 60,418) | ( 72,085) |
| Total deferred tax | ( 60,418) | ( 72,085) |
| Income tax expense | $ 656,865 | $ 360,730 |

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

| | Years ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Exchange differences on translation of foreign financial statements | ($ 5,131) | ($ 24,429) |

B. Reconciliation between income tax expense and accounting profit

| | Years ended Decmber 31, | |
|---|---|---|
| | 2017 | 2016 |
| Tax calculated based on profit before tax and statutory tax rate | $ 583,028 | $ 576,238 |
| Effect from expenses disallowed by tax regulation (included effect from tax exempt income by tax regulation) | 35,052 | ( 177,733) |
| Prior year income tax underestimation (overestimation) | 38,785 | ( 37,775) |
| Income tax expense | $ 656,865 | $ 360,730 |

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

| | 2017 | | | |
|---|---|---|---|---|
| | January 1 | Recognized in profit or loss | Recognized in other comprehensive income | December 31 |
| Deferred tax assets | | | | |
| Over provision for allowance for uncollectable accounts | $ 1,944 | ($ 1,944) | $ - | $ - |
| Unrealized exchange loss | - | 85,123 | - | 85,123 |
| Pension recognized amount over contributed amount | 5,865 | ( 145) | - | 5,720 |
| Unused compensated absences | 4,634 | ( 388) | - | 4,246 |
| Unrealized sales discounts and allowances | 29,342 | ( 10,820) | - | 18,522 |
| Unrealized gross margin | 25,857 | ( 11,833) | - | 14,024 |
| Unrealized loss on market price decline and slow-moving inventory | 7,311 | ( 2,523) | - | 4,788 |
| Others | 2,806 | ( 1,275) | - | 1,531 |
| Total | $ 77,759 | $ 56,195 | $ - | $ 133,954 |
| Deferred tax liabilities | | | | |
| Unrealized exchange gain | ($ 3,932) | $ 3,932 | $ - | $ - |
| Unrealized gain on disposal of financial assets | ( 16,435) | 16,435 | - | - |
| Translation differences for foreign operations differences | ( 26,732) | - | 5,131 | ( 21,601) |
| Net gain on investments accounted for using equity method | ( 120,584) | ( 15,801) | - | ( 136,385) |
| Others | ( 134) | ( 343) | - | ( 477) |
| Total | ($ 167,817) | $ 4,223 | $ 5,131 | ($ 158,463) |

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

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

| | Years ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Deductible temporary differences | $ 73,173 | $ 73,173 |

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

F. As of December 31, 2017, the Company's income tax returns through 2013 have been assessed and approved by the National Taxation Bureau of Taipei, Ministry of Finance.

G. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China in February, 2018, the information on unappropriated retained earnings and the balance of the imputation credit account as of December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed.

Unappropriated retained earnings on December 31, 2016:

| | December 31, 2016 |
|---|---|
| Earnings generated in and before 1997 | $ 121,097 |
| Earnings generated in and after 1998 | 7,474,197 |
| | $ 7,595,294 |

H. As of December 31, 2016, the balance of the imputation tax credit account was $989,048. The creditable tax rate was 14.98% for 2016.

(21) Earnings per share

| | Year ended December 31, 2017 | | |
|---|---|---|---|
| | Profit after tax | Weighted-average outstanding common shares (in thousands) | Earnings per share (in dollars) |
| Basic earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 2,655,717 | 430,762 | $ 6.17 |
| Diluted earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 2,655,717 | 430,762 | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| Employees' compensation | - | 561 | |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | $ 2,655,717 | 431,323 | $ 6.16 |

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

(22) Operating leases

A. The Group leases land, houses and buildings, which are partially recognized as investment property, to others under non-cancellable operating lease agreements. Rental revenue of $18,368 and $18,389 were recognized for these leases in profit or loss for the years ended December 31, 2017 and 2016, respectively. The leases for buildings have terms expiring between 2020 and 2021, and all these lease agreements are not renewable at the end of the lease period. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Not later than one year | $ 19,314 | $ 13,834 |
| Later than one year but not later than five years | 42,741 | 36,720 |
| | $ 62,055 | $ 50,554 |

