

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

**MACHVISION INC. CO., LTD.
AND ITS SUBSIDIARIES**

Consolidated Financial Statements

**December 31, 2016 and 2015
(With Independent Auditors' Report Thereon)**

**Address: No. 2-3, Gongye East 2nd Road, Hsinchu Science Park, Hsinchu 30075,
Taiwan, R.O.C**

Telephone: (03)563-8599

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

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Representation Letter

The entities that are required to be included in the combined financial statements of Machvision Inc. Co., Ltd. as of and for the year ended December 31, 2016, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated the Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Machvision Inc. Co., Ltd. and its subsidiaries do not prepare a separate set of combined financial statements.

Company name: Machvision Inc. Co., Ltd.

Chairman: Guang-Shiah Wang

Date: January 26, 2017



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Independent Auditors' Report

To the Board of Directors of Machvision Inc. Co., Ltd.:

Opinion

We have audited the consolidated financial statements of Machvision Inc. Co., Ltd. (the "Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and 2015 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

1. Revenue recognition

Please refer to note 4(m) and note 6(o) for accounting policy and the disclosures related to revenue recognition.

Description of key audit matter:

Revenue is the key indicator used by investors and management while evaluating the Group's finance and operating performance. Therefore, the accuracy of timing and the amount of revenue recognized have a significant impact on the financial statements. Hence, we consider it as a key matter in our audit.

How the matter was addressed in our audit:

Testing the effectiveness of the design and implementing the internal control of sales and collecting cycles, as well as evaluating the appropriateness of revenue recognition by reviewing the material contract; understanding the type of products and the sales of machinery equipment of the top 10 customers; calculating the turnover days of sales and accounts receivable to ensure their reasonableness, and analyzing the customers' revenue to determine if there were any abnormalities; selecting sales transaction from a certain period of time before and after the last shipping date and verifying them with the vouchers to determine the accuracy of the timing whether there are any abnormalities; as well as understanding whether there is a significant subsequent sales return.

2. Impairment of trade receivable

Please refer to note 4(g) and note 6(b) for accounting policy and disclosures related to impairment of trade receivables.

Description of key audit matter:

The trade receivables constituted 26% of total consolidated assets of the Group as of December 31, 2016, and the impairment of trade receivables depends on the evaluation of the management based on the evidence of external factors, both subjective and objective. Therefore, we consider it as a key matter in our audit.

How the matter was addressed in our audit:

Testing the effectiveness of control point relating to collection; assessing the Group's aging analysis of trade receivables, including confirmation, by sampling and examining the relevant documents to verify the accuracy aging period; inspecting the reasonableness of the overdue receivables and verifying the collection of trade receivables during the subsequent period, and assessing the adequacy of impairment assessment on accounts receivable; and reviewing whether the disclosure of impairment on trade receivables made by the management is appropriate.

3. Inventory measurement

Please refer to note 4(h) and note 6(c) for accounting policy and disclosures related to inventory measurement.

Description of key audit matter:

The inventories of the Group are mainly inspection of machinery equipment and their related parts. The products may be outdated or no longer meet the market demand due to the rapid changes in technology, the demand of related products and their prices may fiercely fluctuate, and the impairment of inventory depends on the evaluation of the management based on the evidence of external factors, both subjective and objective. Therefore, we consider it as a key matter in our audit.

How the matter was addressed in our audit:

Assessing the accounting policy on inventory measurement to determine its reasonableness; reviewing the inventory aging documents and analyzing the changes to ensure that the process of inventory valuation is in conformity with the accounting policies; understanding and evaluating whether if the basis used for net realizable value is reasonable; selecting samples and verifying them to ensure they are consistent with the vouchers; and reviewing whether the disclosure of inventory measurement made by the management is appropriate.

Other Matter

Machvision Inc. Co., Ltd. has prepared its parent company only financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unqualified opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditor's report are Po-Shu Huang and Ann Tien Yu.

KPMG

Taipei, Taiwan (Republic of China)
January 26, 2017

Notes to Readers

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

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

Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

[illegible]

See accompanying notes to consolidated .

(English Translation of Consolidated and Report Originally Issued in Chinese)
MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

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

		2016		2015	
		Amount	%	Amount	%
4000	Operating revenue (note 6(o))	\$ 809,631	100	610,127	100
5000	Operating costs (notes 6(c), (f), (i), (j), (p), 7 and 12)	<u>310,362</u>	<u>38</u>	<u>237,315</u>	<u>39</u>
5900	Gross profit from operations	<u>499,269</u>	<u>62</u>	<u>372,812</u>	<u>61</u>
6000	Operating expenses (notes 6(b), (f), (g), (i), (j), (p), 7 and 12):				
6100	Selling expenses	97,835	12	66,622	11
6200	Administrative expenses	50,394	6	45,446	7
6300	Research and development expenses	<u>104,856</u>	<u>13</u>	<u>78,731</u>	<u>13</u>
	Total operating expenses	<u>253,085</u>	<u>31</u>	<u>190,799</u>	<u>31</u>
	Net operating income	<u>246,184</u>	<u>31</u>	<u>182,013</u>	<u>30</u>
7000	Non-operating income and expenses (notes 6(h) and (q)):				
7010	Other income	13,682	2	6,127	1
7020	Other gains and losses	<u>(12,680)</u>	<u>(2)</u>	<u>6,382</u>	<u>1</u>
	Total non-operating income and expenses	<u>1,002</u>	<u>-</u>	<u>12,509</u>	<u>2</u>
7900	Profit from continuing operations before income tax	247,186	31	194,522	32
7950	Less: income tax expenses (note 6(l))	<u>46,439</u>	<u>6</u>	<u>39,954</u>	<u>7</u>
	Profit	<u>200,747</u>	<u>25</u>	<u>154,568</u>	<u>25</u>
8300	Other comprehensive income (loss) (notes 6(l) and (m)):				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of the defined benefit plans	(2,474)	-	(831)	-
8349	Income tax expense relating to items that may be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Total items that will not be reclassified to profit or loss	<u>(2,474)</u>	<u>-</u>	<u>(831)</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss				
8361	Financial statements translation differences for foreign operations	(3,201)	-	(838)	-
8399	Income tax expense relating to components of other comprehensive income (loss)	<u>545</u>	<u>-</u>	<u>142</u>	<u>-</u>
	Total Items that may be reclassified subsequently to profit or loss	<u>(2,656)</u>	<u>-</u>	<u>(696)</u>	<u>-</u>
8300	Other comprehensive income, net of tax	<u>(5,130)</u>	<u>-</u>	<u>(1,527)</u>	<u>-</u>
	Total comprehensive income	<u>\$ 195,617</u>	<u>25</u>	<u>153,041</u>	<u>25</u>
	Net income attributable to:				
	Shareholders of the parent	\$ 198,785	25	158,622	26
8620	Non-controlling interests	<u>1,962</u>	<u>-</u>	<u>(4,054)</u>	<u>(1)</u>
		<u>\$ 200,747</u>	<u>25</u>	<u>154,568</u>	<u>25</u>
	Total comprehensive income attributable to:				
	Shareholders of the parent	\$ 193,655	25	157,095	26
	Non-controlling interests	<u>1,962</u>	<u>-</u>	<u>(4,054)</u>	<u>(1)</u>
		<u>\$ 195,617</u>	<u>25</u>	<u>153,041</u>	<u>25</u>
	Earnings per share:				
9710	Basic earnings per share (in New Taiwan dollars)	<u>\$ 4.67</u>		<u>3.72</u>	
9810	Diluted earnings per share (in New Taiwan dollars)	<u>\$ 4.61</u>		<u>3.66</u>	

See accompanying notes to financial statements.

