SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15D-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

For the month of May, 2018
Commission File Number: 000-30540

GIGAMEDIA LIMITED
8F, No.22, Lane 407, Section 2, Tiding Boulevard
Neihu District
Taipei, Taiwan (R.O.C.)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F [x]   Form 40-F [   ]

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes [   ]   No [x]

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b) :82-   .)

GIGAMEDIA LIMITED is submitting under cover of Form 6-K:
1. GigaMedia Notice of Annual General Meeting of Shareholders and Proxy Statement (attached hereto as Exhibit 99.1)

2. GigaMedia Annual General Meeting of Shareholders Proxy Card (attached hereto as Exhibit 99.2)

3. GigaMedia 2017 Financial Statements Prepared in Accordance with U.S. GAAP (attached hereto as Exhibit 99.3)

4. GigaMedia 2017 Financial Statements Prepared in Accordance with Singapore GAAP (attached hereto as Exhibit 99.4)

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GigaMedia Limited
(Registrant)

Date: May 25, 2018

By: /s/ HUANG, CHENG-MING
(Signature)
Name: HUANG, CHENG-MING
Title: Chief Executive Officer

NOTICE OF THE NINETEENTH ANNUAL GENERAL MEETING OF SHAREHOLDERS

GigaMedia Limited

Incorporated in the Republic of Singapore
Registration No.: 199905474H

REGISTERED OFFICE
80 Robinson Road, #02-00
Singapore 068898

NOTICE IS HEREBY GIVEN that the 19th annual general meeting of the shareholders of GigaMedia Limited (the "**Company**") will be held on **June 22, 2018 at 11 a.m. local time at Flat C, 7/F, Lucky Horse Industrial Building, 64 Tong Mi Road, Mongkok, Kowloon, Hong Kong**, for the following purposes:

AS ORDINARY AND SPECIAL BUSINESS

ORDINARY RESOLUTIONS:

To consider and, if thought fit, to pass, with or without modification, the following resolutions which will be proposed as Ordinary Resolutions:

1. Adoption of audited financial statements

   RESOLVED that Statement by the Directors, Auditor's Report and Audited Financial Statements of the Company for the financial year ended December 31, 2017 are received and adopted.

(Resolution 1)

2. Approval of appointment of auditors

   RESOLVED that Deloitte & Touche and Deloitte & Touche LLP be and are hereby appointed as the independent external auditors of the Company until the next Annual General Meeting and that the Directors be and are hereby authorized to fix their remuneration.

(Resolution 2)

3. Approval of Directors' remuneration

   RESOLVED that the remuneration of the Directors is hereby approved in an aggregate amount not exceeding US$350,000 in respect of their professional services to the Company until the conclusion of the next Annual General Meeting of the Company.

(Resolution 3)

4. Approval for authority to allot and issue shares

   RESOLVED that pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore ("**Companies Act**"), authority be and is hereby given to the Directors of the Company to:

   (1) (a) issue ordinary shares in the Company ("**Shares**") whether by way of rights, bonus or otherwise; and/or

   (b) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into Shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

   (2) notwithstanding that the authority conferred by this Resolution may have ceased to be in force, issue Shares pursuant to any Instrument made or granted by the Directors while this Resolution was in force; and

   (3) unless varied or revoked by the Company in general meeting, such authority conferred on the Directors of the Company shall continue in force:

   (i) until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held whichever is earlier; or

(ii) in the case of Shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such Shares in accordance with the terms of the Instruments.

(Resolution 4)

5. Approval for share purchase mandate

RESOLVED that:

(1) for the purposes of Sections 76C and 76E of the Companies Act, the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire issued Shares not exceeding in aggregate the Maximum Limit (as hereafter defined), at such price or prices as may be determined by the Directors from time to time up to the Maximum Price (as hereafter defined), by way of market purchase(s) on The Nasdaq Stock Market ("**Nasdaq**") or off-market purchase(s) on an equal access scheme(s) as may be determined by the Directors as they see fit, which scheme(s) shall satisfy all the conditions of the Companies Act, and otherwise in accordance with all other laws and regulations and rules of Nasdaq as may for the time being be applicable, be and is hereby authorized and approved generally and unconditionally (the "**Share Purchase Mandate**");