B. On April 8, 2009, the Company signed a land lease contract with its major stockholders, Won Chin and Cheng Chuan, to build a new plant on the leased land. The lease has a term of 10 years from April 10, 2009 to April 9, 2019. The annual rental payment is $35,633 (exclusive of tax), which was determined based on the average rent of land near the leased land shown in the appraisal report issued by CCIS Real Estate Joint Appraisers Firm. Rent was paid on the contract date and becomes payable on the same date each following year until the end of the lease. For the years ended December 31, 2017 and 2016, the rental expense were both $35,633. The future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Not later than one year | $ 37,415 | $ 37,415 |
| Later than one year but not later than five years | 12,472 | 49,886 |
| | $ 49,887 | $ 87,301 |

## 7. RELATED PARTY TRANSACTIONS

### (1) Names of related parties and relationship

| Names of related parties | Relationship with the Group |
|---|---|
| Taiwan IC Packaging Corporation | Associate accounted for using equity method |
| Alcor Micro Corporation (Note A) | Other related party |
| Hitron Tech. Inc. (Note B) | Other related party |
| Won Chin | Major stockholder |
| Cheng Chuan | Major stockholder |

Note A: In April 2017, the Company resigned as a member of the Board of Directors of the counterparty which is no longer a related party of the Group from then on.

Note B: In June 2017, the Company resigned as a member of the Board of Directors of the counterparty which is no longer a related party of the Group from then on.

### (2) Significant transactions and balances with related parties

A. Operating revenue

| | Years ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Sales | | |
| Associates accounted for using equity method | $ 116 | $ 911 |
| Other related parties | 161,776 | 131,935 |
| | $ 161,892 | $ 132,846 |

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

B. Purchases

| | Years ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Purchases of goods | | |
| Associates accounted for using equity method | $ 257,181 | $ 317,627 |
| Other related parties | 10,193 | 50,637 |
| | $ 267,374 | $ 368,264 |

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

C. Receivables from related parties

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Accounts receivable | | |
| Other related parties | $ - | $ 21,369 |

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

D. Payables to related parties

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Accounts payable | | |
| Associates accounted for using equity method | $ 37,454 | $ 36,835 |
| Other related parties | - | 11,383 |
| | $ 37,454 | $ 48,218 |

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

E. Property transactions

For the year ended December 31, 2017, the Company sold equipment to the associate accounted for using equity method, Taiwan IC packaging Corp., in the amount of $14,366 (including business tax), and recognized gain on disposal of property, plant and equipment of $11,267. The Group had no property transactions for the year ended December 31, 2016.

F. Lease contracts

On April 8, 2009, the Company signed a land lease contract with its major stockholders, Won Chin and Cheng Chuan, to build a new plant on the leased land. Please refer to Note 6(22) for details.

(3) Key management compensation

| | Years ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Salaries and other employee benefits | $ 28,304 | $ 31,405 |

8. PLEDGED ASSETS

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

| | Book value | | |
|---|---|---|---|
| Pledged of assets | December 31, 2017 | December 31, 2016 | Pledge purpose |
| Property, plant and equipment | $ 147,873 | $ 156,240 | Collaterals for general credit limit granted by financial institutions |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

As of December 31, 2017, except for the provision of endorsements and guarantees mentioned in Note 13(1) B and the lease contract described in Notes 6(22) and 7, there are no other significant commitments.

10. SIGNIFICANT DIASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

(1) For information of appropriation of retained earnings and cash payment from capital surplus, please refer to Note 6(14)E(b).

(2) Under the amendments to the Income Tax Act that were promulgated in February, the Company's applicable income tax rate will be raised from 17% to 20% effective from 2018.

12. OTHERS

(1) Capital risk management

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

(2) Financial instruments

A. Fair value information of financial instruments

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

B. Financial risk management policies

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

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

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

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

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

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Foreign Currency | Foreign Currency Amount | Exchange rate | Book value |
| Financial assets | USD：NTD | $ 297,429 | 29.7600 | $ 8,851,487 |
| | JPY：NTD | 2,165,791 | 0.2642 | 572,202 |
| | EUR：NTD | 14,747 | 35.5700 | 524,551 |
| | GBP：NTD | 1,079 | 40.1100 | 43,279 |
| | USD：EUR | 3,052 | 0.8367 | 90,828 |
| | USD：HKD | 1,989 | 7.8186 | 59,193 |
| Financial liabilities | USD：NTD | $ 34,790 | 29.7600 | $ 1,035,350 |

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

The total exchange loss, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2017 and 2016, amounted to $689,408 and $209,138, respectively.

