Systex Corporation and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2016 and 2015 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Systex Corporation

Opinion

We have audited the accompanying consolidated financial statements of Systex Corporation and its subsidiaries (collectively, the Group), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of the other independent auditors (refer to paragraph of Other Matter), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters of the Group's consolidated financial statements for the year ended December 31, 2016 are addressed as follows:

<u>Valuation of Inventory Write-down</u>

As of December 31, 2016, the inventories amounted to $2,422,283 thousand, significant to the Group. The valuation of inventory write-down involves subjective judgements, including identification of slow-moving and obsolete inventories, estimation of net realizable value, and provision for already-identified issues. Therefore, we consider the valuation of inventory write-down as a key audit matter in 2016. For the disclosure related to inventories, refer to Notes 5 and 11.

Our audit procedures for the abovementioned key audit matter included:

1. We obtained and assessed the report of lower of cost or net realizable value prepared by management. We examined the amounts and categories in the aging analysis report of inventories. We assessed the reasonableness of net realizable value by sampling the latest and post year-end sales.

2. We attended year-end inventory counts and assessed the condition of inventories to evaluate the completeness of inventory provisions for obsolete and damaged goods.

<u>Valuation of Accounts Receivable Impairment</u>

As of December 31, 2016, the accounts receivables amounted to $3,304,915 thousand, significant to the Group. The decision of the determinant of the recoverability of accounts receivable involves subjective judgements, including the assumptions of credit risk to clients, the impairment rates based on historical experiences, and the provision for already-identified issues. Therefore, we consider the valuation of accounts receivable impairment as a key audit matter in 2016. For the disclosure related to accounts receivable, refer to Notes 5 and 10.

Our audit procedures for the abovementioned key matter included:

1. We obtained the reports of accounts receivable impairment and assessed the reasonableness of the methodology and data used in the reports. In order to evaluate the adequacy of the allowance for doubtful accounts, we reviewed the related calculation and validated the aging amounts as of the balance sheet date to understand, judge, and measure the potential risk in overdue balances.

2. We tested recoverability of accounts receivables by verifying cash receipts in the subsequent period. For a receivable that was past due and not yet received, we assessed the reasonableness of the allowance for the doubtful accounts based on the customer's payment history, the bank's guarantee provided, and our understanding of macro-economic environment.

<u>Investments Accounted for Using Equity Method</u>

The Group disposed of the investment (partial ownership of Shenzhen Forms Syntron Information Co., Ltd.) accounted for by the equity method, resulting in a gain of $1,168,277 thousand, an amount that is material to the 2016 consolidated financial statements of the Group. The calculation for the gain on sale of the investments accounted for using the equity method was complicated and involved in tax computation, which affected the ending balance of the investment accounted for using the equity method and the recognized gain on the sale of the investments. For the disclosure related to the investment under the equity method, refer to Note 15.

Our audit procedures for the abovementioned key matter included:

1. We obtained and verified the documents regarding the disposal of the investment in Shenzhen Forms Syntron Information Co., Ltd., which was accounted for using the equity method, and regarding the transfer of the shares in order to confirm the completion of the transaction.

2. We reviewed and verified the movements of the investment accounted for using the equity method and the related gain on sale of investments according to related regulations. We verified the tax payment receipts related to this transaction in order to assess the appropriateness of the recognition for related income, expense, and tax.

Other Matter

We did not audit the financial statements for the years ended December 31, 2016 and 2015 of SoftMobile Technology Corporation, Rainbow Tech Information (HK) Limited and Systex Information (H.K.) Ltd., which are all consolidated subsidiaries. The aggregate assets of these subsidiaries as of December 31, 2016 and 2015 amounted to $505,825 thousand and $466,037 thousand, respectively, or 2.65% and 2.50% of the respective consolidated assets. The aggregate net operating revenues of these subsidiaries in 2016 and 2015 were $1,126,067 thousand and $866,911 thousand, respectively, or 6.95% and 5.31% of the respective consolidated net operating revenues. We also did not audit the financial statements as of and for the year ended December 31, 2016 of Sanfran Technologies and Forms Syntron Information (Shenzhen) Limited, and the financial statements for the year ended December 31, 2015 of AFE Solutions Limited, Bisnews International Limited, Sanfran Technologies Inc., Yankey Information Co., Ltd. and Forms Syntron Information (Shenzhen) Limited, the investments in which were accounted by the equity method, shown in the accompanying consolidated financial statements. The aggregate carrying amounts of these investments accounted by equity method as of December 31, 2016 and 2015, including those reclassified to noncurrent assets held for sale, were $838,453 thousand and $1,227,632 thousand, respectively, or 4.39% and 6.58% of the respective consolidated assets. The aggregate amounts of share of their profit and other comprehensive income in 2016 and 2015 were $4,339 thousand and $(13,636) thousand, respectively, or 0.5% and (2.52%) of the respective consolidated comprehensive income. The subsidiaries and investees' financial statements were audited by other auditors whose reports have been provided to us and, our opinion, insofar as it relates to the amounts included for these subsidiaries and investees, is based solely on the reports of the other auditors.

We have also audited the parent company only financial statements of Systex Corporation as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified report with other matter paragraph.

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

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

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

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

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

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

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

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of 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 for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Shu-Wan Lin and Shiow-Ming Shue.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 23, 2017

<u>*Notice to Readers*</u>

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail. Also, as stated in Note X to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016		2015	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 4,245,282	22	$ 2,805,641	15
Financial assets at fair value through profit or loss (Notes 4 and 7)	2,879,956	15	3,848,283	21
Available-for-sale financial assets (Notes 4 and 8)	18,984	-	40,607	-
Debt investments with no active market (Notes 4 and 9)	102,339	1	16,736	-
Notes receivable, net (Notes 4 and 10)	67,579	-	75,005	-
Accounts receivable, net (Notes 4, 5, 10 and 26)	3,304,915	17	3,448,823	18
Other receivables (Notes 21 and 27)	217,270	1	288,273	2
Inventories (Notes 4, 5 and 11)	2,422,283	13	1,975,011	11
Prepayments	850,922	5	863,508	5
Non-current assets held for sale (Notes 4 and 15)	890,095	5	-	-
Refundable deposits - current	210,691	1	186,948	1
Other current assets	53,754	-	43,813	-
Total current assets	15,264,070	80	13,592,648	73
NON-CURRENT ASSETS				
Held-to-maturity financial assets - non-current (Notes 4 and 12)	-	-	62,079	-
Financial assets measured at cost - non-current (Notes 4 and 13)	432,971	2	458,967	2
Debt investments with no active market-non-current (Notes 4 and 9)	548,375	3	-	-
Investments accounted for using equity method (Notes 4 and 15)	397,656	2	1,652,940	9
Property, plant and equipment (Notes 4, 16 and 27)	2,009,673	11	2,089,497	11
Computer software (Note 4)	79,585	1	51,531	-
Goodwill (Note 4)	-	-	315,967	2
Technological expertise (Note 4)	25,951	-	31,935	-
Other intangible assets (Note 4)	7,215	-	51,577	-
Deferred tax assets (Notes 4 and 21)	66,702	-	49,335	-
Refundable deposits - non-current (Note 28)	116,676	1	119,004	1
Long-term receivables (Note 10)	54,195	-	92,604	1
Other non-current assets (Notes 19 and 27)	79,559	-	94,773	1
Total non-current assets	3,818,558	20	5,070,209	27
TOTAL	$ 19,082,628	100	$ 18,662,857	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term loans (Notes 17 and 27)	$ 1,046,022	5	$ 589,821	3
Notes and accounts payable (Note 26)	2,953,992	15	2,833,633	15
Other payables	901,816	5	754,534	4
Current tax liabilities (Notes 4 and 21)	168,439	1	99,871	1
Receipts in advance	882,226	5	841,304	4
Other current liabilities	112,090	1	120,867	1
Total current liabilities	6,064,585	32	5,240,030	28
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 21)	5,894	-	17,719	-
Net defined benefit liabilities - non-current (Notes 4 and 18)	246,379	1	240,113	2
Other non-current liabilities	6,575	-	7,292	-
Total non-current liabilities	258,848	1	265,124	2
Total liabilities	6,323,433	33	5,505,154	30
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 4 and 19)				
Share capital				
Common shares	2,693,933	14	2,687,733	14
Advance receipts for common shares	-	-	650	-
Total share capital	2,693,933	14	2,688,383	14
Capital surplus	7,634,980	40	8,197,220	44
Retained earnings				
Legal reserve	786,087	4	729,659	4
Unappropriated earnings	2,681,315	14	2,317,133	12
Total retained earnings	3,467,402	18	3,046,792	16
Other equity	(64,494)	-	136,780	1
Treasury shares	(1,003,629)	(5)	(967,498)	(5)
Total equity attributable to owners of the Corporation	12,728,192	67	13,101,677	70
NON-CONTROLLING INTERESTS	31,003	-	56,026	-
Total equity	12,759,195	67	13,157,703	70
TOTAL	$ 19,082,628	100	$ 18,662,857	100

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

(With Deloitte & Touche audit report dated March 23, 2017)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 4 and 26)				
Sales	$ 11,761,268	73	$ 12,072,818	74
Less: Sales returns and allowances	131,563	1	59,692	1
Net sales	11,629,705	72	12,013,126	73
Service revenue	4,514,543	28	4,185,430	26
Other operating revenue	66,132	-	114,532	1
Total operating revenues	16,210,380	100	16,313,088	100
OPERATING COSTS (Notes 4, 11, 20 and 26)				
Cost of goods sold	9,961,443	61	10,188,147	63
Service cost	1,895,107	12	1,769,840	11
Other operating cost	21,770	-	54,615	-
Total operating costs	11,878,320	73	12,012,602	74
GROSS PROFIT	4,332,060	27	4,300,486	26
OPERATING EXPENSES (Notes 18, 20 and 26)				
Selling expenses	3,172,663	19	2,999,706	18
General and administrative expenses	420,986	3	474,660	3
Research and development expenses	459,143	3	406,758	3
Total operating expenses	4,052,792	25	3,881,124	24
PROFIT FROM OPERATIONS	279,268	2	419,362	2
NON-OPERATING INCOME AND EXPENSES				
Share of profit of associates (Notes 4 and 15)	84,102	-	66,178	-
Interest income (Note 4)	29,965	-	22,594	-
Dividend income (Note 4)	42,918	-	45,696	-
Other income, net	62,455	-	89,728	1
Gain on sale of investments, net (Note 20)	1,227,033	8	159,122	1
Foreign exchange loss, net (Note 4)	(69,545)	-	(35,007)	-
Gain (loss) on financial assets at fair value through profit or loss, net (Note 4)	115,052	1	(50,257)	-
Interest expense	(24,823)	-	(14,805)	-
Other expenses	(29,095)	-	(8,943)	-
Gain on disposal of property, plant and equipment, net (Note 4)	17,804	-	147,685	1
Impairment loss on assets (Notes 4 and 20)	(489,274)	(3)	(136,134)	(1)
Total non-operating income and expenses	966,592	6	285,857	2