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

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(All amounts expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent						Financial statements translation differences for foreign operations	Total equity attributable to shareholders of the parent	Non-controlling interests	Total
	Retained earnings			Total	Total equity attributable to shareholders of the parent					
	Ordinary shares	Capital surplus	Legal reserve			Unappropriated earnings				
\$	426,082	329,067	81,070	177,245	258,315	1,311	1,014,775	-	1,014,775	
Balance at January 1, 2015										
Appropriation and distribution:										
Legal reserve	-	-	17,189	(17,189)	-	-	-	-	-	
Cash dividends	-	-	-	(21,304)	(21,304)	-	(21,304)	-	(21,304)	
Cash dividends from capital surplus	-	(133,236)	-	-	-	-	(133,236)	-	(133,236)	
Net income (loss)	-	-	-	158,622	158,622	-	158,622	(4,054)	154,568	
Other comprehensive losses	-	-	-	(831)	(831)	(696)	(1,527)	-	(1,527)	
Total comprehensive income	-	-	-	157,791	157,791	(696)	157,095	(4,054)	153,041	
Changes in non-controlling interests	-	-	-	-	-	-	-	30,380	30,380	
Balance at December 31, 2015	426,082	195,831	98,259	296,543	394,802	615	1,017,330	26,326	1,043,656	
Appropriation and distribution:										
Legal reserve	-	-	15,862	(15,862)	-	-	-	-	-	
Cash dividends	-	-	-	(17,043)	(17,043)	-	(17,043)	-	(17,043)	
Cash dividends from capital surplus	-	(136,346)	-	-	-	-	(136,346)	-	(136,346)	
Net income	-	-	-	198,785	198,785	-	198,785	1,962	200,747	
Other comprehensive income	-	-	-	(2,474)	(2,474)	(2,656)	(5,130)	-	(5,130)	
Total comprehensive income	-	-	-	196,311	196,311	(2,656)	193,655	1,962	195,617	
Changes in non-controlling interests	-	85	-	-	-	-	85	1,685	1,770	
Balance at December 31, 2016	\$ 426,082	59,570	114,121	459,949	574,070	(2,041)	1,057,681	29,973	1,087,654	

See accompanying notes to consolidated .

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(All amounts expressed in Thousands of New Taiwan Dollars)

	2016	2015
Cash flows from operating activities:		
Net income before tax	\$ 247,186	194,522
Adjustments:		
Adjustments to reconcile profit and loss:		
Depreciation	8,329	7,983
Amortization	484	484
Provision for bad debt expense	63	38
Interest income	(4,177)	(5,931)
Loss on disposal of property, plan and equipment	12	1
Total adjustments to reconcile profit	<u>4,711</u>	<u>2,575</u>
Changes in assets / liabilities relating to operating activities:		
Net changes in operating assets:		
Notes receivable	4,964	(589)
Accounts receivable	(88,327)	(4,446)
Other receivables	4,725	6,958
Inventories	(33,569)	2,904
Prepayments	(9,494)	(500)
Other current assets	(303)	854
Other notes receivable (including long-term notes receivable)	11,263	11,013
Long-term receivables	<u>2,271</u>	<u>(9,248)</u>
Total changes in operating assets, net	<u>(108,470)</u>	<u>6,946</u>
Net changes in operating liabilities:		
Notes payable	452	(20)
Accounts payable	73,309	(14,579)
Other payables	29,180	3,867
Provisions	(5,283)	(2,219)
Other current liabilities	2,598	(1,483)
Net defined benefit liability	<u>55</u>	<u>44</u>
Total changes in operating liabilities, net	<u>100,311</u>	<u>(14,390)</u>
Total changes in operating assets / liabilities, net	<u>(8,159)</u>	<u>(7,444)</u>
Total adjustments	<u>(3,448)</u>	<u>(4,869)</u>
Cash provided by operating activities	243,738	189,653
Interest income received	3,967	5,896
Income tax paid	<u>(39,702)</u>	<u>(20,699)</u>
Net cash provided by operating activities	<u>208,003</u>	<u>174,850</u>
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(2,436)	(5,059)
Increase in refundable deposits	(210)	(2,266)
Decrease in other non-current assets	<u>1,284</u>	<u>906</u>
Net cash used in investing activities	<u>(1,362)</u>	<u>(6,419)</u>
Cash flows from financing activities:		
Cash dividends paid	(153,389)	(154,540)
Changes in non-controlling interests	<u>1,770</u>	<u>30,380</u>
Net cash used in financing activities	<u>(151,619)</u>	<u>(124,160)</u>
Effect of changes in exchange rate	<u>(1,778)</u>	<u>(365)</u>
Net increase in cash and cash equivalents for the period	<u>53,244</u>	<u>43,906</u>
Cash and cash equivalents at beginning of period	<u>584,364</u>	<u>540,458</u>
Cash and cash equivalents at end of period	<u>\$ 637,608</u>	<u>584,364</u>

See accompanying notes to consolidated .

(English Translation of Consolidated and Report Originally Issued in Chinese)
MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

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

(1) History and organization

MACHVISION INC. CO., LTD. (the Company) was incorporated in June 9, 1998 as a company limited by shares under the laws of the Republic of China (ROC). The address of the Company's registered office is No. 2-3, Gongye East 2nd Road, Hsinchu Science Park, Hsinchu 30075, Taiwan, R.O.C. The consolidated entities in the consolidated financial statements include the Company and its subsidiaries (the Group). The Group are mainly engaged in the manufacturing and trading of machinery equipment.

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

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

(3) New standards, amendments and interpretations adopted:

- (a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. Aforementioned new, revised or amended standards and interpretations to be effective as of January 1, 2017 but not yet adopted by the Group are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014
Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

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

(b) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Group should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the consolidated financial statements were issued, the FSC has yet to announce the effective dates of the other IFRSs. As of the end of reporting date is as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share based Payment Transactions"	January 1, 2018
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 "Insurance Contracts" ("Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts")	January 1, 2018

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 Investment Property	January 1, 2018

The Group is still currently determining the potential impact of the standards listed below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Issuance / Release Dates	Standards or Interpretations	Content of amendment
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

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

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(4) Summary of significant accounting policies

The significant accounting policies presented in the consolidated financial statements are summarized below. The following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

(a) Statement of compliance

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

(b) Basis of preparation

(i) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, unless otherwise stated (Refer to the summary on significant accounting policies).

