

PARADE TECHNOLOGIES, LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT ACCOUNTANTS
MARCH 31, 2017 AND 2016

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

PARADE TECHNOLOGIES, LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND REVIEW REPORT OF
INDEPENDENT ACCOUNTANTS AS OF MARCH 31, 2017 AND 2016
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REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Parade Technologies, Ltd.

We have reviewed the accompanying consolidated balance sheets of Parade Technologies, Ltd. and its subsidiaries as of March 31, 2017 and 2016, the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

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

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

Liang, Hua-Ling

Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

April 26, 2017

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

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

PARADE TECHNOLOGIES, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2017, DECEMBER 31, 2016 AND MARCH 31, 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
 (THE CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2017 AND 2016 ARE REVIEWED, NOT AUDITED)

ASSETS	Notes	March 31, 2017		December 31, 2016		March 31, 2016		
		Amount	%	Amount	%	Amount	%	
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 3,980,102	41	\$ 4,030,839	41	\$ 3,043,098	35
1170	Accounts receivable, net	6(2)	1,352,382	14	1,533,751	16	1,342,092	15
130X	Inventories, net	6(3)	1,197,425	12	849,120	9	841,062	10
1470	Other current assets		226,389	2	242,910	2	359,270	4
11XX	Total current assets		<u>6,756,298</u>	<u>69</u>	<u>6,656,620</u>	<u>68</u>	<u>5,585,522</u>	<u>64</u>
Non-current assets								
1600	Property, plant and equipment, net	6(4)	160,255	2	142,448	1	152,332	2
1780	Intangible assets	6(5)	2,764,054	28	2,979,491	30	2,896,207	33
1840	Deferred income tax assets	6(15)	65,421	1	52,166	1	38,129	1
1900	Other non-current assets		30,180	-	27,247	-	32,949	-
15XX	Total non-current assets		<u>3,019,910</u>	<u>31</u>	<u>3,201,352</u>	<u>32</u>	<u>3,119,617</u>	<u>36</u>
1XXX	TOTAL ASSETS		<u>\$ 9,776,208</u>	<u>100</u>	<u>\$ 9,857,972</u>	<u>100</u>	<u>\$ 8,705,139</u>	<u>100</u>

(Continued)

PARADE TECHNOLOGIES, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2017, DECEMBER 31, 2016 AND MARCH 31, 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(THE CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2017 AND 2016 ARE REVIEWED, NOT AUDITED)

LIABILITIES AND EQUITY	Notes	March 31, 2017		December 31, 2016		March 31, 2016	
		Amount	%	Amount	%	Amount	%
Current liabilities							
2170	Accounts payable	\$ 1,028,205	11	\$ 968,324	10	\$ 1,025,154	12
2200	Other payables	441,554	5	544,858	6	345,166	4
2230	Current income tax liabilities	538,827	5	529,731	5	426,248	5
2300	Other current liabilities	306,794	3	313,227	3	192,733	2
21XX	Total current liabilities	<u>2,315,380</u>	<u>24</u>	<u>2,356,140</u>	<u>24</u>	<u>1,989,301</u>	<u>23</u>
2XXX	Total liabilities	<u>2,315,380</u>	<u>24</u>	<u>2,356,140</u>	<u>24</u>	<u>1,989,301</u>	<u>23</u>
Equity attributable to owners of the							
Company							
Share capital 6(9)							
3110	Ordinary shares	773,321	8	773,049	8	760,750	9
Capital reserves 6(10)							
3200	Capital reserves	2,160,472	22	2,159,549	22	1,813,697	21
Retained earnings 6(11)							
3310	Legal reserve	478,681	5	478,681	5	364,246	4
3320	Special reserve	8,324	-	8,324	-	8,324	-
3350	Unappropriated earnings	4,522,844	46	4,151,202	42	3,648,704	42
Other equity							
3400	Other equity	(479,284)	(5)	(68,973)	(1)	168,522	2
3500	Treasury shares	(3,530)	-	-	-	(48,405)	(1)
31XX	Equity attributable to owners						
	of the Company	<u>7,460,828</u>	<u>76</u>	<u>7,501,832</u>	<u>76</u>	<u>6,715,838</u>	<u>77</u>
3XXX	Total equity	<u>7,460,828</u>	<u>76</u>	<u>7,501,832</u>	<u>76</u>	<u>6,715,838</u>	<u>77</u>
Significant contingent liabilities 9							
and unrecognized contract							
commitments							
Significant events after the balance 11							
sheet date							
3X2X	TOTAL LIABILITIES AND						
	EQUITY	<u>\$ 9,776,208</u>	<u>100</u>	<u>\$ 9,857,972</u>	<u>100</u>	<u>\$ 8,705,139</u>	<u>100</u>

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

PARADE TECHNOLOGIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNT)
(UNAUDITED)

		For the three months ended March 31,			
		2017		2016	
	Notes	Amount	%	Amount	%
4000	Revenue	\$ 2,351,687	100	\$ 2,340,738	100
5000	Cost of goods sold	(1,410,995)	(60)	(1,377,840)	(59)
5900	Gross profit	<u>940,692</u>	<u>40</u>	<u>962,898</u>	<u>41</u>
	Operating expenses				
6100	Sales and marketing expenses	(121,015)	(5)	(139,240)	(6)
6200	General and administrative expenses	(73,308)	(3)	(74,513)	(3)
6300	Research and development expenses	(343,003)	(15)	(359,186)	(15)
6000	Total operating expenses	<u>(537,326)</u>	<u>(23)</u>	<u>(572,939)</u>	<u>(24)</u>
6900	Operating income	<u>403,366</u>	<u>17</u>	<u>389,959</u>	<u>17</u>
	Non-operating income and expenses				
7010	Other income	1,151	-	431	-
7020	Other gains and losses	(694)	-	(500)	-
7000	Total non-operating income and expenses	<u>457</u>	<u>-</u>	<u>(69)</u>	<u>-</u>
7900	Income before income tax	<u>403,823</u>	<u>17</u>	<u>389,890</u>	<u>17</u>
7950	Income tax expense	(32,256)	(1)	(32,346)	(1)
8000	Net income for the period from continuing operations	<u>371,567</u>	<u>16</u>	<u>357,544</u>	<u>16</u>
	Other comprehensive loss				
	Components of other comprehensive loss that will not be reclassified to profit or loss				
8361	Other comprehensive loss, before tax, exchange differences on translation	(452,359)	(19)	(134,670)	(6)
8310	Components of other comprehensive loss that will not be reclassified to profit or loss	<u>(452,359)</u>	<u>(19)</u>	<u>(134,670)</u>	<u>(6)</u>
8500	Total comprehensive (loss) income for the period	<u>(\$ 80,792)</u>	<u>(3)</u>	<u>\$ 222,874</u>	<u>10</u>
	Net income, attributable to:				
8610	Owners of the Company	<u>\$ 371,567</u>	<u>16</u>	<u>\$ 357,544</u>	<u>16</u>
	Comprehensive (loss) income attributable to:				
8710	Owners of the Company	<u>(\$ 80,792)</u>	<u>(3)</u>	<u>\$ 222,874</u>	<u>10</u>
9750	Basic earnings per share from continuing operations	<u>\$ 4.92</u>		<u>\$ 4.77</u>	
9850	Diluted earnings per share from continuing operations	<u>\$ 4.78</u>		<u>\$ 4.68</u>	

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

PARADE TECHNOLOGIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
 (UNAUDITED)