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SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE INCOME TAX	$ 1,245,860	8	$ 705,219	4
INCOME TAX EXPENSE (Notes 4 and 21)	155,532	1	141,892	1
NET INCOME	1,090,328	7	563,327	3
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 18)	(15,384)	-	(61,989)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 21)	437	-	874	-
	(14,947)	-	(61,115)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(129,765)	(1)	133,545	1
Unrealized gain (loss) on available-for-sale financial assets	10,428	-	(2,720)	-
Share of the other comprehensive loss of associates accounted for using the equity method	(81,450)	(1)	(91,278)	(1)
	(200,787)	(2)	39,547	-
Other comprehensive loss for the year, net of income tax	(215,734)	(2)	(21,568)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 874,594	5	$ 541,759	3
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Corporation	$ 1,108,268	7	$ 564,274	3
Non-controlling interests	(17,940)	-	(947)	-
	$ 1,090,328	7	$ 563,327	3
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Corporation	$ 892,819	5	$ 542,237	3
Non-controlling interests	(18,225)	-	(478)	-
	$ 874,594	5	$ 541,759	3

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SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	**%**	**Amount**	**%**
EARNINGS PER SHARE (Note 22)				
Basic	$4.50		$2.29	
Diluted	$4.50		$2.29	

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

(With Deloitte & Touche audit report dated March 23, 2017) (Concluded)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Corporation (Notes 4 and 19)													
	Share Capital				Retained Earnings				Other Equity					
	Common Shares	Advance Receipts for Common Shares	Total	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Instruments	Treasury Shares	Total	Non-controlling Interests (Note 19)	Total Equity
BALANCE, JANUARY 1, 2015	$ 2,669,163	$ 1,950	$ 2,671,113	$ 8,685,259	$ 655,188	$ 114,116	$ 2,175,281	$ 2,944,585	$ 86,276	$ 11,561	$ (953,252)	$ 13,445,542	$ 78,224	$ 13,523,766
Appropriation of 2014 earnings														
Legal reserve	-	-	-	-	74,471	-	(74,471)	-	-	-	-	-	-	-
Cash dividends - NT$1.5 per share	-	-	-	-	-	-	(401,087)	(401,087)	-	-	-	(401,087)	-	(401,087)
Reversal of special reserve	-	-	-	-	-	(114,116)	114,116	-	-	-	-	-	-	-
Change in capital surplus from investments in associates accounted for by using equity method	-	-	-	280,377	-	-	-	-	-	-	-	280,377	-	280,377
Distribution in cash of the capital surplus - NT$3.5 per share	-	-	-	(935,870)	-	-	-	-	-	-	-	(935,870)	-	(935,870)
Issuance of common shares for exercised employee stock options	18,570	(1,300)	17,270	37,744	-	-	-	-	-	-	-	55,014	-	55,014
Net income (loss) for 2015	-	-	-	-	-	-	564,274	564,274		-	-	564,274	(947)	563,327
Other comprehensive income (loss) for 2015	-	-	-	-	-	-	(60,980)	(60,980)	41,663	(2,720)	-	(22,037)	469	(21,568)
Total comprehensive income (loss) for 2015	-	-	-	-	-	-	503,294	503,294	41,663	(2,720)	-	542,237	(478)	541,759
Acquisition of the Corporation's shares by subsidiaries regarded as treasury share transaction	-	-	-	-	-	-	-	-	-	-	(47,091)	(47,091)	(49,168)	(96,259)
Disposal of the Corporation's shares by subsidiaries regarded as treasury share transaction	-	-	-	21,188	-	-	-	-	-	-	32,845	54,033	56,417	110,450
Cash dividends received by subsidiaries from the Corporation	-	-	-	108,522	-	-	-	-	-	-	-	108,522	-	108,522
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(28,969)	(28,969)
BALANCE, DECEMBER 31, 2015	2,687,733	650	2,688,383	8,197,220	729,659	-	2,317,133	3,046,792	127,939	8,841	(967,498)	13,101,677	56,026	13,157,703
Appropriation of 2015 earnings														
Legal reserve	-	-	-	-	56,428	-	(56,428)	-	-	-	-	-	-	-
Cash dividends - NT$2.5 per share	-	-	-	-	-	-	(673,483)	(673,483)	-	-	-	(673,483)	-	(673,483)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	-	58,753	-	-	-	-	-	-	-	58,753	-	58,753
Distribution in cash of the capital surplus - NT$2.5 per share	-	-	-	(673,483)	-	-	-	-	-	-	-	(673,483)	-	(673,483)
Issuance of common shares for exercised employee stock options	6,200	(650)	5,550	11,045	-	-	-	-	-	-	-	16,595	-	16,595
Net income (loss) for 2016	-	-	-	-	-	-	1,108,268	1,108,268	-	-	-	1,108,268	(17,940)	1,090,328
Other comprehensive income (loss) for 2016	-	-	-	-	-	-	(14,175)	(14,175)	(211,225)	9,951	-	(215,449)	(285)	(215,734)
Total comprehensive income (loss) for 2016	-	-	-	-	-	-	1,094,093	1,094,093	(211,225)	9,951	-	892,819	(18,225)	874,594
Acquisition of the Corporation's shares by subsidiaries regarded as treasury share transaction	-	-	-	-	-	-	-	-	-	-	(36,131)	(36,131)	(37,728)	(73,859)
Cash dividends received by subsidiaries from the Corporation	-	-	-	116,457	-	-	-	-	-	-	-	116,457	-	116,457
Disposal of investments accounted for by using equity method	-	-	-	(83,588)	-	-	-	-	-	-	-	(83,588)	-	(83,588)
Changes in percentage of ownership interest in subsidiaries (Note 23)	-	-	-	8,576	-	-	-	-	-	-	-	8,576	(8,576)	-
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	39,506	39,506
BALANCE, DECEMBER 31, 2016	$ 2,693,933	$ -	$ 2,693,933	$ 7,634,980	$ 786,087	$ -	$ 2,681,315	$ 3,467,402	$ (83,286)	$ 18,792	$ (1,003,629)	$ 12,728,192	$ 31,003	$ 12,759,195

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

(With Deloitte & Touche audit report dated March 23, 2017)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 1,245,860	$ 705,219
Adjustments for		
Depreciation expenses	130,915	147,297
Amortization expenses	61,760	51,639
Provision for allowance for doubtful accounts	18,811	22,446
(Gain) loss on financial assets at fair value through profit or loss, net	(115,052)	50,257
Interest expense	24,823	14,805
Interest income	(29,965)	(22,594)
Dividend income	(42,918)	(45,696)
Share of profit of associates	(84,102)	(66,178)
Gain on disposal of property, plant and equipment, net	(17,804)	(147,685)
Gain on sale of investment, net	(859)	(142,864)
Gain on sale of investments accounted for using equity method	(1,168,277)	-
Impairment loss on financial assets	174,051	54,943
Impairment loss on non-financial assets	315,223	81,191
Write-down of inventories	78,285	13,900
Unrealized gain on foreign currency exchange, net	(5)	(6,763)
Changes in operating assets and liabilities		
Decrease in financial assets held for trading	1,078,598	949,416
Decrease (increase) in notes receivable	7,426	(6)
Decrease (increase) in accounts receivable	86,031	(296,694)
Decrease (increase) in other receivables	93,565	(3,505)
Increase in inventories	(527,021)	(37,460)
Decrease (increase) in prepayments	10,187	(145,872)
(Increase) decrease in other current assets	(10,024)	15,461
Increase (decrease) in notes and accounts payable	148,228	(150,095)
Increase (decrease) in other payables	148,269	(94)
Increase in receipts in advance	42,695	156,483
(Decrease) increase in other current liabilities	(8,285)	5,925
Decrease in net defined benefit liabilities	(9,118)	(4,012)
Cash generated from operations	1,651,297	1,199,464
Interest paid	(24,089)	(14,871)
Income tax paid	(132,989)	(156,816)
Net cash generated from operating activities	1,494,219	1,027,777
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of available-for-sale financial assets	-	150,032
Acquisition of debt investments with no active market	(548,836)	-
Acquisition of held-to-maturity financial assets	-	(60,025)
Proceeds on sale of held-to-maturity financial assets	52,112	-
Acquisition of financial assets measured at cost	(43,212)	(18,000)
Proceeds on sale of financial assets measured at cost	2,478	91,064
Return of capital from capital reduction and liquidation of financial assets investees measured at cost	671	1,303

(Continued)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
Acquisition of investments accounted for using equity method	$ -	$ (238,729)
Proceeds on sale of investments accounted for using equity method	1,361,442	-
Payments for property, plant and equipment	(93,448)	(111,948)
Proceeds on disposal of property, plant and equipment	36,039	309,208
Increase in refundable deposits	(21,704)	(26,118)
Payments for intangible assets	(41,179)	(44,943)
Proceeds on disposal of intangible assets	160	-
Decrease in long-term receivables	38,409	17,761
Decrease in pledged time deposits	17,893	3,759
(Increase) decrease in time deposits with original maturity of more than 3 months	(85,931)	440
(Increase) decrease in other non-current assets	(2,692)	14,213
Interest received	24,136	21,083
Dividends received	42,949	45,696
Dividends received from associates	42,430	108,437
Distribution in cash of the capital surplus received from financial assets measured at cost	75	13,401
Net cash generated from investing activities	781,792	276,634
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	462,229	338,406
Decrease in guarantee deposits received	(684)	(1,555)
Dividends paid	(673,483)	(401,087)
Proceeds from exercise of employee stock options	16,595	55,014
Payments for buy-back of common shares	(73,859)	(96,259)
Proceeds on sale of the Corporation's shares by subsidiaries	-	110,450
Increase (decrease) in non-controlling interests	39,506	(28,969)
Cash dividends received by subsidiaries from the Corporation	116,457	108,522
Distribution in cash from the capital surplus	(673,483)	(935,870)
Net cash used in financing activities	(786,722)	(851,348)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(49,648)	42,595
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,439,641	495,658
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,805,641	2,309,983
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 4,245,282	$ 2,805,641

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

(With Deloitte & Touche audit report dated March 23, 2017) (Concluded)

SYSTEX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Systex Corporation (the Corporation) was incorporated on January 7, 1997 under the provision of the Company Act of the Republic of China and other laws and regulations. The Corporation is mainly engaged in sales and leases of computer software and related equipment, transmission and security of value-added network, maintenance of database, and consultation.

The Corporation's shares had been traded on Emerging Stock Market since April 10, 2002 and Taipei Exchange since January 6, 2003. On December 30, 2010, the Corporation has changed the listing and trading of its shares to the Taiwan Stock Exchange.

The consolidated financial statements are presented in the Corporation's functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation's board of directors on March 23, 2017.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the Financial Supervisory Commission (FSC) for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Group should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the IFRSs) issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations (the New IFRSs)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016

(Continued)

New, Amended or Revised Standards and Interpretations (the New IFRSs)	Effective Date Announced by IASB (Note 1)
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

(Concluded)

Note 1: Unless stated otherwise, the above New or amended IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the accounting policies of the Corporation and entities controlled by the Corporation (collectively, the “Group”), except for the following:

1) Amendment to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”

   The amendment clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Group is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2 or Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. The amendment will be applied retrospectively.

2) Annual Improvements to IFRSs: 2010-2012 Cycle

   Several standards, including IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments”, were amended in this annual improvement.

The amended IFRS 2 changes the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Group or another entity in the same group or the market price of the equity instruments of the Group or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Group as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Group, but also of other entities outside the Group. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions will be accounted for differently, and the aforementioned amendment will be applied prospectively to those share-based payments granted on or after January 1, 2017.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss. The amendment will be applied prospectively to business combination with acquisition date on or after January 1, 2017.