(ii) Functional and reporting currency

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

(c) Basis of consolidation

(i) Principles of preparation of consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(ii) List of subsidiaries included in the consolidated financial statements

Investor	Subsidiary	Nature of business	Percentage of ownership		Notes
			December 31, 2016	December 31, 2015	
The Company	Machvision Inc.	Investment	100 %	100 %	
The Company	Autovision Technology Inc.	Manufacturing of computer peripheral products	45 %	51 %	Note 1

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

<u>Investor</u>	<u>Subsidiary</u>	<u>Nature of business</u>	<u>Percentage of ownership</u>		<u>Notes</u>
			<u>December 31, 2016</u>	<u>December 31, 2015</u>	
The Company	Sigold Optics Inc.	Manufacturing of machinery equipment	51 %	51 %	
Machvision Inc.	Machvision (Dongguan) Inc.	Maintaining and trading of machinery equipment	100 %	100 %	

Note 1: In March 2016, Autovision Technology Inc. had a capital increase in cash for the purpose of its future demands and capital expansion, wherein the Company did not acquire these new common shares proportionally, resulting in the Company's shares in Autovision Technology Inc. to decrease from 51% to 45%.

(d) Foreign currency

(i) Foreign currency transactions

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

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

Foreign currency differences arising on retranslation are recognized in profit or loss.

(ii) Foreign operations

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

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

Cash or cash equivalents, assets held for trading purposes or short-term and expected to be converted to cash within twelve months after the reporting period or for intention of sales or consumption within its normal operating cycle are classified as current assets; all other assets are classified as non-current assets.

Liabilities that must be fully liquidated within twelve months after the reporting period are classified as current liabilities; all other liabilities are classified as non-current liabilities.

(f) Cash and cash equivalents

Cash and cash equivalents comprised cash, cash in banks and short term investments with high liquidity that are subject to an insignificant risk of changes in their fair value.

The time deposits with maturity of the Group are listed in cash and cash equivalents because they satisfy the aforementioned definition and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

(g) Financial instruments

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

(i) Financial assets

The Group classifies financial assets into the following categories:

1) Financial assets carried at cost

These are investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured. Such investments are recognized at acquisition cost. If any objective evidence exists suggesting impairment loss, this loss shall be recognized and cannot be reversed.

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Receivables

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

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

3) Impairment of financial assets

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

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

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

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

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

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Impairment losses and recoveries of accounts receivable are recognized in operating expenses.

4) Derecognition of financial assets

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

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

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

A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognised, based on the relative fair values of those parts.

(ii) Financial liabilities and equity instruments

1) Other financial liabilities

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

2) Derecognition of financial liabilities

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

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

3) Offsetting of financial assets and liabilities

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

(h) Inventories

The cost of inventories consists of all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories includes an appropriate share of fixed production overhead based on normal capacity and allocated variable production overhead based on actual output. However, unallocated fixed production overhead arising from lower or idle capacity is recognized in cost of goods sold during the period. If actual capacity is higher than normal capacity, fixed production overhead should be allocated based on actual capacity. The method of valuing inventories is the weighted-average method.

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less, the estimated costs of completion and selling expenses at the end of the period. When the cost of inventories is higher than the net realizable value, inventories are written down to net realizable value, and the write-down amount is charged to current year's cost of goods sold. If net realizable value increases in the future, the cost of inventories is reversed within the original write-down amount, and such reversal is treated as a reduction of cost of goods sold.

(i) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

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

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

(ii) Subsequent cost

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

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Depreciation

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

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

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

Buildings	5~50 years
Machinery equipment	3~8 years
Other equipment	3~7 years

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

(j) Intangible assets

Intangible assets comprise the computer software expense and the technology capital contributed by the shareholders of the Group and approved by the Ministry of Economic Affairs R.O.C. The cost of computer software is amortized over 3 to 10 years and the capital is amortized over 20 years, both are calculated using the straight-line method and are recorded under operating expenses.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the changes are accounted for as changes in accounting estimates.

(k) Impairment of non-financial assets

With regard to non-financial assets (other than inventories, deferred tax assets and employee benefits), the Group assesses at the end of each reporting period whether there is any indication that an impairment loss has occurred, and estimates the recoverable amount of assets with an indication of impairment.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. Impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount, increasing the individual asset's or cash generating unit's carrying amount to its estimated recoverable amount. The reversal of an impairment loss of an individual asset or cash generating unit cannot exceed the carrying amount of the individual asset or cash generating unit, less any depreciation or amortization, had it not recognized an impairment loss.

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****(l) Provisions**

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

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

(m) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue from services shall be recognized when service provision is completed and the amount of revenue can be measured reliably.

(n) Employee benefits**(i) Defined contribution plans**

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

(ii) Defined benefit plans

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

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings.

(iii) Short-term employee benefits

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

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

(o) Share based payment

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

(p) Income tax

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

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

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

Deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(q) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. The weighted average number of common shares outstanding is adjusted retroactively for the increase in common shares outstanding from stock issuance arising from the capitalization of retained earnings, or additional paid in capital.

When computing diluted earnings per share with regards to employee bonuses in the form of stock, the closing price at the balance sheet date is used as the basis of computation in the number of shares to be issued. When computing diluted earnings per share prior to the following year's Board of Directors the effect of dilution from these potential stocks is taken into consideration.

(r) Operating segments

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

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

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

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

There is no significant risk that will result in a material adjustment within the following year due to the assumptions and estimation of uncertainties.

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand	\$ 1,168	941
Saving deposits	228,671	161,090
Foreign currency deposits	45,467	48,317
Time deposits	<u>362,302</u>	<u>374,016</u>
Cash and cash equivalents per statements of cash flow	<u><u>\$ 637,608</u></u>	<u><u>584,364</u></u>

The expiry date of three months to a year on deposit satisfy the highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

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

(b) Receivables

	December 31, 2016	December 31, 2015
Notes receivable	\$ 4,484	9,448
Other notes receivable	-	11,263
Accounts receivable	349,766	261,440
Other accounts receivable	-	4,725
Long-term accounts receivable	8,353	10,692
Less: allowance for impairment	389	330
unrealized interest income	<u>84</u>	<u>362</u>
	<u><u>\$ 362,130</u></u>	<u><u>296,876</u></u>

The aging analysis for receivables that were past due but not impaired is as follows:

	December 31, 2016	December 31, 2015
Past due within 90 days	\$ 1,548	7,431
Past due 91~365 days	4,543	1,343
Past due over one year	<u>226</u>	<u>-</u>
	<u><u>\$ 6,317</u></u>	<u><u>8,774</u></u>

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

The movement in the allowance for impairment with respect to receivables were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance as of January 1, 2016	\$ 122	208	330
Impairment loss recognized	6	57	63
Effect of changes in exchange rates	(4)	-	(4)
Balance as of December 31, 2016	<u>\$ 124</u>	<u>265</u>	<u>389</u>

	Individually assessed impairment	Collectively assessed impairment	Total
Balance as of January 1, 2015	\$ 189	105	294
Impairment loss recognized	(65)	103	38
Effect of changes in exchange rates	(2)	-	(2)
Balance as of December 31, 2015	<u>\$ 122</u>	<u>208</u>	<u>330</u>

The Group entered into a trade receivable factoring agreement with a financial institution. According to the agreement, the trade receivable factoring is without recourse. As of December 31, 2015, the original transferred amount was \$11,108, and the components were as follows:

December 31, 2015			
Transferred amount	Secured note	Significant Transferring Terms	Derecognition Amount
<u>\$ 4,725</u>	<u>-</u>	The trade receivable factoring is without recourse	<u>4,725</u>

There was no such transaction in 2016.