(2) unless varied or revoked by the Company in a general meeting, the authority conferred on the Directors of the Company pursuant to the Share Purchase Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earlier of:

(a) the date on which the next Annual General Meeting of the Company is held; and

(b) the date by which the next Annual General Meeting of the Company is required by law to be held;

(3) in this Resolution:

"**Average Closing Price**" means the average of the last dealt prices of a Share for the five consecutive trading days on which the Shares are transacted on Nasdaq immediately preceding the date of market purchase by the Company or the date of making the offer pursuant to an equal access scheme and deemed to be adjusted in accordance with the listing rules of Nasdaq for any corporate action which occurs after the relevant five day period;

"**Maximum Limit**" means that number of issued Shares representing 10% of the total number of issued Shares as at the date of the passing of this Resolution (excluding any Shares which are held as treasury shares as at that date); and

"**Maximum Price**", in relation to a Share to be purchased or acquired pursuant to the Share Purchase Mandate, means the purchase price (excluding brokerage, commission, applicable goods and services tax and other related expenses) which shall not exceed 105% of the Average Closing Price of the Shares; and

(4) the Directors of the Company and/or any of them be and are hereby authorized to complete and do all such acts and things (including executing such documents as may be required) as they and/or he may consider expedient or necessary to give effect to the transactions contemplated and/or authorized by this Resolution.

(Resolution 5)

6. To transact any other business as may properly be transacted at an Annual General Meeting of the Company.

NOTES:

1. Shareholders are cordially invited to attend the Nineteenth Annual General Meeting in person. Whether or not you plan to be at the Nineteenth Annual General Meeting, you are urged to return your proxy. A shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and to vote instead of him.

2. Shareholders wishing to vote by proxy should complete the attached form.

3. The proxy form of an individual shareholder shall be signed either by the shareholder personally or by his attorney. The proxy form of a corporate shareholder shall be given either under its common seal or signed on its behalf by an attorney or a duly authorized officer of the corporate shareholder.

4. A proxy need not be a shareholder of the Company.

5. The proxy form (and if relevant, the original power of attorney, or other authority under which it is signed or a notarially certified copy of such power or authority) must be deposited at Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717, or the office of the Company, 8F, No. 22, Lane 407, Section 2, Tiding Boulevard, Taipei 114, Taiwan R.O.C., not less than 48 hours before the time for holding the Nineteenth Annual General Meeting, that is by no later than 11 p.m. June 19, 2018 (New York time), or 11 a.m. June 20, 2018 (Taipei time), failing which the proxy shall not be treated as valid.

6. Electronic Delivery of Future Proxy Materials. Shareholders can consent to receiving all future proxy statements, proxy card and annual reports electronically via e-mail or the internet. To sign up for electronic delivery, please follow the instructions below relating to "Electronic Delivery of Future Proxy Materials" and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

7. Only shareholders of record at the close of business on April 20, 2018 are entitled to notice of and to vote at the Nineteenth Annual General Meeting, or any adjournment or postponement of the Nineteenth Annual General Meeting.

8. The Company intends to use internal sources of funds or external borrowings or a combination of both to finance the Company's purchase or acquisition of the Shares pursuant to the Share Purchase Mandate. The Directors do not propose to exercise the Share Purchase Mandate to such extent that it would materially and adversely affect the financial position of the Company and its subsidiaries. The amount of financing required for the Company to purchase or acquire its Shares, and the impact on the Company's financial position, cannot be ascertained as at the date of this Notice as this will depend on the number of Shares purchased or acquired, the price at which such Shares were purchased or acquired and whether the Shares purchased or acquired would be held in treasury or cancelled.

BY ORDER OF THE BOARD

/s/ Cheng-Ming Huang
………………………………………..
Cheng-Ming Huang (aka James Huang)
Chairman of the Board and Chief Executive Officer

TABLE OF CONTENTS

GigaMedia Limited
Incorporated in the Republic of Singapore
Registration No.: 199905474H

REGISTERED OFFICE
80 Robinson Road, #02-00
Singapore 068898

PROXY STATEMENT

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Why Did I Receive This Proxy Statement?