The amended IFRS 8 requires the Group to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker. The judgements made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

When the amended IFRS 13 becomes effective in 2017, the short-term receivables and payables with no stated interest rate will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Group is a related party of the Group. Consequently, the Group is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

3) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 “Investment Property”, were amended in this annual improvement.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

4) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group's financial position and financial performance, and will disclose these other impacts when the assessment is completed.

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New IFRSs	**Effective Date Announced by IASB (Note 1)**
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
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 IASB
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
IFRS 16 "Leases"	January 1, 2019
Amendment 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

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

Impairment of financial assets

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

2) Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The amendments stipulated that, when an entity sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when an entity loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when an entity sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate or joint venture, i.e. the entity's share of the gain or loss is eliminated. Also, when an entity loses control of a subsidiary that does not contain a business but retains significant influence or joint control in an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate or joint venture, i.e. the entity's share of the gain or loss is eliminated.

3) IFRS 15 "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2018.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and related amendment require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of those goods or services individually rather than to transfer combined items).

When IFRS 15 and related amendment are effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

4) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

5) Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

6) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within twelve months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and

2) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

- Principles for preparing consolidated financial statements

  The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (i.e. its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

  Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. 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 and attributed to the owners of the Corporation.

  See Note 15 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess are recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

f. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including subsidiaries and associates in other countries that use currency different from the currency of the Corporation) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income attributed to the owners of the Corporation and non-controlling interests as appropriate.

On the disposal of a foreign operation (i.e. a disposal of the Corporation's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Corporation are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Corporation losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired in the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

g. Inventories

Inventories are stated at the lower of cost (monthly weighted average) or net realizable value. Net realizable value is the estimated selling price of inventories less all estimated costs necessary to make the sale.

h. Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of equity of associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of equity of associates. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which it ceases to have significant influence. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

i. Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

Freehold land is not depreciated.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal, and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

k. Intangible assets

1) Intangible assets acquired separately

Intangible assets (computer software) with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

2) Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

b) The intention to complete the intangible asset and use or sell it;

c) The ability to use or sell the intangible asset;

d) How the intangible asset will generate probable future economic benefits;

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Intangible assets acquired in a business combination

Intangible assets (technological expertise and client relationship) acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

4) Derecognition of intangible assets

Gains or losses arising from derecognition of an intangible asset, which are measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

l. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual or smallest group of cash-generating units on a reasonable and consistent allocation basis.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

m. Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal groups) is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When to a sale plan would result in loss of control of a subsidiary, regardless of whether the Group will retain a non-controlling interest in that subsidiary after the sale. However, such investment is still accounted for by the equity method.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate, only the investment or the portion of the investment that will be disposed of is classified as held for sale when the classification criteria are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method. If the Group ceases to have significant influence nor joint control over the investment after the disposal takes place, the Group accounts for any retained interest that has not been classified as held for sale in accordance with the accounting policies for financial instruments.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

When a subsidiary, associate, or a portion of an interest in an associate previously classified as held for sale no longer meets the criteria to be so classified, it is measured at the carrying amount that would have been recognized had such interests not been classified as held for sale. Financial statements for the periods since classification as held for sale are amended accordingly.

n. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables.

i. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss that are assets held for trading.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 25.

Investments in equity instruments under financial assets at fair value through profit or loss that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in profit or loss.

ii. Held-to-maturity investments

Corporate bonds, which the Group has positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

iii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit and loss or other comprehensive income. Any impairment losses are recognized in profit and loss.

iv. Loans and receivables

Loans and receivables (including accounts receivable, cash and cash equivalent, and debt investments with no active market) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

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

For financial assets carried at amortized cost, such as accounts receivable, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables, and so on.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is 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.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible accounts receivable that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Equity instruments

Equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Corporation's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Corporation's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

All the financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

o. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenues from sales of computer hardware and software are recognized when the items and the risks and rewards associated with the items are transferred to the customers. Revenue from integrated hardware and software solutions are generally recognized by reference to the stage of completion of the contract terms.

Service income is generally recognized when service is rendered or is recognized over the term of the service contract under the straight-line method or the percentage-of-completion method. Contract profit for the current period is the difference between the cumulative profit at the end of the current period and the cumulative profit recognized in the prior periods. When total contract cost is estimated to be greater than total contract revenue at the end of a year, the excess should be recognized as operating cost in the current year.

Other operating revenue is mainly comprised of rental revenue on leases of computer equipment, which is recognized over the term of the lease.

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

p. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

q. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur, or when the plan amendment or curtailment occurs/when the settlement occurs. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Share-based payment arrangements

The fair value determined at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimate of the number of employee share options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options.

At the end of each reporting period, the Corporation revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

s. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and the corresponding tax bases used in the computation of taxable profit. If the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, personnel training expenditures and investments to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income, in which case, the current and deferred tax are also recognized in other comprehensive income.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Estimated impairment of accounts receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

b. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	**2015**
Cash on hand	$ 747	$ 1,256
Checking and savings accounts	3,308,374	1,675,245
Cash equivalent		
Time deposits with original maturities less than three months	936,161	1,129,140
	$ 4,245,282	$ 2,805,641
Market interest rate interval		
Time deposits with original maturities less than three months	0.60%-1.25%	0.38%-3.10%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2016	2015
Financial assets held for trading		
Mutual funds	$ 2,661,604	$ 3,667,865
Corporation bonds	27,433	143,628
Listed shares	190,919	36,790
	$ 2,879,956	$ 3,848,283

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2016	2015
Listed shares	$ 11,047	$ 40,607
Corporate bonds	7,937	-
	$ 18,984	$ 40,607

9. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	December 31	
	2016	2015
Current		
Time deposits with original maturity of more than 3 months	$ 102,339	$ 16,736
Non-current		
Domestic corporate bonds	$ 500,000	$ -
Overseas convertible bonds	48,375	-
	$ 548,375	$ -
Market interest rate interval		
Time deposits with original maturity of more than 3 months	0.30%-1.01%	0.30%
Domestic corporate bonds	3.5%	-
Overseas convertible bonds	5%-6%	-

In the second quarter of 2016, the Group acquired a domestic non-maturity subordinate debenture bonds at par value with a coupon rate of 3.5% and overseas convertible bonds with coupon rates ranging from 5% to 6%.

10. NOTES RECEIVABLE, ACCOUNTS RECEIVABLE AND LONG-TERM RECEIVABLES, NET

	December 31	
	2016	2015
Notes receivable	$ 67,810	$ 75,236
Less: Allowance for doubtful accounts	(231)	(231)
	$ 67,579	$ 75,005
Accounts receivable	$ 3,444,783	$ 3,585,977
Less: Allowance for doubtful accounts	(139,868)	(137,154)
	$ 3,304,915	$ 3,448,823
Long-term receivables	$ 55,966	$ 96,242
Less: Unrealized interest income	(1,771)	(3,638)
	$ 54,195	$ 92,604

The average credit period on accounts receivable was 78 days. In determining the recoverability of accounts receivable, the Group considered any change in the credit quality of the accounts receivable since the date credit was initially granted to the end of the reporting period. Based on the historical experience, the risk of non-collection of receivable was higher when the receivables were not collected on due date. The Group assessed the receivables individually and recognized an allowance for doubtful accounts of 100% against receivables that are irrecoverable. Allowance for doubtful accounts was recognized against other receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

The aging of receivables (based on invoice date) was as follows:

	December 31	
	2016	2015
Less than 90 days	$ 2,917,517	$ 3,006,365
91-120 days	208,459	174,910
121-180 days	94,099	117,996
181-360 days	111,586	135,197
Over 361 days	180,932	226,745
	$ 3,512,593	$ 3,661,213

The aging of receivables that were past due but not impaired (based on invoice date) was as follows:

	December 31	
	2016	2015
91-120 days	$ 206,898	$ 174,910
121-180 days	93,512	117,204
181-360 days	105,295	134,741
Over 361 days	49,329	90,667
	$ 455,034	$ 517,522

Because there was no significant change in credit quality and the amounts were still considered recoverable, the Group did not hold any collateral or other credit enhancements for these balances. In addition, the Group does not have the legal right to offset receivables with accounts payable with the same counterparty.

The Group's transactions were made with a large number of unrelated customers; thus, the concentration of credit risk was limited.

The movements of the allowance for doubtful trade receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2015	$ 73,988	$ 51,503	$ 125,491
Add: Impairment losses recognized on receivables	-	22,446	22,446
Add: Amounts recovered from prior year write-off	-	2,211	2,211
Less: Amounts written off during the year as uncollectible	-	(12,635)	(12,635)
Foreign exchange translation gains and losses	-	(128)	(128)
Balance at December 31, 2015	73,988	63,397	137,385
Add: Impairment losses recognized on receivables	2,387	16,424	18,811
Less: Amounts written off during the year as uncollectible	(355)	(14,546)	(14,901)
Foreign exchange translation gains and losses	-	(1,196)	(1,196)
Balance at December 31, 2016	$ 76,020	$ 64,079	$ 140,099

11. INVENTORIES

	December 31	
	2016	2015
Merchandise	$ 2,388,459	$ 1,938,955
Maintenance parts	33,824	36,056
	$ 2,422,283	$ 1,975,011

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was $9,961,443 thousand and $10,188,147 thousand, respectively. The cost of goods sold included inventory write-downs of $78,285 thousand and $13,900 thousand, respectively.

12. HELD-TO-MATURITY FINANCIAL ASSETS - NON-CURRENT

	December 31	
	2016	2015
Corporate bonds	$ -	$ 62,079
Par value	$ -	$ 59,144
Coupon rates	-	3.60%-4.55%
Average years to maturity	-	1.63 years

In the third quarter of 2016, the Group sold the corporate bonds successively and reclassified the remains of the held-to-maturity financial assets to available-for-sale financial assets according to the requirements of IAS 39.

13. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

	December 31	
	2016	2015
Unlisted common shares	$ 416,026	$ 438,774
Others	16,945	20,193
	$ 432,971	$ 458,967
Classified according to financial asset measurement categories		
Available-for-sale financial assets	$ 432,971	$ 444,185
Financial assets at FVTPL	-	14,782
	$ 432,971	$ 458,967

Management believed that the above unlisted equity investments held by the Group cannot be reliably measured due to the significant range of reasonable fair value estimates; therefore they were measured at cost less impairment at the end of reporting period.