Sensitivity analyzes relating to foreign exchange rate risks are primarily for financial reporting period-end date of foreign currency monetary item. If the New Taiwan Dollar exchange rate to the U.S. Dollar increases or decreases by 1%, the Group's net income will decrease or increase by $78,161 and $84,819 for the years ended December 31, 2017 and 2016, respectively.

Price risk

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

ii. The Group's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, equity would have increased/decreased by $689 and $1,796, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

Interest rate risk

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

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

(b) Credit risk

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

ii. For the years ended December 31, 2017 and 2016, no credit limits were exceeded during the reporting periods, and management does not except any significant losses from non-performance by these counterparties.

(c) Liquidity risk

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

ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts, time deposits, bonds issued under repurchase agreement and current bond investment without active market, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As at December 31, 2017 and 2016, the Group held money market position of $11,284,452 and $10,911,555, respectively, are expected to readily generate cash inflows for managing liquidity risk.

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

(3) Fair value information

A. Details of the fair value of the Group’s financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A. Details of the fair value of the Group’s investment property measured at cost are provided in Note 6(9).

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

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

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2017 and 2016 is as follows:

| December 31, 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Recurring fair value measurements | | | | |
| Available-for-sale financial assets | | | | |
| Equity securities | $ 67,749 | $ - | $ 1,125 | $ 68,874 |

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

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

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

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

G. The financial instruments of Level 3 had no changes for the years ended December 31, 2017 and 2016.

13. <u>SUPPLEMENTARY DISCLOSURES</u>

(1) <u>Significant transactions information</u>

A. Loans to others: None.

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

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

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

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

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

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

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

I. Trading in derivative instruments undertaken during the reporting periods: None.

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

(2) <u>Information on investees</u>

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

(3) <u>Information on investments in Mainland China</u>

A. Basic information: Please refer to table 7.

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

## 14. SEGMENT INFORMATION

### (1) General information

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

### (2) Segment information

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

| | Years ended December 31, 2017 | Years ended December 31, 2016 |
|---|---|---|
| Segment revenue | $ 20,964,853 | $ 22,104,915 |
| Segment income | $ 2,655,717 | $ 2,882,637 |

### (3) Reconciliation for segment income (loss)

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

### (4) Information on products and services

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

### (5) Geographical information

Geographical information for the years ended December 31, 2017 and 2016 is as follows:

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Revenue | Non-current assets | Revenue | Non-current assets |
| Taiwan | $ 5,668,565 | $ 2,035,860 | $ 4,898,914 | $ 1,941,770 |
| Asia | 7,290,930 | 1,064,306 | 8,344,663 | 1,166,164 |
| America | 1,886,652 | 76,100 | 2,448,306 | 87,343 |
| Europe | 5,005,381 | 28,472 | 5,360,295 | 26,499 |
| Others | 1,113,325 | - | 1,052,737 | - |
| Total | $ 20,964,853 | $ 3,204,738 | $ 22,104,915 | $ 3,221,776 |

### (6) Major customers' information

Major customers' information for the years ended December 31, 2017 and 2016 is as follows:

| | Years ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | Revenue | Revenue |
| A | $ 1,200,484 | $ 2,560,736 |

Transcend Information, Inc.

Provision of endorsements and guarantees to others

Year ended December 31, 2017

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

| Number (Note 1) | Endorser/ guarantor | Party being endorsed/guaranteed Company name | Party being endorsed/guaranteed Relationship with the endorser/ guarantor (Note 2) | Limit on endorsements/ guarantees provided for a single party (Note 3) | Maximum outstanding endorsement/ guarantee amount as of December 31, 2017 (Note 4) | Outstanding endorsement/ guarantee amount at December 31, 2017 (Note 4) | Actual amount drawn down (Note 5) | Amount of endorsements/ guarantees secured with collateral | Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company | Investment income (loss) recognized by the Company for the year ended December 31, 2017 （Note 6） | Provision of endorsements/ guarantees by parent company to subsidiary (Note 7) | Provision of endorsements/ guarantees by subsidiary to parent company | Provision of endorsements/ guarantees to the party in Mainland China | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0 | Transcend Taiwan | Transcend Japan Inc. | 2 | $ 4,099,659 | $ 551,200 (JPY 2,000,000) (In thousands) | $ 528,400 (JPY 2,000,000) (In thousands) | $ - | - | 3 | $ 8,199,318 | Y | - | - | - |

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

(a)The Company is ‘0’.