Impairment loss recognized for individually assessed impairment is the difference between the carrying amount and the amount expected to be collected. The Group does not hold any collateral for the collected amounts.

The carrying amounts of notes and accounts receivable with short maturity are not discounted under the assumption that the carrying amount approximates the fair value.

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Inventories

The components of the Group's inventories were as follows:

	December 31, 2016	December 31, 2015
Finished goods	\$ 43,077	47,374
Work in process	34,401	15,479
Raw material	77,430	57,857
	<u>\$ 154,908</u>	<u>120,710</u>

As of December 31, 2016 and 2015, the Group inventories were not provided as pledged assets.

Due to the decrease (reversal of) in the net realizable value of inventories, the Group recognized the inventory pricing loss(gain). The amounts are as follows:

	2016	2015
Losses on (reversal of) decline in market value of inventory	<u>\$ 11,391</u>	<u>(1,018)</u>

The Group's scrapped inventories amounted to \$3,305 in 2015, resulting in the reversal of the amount recorded under reserve of decline in market value of inventory.

(d) Acquisition of subsidiaries

- (i) On February 26, 2015, the Board of Directors had decided to obtain 51% shares of Autovision Technology Inc. for \$1,020; the related registration procedure had been completed on April 7, 2015.

The fair value of identifiable assets acquired and liabilities assumed on the date of acquisition were as follows:

Cash and cash equivalents (Paid-in capital)	\$ 2,000
Fair value of identifiable assets acquired	<u>\$ 2,000</u>

Please refer to Note (4) (c) (ii) for the changes in the Company's shareholdings.

- (ii) On April 28, 2015, the Board of Directors had decided to obtain 51% shares of Sigold Optics Inc. for \$30,600; the related registration procedure had been completed on June 25, 2015.

The fair value of identifiable assets acquired and liabilities assumed on the date of acquisition were as follows:

Cash and cash equivalents (Paid-in capital)	\$ 60,000
Fair value of identifiable assets acquired	<u>\$ 60,000</u>

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Cash provided by acquisition of subsidiaries

Non-controlling interests \$ 30,380

(iv) Share transfer restrictions

Transfer of the shares owned by the promoters of the issuing company shall not be affected until the elapse of one year after the incorporation registration of the issuing company.

(e) Financial assets carried at cost – noncurrent

	<u>Holding percentage</u>	<u>Original</u>	<u>Book value</u>
December 31, 2016			
Yayatech Co., Ltd.	5	\$ <u>9,644</u>	<u>9,644</u>
December 31, 2015			
Yayatech Co., Ltd.	5	\$ <u>9,644</u>	<u>9,644</u>

In March 2012, the Group obtained 884 thousand shares of Yayatech Co. Ltd. as compensation and recognized its investment at fair value of \$9,644.

(f) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group were as follows:

	<u>Buildings</u>	<u>Machinery equipment</u>	<u>Other equipment</u>	<u>Total</u>
Cost:				
Balance as of January 1, 2016	\$ 232,381	4,781	7,882	245,044
Additions	-	62	2,374	2,436
Reclassification	-	(798)	-	(798)
Disposals	-	(88)	(91)	(179)
Effect of movement in exchange rates	(1,988)	-	(47)	(2,035)
Balance as of December 31, 2016	\$ <u>230,393</u>	<u>3,957</u>	<u>10,118</u>	<u>244,468</u>
Balance as of January 1, 2015	\$ 230,731	3,977	6,235	240,943
Additions	2,276	804	1,979	5,059
Disposals	-	-	(326)	(326)
Effect of movement in exchange rates	(626)	-	(6)	(632)
Balance as of December 31, 2015	\$ <u>232,381</u>	<u>4,781</u>	<u>7,882</u>	<u>245,044</u>

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Buildings	Machinery equipment	Other equipment	Total
Depreciation and impairment losses:				
Balance as of January 1, 2016	\$ 16,220	2,383	2,781	21,384
Depreciation	6,151	510	1,668	8,329
Reclassification	-	(169)	-	(169)
Disposals	-	(88)	(79)	(167)
Effect of movement in exchange rates	(592)	-	(17)	(609)
Balance as of December 31, 2016	<u>\$ 21,779</u>	<u>2,636</u>	<u>4,353</u>	<u>28,768</u>
Balance as of January 1, 2015	\$ 10,228	1,722	1,933	13,883
Depreciation	6,146	661	1,176	7,983
Disposals	-	-	(325)	(325)
Effect of movement in exchange rates	(154)	-	(3)	(157)
Balance as of December 31, 2015	<u>\$ 16,220</u>	<u>2,383</u>	<u>2,781</u>	<u>21,384</u>
Carrying amounts:				
December 31, 2016	<u>\$ 208,614</u>	<u>1,321</u>	<u>5,765</u>	<u>215,700</u>
December 31, 2015	<u>\$ 216,161</u>	<u>2,398</u>	<u>5,101</u>	<u>223,660</u>
January 1, 2015	<u>\$ 220,503</u>	<u>2,255</u>	<u>4,302</u>	<u>227,060</u>

(g) Intangible assets

	Industrial capital contribution	Computer software expense	Total
Cost:			
Balance as of January 1, 2016	\$ 16,000	1,520	17,520
Disposals	-	(420)	(420)
Balance as of December 31, 2016	<u>\$ 16,000</u>	<u>1,100</u>	<u>17,100</u>
Balance as of January 1, 2015 (Balance as of December 31, 2015)	<u>\$ 16,000</u>	<u>1,520</u>	<u>17,520</u>
Amortization and impairment loss:			
Balance as of January 1, 2016	\$ 15,098	887	15,985
Amortization	374	110	484
Disposals	-	(420)	(420)
Balance as of December 31, 2016	<u>\$ 15,472</u>	<u>577</u>	<u>16,049</u>
Balance as of January 1, 2015	\$ 14,724	777	15,501
Amortization	374	110	484
Balance as of December 31, 2015	<u>\$ 15,098</u>	<u>887</u>	<u>15,985</u>
Carrying amounts:			
December 31, 2016	<u>\$ 528</u>	<u>523</u>	<u>1,051</u>
December 31, 2015	<u>\$ 902</u>	<u>633</u>	<u>1,535</u>
January 1, 2015	<u>\$ 1,276</u>	<u>743</u>	<u>2,019</u>

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (i) The amortization of intangible assets were follows:

	<u>2016</u>	<u>2015</u>
Operating expenses	<u>\$ 484</u>	<u>484</u>

- (ii) Impairment Loss

The Group recognized an impairment loss of \$4,000 after assessing the recoverable amount of intangible assets on December 31, 2008. There were no impairment losses as of December 31, 2016 and 2015.