Notes	Equity attributable to owners of the parent											Total
	Capital Reserves				Retained Earnings			Other Equity				
	Ordinary shares	Paid-in capital in excess of ordinary shares	Capital reserve from employee stock options	Capital reserve from restricted stocks	Capital reserve - others	Legal reserve	Special reserve	Unappropriated earnings	Currency translation differences of foreign operations	Unearned compensation	Treasury shares	
For the three months ended March 31, 2016												
	\$ 760,751	\$ 1,320,037	\$ 133,526	\$ 314,220	\$ 36,423	\$ 364,246	\$ 8,324	\$ 3,291,004	\$ 495,516	(\$ 214,396)	(\$ 48,405)	\$ 6,461,246
Share-based compensation cost 6(8)	-	-	7,763	-	-	-	-	-	-	21,891	-	29,654
Exercise of employee stock options 6(8)(9)	218	2,148	(454)	-	-	-	-	-	-	-	-	1,912
Cancellation of share-based compensation 6(8)	(219)	-	-	34	-	-	-	156	-	181	-	152
Net income for the period	-	-	-	-	-	-	-	357,544	-	-	-	357,544
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	(134,670)	-	-	(134,670)
Balance at March 31, 2016	<u>\$ 760,750</u>	<u>\$ 1,322,185</u>	<u>\$ 140,835</u>	<u>\$ 314,254</u>	<u>\$ 36,423</u>	<u>\$ 364,246</u>	<u>\$ 8,324</u>	<u>\$ 3,648,704</u>	<u>\$ 360,846</u>	<u>(\$ 192,324)</u>	<u>(\$ 48,405)</u>	<u>\$ 6,715,838</u>
For the three months ended March 31, 2017												
	\$ 773,049	\$ 1,339,185	\$ 150,797	\$ 633,144	\$ 36,423	\$ 478,681	\$ 8,324	\$ 4,151,202	\$ 345,567	(\$ 414,540)	\$ -	\$ 7,501,832
Share-based compensation cost 6(8)	-	-	-	-	-	-	-	-	-	40,037	-	40,037
Exercise of employee stock options 6(8)(9)	369	3,746	(908)	-	-	-	-	-	-	-	-	3,207
Cancellation of share-based compensation 6(8)	(97)	-	-	(1,915)	-	-	-	75	-	2,011	-	74
Purchase of treasury shares 6(9)	-	-	-	-	-	-	-	-	-	-	(3,530)	(3,530)
Net income for the period	-	-	-	-	-	-	-	371,567	-	-	-	371,567
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	(452,359)	-	-	(452,359)
Balance at March 31, 2017	<u>\$ 773,321</u>	<u>\$ 1,342,931</u>	<u>\$ 149,889</u>	<u>\$ 631,229</u>	<u>\$ 36,423</u>	<u>\$ 478,681</u>	<u>\$ 8,324</u>	<u>\$ 4,522,844</u>	<u>(\$ 106,792)</u>	<u>(\$ 372,492)</u>	<u>(\$ 3,530)</u>	<u>\$ 7,460,828</u>

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

PARADE TECHNOLOGIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	Notes	For the three months ended March 31,	
		2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Income before income tax for the period		\$ 403,823	\$ 389,890
Adjustments			
Adjustments to reconcile profit or loss			
Depreciation	6(4)(13)	15,543	19,154
Amortization	6(5)(13)	56,025	46,040
Share-based compensation cost	6(8)(14)	40,037	29,654
Interest income		(367)	(318)
Changes in operating assets and liabilities			
Changes in operating assets			
Accounts receivable		90,058	(113,645)
Inventories		(398,857)	(239,250)
Other current assets		2,033	(101,598)
Other non-current assets		-	4,691
Changes in operating liabilities			
Accounts payable		117,530	336,955
Other payables		(70,866)	(44,358)
Other current liabilities		12,215	(71,795)
Cash inflow provided by operations		267,174	255,420
Interest received		299	301
Income tax paid		(6,866)	(6,886)
Net cash flows from operating activities		260,607	248,835
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of equipment	6(4)	(41,096)	(15,062)
Acquisition of intangible assets	6(5)	(17,008)	(9,909)
Increase in refundable deposits		(4,555)	(2,123)
Net cash flows used in investing activities		(62,659)	(27,094)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from exercise of employee stock options		3,207	1,912
Purchase of treasury shares	6(9)	(3,530)	-
Cash dividend recovered from cancellation of share-based compensation		74	152
Net cash flows (used in) provided by financing activities		(249)	2,064
Effect of exchange rate changes on cash and cash equivalents		(248,436)	(68,458)
(Decrease) increase in cash and cash equivalents		(50,737)	155,347
Cash and cash equivalents at beginning of period		4,030,839	2,887,751
Cash and cash equivalents at end of period		\$ 3,980,102	\$ 3,043,098

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

PARADE TECHNOLOGIES, LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2017 AND 2016

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)
(UNAUDITED)

1. HISTORY AND ORGANIZATION

Parade Technologies, Ltd. (the “Company”) was established in the Cayman Islands on November 15, 2005. The Company and its subsidiaries (collectively referred herein as the “Group”) are engaged in the research and development, and marketing and sale of high-speed interface standards, touch controller and display processing integrated circuit chips for products used in computers, consumer electronics and display panels. The shares of the Company were authorized by the Financial Supervisory Commission, R.O.C. and have been traded in the Taipei Exchange (formerly GreTai Securities Market) in the R.O.C. since September 13, 2011.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on April 26, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Investment entities: applying the consolidation exceptions (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortization (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014

<u>New Standards, Interpretations and Amendments</u>	Effective Date by International Accounting Standards Board
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

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

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

None.

(3) IFRSs issued by International Accounting Standards Board ("IASB") but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	Effective Date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9, 'Financial instruments' with IFRS 4, 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor or its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealized losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

A. Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'

The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. The amendment also clarifies the accounting for modifications that change an award from cash-settled to equity-settled. Besides, the amendment introduces an exception that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

B. IFRS 9, 'Financial instruments'

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

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

C. IFRS 15, 'Revenue from contracts with customers'

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

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

Step 1: Identify contracts with customer

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

Step 3: Determine the transaction price

Step 4: Allocate the transaction price.

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

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

D. Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from Contracts with Customers'

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a license should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

E. IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors,

which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

F. Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealized losses’

These amendments clarify the recognition of deferred tax assets for unrealized losses related to debt instruments measured at fair value, and they clarify several of the general principles underlying the accounting for deferred tax assets. The amendments clarify that a deductible temporary difference exists whenever an asset is measured at fair value and that fair value is below the asset’s tax base. When an entity assesses whether taxable profits will be available against which it can utilize a deductible temporary difference, it considers a deductible temporary difference in combination with all of its other deductible temporary differences unless there are tax law restrictions, and the tax deduction resulting from temporary differences is excluded from estimated future taxable profits. The amendments are effective from January 1, 2017.

G. IFRIC 22, ‘Foreign currency transactions and advance consideration’

The Interpretation states that the date of the transaction for a foreign currency-denominated contract should be the date of initial recognition of the non-monetary asset or non-monetary liability arising from the receipt or payment of the advance consideration.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The consolidated financial statements are prepared by the Group in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and IAS 34, ‘Interim financial reporting’, as endorsed by the FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity

and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

- (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

B. Subsidiaries included in the consolidated financial statements:

Investor	Subsidiary	Main business activities	Ownership (%)			Description
			March 31, 2017	December 31, 2016	March 31, 2016	
Parade Technologies, Ltd.	Parade Technologies, Inc.	Providing sales and marketing, general and administrative, and research and development services to the Company	100	100	100	-
Parade Technologies, Ltd.	Parade Technologies Korea, Ltd.	Providing sales and marketing, general and administrative services to the Company	100	100	100	-
Parade Technologies, Ltd.	Parade Technologies, Ltd. (Nanjing)	Providing research and development services to the Company	100	100	100	-
Parade Technologies, Inc.	Parade Technologies, Inc. (Shanghai)	Providing research and development services to the Company	100	100	100	-

C. Subsidiaries not included in the consolidated financial statements:

None.