14. SUBSIDIARIES

Subsidiaries Included in the consolidated Financial Statements

			% of Ownership December 31		
Investor	Investee	Main Business	2016	2015	Remark
The Corporation	Concord System Management Corporation (CSMC)	Design, assessment and planning of computer system and application software and data-processing system, sale and lease of computer hardware, peripheral equipment and spare parts, and repairs and maintenance services.	100.0	100.0	
The Corporation	Systex Capital Group, Inc. (SCGI)	Investment activities including financial trust and holding.	100.0	100.0	
The Corporation	Hanmore Investment Corporation (Hanmore)	General investment activities.	48.9	48.9	a)
The Corporation	Systex Software & Service Corporation (SSSC)	Sale and development of computer software, data-processing services	100.0	100.0	

(Continued)

Investor	Investee	Main Business	% of Ownership December 31 2016	% of Ownership December 31 2015	Remark
The Corporation	Golden Bridge Corporation (GBC)	General investment activities.	100.0	100.0	
The Corporation	Taifon Computer Co., Ltd. (Taifon)	Design of computer hardware and software equipment system, computer room installation, and maintenance, sale, lease and consultation.	100.0	100.0	
The Corporation	Ching Pu Investment Corporation (Ching Pu)	General investment activities.	100.0	100.0	
The Corporation	Kimo.com (BVI) Corporation (Kimo BVI)	Investment activities including financial trust and holding.	100.0	100.0	
The Corporation, Ching Pu and GBC	Syspower Corporation (Syspower)	Design, setup and maintenance of computer information and communication engineering, and design and sale of computer system software.	84.1	84.1	
The Corporation	Nexsys Corporation (Nexsys)	Manufacturing of wire communication equipment and apparatus, electronic parts and components, and computers and peripheral equipment, installation of computer, and wholesale and retailing of computer and business machinery equipment.	100.0	100.0	
The Corporation	Systex Solutions Corporation II (Syxtex Solutions II)	Design, construction and sale of telecom instrument, electronic calculator and computer.	100.0	100.0	
The Corporation	Etu Corporation (Etu)	Software design and data processing, retailing and service of software.	78.3	100.0	b)
The Corporation	Naturint Corporation (Naturint)	Installation, sale, information software, data processing and other consultation of computer software and related equipment, network certification and software publication.	100.0	-	c)
GBC	SoftMobile Technology Corporation (Soft Mobile)	Manufacturing of wire communication equipment and apparatus, electronic parts and components, and computers and peripheral equipment, installation of computer, and wholesale and retailing of computer and business machinery equipment.	100.0	100.0	
Ching Pu	Taiwan Electronic Data Processing Corporation (TEDP)	Design, installation, maintenance, lease and consultation of computer software and hardware equipment system, computer room engineering, network equipment system integration, and wholesale and retailing of medical appliances.	69.6	69.6	
TEDP	Medincom Technology Corporation (Medincom)	Installation, sale and consultation of computer software and related equipment, and wholesale and retailing of medical appliances.	100.0	100.0	
Kimo BVI	Sysware Singapore Pte. Ltd. (Sysware Singapore)	Computer system integration service and software.	100.0	100.0	
Kimo BVI	Systex Information (H.K.) Limited (Systex Info)	Sale of computer and peripheral equipment, retailing and processing of information of software.	100.0	100.0	
Kimo BVI	Sysware Shenglong Information Systems Co., Ltd. (Sysware Shenglong)	Design of computer system, information processing service provider, retailing of computer and peripheral equipment.	100.0	100.0	
Kimo BVI	Ucom Information Ltd. (Shanghai) (Ucom Shanghai)	Service, wholesale and retailing of information software.	100.0	100.0	
Kimo BVI	Systek Information (Shanghai) Ltd. (Systek)	Sale of computer and peripheral equipment, retailing and processing of information software.	100.0	100.0	
Kimo BVI	Rainbow Tech Information (HK) Limited (RTIHK)	Sale of computer and peripheral equipment, retailing and processing of information software.	100.0	100.0	
Kimo BVI	Systex Solutions (HK) Limited	Investment activities including financial trust and holding.	100.0	100.0	
Sysware Shenglong	Optima Financial Software Company (Optima)	Research, development and production of computer hardware, and information system integration.	-	100.0	d)

(Continued)

Investor	Investee	Main Business	% of Ownership December 31 2016	2015	Remark
Systex Info	Systex Group (China) Ltd. (Systex China)	Management consultation, marketing and sale, and capital and operation financial management.	100.0	100.0	
Systek and Ucom Shanghai	Rainbow Tech (Guangzhou) Inc. (RTGI)	Research, development, installation and wholesale of software and hardware technique and internet system.	100.0	100.0	
Systex Group (China) Ltd. (Systex Group)	Systex Ucom (Shanghai) Information Ltd. Co. (Systex Ucom)	Software design and data processing, retailing and service of software.	100.0	100.0	e)

(Concluded)

a. The Group holds a 48.9% interest in Hanmore. The directors of the Corporation consider the Group's absolute size of holding in Hanmore and the relative size of and dispersion of the shareholdings owned by the other shareholders and concluded that the Group has the practical ability to direct the relevant activities of Hanmore and therefore the Group has control over Hanmore.

b. Etu was incorporated in February 2015. In addition, the Corporation did not subscribed for additional new shares of Etu at the existing percentage of its ownership in Etu when Etu increased the capital in January and December, 2016, resulting in changes in the ownership percentage.

c. Naturint was incorporated in July 2016.

d. Optima completed nullification of registration process in May 2016.

e. Systex Ucom was incorporated in April 2015.

All accounts of subsidiaries were included in consolidated financial statements for the years ended December 31, 2016 and 2015.

Among the abovementioned entities, the financial statements as of and for the year ended December 31, 2016 and 2015 of Sysware Singapore were not audited. The aggregate assets of the subsidiary as of December 31, 2016 and 2015 amounted to $8,995 thousand and $55,527 thousand, respectively, which were 0.05% and 0.30% of the respective consolidated assets, and the aggregate liabilities amounted to $707 thousand and $14,861 thousand, respectively, which were 0.01% and 0.27% of the respective consolidated liabilities. The aggregate net operating revenues of the subsidiary in 2016 and 2015 amounted to $30,493 thousand and $136,237 thousand, respectively, which were 0.19% and 0.84% of the respective consolidated net operating revenues, and the aggregate amounts of comprehensive loss amounted to $451 thousand and $32,602 thousand in 2016 and 2015, respectively, which were (0.05%) and (6.02%) of the respective consolidated total comprehensive income. The Corporation believes that any adjustment that might have resulted had the financial statements of the subsidiary been audited would not be material to the consolidated financial statements taken as a whole.

15. INVESTMENTS ACCOUNTED FOR BY USING THE EQUITY METHOD

	December 31 2016	2015
Investments in associates		
Material associates		
Forms Syntron Information (Shenzhen) Limited	$ -	$ 1,046,770
Associates that are not individually material	397,656	606,170
	$ 397,656	$ 1,652,940

a. Material associates

Name of Associates	Proportion of Ownership and Voting Rights December 31 2016	2015
Forms Syntron Information (Shenzhen) Limited	14.16%	19.91%

In spite of holding less than 20% of the equity of Forms Syntron Information (Shenzhen) Limited, the Group has significant influence over the investee and adopts equity method, because the Group holds a director of the investee. As the Group planned to dispose all interests of Forms Syntron Information (Shenzhen) Limited in 2017, the Group has entered into a sale agreement in January 2017 and the sale transaction is to be completed in the second quarter of 2017. Therefore, the Group classified the carrying amount of the investment, amounting to $793,549 thousand, to non-current asset held for sale.

Fair values (Level 1) of investments in associates with available published price quotation are summarized as follows:

Name of Associate	December 31, 2015
Forms Syntron Information (Shenzhen) Limited	$ 8,362,641

Summarized financial information in respect of the Group's material associate is set out below. The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

Forms Syntron Information (Shenzhen) Limited

	December 31 2016	2015
Assets	$ 4,630,310	$ 4,117,980
Liabilities	(276,832)	(226,075)
Equity	$ 4,353,478	$ 3,891,905
Proportion of the Group's ownership	14.16%	19.91%
Equity attributable to the Group	$ 616,614	$ 774,955
Goodwill	182,345	278,790
Other accounts payable	(5,410)	(6,975)
Carrying amount	$ 793,549	$ 1,046,770

	For the Year Ended December 31 2016	2015
Operating revenue	$ 1,783,405	$ 1,530,720

(Continued)

	For the Year Ended December 31	
	2016	2015
Net profit for the year	$ 367,485	$ 254,840
Other comprehensive income	2,818	3,745
Total comprehensive income for the year	$ 370,303	$ 258,585
Dividends received from Forms Syntron Information (Shenzhen) Limited	$ 13,075	$ 61,557

(Concluded)

b. Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2016	2015
The Group's share of:		
Net profit for the year	$ 18,342	$ 4,621
Other comprehensive loss	(13,365)	(20,755)
Total comprehensive income (loss) for the year	$ 4,977	$ (16,134)

Except for AFE Solutions Limited, Bisnews International Limited, E-Customer Capital Limited, Systex Infopro Co., Ltd. and Yankey Inc., for the year ended December 31, 2016, and E-Customer Capital Limited and Systex Infopro Co., Ltd., for the year ended in December 31, 2015, investments accounted for by the equity method and the share of profit or loss and other comprehensive income were calculated based on the financial statements that have been audited. Management believes the financial statements that have not been audited would not have material impact on the investments under the equity method or the share of profit or loss and other comprehensive income in the consolidated financial statements.

In addition, the Group planned to dispose all the interests of AFE Solutions Limited and Bisnews International Limited in 2017. Therefore, the Group reclassified the carrying amounts of these investment, amounting to $81,149 and $15,397, respectively, to non-current asset held for sale in October 2016.

16. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Computer Equipment	Transportation Equipment	Lease Equipment	Leasehold Improvements	Other Equipment	Total
Cost								
Balance at January 1, 2015	$ 974,501	$ 1,565,128	$ 270,165	$ 12,928	$ 96,281	$ 50,924	$ 98,522	$ 3,068,449
Additions	-	-	52,715	-	26,817	16,118	16,298	111,948
Disposals	(139,129)	(27,429)	(49,980)	(136)	(53,341)	(11,345)	(8,737)	(290,097)
Reclassification	-	-	(3,923)	-	17,354	(642)	(4,307)	8,482
Effect of foreign currency exchange differences	-	(7,143)	3	(70)	(28)	(109)	(1,187)	(8,534)
Balance at December 31, 2015	$ 835,372	$ 1,530,556	$ 268,980	$ 12,722	$ 87,083	$ 54,946	$ 100,589	$ 2,890,248
Accumulated depreciation and impairment								
Balance at January 1, 2015	$ 14,853	$ 471,929	$ 163,651	$ 9,281	$ 44,744	$ 28,299	$ 57,572	$ 790,329
Depreciation expenses	-	24,956	56,870	2,030	37,611	13,831	11,999	147,297
Disposals	-	(14,532)	(41,849)	(136)	(53,320)	(10,518)	(8,219)	(128,574)
Reclassification	-	-	(2,700)	-	(47)	(642)	(2,936)	(6,325)
Effect of foreign currency exchange differences	-	(1,041)	17	(47)	(7)	(58)	(840)	(1,976)
Balance at December 31, 2015	$ 14,853	$ 481,312	$ 175,989	$ 11,128	$ 28,981	$ 30,912	$ 57,576	$ 800,751
Carrying amounts at December 31, 2015	$ 820,519	$ 1,049,244	$ 92,991	$ 1,594	$ 58,102	$ 24,034	$ 43,013	$ 2,089,497

(Continued)

	Land	Buildings	Computer Equipment	Transportation Equipment	Lease Equipment	Leasehold Improvements	Other Equipment	Total
Cost								
Balance at January 1, 2016	$ 835,372	$ 1,530,556	$ 268,980	$ 12,722	$ 87,083	$ 54,946	$ 100,589	$ 2,890,248
Additions	-	-	59,901	10,169	13,480	5,330	4,568	93,448
Disposals	(4,304)	(28,749)	(128,757)	(9,220)	(13,901)	(16,833)	(14,457)	(216,221)
Reclassification	-	-	(3,181)	-	(67)	-	-	(3,248)
Effect of foreign currency exchange differences	-	(24,702)	(2,391)	(243)	(399)	(637)	(4,084)	(32,456)
Balance at December 31, 2016	$ 831,068	$ 1,477,105	$ 194,552	$ 13,428	$ 86,196	$ 42,806	$ 86,616	$ 2,731,771
Accumulated depreciation and impairment								
Balance at January 1, 2016	$ 14,853	$ 481,312	$ 175,989	$ 11,128	$ 28,981	$ 30,912	$ 57,576	$ 800,751
Depreciation expenses	-	23,052	53,653	1,211	29,795	10,043	13,161	130,915
Disposals	-	(16,260)	(127,872)	(9,220)	(13,901)	(16,833)	(13,900)	(197,986)
Reclassification	-	-	(2,152)	-	(54)	-	-	(2,206)
Effect of foreign currency exchange differences	-	(4,180)	(1,568)	(202)	(145)	(481)	(2,800)	(9,376)
Balance at December 31, 2016	$ 14,853	$ 483,924	$ 98,050	$ 2,917	$ 44,676	$ 23,641	$ 54,037	$ 722,098
Carrying amounts at December 31, 2016	$ 816,215	$ 993,181	$ 96,502	$ 10,511	$ 41,520	$ 19,165	$ 32,579	$ 2,009,673

(Concluded)

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

Building	19-60 years
Computer equipment and other equipment	3-7 years
Transportation equipment	5-6 years
Lease equipment	2-5 years
Leasehold improvements	2-5 years or the period of lease, if shorter

Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 27.