- (h) Other notes receivable

Other notes receivable paid by Yayatech Co., Ltd. as compensation in March 2012 were as follows:

<u>Expiry date</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
December 31, 2016	\$ -	11,263
Less: allowance for impairment	-	-
unrealized interest income	-	210
Subtotal	-	11,053
Less: due within one year	-	11,053
	<u>\$ -</u>	<u>-</u>

Other notes receivable as well as land and buildings, pledged as collateral by Yayatech Co., Ltd. and the person in-charge, had already been cleared since the full amount were paid.

In 2016 and 2015, the Group has recognized the realized interest income of \$210 and \$411, respectively.

- (i) Provisions

	<u>Warranties</u>
January 1, 2016	\$ 16,347
Provisions made during the year	2,654
Provisions used during the year	(7,937)
December 31, 2016	<u>\$ 11,064</u>
January 1, 2015	\$ 18,566
Provisions made during the year	4,381
Provisions used during the year	(6,600)
December 31, 2015	<u>\$ 16,347</u>

The provision for warranties relates mainly to the machinery equipment sold in 2016 and 2015. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to settle the majority of the liability over the next year.

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Operating leases

The Group rented the land located in the Hsinchu Science Park on 1 July 2013 from the Hsinchu Science Park Bureau for a period ending on May 31, 2019, the monthly rent of \$140, and provide deposit of \$1,683 as a deposit (included in other non-current assets). Non-cancellable operating lease rentals payable were as follows:

	December 31, 2016	December 31, 2015
Less than one year	\$ 1,680	1,680
Between one and five years	2,380	4,060
	<u>\$ 4,060</u>	<u>5,740</u>

In 2016 and 2015, the total lease costs and expenses recognized in profit or loss were \$1,680.

(k) Employee benefits

(i) Defined benefit plans

The following table shows a reconciliation between the present value of the defined benefit obligation and the fair value of plan assets:

	December 31, 2016	December 31, 2015
The present value of the defined benefit obligations	\$ 11,500	10,502
Fair value of plan assets	(2,747)	(4,278)
The net defined benefit liability	<u>\$ 8,753</u>	<u>6,224</u>

The Group established the pension fund account for the defined benefit plan in Bank of Taiwan. The plan, under the Labor Standards Law, provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement.

1) Composition of plan assets

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

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$2,747 at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labors.

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Movements in present value of the defined benefit obligations

The movements in present value of the Group's defined benefit obligation for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Defined benefit obligation at 1 January	\$ 10,502	9,455
Current service costs and interest	197	189
Remeasurements of the net defined benefit liability (asset)		
— Due to changes in financial assumption of actuarial (losses) gains	2,418	858
Benefits paid by the plan	(1,617)	-
Defined benefit obligation at December 31	<u>\$ 11,500</u>	<u>10,502</u>

3) Movement of the defined benefit plan assets

The movements in the fair value of the defined benefit plan assets for the Group were as follows:

	<u>2016</u>	<u>2015</u>
Fair value of plan assets at January 1	\$ 4,278	4,106
Interest revenue	81	83
Remeasurements of the net defined benefit liability		
— Return on plan assets excluding the interest income	(56)	27
Contributions made	61	62
Benefits paid by the plan	(1,617)	-
Fair value of plan assets, December 31	<u>\$ 2,747</u>	<u>4,278</u>

4) Expenses recognized in profit or loss

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

	<u>2016</u>	<u>2015</u>
Net interest on the defined benefit liability	<u>\$ 116</u>	<u>106</u>
	<u>2016</u>	<u>2015</u>
Operating costs	\$ 23	21
Selling expenses	23	21
Administration expenses	12	11
Research and development expenses	58	53
	<u>\$ 116</u>	<u>106</u>

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 5) Remeasurement of the net defined benefit liability recognized in other comprehensive income

The Group's remeasurement of the net defined benefit liability recognized in other comprehensive income were as follows:

	<u>2016</u>	<u>2015</u>
Cumulative amount at January 1	\$ 2,535	1,704
Recognized during the period	<u>2,474</u>	<u>831</u>
Cumulative amount at December 31	<u><u>\$ 5,009</u></u>	<u><u>2,535</u></u>

- 6) Actuarial assumptions

The following were the Group's principal actuarial assumptions at the reporting dates:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Discount rate	1.375 %	1.875 %
Future salary increases rate	3.000 %	2.500 %

The Group expects to make contributions of \$68 to its defined benefit plans in the following year starting from the reporting date of 2016.

The weighted average duration of the defined benefit plans is 18.08 years.

- 7) Sensitivity analysis

As of December 31, 2016 and 2015, the the present value of the defined benefit obligation were as follow:

	The impact of defined benefit obligation	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
December 31, 2016		
Discount rate	\$ (404)	423
Future salary increase rate	409	(393)
December 31, 2015		
Discount rate	(394)	413
Future salary increase rate	404	(387)

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

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

There were no change in the method and assumptions used in the preparation of sensitivity analysis for 2016 and 2015.

(ii) Defined contribution plans

The Group makes monthly contributions equal 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Group contributes a fixed amount to the Bureau of the Labor Insurance without additional legal or constructive obligations.

Machvision (Dongguan) Inc., one of the subsidiaries of the Company, makes a monthly contribution which ranges from 3% to 9% of the local standard wages, wherein its equivalent amount is recognized as pension expense for the current period according to the defined contribution plans based on the local regulations.

Machvision Inc. does not have employees and therefore does not need to pay a pension.

The Group's pension costs under the defined contribution plan were \$6,942 and \$6,484 for 2016 and 2015, respectively. Payment was made to the Bureau of the Labor Insurance and the local authorities of the consolidated overseas subsidiaries

(I) Income tax

(i) Income tax expenses

The amount of income tax for 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Current income tax expense		
Current period incurred	\$ 47,086	38,836
Adjustment for prior periods	<u>1,184</u>	<u>(258)</u>
	<u>48,270</u>	<u>38,578</u>
Deferred tax expense		
Origination and reversal of temporary differences	<u>(1,831)</u>	<u>1,376</u>
Income tax expenses	<u>\$ 46,439</u>	<u>39,954</u>

The amount of income tax recognized in other comprehensive income for 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Items that will not be reclassified subsequently to profit or loss:		
Financial statements translation differences for foreign operations	<u>\$ 545</u>	<u>142</u>

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Reconciliation of income tax expenses and profit before income tax for 2016 and 2015 were as follows:

	2016	2015
Profit before income tax	\$ <u>247,186</u>	<u>194,522</u>
Income tax using the Company's domestic tax rate	\$ 42,022	33,068
Effect of tax rates in foreign jurisdiction	(135)	(58)
Adjustments according to tax law	(337)	773
Tax treaty rewards	(8,475)	(7,441)
Adjustments for prior years income tax	1,184	(258)
Previously overestimate (underestimate) deferred tax assets	25	(54)
10% surtax on undistributed earnings	12,489	13,235
Others	(334)	689
Total	\$ <u>46,439</u>	<u>39,954</u>

(ii) Deferred tax assets and liabilities—Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2016 and 2015 were as follows:

Deferred tax assets:

	Provisions	Loss from investment using equity method	Allowance for inventory valuation	Other	Total
Balance at January 1, 2016	\$ 2,779	1,348	1,243	128	5,498
Recognized in profit or loss	(898)	(604)	1,416	1,917	1,831
Recognized in other comprehensive income	-	-	-	545	545
Balance at December 31, 2016	\$ <u>1,881</u>	<u>744</u>	<u>2,659</u>	<u>2,590</u>	<u>7,874</u>
Balance at January 1, 2015	\$ 3,156	2,932	1,416	(772)	6,732
Recognized in profit or loss	(377)	(1,584)	(173)	758	(1,376)
Recognized in other comprehensive income	-	-	-	142	142
Balance at December 31, 2015	\$ <u>2,779</u>	<u>1,348</u>	<u>1,243</u>	<u>128</u>	<u>5,498</u>

(iii) Examination and Approval

The ROC income tax authorities have examined the Company's income tax returns through 2014.