D. Adjustments for subsidiaries with different balance sheet dates:

None.

E. Significant restrictions:

None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is US Dollars; however, the consolidated financial statements are presented in New Taiwan Dollars under the regulations of the Republic of China where the consolidated financial statements are reported to the regulatory authorities.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

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

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- (c) All resulting exchange differences are recognized in other comprehensive income.

(5) Classification of current and non-current items

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

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realized within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

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

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

(7) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
- C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income.

(8) Accounts receivable

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

(9) Impairment of financial assets

- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Group uses to determine whether there is objective evidence of impairment loss is as follows:
 - (a) Significant financial difficulty of the issuer or debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted

the borrower a concession that a lender would not otherwise consider;

- (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) The disappearance of an active market for that financial asset because of financial difficulties;
- (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group; or
- (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment may not be recovered.

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

- (a) Financial assets measured at amortized cost

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

- (b) Available-for-sale financial assets

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

(10) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to receive cash flows from the financial asset expire.

(11) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the standard cost method. The cost of finished goods and work in process comprises raw materials, other direct costs and related production overheads. The item-by-item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(12) Property, plant and equipment

A. Equipment is initially recorded at cost.

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

C. Subsequent measurement of equipment applies the cost model and is depreciated using the straight-line method to allocate their cost over their estimated useful lives. If a component is significant, it shall be depreciated separately.

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

Machinery and equipment	3 ~ 5 years
Office equipment	3 ~ 5 years
Leasehold improvements	5 years

(13) Intangible assets

A. Computer software

Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 3 to 5 years.

B. Goodwill

Goodwill arises in a business combination accounted for by applying the acquisition method.

C. Other intangible assets

Other intangible assets are mainly patents and mask, which are stated at cost and amortized on the straight-line basis over the estimated economic useful life of 3 to 10 years.

(14) Impairment of non-financial assets

- A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist, the impairment loss shall be reversed which shall not exceed the book value of the asset, net of depreciation or amortization, if unimpaired.
- B. The recoverable amounts of goodwill are evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognized in profit or loss shall not be reversed in the following years.

(15) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowing using the effective interest method.

(16) Accounts payable

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

(17) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees before twelve months after the end of the annual reporting period, and should be recognized as expenses in that period when the employees render service.

B. Pensions

Each subsidiary of the Group adopts defined contribution pension plan in accordance with local regulations. The contributions are recognized as pension expense when they are due on an accrual basis.

C. Employees' compensation and directors' remuneration

Employees' compensation and directors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employees' compensation is distributed by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(18) Share-based compensation

- A. For the equity-settled share-based compensation arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.
- B. Restricted Stocks Awards:
- (a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period.
 - (b) For restricted stocks, where those stocks do not restrict distribution of dividends to employees but employees are not able to receive the dividends if they resign during the vesting period, when receiving dividend, the Group credits related amounts that were previously debited from retained earnings, legal reserve or capital reserve at the date of dividends declaration.
 - (c) For restricted stocks where employees do not need to pay to acquire those stocks, if the employees resign during the vesting period, the Group will redeem the restricted stocks without consideration and then retire them.

(19) Income tax

- A. The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities.
- C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

- D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from research and development expenditures to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.
- G. The interim period income tax expense is recognized based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

(20) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(21) Dividends

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

(22) Revenue recognition

- A. The Group manufactures and sells high-speed interfacing chips, touch and serial products of DisplayPort. Revenue is measured at the fair value of the consideration received or receivable net of value-added tax, returns and rebates for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of

ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

- B. The Group offers customers right of return for defective products. The Group estimates such returns based on historical experience. Provisions for such liabilities are recorded when the sales are recognized.

(23) Operating segments

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

(24) Business combinations

- A. The Group uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.
- B. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date. If the total of consideration transferred, non-controlling interest in the acquiree recognized and the fair value of previously held equity interest in the acquiree is less than the fair value of the identifiable assets acquired and the liabilities assumed, the difference is recognized directly in profit or loss on the acquisition date.

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

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

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

None.

(2) Critical accounting estimates and assumptions

A. Impairment assessment of goodwill

The impairment assessment of goodwill relies on the Group's subjective judgement, including identifying cash-generating units, allocating assets and liabilities as well as goodwill to related cash-generating units, and determining the recoverable amounts of related cash-generating units.

B. Evaluation of inventories

As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technological innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Cash on hand	\$ 171	\$ 160	\$ 136
Checking accounts and bank deposits	<u>3,429,726</u>	<u>3,446,429</u>	<u>2,844,570</u>
	3,429,897	3,446,589	2,844,706
Cash equivalents			
Money market fund	<u>550,205</u>	<u>584,250</u>	<u>198,392</u>
	<u>\$ 3,980,102</u>	<u>\$ 4,030,839</u>	<u>\$ 3,043,098</u>

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

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

(2) Accounts receivable

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Accounts receivable	\$ 1,352,382	\$ 1,533,751	\$ 1,342,092
Less: Allowance for doubtful accounts	-	-	-
	<u>\$ 1,352,382</u>	<u>\$ 1,533,751</u>	<u>\$ 1,342,092</u>

The Group's accounts receivable were neither past due nor impaired and fully performing in line with the credit standards prescribed based on customers' industry characteristics, scale of business and profitability.

(3) Inventories

	<u>March 31, 2017</u>		
	<u>Cost</u>	<u>Allowance</u>	<u>Book value</u>
Raw materials	\$ 415,144	(\$ 54,028)	\$ 361,116
Work-in-process	327,897	(24,263)	303,634
Finished goods	559,933	(27,258)	532,675
	<u>\$ 1,302,974</u>	<u>(\$ 105,549)</u>	<u>\$ 1,197,425</u>

	<u>December 31, 2016</u>		
	<u>Cost</u>	<u>Allowance</u>	<u>Book value</u>
Raw materials	\$ 366,883	(\$ 66,107)	\$ 300,776
Work-in-process	282,598	(26,206)	256,392
Finished goods	331,704	(39,752)	291,952
	<u>\$ 981,185</u>	<u>(\$ 132,065)</u>	<u>\$ 849,120</u>

	<u>March 31, 2016</u>		
	<u>Cost</u>	<u>Allowance</u>	<u>Book value</u>
Raw materials	\$ 415,507	(\$ 43,536)	\$ 371,971
Work-in-process	228,361	(14,244)	214,117
Finished goods	259,021	(4,047)	254,974
	<u>\$ 902,889</u>	<u>(\$ 61,827)</u>	<u>\$ 841,062</u>

The cost of inventories recognized for the three months ended March 31, 2017 and 2016 was \$1,410,995 and \$1,377,840, respectively, including the amounts (reversed) recognized of (\$18,803) and \$40,832, respectively, that the Group wrote down from cost to net realizable value and accounted for as 'cost of goods sold'. The Group recognized gain on reversal of decline in market value for the three months ended March 31, 2017 as certain inventories which were previously provided with allowance were subsequently sold.

(4) Property, plant and equipment

The Group had no property and plant as of March 31, 2017, December 31, 2016 and March 31, 2016.