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

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

(a)Having business relationship

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

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

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

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

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

Note 3: Not exceeding 20% of the Company's net asset value. ($20,498,295*20%=$4,099,659)

Note 4: The maximum outstanding endorsement/guarantee amount during and as of December 31, 2017 is JPY$2,000,000 (In thousands).

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

Note 6: Not exceeding 40% of the Company's net asset value. ($20,498,295*40%=$8,199,318)

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

Transcend Information, Inc.

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

Year ended December 31, 2017

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | | | As of December 31, 2017 | | | | |
|---|---|---|---|---|---|---|---|---|
| Securities held by | Marketable securities (Note 1) | Relationship with the securities issuer (Note 2) | General ledger account | Number of shares | Book value (Note 3) | Ownership (%) | Fair value | Footnote (Note 4) |
| Transcend Taiwan | Stocks | | | | | | | |
| | Alcor Micro Corp. | - | Available-for-sale financial assets-non-current | 96,933 | $ 1,958 | 0.13 | $ 1,958 | - |
| | Hitron Tech. Inc. | - | " | 3,060,017 | 65,791 | 1 | 65,791 | - |
| | Skyviia Corp. | - | " | 259,812 | - | 2 | - | - |
| | Dramexchange Tech Inc. | - | " | 60,816 | 1,125 | 1 | 1,125 | - |
| | | | | | $ 68,874 | | | |
| | Bonds | | | | | | | |
| | Yuanta Asset Management Limited - bond with repurchase agreement rated as investment-grade bonds by S&P | - | Investment in debt instrument without active market-current | | $ 738,877 | - | - | - |

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

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

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

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

Transcend Information, Inc.

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

Year ended December 31, 2017

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | | Transaction | | | | Differences in transaction terms compared to third party transactions | | Notes/accounts receivable (payable) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Purchaser/seller | Counterparty | Relationship with the counterparty | Sales (purchases) | Amount | Percentage of total sales (purchases) | Credit term | Unit price | Credit term | Balance | Percentage of total notes/accounts receivable (payable) | Footnote |
| Transcend Taiwan | Transcend Japan Inc. | The Company's subsidiary | Sales | $ 1,264,549 | 6 | 120 days after monthly billings | No significant difference | 30 to 60 days after monthly billings to third parties | $ 311,249 | 12 | - |
| " | Transcend Information Europe B.V. | Subsidiary of Memhiro | " | 1,235,646 | 6 | " | " | " | 42,219 | 2 | - |
| " | Transcend Information, Inc. | The Company's subsidiary | " | 862,766 | 4 | " | " | " | 64,754 | 3 | - |
| " | Transtech Trading (Shanghai) Co., Ltd. | Subsidiary of Memhiro | " | 906,519 | 5 | " | " | " | 238,151 | 9 | - |
| " | Transcend Korea Inc. | The Company's subsidiary | " | 523,667 | 3 | " | " | " | 14,355 | 1 | - |
| " | Transcend Information (H.K) Ltd. | Subsidiary of Memhiro | " | 437,303 | 2 | " | " | " | 106,400 | 4 | - |
| " | Transcend Information Trading GmbH, Hamburg | Subsidiary of Memhiro | " | 503,028 | 3 | " | " | " | 18,965 | 1 | - |
| " | Transcend Information (Shanghai), Ltd. | Subsidiary of Memhiro | " | 129,656 | 1 | " | " | " | - | - | - |
| " | Hitron Tech. Inc. | Other related parties (Note 2) | " | 161,766 | 1 | 30 days after receipt of goods | " | " | - | - | - |
| Transcend Information Europe B.V. | Transcend Information Trading GmbH, Hamburg | Together with Transcend Information Europe B.V. are controlled by parent company | " | 432,473 | 30 | 30 days after receipt of goods | " | 7 to 60 days after receipt of goods to third parties | 18,877 | 16 | - |
| Transcend Information (Shanghai), Ltd. | Transtech Trading (Shanghai) Co., Ltd. | Together with Transcend Information (Shanghai), Ltd. are controlled by parent company | " | 130,728 | 14 | 120 days after monthly billings | " | 30 to 60 days after receipt of goods to third parties | 60,126 | 11 | - |
| Transcend Taiwan | Transcend Information (Shanghai), Ltd. | Subsidiary of Memhiro | (Purchases) | ( 176,940) | ( 1) | " | Note 1 | 7 to 30 days after receipt of goods to third parties | ( 499,671) | ( 28) | - |
| " | Taiwan IC Packaging Corporation, Inc. | Associate accounted for using the equity method | " | ( 257,181) | ( 2) | 30 days after monthly billings | No significant difference | 30 to 45 days after monthly billings to third parties | ( 37,454) | ( 4) | - |