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Integrated tax information

Information related to the unappropriated earnings and tax deduction ratio is summarized as below:

	December 31, 2016	December 31, 2015
Unappropriated earnings of 1997 and before	\$ -	-
Unappropriated earnings of 1998 and after	459,949	296,543
	<u>\$ 459,949</u>	<u>296,543</u>
	December 31, 2016	December 31, 2015
Balance of imputation credit account	<u>\$ 70,000</u>	<u>37,586</u>
	2016 (Estimated)	2015 (Actual)
Imputation tax credit ratio of earnings to be distributed	<u>21.85 %</u>	<u>19.73 %</u>

Effective January 1, 2015, the imputation tax credit of dividends or earnings distributed to individual shareholder who are residents of the ROC was adjusted to half of the original amount. Furthermore, the imputation tax credit of dividends or earnings distributed to individual shareholders resulting from the 10% surtax on unappropriated earnings was also adjusted to half of the original amount.

(m) Capital and other equity

(i) Ordinary shares

As of December 31, 2016 and 2015, the total value of nominal ordinary shares amounted to \$500,000, with a par value of \$10 per share, of which 42,608 thousand shares were issued. All issued shares were paid up upon issuance.

Reconciliation of shares were as follows:

	2016	2015
	Unit: thousand shares	
Balance as of January 1 (Balance as of December 31)	<u>42,608</u>	<u>42,608</u>

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Capital surplus

The components of capital surplus were as follows:

	December 31, 2016	December 31, 2015
Share premium	\$ 59,485	195,831
Difference between consideration and carrying amount of subsidiaries disposal	85	-
	<u>\$ 59,570</u>	<u>195,831</u>

In accordance with the ROC Company Act, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10% of the actual share capital amount.

(iii) Retained earnings

According to the Company's Articles, if the Company makes a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, and setting aside as legal reserve 10% of the remaining profit, and then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

1) Legal reserve

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

2) Special reserve

In accordance with Ruling No.1010012865 issued by the Financial Supervisory Commission on 6 April 2012, a portion of current period earnings and undistributed prior period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal to the current period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Earnings distribution

Earnings distribution and capital surplus distribution as cash dividends for 2015 and 2014 were decided via a general meeting of the shareholders held on May 27, 2016 and May 28, 2015, respectively. The relevant dividend distributions to shareholders were as follows:

	2015		2014	
	Amount per share (NTD)	Total Amount	Amount per share (NTD)	Total Amount
Dividends distributed to ordinary stockholders:				
Cash (earnings)	\$ 0.40	17,043	0.50	21,304
Cash (capital surplus)	3.20	<u>136,346</u>	3.13	<u>133,236</u>
Total		<u>\$ 153,389</u>		<u>154,540</u>

(iv) Other equities (net of tax)

	Foreign exchange differences arising from foreign operation
Balance as of January 1, 2016	\$ 615
Foreign exchange differences arising from foreign operation	(2,656)
Balance as of December 31, 2016	<u>\$ (2,041)</u>
Balance as of January 1, 2015	\$ 1,311
Foreign exchange differences arising from foreign operation	(696)
Balance as of December 31, 2015	<u>\$ 615</u>

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(n) Earnings per share

The calculation of the Company's basic and diluted earnings per share for years ended December 31, 2016 and 2015 were as follows:

(i) Basic earnings per share

	2016	2015
Net income attributable to ordinary shareholders of the Company	\$ <u>198,785</u>	<u>158,622</u>
Weighted-average number of ordinary shares	<u>42,608</u>	<u>42,608</u>
Basic earnings per share (in NTD)	\$ <u>4.67</u>	<u>3.72</u>

(ii) Diluted earnings per share

	2016	2015
Net income attributable to ordinary shareholders of the Company (diluted)	\$ <u>198,785</u>	<u>158,622</u>
Weighted-average number of ordinary shares (basic)	42,608	42,608
Effect of potential ordinary shares		
Employee's stock bonus	<u>509</u>	<u>694</u>
Weighted-average number of ordinary shares (diluted)	<u>43,117</u>	<u>43,302</u>
Diluted earnings per share (in NTD)	\$ <u>4.61</u>	<u>3.66</u>

(o) Revenue

The details of the Group's revenue were as follows:

	2016	2015
Sale of goods	\$ 742,211	544,764
Revenue from services	<u>67,420</u>	<u>65,363</u>
	\$ <u>809,631</u>	<u>610,127</u>

(p) Remuneration to employees, directors and supervisors

The Company's articles of incorporation, which were authorized by the board of directors but has yet to be approved by the shareholders, require that earnings shall first be offset against and deficit, then, a minimum of 5% will be distributed as employee remuneration, and a maximum of 3% will be allocated as remuneration to directors and supervisors.

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended 2016 and 2015, the Company estimated its employee remuneration amounting to \$26,857 and \$21,323, and directors' and supervisors' remuneration amounting to \$5,363 and \$4,265, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2016 and 2015. Related information would be available at the Market Observation Post System website. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2016 and 2015.

(q) Non-operating income and expenses

(i) Other income

	<u>2016</u>	<u>2015</u>
Interest income	\$ 3,967	5,520
Realized interest income (refer to note 6(h))	210	411
Other income	<u>9,505</u>	<u>196</u>
	<u>\$ 13,682</u>	<u>6,127</u>

(ii) Other gains and losses

	<u>2016</u>	<u>2015</u>
Gain (loss) on foreign exchange	\$ (12,514)	6,384
Net losses on disposal of property, plant and equipment	(12)	(1)
Others	<u>(154)</u>	<u>(1)</u>
	<u>\$ (12,680)</u>	<u>6,382</u>

(r) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Concentration of credit risk

The business of the customer of the Group is the manufacturing of the printed circuit board. As of December 31, 2016 and 2015, the accounts receivable amounted to \$104,590 and \$45,042, respectively.