	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<u>At January 1, 2017</u>				
Cost	\$ 317,294	\$ 48,450	\$ 47,280	\$ 413,024
Accumulated depreciation	(209,842)	(33,079)	(27,655)	(270,576)
	<u>\$ 107,452</u>	<u>\$ 15,371</u>	<u>\$ 19,625</u>	<u>\$ 142,448</u>
<u>Three months ended March 31, 2017</u>				
Opening net book amount	\$ 107,452	\$ 15,371	\$ 19,625	\$ 142,448
Additions	40,223	873	-	41,096
Depreciation charge	(12,058)	(1,738)	(1,747)	(15,543)
Net exchange differences	(6,297)	(731)	(718)	(7,746)
Closing net book amount	<u>\$ 129,320</u>	<u>\$ 13,775</u>	<u>\$ 17,160</u>	<u>\$ 160,255</u>
<u>At March 31, 2017</u>				
Cost	\$ 339,861	\$ 47,039	\$ 45,220	\$ 432,120
Accumulated depreciation	(210,541)	(33,264)	(28,060)	(271,865)
	<u>\$ 129,320</u>	<u>\$ 13,775</u>	<u>\$ 17,160</u>	<u>\$ 160,255</u>
	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<u>At January 1, 2016</u>				
Cost	\$ 283,184	\$ 44,616	\$ 45,463	\$ 373,263
Accumulated depreciation	(164,233)	(29,201)	(21,335)	(214,769)
	<u>\$ 118,951</u>	<u>\$ 15,415</u>	<u>\$ 24,128</u>	<u>\$ 158,494</u>
<u>Three months ended March 31, 2016</u>				
Opening net book amount	\$ 118,951	\$ 15,415	\$ 24,128	\$ 158,494
Additions	13,013	1,683	366	15,062
Depreciation charge	(14,909)	(2,026)	(2,219)	(19,154)
Net exchange differences	(1,867)	(68)	(135)	(2,070)
Closing net book amount	<u>\$ 115,188</u>	<u>\$ 15,004</u>	<u>\$ 22,140</u>	<u>\$ 152,332</u>
<u>At March 31, 2016</u>				
Cost	\$ 291,606	\$ 45,780	\$ 45,332	\$ 382,718
Accumulated depreciation	(176,418)	(30,776)	(23,192)	(230,386)
	<u>\$ 115,188</u>	<u>\$ 15,004</u>	<u>\$ 22,140</u>	<u>\$ 152,332</u>

(5) Intangible assets

	<u>Software</u>	<u>Goodwill</u>	<u>Patent and others</u>	<u>Total</u>
<u>At January 1, 2017</u>				
Cost	\$ 17,466	\$ 1,581,922	\$ 1,690,676	\$ 3,290,064
Accumulated amortization	(14,309)	-	(296,264)	(310,573)
	<u>\$ 3,157</u>	<u>\$ 1,581,922</u>	<u>\$ 1,394,412</u>	<u>\$ 2,979,491</u>
<u>Three months ended March 31, 2017</u>				
Opening net book amount	\$ 3,157	\$ 1,581,922	\$ 1,394,412	\$ 2,979,491
Additions - acquired separately	1,729	-	15,279	17,008
Amortization charge	(463)	-	(55,562)	(56,025)
Net exchange differences	(210)	(94,179)	(82,031)	(176,420)
Closing net book amount	<u>\$ 4,213</u>	<u>\$ 1,487,743</u>	<u>\$ 1,272,098</u>	<u>\$ 2,764,054</u>
<u>At March 31, 2017</u>				
Cost	\$ 18,156	\$ 1,487,743	\$ 1,604,927	\$ 3,110,826
Accumulated amortization	(13,943)	-	(332,829)	(346,772)
	<u>\$ 4,213</u>	<u>\$ 1,487,743</u>	<u>\$ 1,272,098</u>	<u>\$ 2,764,054</u>
	<u>Software</u>	<u>Goodwill</u>	<u>Patent and others</u>	<u>Total</u>
<u>At January 1, 2016</u>				
Cost	\$ 17,788	\$ 1,595,226	\$ 1,466,905	\$ 3,079,919
Accumulated amortization	(11,943)	-	(78,400)	(90,343)
	<u>\$ 5,845</u>	<u>\$ 1,595,226</u>	<u>\$ 1,388,505</u>	<u>\$ 2,989,576</u>
<u>Three months ended March 31, 2016</u>				
Opening net book amount	\$ 5,845	\$ 1,595,226	\$ 1,388,505	\$ 2,989,576
Additions - acquired separately	-	-	9,909	9,909
Amortization charge	(923)	-	(45,117)	(46,040)
Net exchange differences	(80)	(31,098)	(26,060)	(57,238)
Closing net book amount	<u>\$ 4,842</u>	<u>\$ 1,564,128</u>	<u>\$ 1,327,237</u>	<u>\$ 2,896,207</u>
<u>At March 31, 2016</u>				
Cost	\$ 17,465	\$ 1,564,128	\$ 1,447,934	\$ 3,029,527
Accumulated amortization	(12,623)	-	(120,697)	(133,320)
	<u>\$ 4,842</u>	<u>\$ 1,564,128</u>	<u>\$ 1,327,237</u>	<u>\$ 2,896,207</u>

The recoverable amount of goodwill has been determined based on value-in-use calculations. These calculations use pre-tax cash flow and discount rate projections based on financial budgets covering the next five-year period.

(6) Other payables

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Employees' compensation and directors' remuneration	\$ 166,676	\$ 138,607	\$ 128,723
Payroll, bonus and accrued vacation	128,132	245,025	123,440
Legal and professional fees	61,271	70,800	35,781
Commissions	36,720	40,095	24,521
Engineering expenses	13,375	7,391	5,732
Others	35,380	42,940	26,969
	<u>\$ 441,554</u>	<u>\$ 544,858</u>	<u>\$ 345,166</u>

(7) Pensions

Each subsidiary adopts a funded defined contribution pension plan in accordance with local regulations. Under the pension plan, subsidiaries contribute monthly an amount to an independent fund. Other than the monthly contributions, the Group has no further obligations. The pension costs under the defined contribution pension plans of the Group for the three months ended March 31, 2017 and 2016 were \$26,070 and \$26,497, respectively.

(8) Share-based compensation expenses

- A. The Board of Directors approved the stock compensation plan during 2006. The plan originally calls for issuing 3 million shares of employee stock options, which subsequently increased to 11,696 thousand shares, 11,396 thousand shares, 6,897 thousand shares, and 5,697 thousand shares with the approval of the Board of Directors in 2011, 2010, 2008, and 2007, respectively. Each share can purchase one share of the Company's Ordinary Share. The beneficiaries include the employees, the directors, and the contracted consultants of the Company. The employee stock options are valid for 10 years from the issuance. The owners can exercise 25% of their options after first year of issuance, and they can exercise one-sixteenth of the original amount each quarter. The exercise price will be based on the market price of the Ordinary Share.
- B. In March 2012, the Board of Directors of the Company approved the 2012 employee stock option plan and resolved to issue 940 units of employee stock options to the employees of the Company. Each unit can purchase 1,000 shares of the Company's common stock. The employee stock options are valid for 10 years from the issuance. The holders may exercise the stock options in installments two years after the issuance. The exercise price under the plan shall not be less than the closing price of the Company's common stock at the issuance. The issuance of the employee stock options was submitted to the FSC, and became effective in April 2012.