17. SHORT-TERM LOANS

Bank Loans

	December 31	
	2016	**2015**
Unsecured loans	$ 576,000	$ 388,000
Secured loans	470,022	201,821
	$ 1,046,022	$ 589,821
Annual interest rate		
Unsecured loans	1.24%-2.37%	1.44%-2.37%
Secured loans	1.43%-4.57%	1.65%-4.79%

Refer to Note 27 for the carrying amounts of property, plant and equipment - buildings and the Corporation’s shares provided as collaterals for the above secured bank loans.

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Corporation and its domestic subsidiaries adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of Systex Info, RTIHK, Systek, Ucom Shanghai, Sysware Shenglong, RTGI, Systex China, Systex Ucom and Sysware Singapore are members of state-managed retirement benefit plans operated by the governments of their respective jurisdictions. The subsidiaries are required to contribute specific percentages of payroll costs to the retirement benefit schemes to funds the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

The defined benefit plan adopted by the Corporation and several of its domestic subsidiaries in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. These entities contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31	
	2016	**2015**
Present value of defined benefit obligation	$ 510,678	$ 492,267
Fair value of plan assets	(264,299)	(253,194)
Net defined benefit liability	$ 246,379	$ 239,073

As of December 31, 2015, the net defined benefit liability of $239,037 thousand was defined liabilities of $240,113 thousand, net of defined benefit asset of $1,040 thousand (included in other non-current assets).

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2015	$ 421,620	$ (239,484)	$ 182,136
Service cost			
Current service cost	2,459	-	2,459
Net interest expense (income)	9,171	(5,198)	3,973
Recognized in profit or loss	11,630	(5,198)	6,432
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(757)	(757)
Actuarial loss - changes in demographic assumptions	229	-	229
Actuarial loss - changes in financial assumptions	44,032	-	44,032
Actuarial loss - experience adjustments	18,485	-	18,485
Recognized in other comprehensive income	62,746	(757)	61,989
Contributions from the employer	-	(11,484)	(11,484)
Benefits paid	(3,729)	3,729	-
Balance at December 31, 2015	492,267	(253,194)	239,073
Service cost			
Current service cost	2,667	-	2,667
Net interest expense (income)	7,397	(3,947)	3,450
Recognized in profit or loss	10,064	(3,947)	6,117
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	2,211	2,211
Actuarial loss - changes in demographic assumptions	4,851	-	4,851
Actuarial loss - changes in financial assumptions	15,459	-	15,459
Actuarial loss - experience adjustments	(7,137)	-	(7,137)
Recognized in other comprehensive income	13,173	2,211	15,384
Contributions from the employer	-	(14,220)	(14,220)
Benefits paid	(4,826)	4,826	-
Plan assets refund	-	25	25
Balance at December 31, 2016	$ 510,678	$ (264,299)	$ 246,379

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan’s debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2016	**2015**
Discount rates	1.38%-1.75%	1.50%-1.75%
Expected rates of salary increase	1.00%-2.50%	1.00%-2.50%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2016	**2015**
Discount rates		
0.25%-0.5% increase	$ (25,514)	$ (29,786)
0.25%-0.5% decrease	$ 27,514	$ 32,403
Expected rates of salary increase		
0.25%-0.5% increase	$ 26,794	$ 32,357
0.25%-0.5% decrease	$ (25,079)	$ (30,056)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2016	**2015**
The expected contributions to the plan for the next year	$ 14,164	$ 11,972
The average duration of the defined benefit obligation	15 years	14 years

19. EQUITY

a. Share capital

	December 31	
	2016	**2015**
Number of common shares authorized (in thousands)	400,000	400,000
Common shares authorized	$ 4,000,000	$ 4,000,000
Number of common shares issued (in thousands)	269,393	268,773
Common shares issued	$ 2,693,933	$ 2,687,733

In the year ended December 31, 2016, the shares increased due to exercised employee stock options.

Fully paid common shares, which have a par value of $10, carry one vote per share and carry a right to dividends.

b. Stock-based compensation plan

For the Corporation to retain its qualitative professionals for its business and operations and deepen the employees' sense of belonging, the Corporation adopted stock option plans (the "Plans"), which the board of directors approved on March 19, 2010, to grant employees 10,000 units of stock options. Each unit represented 1,000 common shares of the Corporation. The Securities and Futures Bureau under the FSC approved the Plans on April 12, 2010, respectively.

The Corporation issued 6,800 units and 3,200 units, on February 17, 2011 and May 10, 2010, respectively. The options were granted to qualified employees of the Corporation and its subsidiaries. The options are valid for 5 years and exercisable at certain percentages after the second anniversary from the grant date. The exercise price of the stock options is equal to the closing price of the Corporation's common shares listed on the Taiwan Stock Exchange on the date of the grant. If the number of the Corporation's common shares changes after the granting of the stock option, the exercise price will be revised in accordance with the terms of the Plans.

Information on employee stock options in 2016 and 2015 was as follows:

	2016		2015	
Employee Stock Option	**Number of Outstanding Options**	**Weighted-average Exercise Price (NT$)**	**Number of Outstanding Options**	**Weighted-average Exercise Price (NT$)**
Beginning outstanding balance	655	$ 29.90	2,382	$ 32.12
Options exercised	(555)	$ 29.90	(1,727)	$ 31.86
Options forfeited	(100)	$ 29.90	-	$ -
Ending outstanding balance	-	$ -	655	$ 29.90
Ending exercisable balance	-		655	

Options granted in 2011 and 2010 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	Issued on February 17, 2011	Issued on May 10, 2010
Grant-date share price (NT$)	$40.50	$42.70
Exercise price (NT$)	$33.90	$34.00
Expected volatility	37.24%-37.76%	39.20%-39.45%
Expected life (years)	3.5-4 years	3.5-4 years
Expected dividend yield	-	-
Risk-free interest rate	1%-1.045%	0.69%-0.87%

c. Capital surplus

	December 31	
	2016	**2015**
Maybe used to offset a deficit, distribute as cash dividends, or transfer to share capital (1)		
Issue of common shares	$ 6,042,332	$ 6,702,955
Donations	544	544
May not be used for any purpose		
Changes in percentage of ownership interest in subsidiaries (2)	8,576	-
Share of changes in associates accounted for by using equity method	255,542	280,377
Treasury share transactions	1,323,493	1,207,036
Gain on sale of property and equipment	4,493	4,493
Employee stock options	-	1,815
	$ 7,634,980	$ 8,197,220

1) Such capital surplus may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation’s capital surplus and once a year).

2) Such capital surplus arises from the effect of changes in ownership interest in subsidiary resulted from equity transactions other than actual disposal on acquisition, or from changes in capital surplus of subsidiaries accounted for by using the equity method.

d. Appropriation of earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 17, 2016 and, in that meeting, had resolved amendments to the Company’s Articles of Incorporation (the “Articles”), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees’ compensation.

Under the dividend policy as set forth in the amended Articles, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation’s board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders’ meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees’ compensation and remuneration of directors before and after amendment, please refer to b. employee benefits expense in Note 20.

Following its Articles of Incorporation and considering the overall environment, growth trends in the industry, and the Corporation’s long-term financial planning and ongoing goal to have steady progress, the Corporation applies its residual dividends policy as follows:

1) Determine the appropriate capital budget.

2) Determine the funds needed for the capital budget.

3) Determine the amount to be funded by unappropriated earnings (the remaining may be funded through capital increase by cash or through issuance of bonds).

4) The remaining retained earnings, less an appropriate portion for the operational needs, may be distributed to shareholders.

The Corporation's dividends may be distributed in cash or stocks. The distribution of profits shall be made preferably by way of cash dividends. The distribution could also be made by way of stock dividends, which should not exceed 50% of the total distributed earnings in principle. In addition, dividend policy depends on criteria such as the Corporation's current and future investment environment, cash requirements, domestic and international competition, capital budget, etc. Further, the Corporation also takes into consideration shareholders' interests, balances of dividends and its long-term financial goals. Annually, the board of directors prepares a proposal on earnings appropriation for approval at the shareholders' meeting.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Corporation's paid-in capital. Legal reserve may be used to offset deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under the local regulations, an amount equal to the net debit balance of total other equity items (including exchange differences on translating foreign operations and unrealized gain (loss) on available-for-sale financial assets) shall be appropriated as a special reserve. The special reserve may be reversed to the extent of the decrease in the net debit balance.

If the Corporation's shares are held by its subsidiaries at the end of the year and the market value of the shares held are lower than their carrying amounts, the Corporation should appropriate a special reserve equal to the difference between the carrying amounts and market value multiplied by its percentages of ownership in the subsidiaries. The special reserve can be reversed in proportion to the percentages of ownership in the subsidiaries when the market value of the shares increased.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation.

The appropriations of earnings for 2015 and 2014 had been approved in the shareholders' meetings held on June 17, 2016 and June 17, 2015, respectively, were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For the Year Ended December 31		**For the Year Ended December 31**	
	2015	**2014**	**2015**	**2014**
Legal reserve	$ 56,428	$ 74,471	$ -	$ -
Reversal of special reserve	-	(114,116)	-	-
Cash dividends	673,483	401,087	2.5	1.5
	$ 729,911	$ 361,442	$ 2.5	$ 1.5

The shareholders resolved the distribution in cash of the capital surplus arising from issuance of common shares in the shareholders' meeting held on June 17, 2016 and June 17, 2015, respectively. The distribution amounted to $673,483 thousand (at NT$2.5 per share) and $935,870 thousand (at NT$3.5 per share), respectively.

The appropriations of earnings for 2016 had been proposed by the Corporation's board of directors on March 23, 2017. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 110,827	$ -
Special reserve	64,494	-
Cash dividends	942,877	3.5

In addition, the board of directors proposed in the same meeting the distribution in cash of the capital surplus arising from issuance of common shares, amounting to $404,090 thousand at NT$1.5 per share.

The appropriations of 2016 earnings and distribution of capital surplus will be resolved by the shareholders in their meeting scheduled for June 2017.