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>Over 5 years</u>
December 31, 2016						
Non-derivative financial liabilities						
Notes payable	\$ 737	737	737	-	-	-
Accounts payable	132,543	132,543	132,543	-	-	-
	<u>\$ 133,280</u>	<u>133,280</u>	<u>133,280</u>	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 2015						
Non-derivative financial liabilities						
Notes payable	\$ 285	285	285	-	-	-
Accounts payable	59,234	59,234	59,234	-	-	-
	<u>\$ 59,519</u>	<u>59,519</u>	<u>59,519</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

(iii) Currency risk

1) Exposure to foreign currency risk

The Group's financial assets and liabilities exposed to significant currency risk was as follows:

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
December 31, 2016			
Financial assets:			
Monetary items:			
USD	\$ 6,979	32.2600	225,134
CNY	\$ 8,628	4.6240	39,897
December 31, 2015			
Financial assets:			
Monetary items:			
USD	\$ 8,532	32.8500	280,260
CNY	\$ 26,611	4.9800	132,523

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of foreign currency exchange gains and losses on cash and cash equivalents, accounts and other receivables, long-term accounts receivable that are denominated in foreign currency. A weakening or strengthening 3% appreciation or depreciation of the NTD against the USD and CNY as of December 31, 2016 and 2015, would have increased or decreased the net profit after tax by \$6,599 and \$10,396, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary item

Since the Group has many kind of functional currencies, the information on foreign exchange gains (loss) on monetary items is disclosed based on the total amount. For the years ended 2016 and 2015, foreign exchange gains (including realized and unrealized portion) amounted to \$(12,514) and \$6,384.

(iv) Interest rate analysis

The detail of interest rate exposure were as follows:

	Carrying amount	
	December 31, 2016	December 31, 2015
Assets with variable interest rates converted to cash:		
Cash in banks	\$ <u>636,440</u>	<u>583,423</u>

The following sensitivity analysis is based on the risk exposure of the interest rate on derivative and non-derivative financial instruments on the reporting date. Regarding liabilities with variable interest rates, the analysis is on the basis of the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 1% when reporting to management internally, which also represents the management of the Group's assessment on the reasonably possible interval of interest rate change.

If the interest rate had increased or decreased by 1%, the Group's net income before tax would have increase or decrease by \$5,282 and \$4,842 for the years ended 2016 and 2015, respectively, with all other variable factors remain constant.

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(v) Information of fair value—Categories and fair value of financial instruments

Except for the followings, carrying amount of the Group's financial assets and liabilities are valued approximately to their fair value, and are not based on observable market date and the value measurements which are not reliable. No additional fair value disclosure is required in accordance to the regulations.

		December 31, 2016			
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets					
Financial assets at cost	\$ 9,644	-	-	-	-
Receivables					
Cash and cash equivalents	637,608	-	-	-	-
Receivables	362,130	-	-	-	-
Refundable deposits	4,457	-	-	-	-
Subtotal	1,004,195	-	-	-	-
Total	\$ 1,013,839	-	-	-	-
Financial liabilities measured at amortized cost					
Notes payable	\$ 737	-	-	-	-
Accounts payable	132,543	-	-	-	-
Total	\$ 133,280	-	-	-	-
		December 31, 2015			
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets					
Financial assets at cost	\$ 9,644	-	-	-	-
Receivables					
Cash and cash equivalents	584,364	-	-	-	-
Receivables	296,876	-	-	-	-
Refundable deposits	4,247	-	-	-	-
Subtotal	885,487	-	-	-	-
Total	\$ 895,131	-	-	-	-
Financial liabilities measured at amortized cost					
Notes payable	\$ 285	-	-	-	-
Accounts payable	59,234	-	-	-	-
Total	\$ 59,519	-	-	-	-

(Continued)

MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Financial risk management

(i) Overview

The Group has exposures to the following risks from its financial instruments:

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

This note has the information on risk exposure and the objectives, policies and process of risk measurement and management. For detailed information, please refer to the related note on each risk.

(ii) Risk management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The chairman and the general manager are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on its activities.

The Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments securities.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, the management also considers the demographics of the Group's customer base, including the default risk of the industry and the country in which customers operate, as these factors may have an influence on credit risk.

The Group's receivables are mainly due to one customer, which account for 29% and 16% of the total amount of receivables as of December 31, 2016 and 2015, respectively. The Group's receivables are concentrated on the industry type of the printed circuit board manufacturers.

The Group has established a credit policy, under which, each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

If the Group retains the rights to the products that have already been sold, the Group shall also have the right to require collateral if payment has not been received. The Group does not require any collateral for receivables.

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group has established an allowance of doubtful accounts to reflect actual and estimated potential losses resulting from uncollectible account and trade receivables. The allowance of doubtful accounts consists primarily of specific losses regarding individual customers and estimates of potential losses based on statistics from payment histories of similar customer groups.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group aims to maintain the level of its cash and cash equivalents at an amount in excess of the expected cash flows on operating expenses and financial liabilities. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Group has unused short term bank facilities of \$370,000 and \$480,000, as of December 31, 2016 and 2015, respectively.

(v) Market Risk

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

The Group does not enter into any commodity contracts other than to meet the Group's expected usage and sales requirements.

(t) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. Capital consists of ordinary shares, capital surplus and retained earnings of the Group. The Board of Directors monitors the return on capital, as well as the level of dividends to ordinary shareholders.

The Group's debt-to-adjusted-capital ratio at the end of the reporting period was as follows:

	December 31, 2016	December 31, 2015
Total liabilities	\$ 322,719	213,059
Less: cash and cash equivalents	<u>637,608</u>	<u>584,364</u>
Net debt	\$ <u>(314,889)</u>	<u>(371,305)</u>
Total equity	\$ <u>1,087,654</u>	<u>1,043,656</u>
Debt-to-adjusted-capital ratio	<u>- %</u>	<u>- %</u>

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

As of December 31, 2016, there were no changes in the Group's approach of capital management.

(7) Related-party transactions

The compensation of the key management personnel comprised the following:

	2016	2015
Short-term employee benefits	\$ 17,086	17,209
Post-employment benefits	228	248
	<u>\$ 17,314</u>	<u>17,457</u>

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2016	December 31, 2015
Other non-current assets:			
Time deposits	Guarantee for customs	\$ 604	103
Time deposits	Guarantee for rent the land from the Hsinchu Science Park Bureau	1,683	1,683
		<u>\$ 2,287</u>	<u>1,786</u>

(9) Commitments and contingencies: None.

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

(12) Other

The following is a summary statement of employee benefits, depreciation and amortization expensed by function:

By function By item	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	45,346	131,190	176,536	42,674	108,434	151,108
Labor and health insurance	3,903	7,042	10,945	3,813	6,281	10,094
Pension	2,122	4,936	7,058	2,084	4,506	6,590
Others	4,184	9,041	13,225	3,675	7,118	10,793
Depreciation	4,531	3,798	8,329	4,492	3,491	7,983
Amortization	-	484	484	-	484	484

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

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

- (i) Loans to other parties: None.
- (ii) Guarantees and endorsements for other parties: None.
- (iii) Securities held as of December 31, 2016 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	Ending balance				Maximum investment in 2016	Notes
				Number of shares	Book value	Holding percentage	Market value		
The Company	Yayatech Co., Ltd.	-	Financial Assets carried at cost -- non-current	884,000	9,644	5.00 %	-	9,644	Note 1

Note 1: The fair value of the unlisted common shares cannot be measured reliably.