We sent you this proxy statement and the enclosed proxy card because the Company's Board of Directors is soliciting your proxy to be used at the Company's annual meeting of shareholders on **June 22, 2018 at Flat C, 7/F, Lucky Horse Industrial Building, 64 Tong Mi Road, Mongkok, Kowloon, Hong Kong**, or at any adjournment or postponement of the meeting.

Who Can Vote?

You are entitled to vote if you owned the Shares on the record date ("**Record Date**"), which is the close of business on April 20, 2018. Each Share that you own entitles you to one vote.

How Many Shares of Voting Stock Are Outstanding?

On the Record Date, there were 11,052,235 Shares outstanding. The Shares are our only class of voting stock.

What May I Vote On?

1. Adoption of Audited Financial Statements

2. Approval of Appointment of Auditors

3. Approval of Directors' Remuneration

4. Approval for Authority to Allot and Issue Shares

5. Approval for Share Purchase Mandate

Other Business

How Do I Vote?

To vote by proxy, you should complete, sign and date the enclosed proxy card and return it promptly in the prepaid envelope provided.

Electronic Delivery of Future Proxy Materials

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the internet. To sign up for electronic delivery, please go to www.proxyvote.com to indicate that you agree to receive or access proxy materials electronically in future years.

May I Revoke My Proxy?

Your proxy may be revoked prior to its exercise by appropriate notice to the undersigned.

If I Plan To Attend The Meeting, Should I Still Vote By Proxy?

Whether you plan to attend the meeting or not, we urge you to vote by proxy. Returning the proxy card will not affect your right to attend the meeting, and your proxy will not be used if you are personally present at the meeting and inform the Secretary in writing prior to the voting that you wish to vote your Shares in person.

How Will My Proxy Get Voted?

If you properly fill in your proxy card and send it to us, your proxy holder (the individual named on your proxy card) will vote your Shares as you have directed. If you sign the proxy card but do not make specific choices, the proxy holder will vote your Shares as recommended by the Board of Directors and the Company's management.

How Will Voting On Any Other Business Be Conducted?

Although we do not know of any business to be considered at the meeting other than the proposals described in this proxy statement, if any other business is presented at the meeting, your returned proxy gives authority to the proxy holder to vote on these matters in his discretion.

Proposal 1. ADOPTION OF AUDITED FINANCIAL STATEMENTS

The Company seeks shareholders' adoption of the audited financial statements of the Company (the "**Audited Financial Statements**"), which have been prepared under Financial Reporting Standards in Singapore ("FRSs") , in respect of the financial year ended December 31, 2017. Along with the Audited Financial Statements, the Company seeks Shareholders' adoption of the Report of the Directors, Statement by the Directors and Auditor's Report of the Company in respect of the same financial year.

Adoption of this proposal requires the affirmative vote of a majority of the votes cast by shareholders entitled to vote at the Nineteenth Annual General Meeting of the Company ("**AGM**").

The Board of Directors of the Company (the "Board of Directors") recommends a vote FOR this proposal.

Proposal 2. APPROVAL OF APPOINTMENT OF AUDITORS

The Company seeks Shareholders' approval for the appointment of Deloitte & Touche and Deloitte & Touche LLP as the independent external auditors of the Company to hold such office until the conclusion of the next Annual General Meeting of the Company. The Board of Directors also seeks shareholders' approval to authorize the Board of Directors to fix the remuneration for Deloitte & Touche and Deloitte & Touche LLP in respect of their service to the Company for the financial year ended December 31, 2018.

Adoption of this proposal requires the affirmative vote of a majority of the votes cast by shareholders entitled to vote at the AGM.

The Board of Directors recommends a vote FOR this proposal.

Proposal 3. APPROVAL OF DIRECTORS' REMUNERATION

The Company seeks shareholders' approval on the remuneration of Directors in an aggregated amount not exceeding US$350,000 in respect of their professional services to the Company until the conclusion of the next Annual General Meeting of the Company.

Adoption of this proposal requires the affirmative vote of a majority of the votes cast by shareholders entitled to vote at the AGM.

The Company's management recommends a vote FOR this proposal.