C. As of March 31, 2017, the Company's not fully exercised share-based payment transactions are set forth below:

Type of arrangement	Grant date	Quantity granted (in thousands)	Contract period	Vesting conditions
Employee stock options	Aug. 8, 2006	60	10 years	1 year service
Employee stock options	Nov. 28, 2007	124	10 years	1 year service
Employee stock options	Mar. 26, 2008	48	10 years	1 year service
Employee stock options	May 28, 2008	251	10 years	1 year service
Employee stock options	Jul. 23, 2008	300	10 years	1 year service
Employee stock options	Nov. 26, 2008	57	10 years	1 year service
Employee stock options	Jul. 22, 2009	662	10 years	1 year service
Employee stock options	Aug. 9, 2010	397	10 years	1 year service
Employee stock options	Jan. 20, 2011	1,090	10 years	1 year service
Employee stock options	Mar. 9, 2011	110	10 years	1 year service
Employee stock options	Apr. 28, 2011	22	10 years	1 year service
Employee stock options	Jun. 13, 2011	521	10 years	1 year service
Employee stock options	Jul. 26, 2012	940	10 years	2 years service
Treasury shares reissued to employees	Apr. 30, 2013	250	4 years	2 years service
Treasury shares reissued to employees	Apr. 27, 2016	200	1 year	1 year service
Employee restricted stock awards plan (Note)	Jul. 31, 2013	400	4 years	1 year service
Employee restricted stock awards plan (Note)	Jul. 30, 2014	349	4 years	1 year service
Employee restricted stock awards plan (Note)	Jul. 29, 2015	400	4 years	1 year service
Employee restricted stock awards plan (Note)	Jul. 27, 2016	1,150	4 years	1 year service

Note: Restrictions before the vesting conditions are fully satisfied are as follows:

- (a) The grantee employee shall not sell, transfer, make gift of, create other rights or encumbrances on the restricted stocks awards (the "RSAs"), or otherwise dispose of the RSAs in any other manner.
- (b) All the proposal rights, motion rights, speech rights, voting rights and any other shareholder rights shall be exercised by the trustee or the custodian.

(c) The restrictions (including but not limited to transfer restrictions and vesting conditions) applicable to any and all unvested RSAs (and any share derived from such RSAs for whatever reason, including share dividend, retained earnings capitalization, recapitalization, reserve capitalization and any cash distributed based on such RSAs for whatever reason, including cash dividend and distribution of capital reserve in the form of cash) shall equally apply to any share derived, directly or indirectly, from and cash distributed based on such unvested RSAs for whatever reason, including share dividend, retained earnings capitalization, recapitalization, reserve capitalization, cash dividend and distribution of capital reserve in the form of cash, and any interests.

D. Details of the employee stock options are set forth below:

	For the three months ended March 31,			
	2017		2016	
	No. of shares (in thousands)	Weighted- average exercise (in US dollars)	No. of shares (in thousands)	Weighted- average exercise (in US dollars)
Options outstanding at beginning of period	1,080	\$ 5.00	1,218	\$ 5.46
Options cancelled	-	-	(3)	6.74
Options exercised	(37)	2.80	(22)	2.65
Options outstanding at end of period	<u>1,043</u>	5.25	<u>1,193</u>	4.97
Options exercisable at end of period	<u>1,043</u>		<u>1,011</u>	

E. The weighted-average stock price of stock options at exercise dates for the three months ended March 31, 2017 and 2016 was \$326.03 and \$280.90 (in dollars), respectively.

F. The Company estimates the fair value of stock options using the Black-Scholes option-pricing model. The details are as follows:

Type of arrangement	Grant date	Stock price	Exercise price (in dollars)	Expected price volatility	Expected vesting period (in years)	Expected dividend yield rate	Risk-free interest rate	Fair value per unit (in dollars)
Employee stock options	Aug. 8, 2006	-	US\$0.08	85%	6.25	-	4.6%	US\$0.08
Employee stock options	Nov. 28, 2007	-	US\$0.20	85%	6.25	-	3.87%	US\$0.20
Employee stock options	Mar. 26, 2008	-	US\$0.20	85%	6.25	-	2.99%	US\$0.20
Employee stock options	May 28, 2008	-	US\$0.20	85%	6.25	-	3.08%	US\$0.20
Employee stock options	Jul. 23, 2008	-	US\$0.20	85%	6.25	-	3.87%	US\$0.20

Type of arrangement	Grant date	Stock price	Exercise price (in dollars)	Expected price volatility	Expected vesting period (in years)	Expected dividend yield rate	Risk-free interest rate	Fair value per unit (in dollars)
Employee stock options	Nov. 26, 2008	-	US\$0.338	85%	6.25	-	1.79%	US\$0.338
Employee stock options	Jul. 22, 2009	-	US\$0.302	85%	6.25	-	3.05%	US\$0.302
Employee stock options	Aug. 9, 2010	-	US\$0.587	85%	6.25	-	2.00%	US\$0.587
Employee stock options	Jan. 20, 2011	-	US\$1.220	70%	6.25	-	2.78%	US\$1.220
Employee stock options	Mar. 9, 2011	-	US\$1.220	70%	6.25	-	2.78%	US\$1.220
Employee stock options	Apr. 28, 2011	-	US\$1.220	70%	6.25	-	2.23%	US\$1.220
Employee stock options	Jun. 13, 2011	-	US\$2.010	70%	6.25	-	2.23%	US\$2.010
Employee stock options	Jul. 26, 2012	NT\$338.5	NT\$338.5	48%	6.375	-	1.06%	NT\$159.84

G. The Company reissued 200 thousand treasury shares with repurchase price amounting to \$48,405 to its employees with the effective date set on April 27, 2016 according to Share Repurchase and Employee Incentive Plan. The subscription price of \$242.03 (in dollars) per share equals the average repurchase price per share. The fair value of the treasury shares reissued was measured based on the market price at the grant date.

H. Expenses incurred on share-based compensation transactions are as follows:

	For the three months ended March 31,	
	2017	2016
Equity-settled	\$ 40,037	\$ 29,654

(9) Share capital/ Treasury shares

A. As of March 31, 2017, the Company's authorized capital was \$1,500,000, consisting of 150 million shares of ordinary share, and the paid-in capital was \$773,321 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows (in thousands of shares, and excluding treasury shares):

	<u>For the three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
At January 1	77,305	75,875
Employee stock options exercised	37	22
Cancellation of share-based compensation	(10)	(22)
Share reacquisition (treasury shares)	(10)	-
At March 31	<u>77,322</u>	<u>75,875</u>

- B. The Board of Directors during its meeting on July 27, 2016 adopted a resolution to issue employee restricted ordinary shares (see Note 6(8)) with the effective date set on July 27, 2016. Each share will be issued without consideration. The decision of the fair value was based on the closing price of \$298 at the grant date. The employee restricted ordinary shares issued are subject to stockholders' right restrictions, please see Note 6(8) for details. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. Due to employee termination, reacquired share capital is \$265 as of March 31, 2017, including unretired share capital of \$41.
- C. The Board of Directors during its meeting on July 29, 2015 adopted a resolution to issue employee restricted ordinary shares (see Note 6(8)) with the effective date set on July 29, 2015. Each share will be issued without consideration. The decision of the fair value was based on the closing price of \$306.5 at the grant date. The employee restricted ordinary shares issued are subject to stockholders' right restrictions, please see Note 6(8) for details. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. Due to employee termination, reacquired share capital is \$242 as of March 31, 2017, including unretired share capital of \$12.
- D. The Board of Directors during its meeting on July 30, 2014 adopted a resolution to issue employee restricted ordinary shares (see Note 6(8)) with the effective date set on July 30, 2014. Each share will be issued without consideration. The decision of the fair value was based on the closing price of \$375 at the grant date. The employee restricted ordinary shares issued are subject to stockholders' right restrictions, please see Note 6(8) for details. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. Due to employee termination, reacquired share capital is \$318 as of March 31, 2017, including unretired share capital of \$7.
- E. The Board of Directors during its meeting on July 31, 2013 adopted a resolution to issue employee restricted ordinary shares (see Note 6(8)) with the effective date set on July 31, 2013. Each share will be issued without consideration. The decision of the fair value was based on the closing price of \$219.5 at the grant date. The employee restricted ordinary shares issued are subject to stockholders' right restrictions, please see Note 6(8) for details. Other than these restrictions, the rights and

obligations of these shares issued are the same as other issued ordinary shares. Due to employee termination, the reacquired share capital is \$300 as of March 31, 2017, including unretired share capital of \$5, and the reacquired share dividend derived from retained earnings capitalization is \$120, including unretired share dividend of \$2.