Note 1: The purchase transactions between Transcend Taiwan and Transcend Information (Shanghai), Ltd. were attributed to processing of supplied materials. No other similar transactions can be used for comparison.
Note 2: In June 2017, Transcend Taiwan resigned as a member of the Board of Directors of the counterparty which is no longer a related party of the Group from then on.
Note 3:The Company’s sales to subsidiaries were equivalent to subsidiaries' purchases from the Company; accordingly, the Company did not disclose the information on subsidiaries’ purchases from the Company.

Transcend Information, Inc.

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

Year ended December 31, 2017

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

| Creditor | Counterparty | Relationship with the counterparty | Balance as at December 31, 2017 | Turnover rate | Overdue receivables Amount | Overdue receivables Action taken | Amount collected subsequent to the balance sheet date | Allowance for doubtful accounts |
|---|---|---|---|---|---|---|---|---|
| Transcend Taiwan | Transcend Japan Inc. | Subsidiary of the Company | $ 311,249 | 2.75 | $ - | - | $ 204,227 | $ - |
| " | Transtech Trading (shanghai) Co., Ltd. | Subsidiary of Memhiro | 238,151 | 4.67 | - | - | 125,081 | - |
| " | Transcend Information (H.K) Ltd. | Subsidiary of Memhiro | 106,400 | 4.83 | - | - | 95,673 | - |
| Transcend Information (Shanghai), Ltd. | Transcend Taiwan | Parent company | 499,671 | 0.35 | - | - | - | - |

Transcend Information, Inc.

Significant inter-company transactions during the reporting periods

Year ended December 31, 2017

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | Transaction: General ledger account | Transaction: Amount | Transaction: Transaction terms | Transaction: Percentage of consolidated total operating revenues or total assets (Note 3) |
|---|---|---|---|---|---|---|---|
| 0 | Transcend Taiwan | Transcend Japan Inc. | 1 | Sales | $ 1,264,549 | There is no significant difference in unit price from those to third parties. | 6 |
| " | " | Transcend Information Europe B. V. | " | " | 1,235,646 | " | 6 |
| " | " | Transcend Information, Inc. | " | " | 862,766 | " | 4 |
| " | " | Transtech Trading (Shanghai) Co., Ltd. | " | " | 906,519 | " | 4 |
| " | " | Transcend Korea Inc. | " | " | 523,667 | " | 2 |
| " | " | Transcend Information (H.K) Ltd. | " | " | 437,303 | " | 2 |
| " | " | Transcend Information Trading GmbH, Hamburg | " | " | 503,028 | " | 2 |
| " | " | Transcend Information (Shanghai), Ltd. | " | Purchases | 176,940 | Processing with supplied materials. No other similar transactions can be used for comparison | 1 |
| " | " | Transcend Japan Inc. | " | Accounts Receivable | 311,249 | 120 days after monthly billings | 1 |
| " | " | Transtech Trading (Shanghai) Co., Ltd. | " | " | 238,151 | " | 1 |
| " | " | Transcend Information (Shanghai), Ltd. | " | Accounts Payable | 499,671 | " | 2 |
| 1 | Transcend Information Europe B. V. | Transcend Information Trading GmbH, Hamburg | 3 | Sales | 432,473 | There is no significant difference in unit price from those to third parties. | 2 |

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

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

(a) Parent company is "0".

(b) Subsidiaries were numbered from 1.

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

(a) Parent company to subsidiary.

(b) Subsidiary to parent company.

(c) Subsidiary to subsidiaries.

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

Transcend Information, Inc.