Information about the appropriations of earnings and distribution of capital surplus are available on the Market Observation Post System website of the Taiwan Stock Exchange.

e. Others equity items

1) Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2016	2015
Balance at January 1	$ 127,939	$ 86,276
Exchange differences arising on translating the net asset of foreign operations	(129,765)	132,941
Share of exchange difference of associates accounted for using the equity method	(81,460)	(91,278)
Balance at December 31	$ (83,286)	$ 127,939

2) Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2016	2015
Balance at January 1	$ 8,841	$ 11,561
Unrealized loss arising on revaluation of available-for-sale financial assets	(22,278)	(2,720)
Cumulative loss reclassified to profit or loss on impairment of available-for-sale financial assets	32,219	-
Share of unrealized gain on revaluation of available-for-sale financial assets of associates accounted for using the equity method	10	-
Balance at December 31	$ 18,792	$ 8,841

f. Treasury share

Purpose of Treasury Share	Number of Shares at January 1	Increase During the Year	Decrease During the Year	Number of Shares at December 31
2016				
Reclassification of the Corporation's shares held by subsidiaries from equity-method investments into treasury share	22,687	723	-	23,410
2015				
Reclassification of the Corporation's shares held by subsidiaries from equity-method investments into treasury share	22,475	882	670	22,687

The Corporation's shares held by, subsidiaries at end of reporting period were as follows:

	December 31	
	2016	2015
Hanmore		
Share (in thousand)	21,317	19,839
Investments cost	$ 866,326	$ 845,158
Market value	$ 1,238,499	$ 1,053,434
Ching Pu		
Share (in thousand)	12,982	12,982
Investments cost	$ 358,416	$ 390,870
Market value	$ 754,224	$ 689,316

For the Corporation's shares held by Hanmore, the investment cost at 48.9% (the ownership percentage owned by the Corporation) was transferred from investment accounted for using equity method to treasury shares, amounting to $515,618 (10,428 thousand shares) and $479,487 (9,705 thousand shares) as of December 31, 2016 and 2015, respectively. The remaining was treated as recoveries from Hanmore's non-controlling interests, accounted for deduction to non-controlling interests in balance sheets.

In the year ended December 31, 2015, Hanmore sold 1,370 thousand shares of the Corporation's shares, at the price of $110,450 thousand.

The Corporation's shares held by its subsidiaries are recorded as treasury shares, with the subsidiaries having the same rights as other common shareholders on these shares, except that the subsidiaries which are owned by the parent company for over 50% will not have the right to participate in any share issuance for cash or to vote.

g. Non-controlling interests

	For the Year Ended December 31	
	2016	2015
Balance at January 1	$ 56,026	$ 78,224
Attributable to non-controlling interests:		
Share of loss for the year	(17,940)	(947)
Exchange difference arising on translation of foreign entities	-	604
Unrealized gains on available-for-sale financial asset	487	-
Remeasurement on defined benefit plans	(772)	(135)
Cash dividends received from subsidiaries	(39,317)	(74,819)
Non-controlling interests arising from cash dividends received by subsidiaries (Hanmore) from the Corporation	53,823	45,850
No-controlling interests arising from subscription of capital increase in Etu	25,000	-
Change in subsidiaries ownership	(8,576)	-
Disposal of the Corporation’s shares by Hanmore regarding as treasury share transaction	-	56,417
Acquisition of the Corporation’s shares by Hanmore regarding as treasury share transaction	(37,728)	(49,168)
Balance at December 31	$ 31,003	$ 56,026

20. NET PROFIT

a. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
Property, plant and equipment	$ 130,915	$ 147,297
Intangible assets	61,760	51,639
	$ 192,675	$ 198,936
An analysis of depreciation by function		
Operating costs	$ 47,623	$ 59,457
Operating expenses	83,292	87,840
	$ 130,915	$ 147,297
An analysis of amortization by function		
Operating costs	$ 3,017	$ 3,667
Operating expenses	58,743	47,972
	$ 61,760	$ 51,639

b. Employee benefits expenses (accounted for operating expenses)

1) Employees' compensation and remuneration of directors for 2016 and 2015.

	For the Year Ended December 31	
	2016	**2015**
Post-employment benefits		
Defined contribution plans	$ 127,295	$ 133,662
Defined benefits plans (Note 18)	6,117	6,432
	133,412	140,094
Termination benefits	10,188	8,488
Payroll and other employee benefits	2,875,750	2,728,579
	$ 3,019,350	$ 2,877,161

As of December 31, 2016 and 2015, the Group has 2,909 and 2,922 employees, respectively.

Articles of Incorporation of the Corporation approved by the shareholders in their meeting on June 2016, the Corporation accrued employees' compensation and remuneration of directors and supervisors at the rates no less than 0.1% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2016 and 2015 which have been approved by the Corporation's board of directors on March 23, 2017 and March 22, 2016, respectively, were as follows:

Amount

	For the Year Ended December 31			
	2016		**2015**	
	Accrual Rate	**Cash**	**Accrual Rate**	**Cash**
Employees' compensation	0.1%	$ 1,102	0.1%	$ 644
Remuneration of directors	2.0%	22,035	2.0%	12,882

If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2015.

Information on the employees' compensation and remuneration of directors resolved by the Corporation's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

2) Bonus to employees and remuneration of directors for 2014

The bonuses to employees and remuneration to directors and supervisors for 2014 which has been approved in the shareholders' meetings on June 17, 2015, respectively, were as follows:

	For the Year Ended December 31, 2014
	Cash
Bonus to employees	$ 670
Remuneration of directors	13,405

There was no difference between the amounts of the bonus to employees and the remuneration to directors approved in the shareholders' meetings on June 17, 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2014.

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Corporation's board of directors are available on the Market Observation Post System website of the Taiwan Stock Exchange.

c. Gain (loss) on sale of investments, net

	For the Year Ended December 31	
	2016	**2015**
Financial asset at fair value through profit or loss	$ 57,897	$ 16,258
Available-for-sale financial assets	-	58,351
Financial assets measured at cost	1,263	84,513
Held to maturing financial assets	(404)	-
Investments accounted for using the equity method	1,168,277	-
	$ 1,227,033	$ 159,122

d. Impairment losses on assets

	For the Year Ended December 31	
	2016	**2015**
Financial assets		
Financial assets measured at cost	$ 60,083	$ 54,943
Available-for-sale financial assets	32,219	-
Investments accounted for using the equity method	81,749	-
	174,051	$ 54,943
Non-financial assets		
Intangible assets	-	1,208
Goodwill	315,223	79,983
	315,223	81,191
	$ 489,274	$ 136,134

For the year ended December 31, 2016, the Group performed impairment tests on investments accounted for using the equity method and identified that the carrying amounts of Systemweb Technology, Yankey Inc. and Investment Media Ltd. were higher than their recoverable amounts, and recognized impairment losses of $35,522 thousand, $12,233 thousand and $33,994 thousand, respectively.

For the year ended December 31, 2016, the Group evaluated the recoverable amounts of goodwills and recognized impairment loss of $67,481 thousand, $18,445 thousand, $47,441 thousand, $14,053 thousand and 167,803 thousand on goodwills of the Corporation, RTGI, Syspower, CSMS and Nexsys, respectively, because their operating performance did not achieve the Group's expectation. For the year ended December 31, 2015, the Group evaluated the recoverable amounts of goodwills and recognized impairment loss of $79,983 thousand on goodwill of RTGI because the net profit of RTGI was less than the Group's expectation.

21. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expenses were as follows:

	For the Year Ended December 31	
	2016	**2015**
Current tax		
In respect of the current year	$ 59,903	$ 108,703
Income tax expense of unappropriated earnings	16	27,070
Land value increment tax	720	8,348
Enterprise Income Tax on securities	133,010	-
In respect of prior periods	(9,362)	(1,233)
	184,287	142,888
Deferred tax		
In respected of the current year	(28,755)	(996)
Income tax expense recognized in profit or loss	$ 155,532	$ 141,892

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year Ended December 31	
	2016	**2015**
Profit before tax	$ 1,245,860	$ 705,219
Income tax expense calculated at the statutory rate (17%)	$ 211,796	$ 119,887
Nondeductible expenses in determining taxable income	45,762	2,113
Tax-exempt income	(235,148)	(72,084)
Additional income tax on unappropriated earnings	16	27,070
Unrecognized temporary differences	2,086	33,295
Unrealized investment tax credits	(26,247)	(3,753)
Unrecognized loss carryforwards	17,432	7,688
Effect of different tax rate of group entities operating in other jurisdictions	15,467	20,561

(Continued)

	For the Year Ended December 31	
	2016	2015
Adjustments for prior years' tax	$ (9,362)	$ (1,233)
Land value increment tax	720	8,348
Enterprise Income Tax on securities	133,010	-
Income tax expense recognized in profit or loss	$ 155,532	$ 141,892

(Concluded)

For the year ended December 31, 2016, the land value increment tax $720 thousand was incurred from the disposal land and building of the Corporation in June 2016. For the year ended December 31, 2015, the land value increment taxes $8,241 thousand and $107 thousand were incurred from the disposal land and building of the Corporation and Syspower in December and January 2015, respectively.

Systex Solution (HK) Limited sold investments accounted for using equity method in August and September 2016 and incurred Enterprise Income Tax of $133,010 thousand according to the related tax laws in its jurisdiction.

The applicable tax rate used above is the corporate tax rate of 17% payable by the group entities in ROC, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of 2017 appropriations of earnings is uncertain, the potential income tax consequences of 2016 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
Deferred tax		
Remeasurement on defined benefit plan	$ 437	$ 874

c. Current tax assets and liabilities

	December 31	
	2016	2015
Current tax assets (included in other receivables)		
Tax refund receivable	$ 17,385	$ 82
Current tax liabilities		
Income tax payable	$ 158,286	$ 83,974
In respect of prior years	10,153	15,897
	$ 168,439	$ 99,871

As of December 31, 2016 and 2015, income tax payables were net of prepayments aggregating $34,633 thousand and $52,147 thousand, respectively.

d. The movements of deferred tax assets and liabilities

For the year ended December 31, 2016

Deferred tax assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Unrealized cost of projects	$ 19,901	$ (19,705)	$ -	$ 196
Allowance for loss on inventories	15,648	4,883	-	20,531
Deferred revenue	2,255	(1,483)	-	772
Payable for annual leave	2,688	3,280	-	5,968
Defined benefit obligation	2,090	490	437	3,017
Others	3,000	1,931	-	4,931
	45,582	(10,604)	437	35,415
Loss carry forwards	-	1,287	-	1,287
Investment credits	3,753	26,247	-	30,000
	$ 49,335	$ 16,930	$ 437	$ 66,702

Deferred tax liabilities	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Goodwill	$ 11,472	$ (11,472)	$ -	$ -
Exchange differences on foreign operations	4,969	-	-	4,969
Others	1,278	(353)	-	925
	$ 17,719	$ (11,825)	$ -	$ 5,894

For the year ended December 31, 2015

Deferred tax assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Unrealized cost of projects	$ 19,904	$ (3)	$ -	$ 19,901
Allowance for loss on inventories	18,309	(2,661)	-	15,648
Deferred revenue	1,518	737	-	2,255
Payable for annual leave	3,199	(511)	-	2,688
Defined benefit obligation	871	345	874	2,090
Others	3,378	(378)	-	3,000
	47,179	(2,471)	874	45,582
Investment credits	-	3,753	-	3,753
	$ 47,179	$ 1,282	$ 874	$ 49,335

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax liabilities				
Temporary differences				
Goodwill	$ 11,472	$ -	$ -	$ 11,472
Exchange differences on foreign operations	4,969	-	-	4,969
Others	992	286	-	1,278
	$ 17,433	$ 286	$ -	$ 17,719

(Concluded)

e. Unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the consolidated balance sheets