F. Treasury shares

(a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows (there were no treasury shares held as at December 31, 2016):

Name of company holding the shares	Reason for reacquisition	March 31, 2017		March 31, 2016	
		Number of shares (in thousands)	Carrying amount	Number of shares (in thousands)	Carrying amount
The Company	To be reissued to employees	10	\$ 3,530	200	\$ 48,405

(b) Pursuant to the R.O.C. Securities and Exchange Law, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital reserve.

(c) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.

(d) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within nine months of acquisition.

(10) Capital reserves

In accordance with the provisions of the Articles of Association and with the approval of the shareholders at the Annual General Meeting, the Board of Directors may capitalize any amount within the capital reserve account, including capital reserve - additional paid-in capital and capital redemption reserve. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(11) Retained earnings

A. In accordance with the provisions of the Articles of Association, if there are profits after the final settlement of account of a year, the Company after its losses have been offset and at the time of allocating surplus profits, may first set aside 10% of the annual profits as statutory reserve until the statutory reserve amounts to the authorized capital, and may appropriate a portion of the annual profits as special reserve required by Applicable Public Company Rules or government authorities. Thereafter, having considered the financial, business and operational factors, the Board may propose and specify no less than 10% of any remaining annual profits after the above plus, at the Board's sole discretion, a certain percent of accumulated retained earnings to be distributed as

dividends. Cash dividend shall not be less than 10% of the total dividends declared.

- B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When the debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- D. The Company recognized dividends distributed to owners for the year 2016. The appropriation of 2015 earnings had been approved by the shareholders on June 21, 2016.

	2015	
	Amount	Dividends per share (in dollars)
Legal reserve	\$ 114,435	
Cash dividends	381,897	\$ 5.02

The abovementioned 2015 earnings appropriation were in agreement with those amounts proposed by the Board of Directors on March 9, 2016.

- E. On March 8, 2017, the Board of Directors proposed that total dividends for the distribution of earnings for the year 2016 was \$541,134 with cash dividends of \$7 (in Taiwan dollars) per share. As of April 26, 2017, the abovementioned 2016 earnings appropriation had not been approved by the shareholders.
- F. For the information relating to employees' compensation (bonuses) and directors' remuneration, please refer to Note 6(14).

(12) Earnings per share

	For the three months ended March 31, 2017		
	<u>Amount after tax</u>	<u>Weighted-average ordinary shares outstanding (in thousands)</u>	<u>Earnings per share (in NT dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the Company	<u>\$ 371,567</u>	<u>75,506</u>	<u>\$ 4.92</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the Company	\$ 371,567	75,506	
Assumed conversion of all dilutive potential ordinary shares			
Employee stock option	-	551	
Employee compensation	-	359	
Employee restricted stocks	-	1,391	
Profit attributable to ordinary shareholders of the Company plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 371,567</u>	<u>77,807</u>	<u>\$ 4.78</u>

	For the three months ended March 31, 2016		
	<u>Amount after tax</u>	<u>Weighted-average ordinary shares outstanding (in thousands)</u>	<u>Earnings per share (in NT dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the Company	<u>\$ 357,544</u>	<u>74,921</u>	<u>\$ 4.77</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the Company	\$ 357,544	74,921	
Assumed conversion of all dilutive potential ordinary shares			
Employee stock option	-	502	
Employee compensation	-	303	
Employee restricted stocks	-	609	
Profit attributable to ordinary shareholders of the Company plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 357,544</u>	<u>76,335</u>	<u>\$ 4.68</u>

(13) Expenses by nature

	For the three months ended March 31,	
	2017	2016
Employee benefit expenses	\$ 377,717	\$ 389,079
Depreciation and amortization charges on equipment and intangible assets	71,568	65,194
Engineering expenses	56,358	51,698
Operating lease payments	30,198	31,045
Commission expenses	14,184	16,733
Other expenses	7,667	37,567
Total manufacturing and operating expenses	<u>\$ 557,692</u>	<u>\$ 591,316</u>

(14) Employee benefit expenses

	For the three months ended March 31,	
	2017	2016
Wages and salaries	\$ 273,068	\$ 291,560
Employee stock options	40,037	29,654
Pension costs	26,070	26,497
Other personnel expenses	38,542	41,368
	<u>\$ 377,717</u>	<u>\$ 389,079</u>

- A. In accordance with the provisions of the original Articles of Association, the Board of Directors shall provide the distribution plan according to the following requirements: If there are profits after the final settlement of account of a year, the Company (i) after its losses have been offset and at the time of allocating surplus profits, may first set aside 10% of such profits as statutory reserve until the statutory reserve amounts to the authorized capital, (ii) may appropriate a portion of such profits as special reserve required by Applicable Public Company Rules or government authorities, and (iii) of the remaining profits, may appropriate 2% as bonuses to the Directors and an additional but not less than 5% of the remaining profits as employee bonuses, which may be issued by stocks or options, warrants or other similar instruments, to employees of the Company and its subsidiaries.
- B. In accordance with the provisions of the amended Articles of Association approved by the shareholders on June 21, 2016, where the Company makes profits before tax for the annual financial year, the Company shall appropriate no less than 5% of such annual profits before tax as employees' compensation, which shall be distributed in accordance with the incentive programme approved by majority of the meeting of Board of Directors attended by two-thirds or more of all the Directors and may be distributed to employees of the Company and the employees of its subsidiaries and a maximum of 2% additional directors' remuneration.
- C. The estimated amounts of employees' compensation were \$27,986 and \$26,903 and of directors' remuneration were \$8,611 and \$8,278 for the three months ended March 31, 2017 and 2016, respectively. The employees' compensation and directors' remuneration were estimated and accrued based on the distributable profit of current year for the three months ended March 31, 2017, and the

percentage of previous year payment. The employees' compensation of \$104,816 and directors' remuneration of \$32,678 for 2016 as resolved at the meeting of Board of Directors on April 26, 2017 were in agreement with those amounts recognized in the 2016 financial statements, and the employees' compensation will be distributed in the form of cash.

Information on the appropriation of the Company's employees' compensation and directors' remuneration as resolved by the Board of Directors and approved by the shareholders was posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(15) Income taxes

Components of income tax expense:

	<u>For the three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Current tax:		
Current tax on profits for the period	\$ 45,511	\$ 36,505
Prior year income tax overestimation	-	(4,923)
Total current tax	<u>45,511</u>	<u>31,582</u>
Deferred tax:		
Origination and reversal of temporary differences	(13,255)	764
Income tax expense	<u>\$ 32,256</u>	<u>\$ 32,346</u>

(16) Operating leases

The Group leases office spaces under non-cancelable operating lease agreements. These leases have expiring terms between 2 to 5 years, and all these lease agreements are renewable at the end of the lease period. Part of rental is increased every year to reflect market rental rates. The Group recognized rental expenses of \$30,198 and \$31,045 for these leases in profit or loss for the three months ended March 31, 2017 and 2016, respectively.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
No later than one year	\$ 58,811	\$ 62,907	\$ 69,744
Later than one year but not later than five years	116,954	60,163	55,213
Later than five years	29,105	-	2,114
	<u>\$ 204,870</u>	<u>\$ 123,070</u>	<u>\$ 127,071</u>

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

None.