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None.
- (ix) Trading in derivative instruments: None.
- (x) Business relationships and significant intercompany transactions:

No. (Note 1)	Name of company	Name of counter-party	Existing relationship with the counter-party (Note 2)	Transaction details			
				Account name	Amount (Note 5)	Trading terms	Percentage of the total consolidated revenue or total assets (Note 4)
0	The Company	Machvision (Dongguan) Inc.	1	Operating revenue	64,044	Not significantly differentes	7.91 %
0	The Company	Sigold Optics Inc.	1	Operating cost	28,219	Not significantly differentes	4.11 %
0	The Company	Machvision (Dongguan) Inc.	1	Accounts receivable—related parties (including long-term accounts receivable)	71,522	Dependent on capital budgeting	5.07 %
0	The Company	Machvision (Dongguan) Inc.	1	Other payables	22,180	Dependent on capital budgeting	1.57 %
0	The Company	Sigold Optics Inc.	1	Accounts payable—related parties	29,397	Not significantly differentes	2.08 %

Note 1: Company numbering is as follows:

- (1) Parent company is 0.
- (2) Subsidiary starts from 1.

Note 2: The number of the relationship with the transaction counterparty represents the following:

- (1) 1 represents downstream transactions.
- (2) 2 represents upstream transactions.

Note 3: For balance sheet items, over 1% of total consolidated assets, and for profit or loss items, over 1% of total consolidated revenue were selected for disclosure.

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2016 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Address	Scope of business	Original cost		Ending balance			Maximum investment amount in 2016	Net income of investee (Note 1)	Investment income (losses) (Note 1)	Notes
				December 31, 2016	December 31, 2015	Shares	Percentage of ownership	Book value (Note 1)				
The Company	Machvision Inc.	Samoa	Investment	50,114	50,114	1,607,276	100.00 %	41,887	50,114	3,407	3,407	Note 1, 2
The Company	Autovision Technology Inc.	Taiwan	Manufacturing of computer peripheral products	2,250	1,020	225,000	45.00 %	1,584	2,250	19	13	Note 2
The Company	Sigold Optics Inc.	Taiwan	Manufacturing of machinery equipment	30,600	30,600	3,060,000	51.00 %	29,182	30,600	3,992	2,036	Note 2

Note 1: The company is a limited company.

Note 2: The transactions within the Group were eliminated in the consolidated financial statements.

Note 3: The investment income was recognized under the equity method and based on the financial statements audited by the auditor of the Company.

(c) Information on investment in mainland China:

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

Name of investee investment in Mainland China	Major operations	Issued capital	Method of investment (Note 1)	Beginning remittance balance - cumulative investment (amount) from Taiwan	Current remittance / recoverable investment (amount)		Ending remittance balance - cumulative investment (amount) from Taiwan	Net income of investee	Direct / indirect shareholdings or investments (%) in the Company	Maximum investment amount in 2016	Current investment gains and losses (Notes 4)	Book value	Remittance of investment income in current period
					Invested amount	Returned amount							
Machvision (Dongguan) Inc.	Maintaining and trading of machinery equipment	50,042	(2)	50,042	-	-	50,042	3,407	100 %	50,042	3,407	42,800	-

Note 1: The method of investment is divided into the following four categories:

- (1) Remittance from thirdregion companies to invest in Mainland China.
- (2) Through the establishment of thirdregion companies then investing in Mainland China.
- (3) Through transferring the investment to thirdregion existing companies then investing in Mainland China.
- (4) Other methods: EX: delegated investments.

Note 2: Investing in Machvision (Dongguan) Inc. through Machvision Inc.

Note 3: The transactions within the Group were eliminated in the consolidated financial statements.

Note 4: The investment income was recognized under the equity method and based on the financial statements audited by the auditor of the Company.

(ii) Limitation on investment in Mainland China:

Company name	Accumulated investment amount in Mainland China as of December 31, 2016	Investment (amount) approved by Investment Commission, Ministry of Economic Affairs	Maximum investment amount set by Investment Commission, Ministry of Economic Affairs
The Company	50,042	50,384	634,609

Note 1: It represents 60% of the Company's net equity.

(iii) Significant transactions:

Please refer to "Business relationships and significant intercompany transaction" for the indirect and direct business transactions in China. All transactions were eliminated upon consolidation.

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(14) Segment information:

(a) General information

The Group is mainly engaged in the manufacturing, trading and testing of machine vision, as well as their related products. The operating decision maker focuses on the entirety of the Group for the purpose of resource allocation and assessment performance. The Group is identified as a single reportable segment.

(b) Information on income and loss, assets, liabilities, basis of measurement, and the reconciliation for reportable segments

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes operating profit, but not including any extraordinary activity and foreign exchange gain or losses because taxation, extraordinary activity, and foreign exchange gain or losses are managed on a group basis, and hence they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that in the report used by the chief operating decision maker.

The operating segment accounting policies are consistent with those described in note 4 "Significant Accounting Policies".

The Group treated intersegment sales and transfers as third-party transactions. They are measured at market price.

Information on reportable segments and reconciliation for the Group is as follows:

	2016			
	Taiwan	China	Adjustments or elimination	Total
Revenue:				
Revenue from external customers	\$ 694,447	115,184	-	809,631
Inter-segment revenues	95,003	2,323	(97,326)	-
Total revenue	<u>\$ 789,450</u>	<u>117,507</u>	<u>(97,326)</u>	<u>809,631</u>
Reportable segment profit or loss	<u>\$ 240,534</u>	<u>5,650</u>	<u>-</u>	<u>246,184</u>

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	2015			
	Taiwan	China	Adjustments or elimination	Total
Revenue:				
Revenue from external customers	\$ 487,971	122,156	-	610,127
Inter-segment revenues	78,171	2,417	(80,588)	-
Total revenue	<u>\$ 566,142</u>	<u>124,573</u>	<u>(80,588)</u>	<u>610,127</u>
Reportable segment profit or loss	<u>\$ 172,120</u>	<u>9,893</u>	<u>-</u>	<u>182,013</u>

In 2016 and 2015, inter-segment revenues of \$97,326 and \$80,588, respectively, should be eliminated from total revenue.

(c) Information on products and services

Revenue from the external customers were as follows:

Products and services	2016	2015
Sale of goods	\$ 742,211	544,764
Revenue from services	67,420	65,363
Total	<u>\$ 809,631</u>	<u>610,127</u>

(d) Geographic information

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

Geographic information	2016	2015
Revenue from external customers:		
Taiwan	\$ 694,447	487,971
China	115,184	122,156
Total	<u>\$ 809,631</u>	<u>610,127</u>
Geographical information	December 31, 2016	December 31, 2015
Non-current assets:		
Taiwan	\$ 200,823	207,958
China	18,215	20,808
Total	<u>\$ 219,038</u>	<u>228,766</u>

Non-current assets include property, plant and equipment, intangible assets, and other assets, not including financial instruments and deferred tax assets.

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MACHVISION INC. CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) Information about major customers

	<u>2016</u>	<u>2015</u>
A company in Taiwan	\$ 30,728	99,506
B company in Taiwan	<u>255,081</u>	<u>46,672</u>
Total	<u>\$ 285,809</u>	<u>146,178</u>