Proposal 4. APPROVAL FOR AUTHORITY TO ALLOT AND ISSUE SHARES

The Company is incorporated in Singapore. Under the Companies Act, Chapter 50 of Singapore (the "**Companies Act**"), the Directors may exercise any power of the Company to issue new Shares only with the prior approval of the shareholders of the Company at a general meeting. Such approval, if granted, is effective from the date of the general meeting at which the approval was given until the date on which the next Annual General Meeting of the Company is held or is required by law to be held, whichever is earlier.

Shareholders' approval is sought to give Directors authority to allot and issue new Shares and other instruments convertible into Shares during the period from the Nineteenth Annual General Meeting to the earlier of the next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held.

Adoption of this proposal requires the affirmative vote of a majority of the votes cast by shareholders entitled to vote at the AGM.

The Board of Directors recommends a vote FOR this proposal.

Proposal 5. APPROVAL FOR SHARE PURCHASE MANDATE

The approval of the Share Purchase Mandate authorizing the Company to purchase or acquire its Shares would give the Company the flexibility to undertake share purchases or acquisitions at any time, subject to market conditions, during the period when the Share Purchase Mandate is in force.

In managing the business of the Company and its subsidiaries (the "**Group**"), the Company's management strives to increase shareholders' value by improving, *inter alia*, the return on equity of the Group. A share purchase by the Company is one of the ways through which the return on equity of the Group may be enhanced.

A Share purchase is also an available option for the Company to return surplus cash which is in excess of the financial and possible investment needs of the Group to its shareholders. In addition, the Share Purchase Mandate will allow the Company to have greater flexibility over, *inter alia*, the Company's share capital structure and its dividend policy.

The Company intends to use internal sources of funds or external borrowings or a combination of both to finance the Company's purchase or acquisition of the Shares pursuant to the Share Purchase Mandate. The Directors do not propose to exercise the Share Purchase Mandate to such extent that it would materially and adversely affect the financial position of the Group.

Share repurchase programmes may also help buffer short-term share price volatility and off-set the effects of short-term speculators and investors and, in turn, bolster shareholder confidence and employee morale.

Adoption of this proposal requires the affirmative vote of a majority of the votes cast by shareholders entitled to vote at the AGM.

The Board of Directors recommends a vote FOR this proposal.

OTHER MATTERS

As of the date of this Proxy Statement, the Company does not intend to present and has not been informed that any other person intends to present any business not specified in this Proxy Statement for action at the Nineteenth Annual General Meeting.

Shareholders are urged to sign the enclosed proxy form and to return it promptly in the enclosed envelope. Proxies will be voted in accordance with shareholders' directions. Signing the proxy form does not affect a shareholder's right to vote at the Nineteenth Annual General Meeting, and the proxy may be revoked prior to its exercise by appropriate notice to the undersigned.

PROXY SOLICITATION

The Company will pay the cost of preparing and mailing this proxy statement and form of proxy to its shareholders. The Company has retained Mackenzie Partners, Inc. to request banks and brokers to forward copies of these materials to persons for whom they hold Shares and to request authority for execution of the proxies.

GIGAMEDIA LIMITED

/s/ Cheng-Ming Huang

………………………………………..

Cheng-Ming Huang (aka James Huang)
Chairman of the Board and Chief Executive Officer

GIGAMEDIA LIMITED
8F, NO. 22, LANE 407, SECTION 2
TIDING BLVD.
NEIHU DISTRICT, TAIPEI 114
TAIWAN R.O.C

VOTE BY INTERNET - www.proxyvote.com
Use the Internet to transmit your voting instructions and for electronic delivery of information up until 48 hours before the time of the meeting. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS
If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY MAIL
Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

The Board of Directors recommends you vote FOR proposals 1 through 5.

		For	Against	Abstain
1	Adoption of Audited Financial Statements	☐	☐	☐
2	Approval of Appointment of Auditors	☐	☐	☐
3	Approval of Directors' Remuneration	☐	☐	☐
4	Approval of Authority to Allot and Issue Shares	☐	☐	☐
5	Approval for Share Purchase Mandate	☐	☐	☐

NOTE: Such other business as may properly come before the meeting or any adjournment thereof.