(2) Key management compensation

	<u>For the three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Salaries and other short-term employee benefits	\$ 58,662	\$ 55,764
Share-based compensation expenses	10,321	4,953
	<u>\$ 68,983</u>	<u>\$ 60,717</u>

A. Salaries and bonuses include regular wages, special responsibility allowances, pensions, severance pay, various bonuses, employees' compensation, directors' remuneration, rewards and travel or transportation allowances, etc.

B. Share-based compensation expenses represent the compensation costs accounted for under IFRS 2.

8. PLEGGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

See Note 6(16).

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Consolidated balance sheets as of March 31, 2017, December 31, 2016 and March 31, 2016 and consolidated statements of comprehensive income for the three months ended March 31, 2017 and 2016 in functional currency

The Company prepares its consolidated financial statements in US Dollars. For the purpose of application for listing in the Taipei Exchange in R.O.C., the consolidated financial statements were translated into New Taiwan Dollars in accordance with Note 4. Since the functional currency is US Dollars, the supplementary disclosure of consolidated balance sheets and statements of comprehensive income in US Dollars are as follows:

PARADE TECHNOLOGIES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(EXPRESSED IN THOUSANDS OF US DOLLARS)

(CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2017 AND 2016 ARE REVIEWED, NOT AUDITED)

ASSETS	March 31, 2017		December 31, 2016		March 31, 2016	
	Amount	%	Amount	%	Amount	%
Current assets						
Cash and cash equivalents	\$ 131,227	41	\$ 124,987	41	\$ 94,535	35
Accounts receivable, net	44,589	14	47,558	16	41,693	15
Inventories, net	39,480	12	26,329	9	26,128	10
Other current assets	7,464	2	7,533	2	11,161	4
Total current assets	<u>222,760</u>	<u>69</u>	<u>206,407</u>	<u>68</u>	<u>173,517</u>	<u>64</u>
Non-current assets						
Property, plant and equipment, net	5,283	2	4,417	1	4,732	2
Intangible assets	91,133	28	92,387	30	89,972	33
Deferred income tax assets	2,157	1	1,618	1	1,185	1
Other non-current assets	995	-	845	-	1,024	-
Total non-current assets	<u>99,568</u>	<u>31</u>	<u>99,267</u>	<u>32</u>	<u>96,913</u>	<u>36</u>
TOTAL ASSETS	<u>\$ 322,328</u>	<u>100</u>	<u>\$ 305,674</u>	<u>100</u>	<u>\$ 270,430</u>	<u>100</u>
LIABILITIES AND EQUITY						
Current liabilities						
Accounts payable	\$ 33,901	11	\$ 30,025	10	\$ 31,847	12
Other payables	14,558	5	16,895	6	10,723	4
Current income tax liabilities	17,765	5	16,426	5	13,242	5
Other current liabilities	10,116	3	9,712	3	5,987	2
Total current liabilities	<u>76,340</u>	<u>24</u>	<u>73,058</u>	<u>24</u>	<u>61,799</u>	<u>23</u>
Total liabilities	<u>76,340</u>	<u>24</u>	<u>73,058</u>	<u>24</u>	<u>61,799</u>	<u>23</u>
Equity attributable to owners of the Company						
Share capital						
Ordinary shares	25,466	8	25,457	8	25,070	9
Capital reserves						
Capital reserves	71,196	22	71,166	23	60,309	22
Retained earnings						
Legal reserve	15,817	5	15,817	5	12,214	5
Special reserve	340	-	340	-	340	-
Unappropriated earnings	146,281	45	134,328	45	118,943	44
Other equity						
Other equity	(12,996)	(4)	(14,492)	(5)	(6,760)	(2)
Treasury shares	(116)	-	-	-	(1,485)	(1)
Equity attributable to owners of the Company	<u>245,988</u>	<u>76</u>	<u>232,616</u>	<u>76</u>	<u>208,631</u>	<u>77</u>
Total equity	<u>245,988</u>	<u>76</u>	<u>232,616</u>	<u>76</u>	<u>208,631</u>	<u>77</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 322,328</u>	<u>100</u>	<u>\$ 305,674</u>	<u>100</u>	<u>\$ 270,430</u>	<u>100</u>

PARADE TECHNOLOGIES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(EXPRESSED IN THOUSANDS OF US DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNTS)
(UNAUDITED)

	For the three months ended March 31,			
	2017		2016	
	Amount	%	Amount	%
Revenues	\$ 75,641	100	\$ 70,631	100
Cost of goods sold	(45,384)	(60)	(41,576)	(59)
Gross profit	<u>30,257</u>	<u>40</u>	<u>29,055</u>	<u>41</u>
Operating expenses				
Sales and marketing expenses	(3,892)	(5)	(4,202)	(6)
General and administrative expenses	(2,358)	(3)	(2,248)	(3)
Research and development expenses	(11,033)	(15)	(10,838)	(15)
Total operating expenses	(17,283)	(23)	(17,288)	(24)
Operating income	<u>12,974</u>	<u>17</u>	<u>11,767</u>	<u>17</u>
Non-operating income and expenses				
Other income	37	-	13	-
Other gains and losses	(22)	-	(15)	-
Total non-operating income and expenses	<u>15</u>	<u>-</u>	<u>(2)</u>	<u>-</u>
Income before income tax	12,989	17	11,765	17
Income tax expense	(1,038)	(1)	(976)	(1)
Net income for the period from continuing operations	<u>11,951</u>	<u>16</u>	<u>10,789</u>	<u>16</u>
Other comprehensive income				
Components of other comprehensive income that will be reclassified to profit or loss				
Currency translation differences of foreign operations	144	-	76	-
Components of other comprehensive income that will be reclassified to profit or loss	<u>144</u>	<u>-</u>	<u>76</u>	<u>-</u>
Total comprehensive income for the period	<u>\$ 12,095</u>	<u>16</u>	<u>\$ 10,865</u>	<u>16</u>
Net income attributable to:				
Owners of the Company	<u>\$ 11,951</u>	<u>16</u>	<u>\$ 10,789</u>	<u>16</u>
Comprehensive income attributable to:				
Owners of the Company	<u>\$ 12,095</u>	<u>16</u>	<u>\$ 10,865</u>	<u>16</u>
Basic earnings per share from continuing operations	<u>\$ 0.16</u>		<u>\$ 0.14</u>	
Diluted earnings per share from continuing operations	<u>\$ 0.15</u>		<u>\$ 0.14</u>	

(2) Capital management

The Group manages its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, capital asset purchases, research and development activities, dividend payments, debt service requirements and other business requirements associated with its existing operations over the next 12 months.

(3) Financial instruments

A. Fair value information of the financial instruments

The book value of financial instruments not measured at fair value including cash and cash equivalents, accounts receivable, other current assets, accounts payable and other payables reasonably approximates to fair value. For information of financial instruments measured at fair value, please refer to Note 12(4).

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (such as foreign exchange risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance.

(b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

i. The Group's major purchases and sales transactions are denominated in US Dollars. The change in fair value will be caused by fluctuations in the foreign exchange rate; however, the amounts and periods of the Group's assets and liabilities in foreign currencies are equivalent, so the market risk could be offset.

ii. The Group's businesses involve non-functional currency operations.