	December 31	
	2016	2015
Loss carryforwards		
Expiry in 2016	$ -	$ 158,067
Expiry in 2017	145,132	145,686
Expiry in 2018	54,678	56,403
Expiry in 2019	122,513	123,335
Expiry in 2020	19,687	19,687
Expiry in 2021	4,316	4,316
Expiry in 2022	78,990	78,990
Expiry in 2023	14,698	14,698
Expiry in 2024	9,989	12,729
Expiry in 2025	85,255	23,604
Expiry in 2026	102,548	-
	$ 637,806	$ 637,515
Investment credits		
Equity investment	$ 1,980	$ 1,980

f. Information about unused investment credits and unused loss carryforward

As of December 31, 2016, investment tax credits comprised of:

Laws and Statutes	Tax Credit Source	Remaining Creditable Amount	Expiry Year
Act for promotion of private participation in infrastructure project	Investment in private	$ 31,980	2020

Loss carryforwards as of December 31, 2016 comprised of:

Expiry Year	Total Credit
2017	$ 145,132
2018	54,678
2019	122,513
2020	19,687
2021	4,316
2022	78,990
2023	14,698
2024	9,989
2025	85,255
2026	110,117
	$ 645,375

g. Integrated income tax

	December 31	
	2016	**2015**
Imputation credits accounts	$ 364,380	$ 355,767

	For the Year Ended December 31	
	2016 (Estimate)	**2015**
Creditable ratio for distribution of earnings	10.09%	13.90%

h. Income tax assessments

Income tax returns through 2015 of Etu and income tax returns through 2014 and undistributed earnings through 2013 of the Corporation, Taifon, Syspower, Nexsys, CSMC, Ching Pu, Hanmore, TEDP, SSSC, GBC, Medincom and Soft mobile have been assessed by the tax authorities.

SCGI and KIMO are exempt from income tax under their local government regulations.

22. EARNINGS PER SHARE

The earnings and weighted average number of common shares outstanding in the computation of earnings per share were as follows:

	For the Year Ended December 31	
	2016	**2015**
Net income for the year		
Net income for the year attributable to owners of the Corporation	$ 1,108,268	$ 564,274

(Continued)

	For the Year Ended December 31	
	2016	**2015**
Number of shares (thousand)		
Weighted average number of common shares in the computation of basic earnings per share	246,074	246,073
Effect of potentially dilutive common shares:		
Employee stock option	-	428
Employees’ compensation or bonus issue to employees	19	12
Weighted average number of common shares in the computation of diluted earnings per share	246,093	246,513
Earnings per share (NT$)		
Basic earnings per share	$4.50	$2.29
Dilutive earnings per share	$4.50	$2.29

(Concluded)

If the Corporation can settle bonus to employees in cash or shares, the Corporation assumes the entire amount of the bonus would be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

The pro forma net income and earnings per share, assuming the Corporation’s share held by subsidiaries were treated as investment instead of treasury shares, were as follows:

	For the Year Ended December 31	
	2016	**2015**
Net income for the year		
Net income for the year attributable to owners of the Corporation	$ 1,166,497	$ 620,699
Number of shares (thousand)		
Weighted average number of common shares in the computation of pro forma earnings per shares	269,362	268,288
Effect of potentially dilutive common shares:		
Employee stock option	-	428
Employees’ compensation or bonus issue to employees	19	12
Weighted average number of common shares in the computation of pro forma diluted earnings per shares	269,381	268,728
Earnings per share (NT$)		
Basic earnings per shares	$4.33	$2.31
Dilutive earning per share	$4.33	$2.31

23. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On January 15, 2016 and December 6, 2016, the Group subscribed for additional new shares of Etu at a percentage different from its existing ownership percentage, reducing its interest from 100% to 75% and increasing from 75% to 78.26%, respectively.

The above transactions were accounted for as equity transactions, since the Group did not change the influence on these subsidiaries.

	Etu Corporation
Cash consideration received	$ 25,000
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to non-controlling interests	(16,424)
Differences recognized from equity transaction	$ 8,576
Line item adjusted for equity transaction	
Capital surplus - changes in percentage of ownership interest in subsidiaries	$ 8,576

24. CAPITAL MANAGEMENT

The capital structure of the Group consists of debt and equity of the Group (comprising issued capital, retained earnings and other equity).

Key management personnel of the Corporation review the capital structure on a periodic basis. As part of this review, the Corporation considers the cost of capital and the risks associated with each class of capital. In order to balance the overall capital structure, the Corporation may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and the amount of new debt issued or existing debt redeemed.

25. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

   Except that fair value of financial assets measured at cost could not be reliably measured, the management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

Fair value hierarchy

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Financial assets at FVTPL				
Non-derivative financial assets held for trading	$ 2,852,523	$ 27,433	$ -	$ 2,879,956
Available-for-sale financial assets				
Listed shares	11,047	-	-	11,047
Corporation bond	-	7,937	-	7,937
	$ 2,863,570	$ 35,370	$ -	$ 2,898,940
December 31, 2015				
Financial assets at FVTPL				
Non-derivative financial assets held for trading	$ 3,704,655	$ 143,628	$ -	$ 3,848,283
Available-for-sale financial assets				
Listed shares	40,607	-	-	40,607
	$ 3,745,262	$ 143,628	$ -	$ 3,888,890

There were no transfers between Levels 1 and 2 in 2016 and 2015.

c. Categories of financial instruments

	December 31	
	2016	2015
Financial assets		
Fair value through profit or loss (FVTPL)		
Held for trading (1)	$ 2,879,956	$ 3,863,065
Held to maturity investments	-	62,079
Loans and receivables (2)	8,952,148	7,143,924
Available-for-sale financial assets (3)	451,955	484,792
Financial liabilities		
Amortized cost (4)	4,908,405	4,185,280

1) The balances included the carrying amount of fair value through profit or loss held for trading measured at cost.

2) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt instruments with no active market, notes receivable, accounts receivable, refundable deposits, other receivables, lease receivables - current (included in other current assets), long-term receivables, pledged time deposits - non-current (included in other non-current assets) and lease receivables - non-current (included in other non-current assets).

3) The balances included the carrying amount of available-for-sale financial assets measured at cost.

4) The balances included financial liabilities measured at amortized cost, which comprise short-term loans, notes and accounts payable, other payables and guarantee deposits received (included in other non-current liabilities).

d. Financial risk management objectives and policies

The Group's main target of financial risk management is to manage the market risk related to operating activity (including foreign currency risk, interest rate risk and other price risk) and other price risk, credit risk and liquidity risk. To reduce the potential and detrimental influence of the fluctuations in market on the Group's financial performance, the Group endeavors to identify, estimate and hedge the uncertainties of the market.

The Group's significant financial activity is reviewed and approved by the board of directors and audit committee in compliance with related regulations and internal control policy, and the authority and responsibility are delegated according to the operating procedures.

1) Market risk

a) Foreign currency risk

The Group has foreign currency sales, purchases and borrowings, which were exposed to foreign currency risk. The Group has designated a department to monitor exchange rate fluctuations in timely manner and change foreign currency position to control and mitigate such risks as soon as possible.

The sensitivity analysis focused on outstanding foreign currency denominated monetary assets and monetary liabilities (mainly USD and RMB) at the end of the reporting period. A positive number below indicates a decrease/increase in pre-tax loss associated with New Taiwan dollars strengthening/weakening 5% against the relevant currency.

	For the Year Ended December 31	
	2016	**2015**
USD		
Increase/decrease	$ 19,393	$ 11,832
RMB		
Increase/decrease	62,430	16,946

b) Interest rate risk

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	December 31	
	2016	**2015**
Fair value interest rate risk		
Financial assets	$ 1,586,875	$ 1,145,876
Financial liabilities	1,046,022	589,821
Cash flow interest rate risk		
Financial assets	3,308,373	1,675,245

The Group acquired better interest rate through long-term cooperation with banks; therefore, the effect of interest rate fluctuations is immaterial.

The sensitivity analyses below were determined based on financial assets and financial liabilities with floating interest rates at the end of reporting period. If interest rates had been 10 basis points (0.1%) higher/lower, the Group's pre-tax net income effect would have been as follows:

	For the Year Ended December 31	
	2016	**2015**
Increase/decrease	$ 3,308	$ 1,675

c) Other price risk

The Group was exposed to price risk through its investments in listed shares, TDR, corporate bonds and mutual funds. The Group has established a real-time control system for the price risk, and management does not anticipate any material loss due to this risk.

The sensitivity analyses of the above investment were determined based on financial assets which were measured at fair value at the end of reporting period. If market prices had been 5% higher/lower, the effects on the Group's pre-tax net income and other comprehensive income would have been as follows:

	For the Year Ended December 31	
	2016	**2015**
Pre-tax net income		
Increase/decrease	$ 143,998	$ 192,414
Other comprehensive income		
Increase/decrease	949	2,030

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Group if the counterparties breached contracts. Generally, the maximum exposure to credit risk for financial assets at the balance sheet date are their carrying amounts.

The Group has delegated a department responsible for managing accounts receivable, establishing credit limits, credit approvals and other monitoring procedures to ensure the profitability of the Group. The Group only transacts with creditworthy financial institutions to reduce credit risk.

Since the counterparties are creditworthy financial institutions and enterprises and the concentration of credit risk is not significant, the credit risk is anticipated to be immaterial.

3) Liquidity risk

The Group has put in place inventory management system, procedures for collections and payments, and develops cash flow forecast to ensure the liquidity of operating capital. In addition, the Group invests idle funds in short-term market under consideration of liquidity, security and profitability. The Group also maintains banking facilities to ensure the liquidity of cash.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual terms.

December 31, 2016

	Less than 1 Year	1-5 Years	5+ Years	Total
Non-derivative financial liabilities				
Short-term bank loans	$ 1,046,022	$ -	$ -	$ 1,046,022

December 31, 2015

	Less than 1 Year	1-5 Years	5+ Years	Total
Non-derivative financial liabilities				
Short-term bank loans	$ 589,821	$ -	$ -	$ 589,821

The Group has sufficient working capital to meet the cash needs for their operations. Thus, no material liquidity risk is anticipated.

In addition, the Group's investments in mutual funds and listed shares are publicly-traded in an active market and can readily be sold in the market at their approximate fair values. However, the Group also invested in unlisted stocks, subordinate debenture bonds and convertible bonds with significant liquidity risks because these assets do not have quoted market prices in an active market.