Information on investees

Year ended December 31, 2017

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investor | Investee | Location | Main business activities | Initial investment amount: Balance as at December 31, 2017 | Initial investment amount: Balance as at December 31, 2016 | Shares held as at December 31, 2017: Number of shares | Shares held as at December 31, 2017: Ownership (%) | Shares held as at December 31, 2017: Book value | Net profit (loss) of the investee for year ended December 31, 2017 | Investment income (loss) recognized by the Company for the year ended December 31, 2017 （Note 2） | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Transcend Taiwan | Saffire Investment Ltd. | B.V.I. | Investments holding company | $ 1,202,418 | $ 1,202,418 | 36,600,000 | 100 | $ 1,824,105 | ($ 18,778) | ($ 8,006) | Note 2 |
| | Transcend Japan Inc. | Japan | Wholesaler of computer memory modules and peripheral products | 89,103 | 89,103 | 6,400 | 100 | 199,325 | 9,580 | 9,580 | Note 2 |
| | Transcend Information, Inc. | United States of America | Wholesaler of computer memory modules and peripheral products | 38,592 | 38,592 | 625,000 | 100 | 175,276 | 13,875 | 13,875 | Note 2 |
| | Transcend Korea Inc. | Korea | Wholesaler of computer memory modules and peripheral products | 6,132 | 6,132 | 40,000 | 100 | 55,315 | 5,790 | 5,790 | Note 2 |
| | Taiwan IC Packaging Corp. | Taiwan | Packaging of Semi-conductors | 354,666 | 354,666 | 51,842,975 | 12.73 | 173,122 | ( 857,930) | ( 108,858) | Note 5 |
| Saffire Investment Ltd. | Memhiro Pte Ltd. | Singapore | Investments holding company | 1,156,920 | 1,156,920 | 55,132,000 | 100 | 1,826,164 | ( 19,209) | ( 19,209) | Note 3 |
| Memhiro Pte Ltd. | Transcend Information Europe B.V. | Netherlands | Wholesaler of computer memory modules and peripheral products | 1,693 | 1,693 | 100 | 100 | 218,119 | 11,004 | 10,991 | Note 4 |
| | Transcend Information Trading GmbH, Hamburg | Germany | Wholesaler of computer memory modules and peripheral products | 2,288 | 2,288 | - | 100 | 97,303 | 7,910 | 7,910 | Note 4 |
| | Transcend Information (H.K.) Ltd. | Hong Kong | Wholesaler of computer memory modules and peripheral products | 7,636 | 7,636 | 2,000,000 | 100 | 10,573 | 6,173 | 6,173 | Note 4 |

Note 1: The Company does not directly recognize the investment income (loss) except for the subsidiaries directly held.
Note 2: Subsidiaries of the Company.
Note 3: Subsidiary of Saffire.
Note 4: Subsidiaries of Memhiro.
Note 5: Please refer to Note 6 (7).

Transcend Information, Inc.

Information on investments in Mainland China

Year ended December 31, 2017

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investee in Mainland China | Main business activities | Paid-in capital | Investment method (Note 1) | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2016 | Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2017 | | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017 | Net income of investee as of December 31, 2017 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognized by the Company for the year ended December 31, 2017 (Note 2) | Book value of investments in Mainland China as of December 31, 2017 | Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017 | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Remitted to Mainland China | Remitted back to Taiwan | | | | | | | |
| Transcend Information (Shanghai), Ltd. | Manufacturer and seller of computer memory modules, storage products and disks | $ 1,134,178 | (2) | $ 1,134,178 | - | - | $ 1,134,178 | ($ 48,226) | 100 | ($ 47,923) | $ 1,453,001 | $ 1,464,028 | - |
| Transtech Trading (Shanghai) Co., Ltd. | Wholesaler, agent, import andexport and retailer of computer memory modules, storage products and computer components | 16,310 | (2) | 16,310 | - | - | 16,310 | 3,863 | 100 | 3,863 | 25,825 | - | - |

| Company name | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017 | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) | Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA |
|---|---|---|---|
| Transcend Information (Shanghai), Ltd. | $ 1,134,178 | $ 1,134,178 | $ - |
| Transtech Trading (Shanghai) Co., Ltd. | 16,310 | 16,310 | - |
| | $ 1,150,488 | $ 1,150,488 | $ 12,298,977 |

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

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

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

(3) Others.

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

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