The information on assets denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	March 31, 2017		
	Foreign Currency		Book Value
	Amount	Exchange	Book Value
	(In thousands)	Rate	(in RMB thousands)
(Foreign currency: functional currency)			
Financial assets - monetary items			
USD:RMB	\$ 253	6.893	\$ 1,744

December 31, 2016				
Foreign Currency				
	Amount		Exchange	Book Value
	(In thousands)		Rate	(in RMB thousands)
(Foreign currency: functional currency)				
Financial assets - monetary items				
USD:RMB	\$ 785		6.939	\$ 5,447
March 31, 2016				
Foreign Currency				
	Amount		Exchange	Book Value
	(In thousands)		Rate	(in RMB thousands)
(Foreign currency: functional currency)				
Financial assets - monetary items				
USD:RMB	\$ 805		6.467	\$ 5,206

Based on the foreign currency quoted position held by the Group as of March 31, 2017 and 2016, as US dollars appreciate/depreciate by 1%, the profit or loss before tax of the Group would increase by \$77 and \$259, respectively.

iii. The exchange gain arising from significant foreign exchange variation on the monetary items held by the Group for the three months ended March 31, 2017 and 2016 amounted to \$820 and \$101, respectively.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Group treasury. The utilization of credit limits is regularly monitored. Credit risk arises from cash and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.
- ii. No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The Group's accounts receivable were neither past due nor impaired and fully performing in line with the credit standards prescribed based on customers' industry characteristics, scale of business and profitability.

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. Group treasury invests surplus cash in interest bearing current accounts, time deposits and money market fund, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts. The Group held money market funds of \$550,205, \$584,250 and \$198,392 at March 31, 2017, December 31, 2016 and March 31, 2016, respectively, which are expected to immediately generate cash inflows for managing liquidity risk.
- iii. Current liabilities of the Group expire in 180 days.

(4) Fair value information

- A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(3)A.
- B. The different levels of inputs to valuation techniques used to measure fair value of financial and non-financial instruments have been defined as follows:
 - Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
 - Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
 - Level 3: Unobservable inputs for the asset or liability.
- C. There were no financial instruments measured at fair value recognized at March 31, 2017, December 31, 2016 and March 31, 2016.
- D. For the three months ended March 31, 2017 and 2016, there was no transfer between Level 1 and Level 2.

13. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

(1) Related information of significant transactions

The disclosed information for the investees has been eliminated during the preparation of consolidated financial statements. The following information is only for reference.

- A. Loans granted during the three months ended March 31, 2017: None.
- B. Endorsements and guarantees provided during the three months ended March 31, 2017: None.
- C. Marketable securities held as at March 31, 2017 (not including subsidiaries, associates and joint ventures): None.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital during the three months ended March 31, 2017: None.

- E. Acquisition of real estate properties exceeding \$300 million or 20% of the Company's paid-in capital during the three months ended March 31, 2017: None.
- F. Disposal of real estate properties exceeding \$300 million or 20% of the Company's paid-in capital during the three months ended March 31, 2017: None.
- G. Purchases from or sales to related parties exceeding \$100 million or 20% of the Company's paid-in capital during the three months ended March 31, 2017: None.
- H. Receivables from related parties exceeding \$100 million or 20% of the Company's paid-in capital as at March 31, 2017: None.
- I. Derivative financial instruments undertaken during the three months ended March 31, 2017: None.
- J. Significant inter-company transactions for the three months ended March 31, 2017: Please refer to table 1.

(2) Disclosure information of investee company (not including investees in Mainland China)

Please refer to table 2.

(3) Disclosure information on indirect investments in Mainland China

A. Information on investments in Mainland China: Please refer to table 3.

B. The Company's transactions with investee companies in China through other entities outside of Taiwan and China

(a) Purchases and percentage of purchases and ending balance of accounts payable and percentage: None.

(b) Sales and percentage of sales and ending balance of accounts receivable and percentage: None.

(c) Amount of property transactions and relevant profit and loss: None.

(d) Amount and purpose of endorsement and guarantee: None.

(e) Maximum amount of lending/borrowing, ending balance, interest rate and total amount of interest paid for the year: None.

(f) Other transactions that have significant impact to current year profit/loss or financial status, such as provision or acceptance of services: Please refer to Note 13(1)J.

14. SEGMENT INFORMATION

(1) General information

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

(2) Segment information

The Group's segment profit (loss), assets and liabilities information is in agreement with its major financial statement information.

(3) Reconciliation for segment profit (loss)

The Group's segment income (loss) information is in agreement with its major financial statement information.

PARADE TECHNOLOGIES, LTD. AND SUBSIDIARIES
INFORMATION ON INVESTEEES (NOT INCLUDING INVESTEEES IN MAINLAND CHINA)
FOR THE THREE MONTHS ENDED MARCH 31, 2017

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	Parade Technologies, Ltd.	Parade Technologies, Inc.	(1)	Service expense	\$ 181,297	In accordance with the agreement, EOM 30 days	8%
			(1)	Other payables	47,851	In accordance with the agreement, EOM 30 days	0%
		Parade Technologies Korea, Ltd.	(1)	Service expense	8,549	In accordance with the agreement, EOM 30 days	0%
			(1)	Other payables	2,626	In accordance with the agreement, EOM 30 days	0%
		Parade Technologies, Inc. (Shanghai)	(1)	Service expense	109,504	In accordance with the agreement, EOM 30 days	5%
			(1)	Other payables	43,154	In accordance with the agreement, EOM 30 days	0%
		Parade Technologies, Ltd. (Nanjing)	(1)	Service expense	33,449	In accordance with the agreement, EOM 30 days	1%
			(1)	Other payables	13,128	In accordance with the agreement, EOM 30 days	0%

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

- (1) Parent company is '0'.
- (2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories:

- (1) Parent company to subsidiary.
- (2) Subsidiary to parent company.
- (3) Subsidiary to subsidiary.

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

PARADE TECHNOLOGIES, LTD. AND SUBSIDIARIES
 INFORMATION ON INVESTEEES (NOT INCLUDING INVESTEEES IN MAINLAND CHINA)
 FOR THE THREE MONTHS ENDED MARCH 31, 2017

Table 2

Expressed in thousands of NTD
 (Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at 3/31/2017			Net income of the investee	Investment income recognized by the Company	Footnote
				Balance as at 3/31/2017	Balance as at 1/1/2017	Number of shares	Ownership (%)	Book value			
The Company	Parade Technologies, Inc.	United States	Providing sales and marketing, general and administrative, and research and development services to the Company	\$ 39,429	\$ 39,429	10,000	100	\$ 598,909	\$ 18,619	\$ 18,619	
The Company	Parade Technologies Korea, Ltd.	South Korea	Providing sales and marketing, general and administrative services to the Company	1,517	1,517	10,000	100	7,940	202	202	

PARADE TECHNOLOGIES, LTD. AND SUBSIDIARIES
INFORMATION ON INVESTEEES (NOT INCLUDING INVESTEEES IN MAINLAND CHINA)
FOR THE THREE MONTHS ENDED MARCH 31, 2017

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance to Mainland China as of 1/1/2017	Amount remitted to Mainland China during the period	Amount remitted back to Taiwan during the period	Accumulated amount of remittance to Mainland China as of 3/31/2017	Net income of the investee	Ownership held by the Company (%)	Investment income recognized by the Company for the period	Book value of investments in Mainland China as of 3/31/2017	Accumulated amount of investment income remitted back to Taiwan as of 3/31/2017	Footnote
Parade Technologies, Inc. (Shanghai)	Providing research and development services to the Company	\$ 39,429	1	\$ -	\$ -	\$ -	\$ -	\$ 1,257	100	\$ 1,257	\$ 232,656	\$ -	
Parade Technologies, Ltd. (Nanjing)	Providing research and development services to the Company	60,660	2	-	-	-	-	267	100	267	89,961	-	
Company name	Accumulated amount of remittance from Taiwan to Mainland China as of 3/31/2017	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) (Note 2)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 2)										
The Company	\$ -	\$ -	\$ -										

Note 1: Investment methods are classified into the following two categories:

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

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

Note 2:The Company is registered in Cayman Islands; therefore, its investment in Mainland China does not need approval from the Investment Commission of MOEA.