26. TRANSACTIONS WITH RELATED PARTIES

Balances, transactions, revenue and expense between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

a. Operating revenue

Line Items	Related Party Categories	For the Year Ended December 31 2016	2015
Sales	Associates	$ 5,124	$ 1,972
Service revenue	Associates	$ 3,740	$ 6,835

b. Purchases of goods

Related Party Categories	For the Year Ended December 31 2016	2015
Associates	$ 49,636	$ 170,024

c. Receivables from related parties

Line Items	Related Party Categories	December 31 2016	2015
Notes and accounts receivable	Associates	$ 868	$ 3,665

d. Payables to related parties

Line Items	Related Party Categories	December 31 2016	December 31 2015
Accounts payable	Associates	$ 21,774	$ 56,112

The product/service sales and purchase transactions with related parties were conducted underpricing terms similar to those for third parties, i.e., for purchases or sales of similar products/services, except those transactions on products/services with special specifications. Settlement terms for related-party transactions were similar to those for third parties.

e. Other assets acquired

Line Items	Related Party Categories	For the Year Ended December 31 2016	For the Year Ended December 31 2015
Intangible assets	Associates	$ 5,827	$ -

f. Other transactions with related parties

Line Items	Related Party Categories	For the Year Ended December 31 2016	For the Year Ended December 31 2015
Service cost	Associates	$ 20,381	$ 19,429
Operating expenses	Associates	$ 99	$ 105

g. Compensation of key management personnel

	For the Year Ended December 31 2016	For the Year Ended December 31 2015
Short-term employee benefits	$ 113,537	$ 107,872
Post-employment benefits	3,404	3,605
Termination benefits	-	1,303
	$ 116,941	$ 112,780

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

27. PLEDGED ASSETS

The following assets were pledged as collateral for bank loans, contract guarantees, and import duty guarantee:

	December 31	
	2016	**2015**
Property, plant and equipment - buildings, net	$ 117,189	$ 130,526
Pledged time deposits - current (included in other receivables)	160,085	199,942
Pledged time deposits - non-current (included in other non-current assets)	43,448	61,341
The shares of the Corporation (Note)	581,000	531,000
	$ 901,722	$ 922,809

Note: Hanmore pledged 10,000 thousand shares of the Corporation as of December 31, 2016 and 2015, and it was eliminated on consolidation.

28. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant commitments and contingencies of the Group as of December 31, 2016 and 2015 were as follows:

a. Unused letters of credit of the Corporation in aggregate amount were as follows:

December 31	
2016	**2015**
$ 749	$ 739

b. Outstanding sales contracts of the Group in the amount were as follows:

December 31	
2016	**2015**
$ 8,446,499	$ 6,834,628

c. The Group provided endorsements for Systex Solutions II, RTGI, Systek, SSSC, Systex Info, Systex Ucom, and Systex China up to $300,000 thousand, $48,375 thousand, $16,125 thousand, $1,000,000 thousand, $258,000 thousand, $34,868 thousand and $923,940 thousand, respectively. TEDP provided endorsement for Medincom up to $15,000 thousand. Ucom Shanghai provided endorsement for Systex China up to $116,225 thousand. Systek provided endorsement for Systex China up to $116,255 thousand.

d. As of December 31, 2016, the Group had lease contracts for office premises, parking lots and warehouse with rentals paid monthly or annually, expiring between June 2017 and August 2020, and the refundable deposits for above lease contracts amounted to $23,768 thousand (included in refundable deposits). Future rentals are as follows:

Year	**Amount**
2017	$ 84,251
2018	22,483
2019	9,539
2020	280

29. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31, 2016

	Foreign Currencies	**Exchange Rate**	**Carrying Amount**
Financial assets			
Monetary items			
RMB	$ 312,365	4.65	$ 1,452,185
USD	20,638	32.25	665,587
Non-monetary items			
Financial assets at fair value through profit or loss			
HKD	11,195	4.16	46,550
RMB	3,001	4.65	13,953
Investment accounted for using equity method			
RMB	44,407	4.65	206,448
USD	1,237	32.25	39,898
Financial liabilities			
Monetary item			
USD	8,611	32.25	277,719
RMB	43,792	4.65	203,588

December 31, 2015

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 17,500	32.83	$ 574,448
RMB	67,047	5.06	338,923
HKD	2,845	4.24	12,050
Non-monetary items			
Financial assets at fair value through profit or loss			
HKD	11,195	4.24	47,412
RMB	3,001	5.06	14,992
Investment accounted for using equity method			
RMB	194,290	5.06	982,116
HKD	21,267	4.24	90,065
Financial liabilities			
Monetary item			
USD	10,291	32.83	337,815

For the years ended December 31, 2016 and 2015, unrealized net foreign exchange losses were $47,775 thousand and $35,007 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Group entities.

30. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on financial information. The Group's reportable segments were as follows:

Financial business integration provides financial contents and information services. Customer market integration provides mobile payment, retail distribution, App development and O2O services. Ecological Integration provides information systems integration services, medical system development, government land system development, financial business solutions, mobile payment, telecommunications information platform and enterprises information services. Value-added service provides agency of word-class application software, tailored enterprise software purchase programs and in-depth industry solution, comprehensive professional education training courses, digital e-learning, book publishing and business intelligence solution. China group provides similar services in China. Investment department engages in investment activities.

a. Segment revenues and results

	Financial Business Integration	Consumer Market Integration	Ecological Integration	Value-added Business Integration	China Group	Investment Department	Adjustment and Elimination	Total
2016								
Sales to customers	$ 1,203,667	$ 2,038,302	$ 3,409,520	$ 5,641,512	$ 3,917,379	$ -	$ -	$ 16,210,380
Sales to other segments	240,309	94,020	184,955	850,989	671,771	-	(2,042,044)	-
Total sales	$ 1,443,976	$ 2,132,322	$ 3,594,475	$ 6,492,501	$ 4,589,150	$ -	$ (2,042,044)	$ 16,210,380
Segment income	$ 289,105	$ 255,865	$ 39,073	$ 272,812	$ 12,001	$ 692,025	$ -	$ 1,560,881
Corporate general expenses								(315,021)
Income before income tax								$ 1,245,860
Segment depreciation and amortization expenses	$ 35,281	$ 38,432	$ 25,748	$ 37,923	$ 27,732	$ -		$ 165,116
Non-segment depreciation and amortization expenses								27,559
Total depreciation and amortization expenses								$ 192,675
Segment assets	$ 1,014,158	$ 961,699	$ 2,612,972	$ 3,511,197	$ 2,553,449	$ 7,083,259		$ 17,736,734
General assets								1,345,894
Total assets								$ 19,082,628
2015								
Sales to customers	$ 1,418,938	$ 1,950,919	$ 3,566,457	$ 5,600,048	$ 3,776,726	$ -	$ -	$ 16,313,088
Sales to other segments	231,512	95,260	159,452	869,673	845,317	-	(2,201,214)	-
Total sales	$ 1,650,450	$ 2,046,179	$ 3,725,909	$ 6,469,721	$ 4,622,043	$ -	$ (2,201,214)	$ 16,313,088
Segment income	$ 293,252	$ 272,360	$ 79,635	$ 224,222	$ 32,663	$ 133,801	$ -	$ 1,035,933
Corporate general expenses								(330,714)
Income before income tax								$ 705,219
Segment depreciation and amortization expenses	$ 36,678	$ 42,380	$ 34,650	$ 30,753	$ 23,265	$ -		$ 167,726
Non-segment depreciation and amortization expenses								31,210
Total depreciation and amortization expenses								$ 198,936
Segment assets	$ 1,167,286	$ 834,126	$ 2,730,991	$ 2,992,632	$ 2,811,043	$ 7,233,441		$ 17,769,519
General assets								893,338
Total assets								$ 18,662,857

Segment income represented the income before tax earned by each segment without allocation of central administration costs and directors' salaries, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, exchange gain or loss, interest expense and income tax expense.

b. Geographical information

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets is detailed below.

	Revenue from External Customers	
	2016	**2015**
Domestic	$ 12,296,668	$ 12,382,787
Asia	3,913,712	3,930,301
	$ 16,210,380	$ 16,313,088

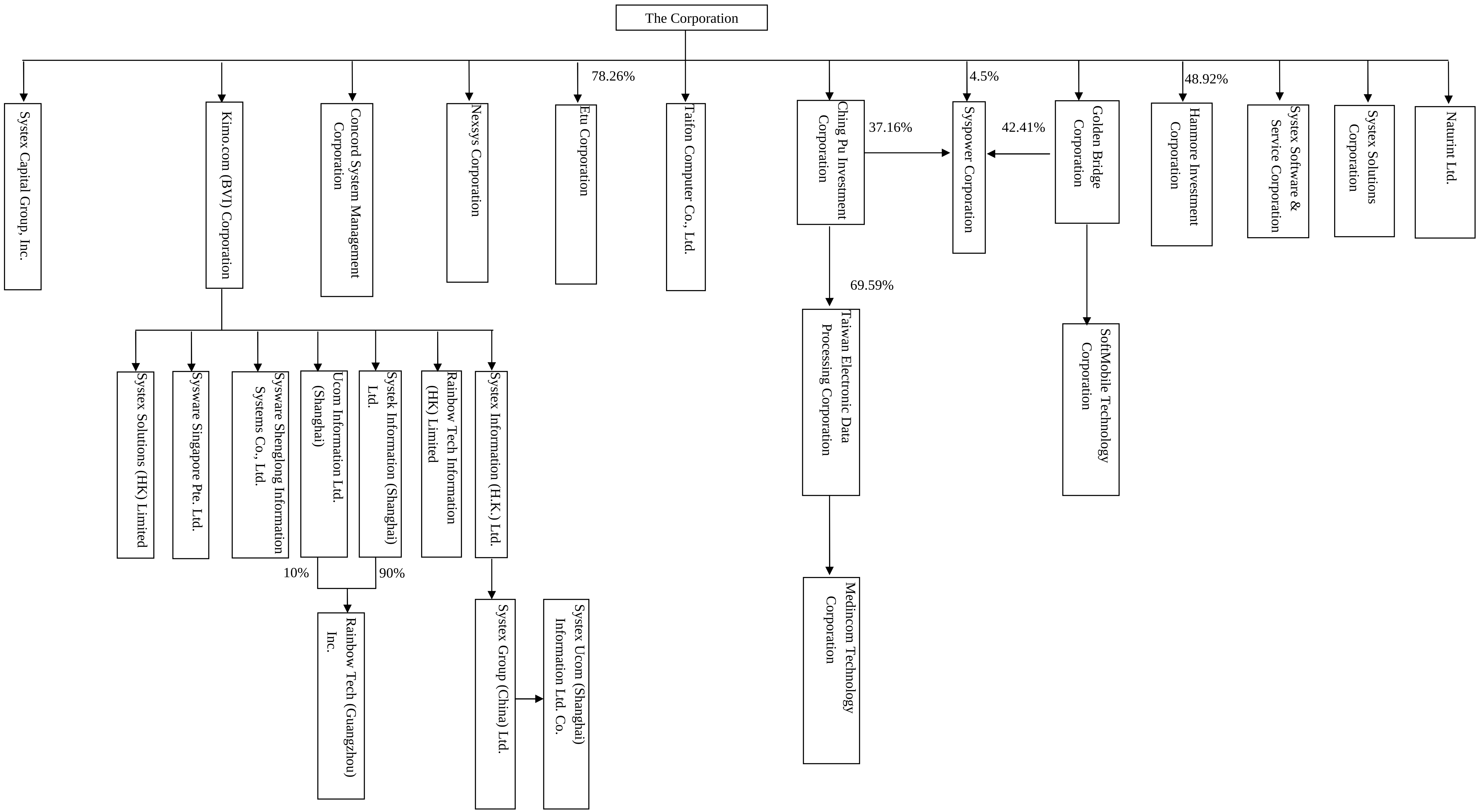
	Non-current Assets	
	December 31	
	2016	2015
Domestic	$ 3,230,256	$ 3,257,047
Asia	485,374	1,571,781
Others	102,928	241,381
	$ 3,818,558	$ 5,070,209

c. Major customers

No revenue from any individual customer exceeded 10% of the Group's total operating revenue for the years ended December 31, 2016 and 2015.

SYSTEX CORPORATION AND SUBSIDIARIES

THE RELATIONSHIP AND PERCENTAGE OF OWNERSHIP OF COMPANIES IN THE GROUP
DECEMBER 31, 2016



Note: Percentage of ownership is 100% unless noted on the chart.