For address change/comments, mark here. ☐
(see reverse for instructions)

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owners) Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:
The Notice & Proxy Statement, U.S. Annual Report and Singapore Annual Report are available at www.proxyvote.com

GIGAMEDIA LIMITED
Annual Meeting of Shareholders
June 22, 2018 11:00 AM
This proxy is solicited by the Board of Directors

I/We, being a Shareholder/Shareholders of the above named Company, hereby appoint Cheng-Ming Huang (aka James Huang) of 8F, No. 22, Lane 407, Section 2 Tiding Blvd., Neihu District, Taipei R.O.C., failing whom the Chairman of the Meeting, as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Flat C, 7/F, Lucky Horse Industrial Building, 64 Tong Mi Rd., Mongkok, Kowloon, Hong Kong on Friday, June 22, 2018, at 11:00 AM local time, and at any adjournment or postponement thereof.

This Proxy, when properly executed, and returned in a timely manner, will be voted at the Annual General Meeting and any adjournments thereof in the manner described herein. If no contrary indication is made, the proxy will be voted as recommended by the Board of Directors and the Company's management.

1. The proxy form must be signed by the Shareholder or by the Shareholders' attorney duly authorized in writing or, if the appointer is a corporation, either, under seal or in some other manner approved by the directors of the Company.

2. To be effective, the proxy form (and power of attorney or other authority under which it is signed or a notarially certified copy of such power of authority, if relevant) must be returned to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717, no less than 48 hours before the meeting.

Address change/comments:

(If you noted any Address Changes and/or Comments above, please mark corresponding box on the reverse side.)

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Continued and to be signed on reverse side

GIGAMEDIA LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2017

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(With Reports of Independent Registered Public Accounting Firms Thereon)

GIGAMEDIA LIMITED AND SUBSIDIARIES
Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the shareholders and the Board of Directors of GigaMedia Limited:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of GigaMedia Limited and subsidiaries (the "Company") as of December 31, 2017, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for the year ended December 31, 2017 and related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

The financial statements of the Company for the years ended December 31, 2015 and 2016, before the effects of the adjustments to retrospectively apply the change in accounting discussed in Note 1 to the financial statements, were audited by other auditors whose report, dated April 26, 2017, expressed an unqualified opinion on those statements. We have also audited the adjustments to the 2015 and 2016 financial statements to retrospectively apply the change in accounting for ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715)* in 2017, as discussed in Note 1 and Note 16 to the financial statements. Our procedures included examining evidence regarding the amounts and disclosures of retrospective adjustments in the financial statements. In our opinion, such retrospective adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2015 and 2016 financial statements of the Company other than with respect to the retrospective adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2015 and 2016 financial statements taken as a whole.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/S/ Deloitte & Touche

Taipei, Taiwan

Republic of China

April 27, 2018

We have served as the Company's auditor since 2017.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
GigaMedia Limited:

We have audited, before the effects of the adjustments to retrospectively apply the change in accounting described in Note 1, the accompanying consolidated balance sheet of GigaMedia Limited and subsidiaries as of December 31, 2016, and the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for each of the years in the two year period ended December 31, 2016. The 2016 consolidated financial statements before the effects of adjustments discussed in Note 1 are not presented herein. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2016 consolidated financial statements, before the effects of the adjustments to retrospectively apply the change in accounting described in Note 1, present fairly, in all material respects, the financial position of GigaMedia Limited and subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for each of the years in the two year period ended December 31, 2016 in conformity with U.S. generally accepted accounting principles.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the change in accounting described in Note 1, and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by a successor auditors.

/S/ KPMG

Taipei, Taiwan (the Republic of China)

April 26, 2017

GIGAMEDIA LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2017
(in thousands of US dollars)

	December 31	
	2016	**2017**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 8)	$ 65,711	$ 63,670
Marketable securities - current (Note 9)	3	—
Accounts receivable - net (Note 10)	871	751
Prepaid expenses	547	390
Restricted cash (Note 8)	500	507
Other current assets (Note 11)	1,250	193
Total Current Assets	68,882	65,511
EQUITY INVESTMENTS (Note 13)	72	—
PROPERTY, PLANT AND EQUIPMENT, NET (Note 14)	7	158
INTANGIBLE ASSETS - NET (Note 5)	—	3
OTHER ASSETS		
Refundable deposits	245	208
Prepaid licensing and royalty fees (Note 6)	1,020	459
Other (Note 17)	101	74
TOTAL ASSETS	$ 70,327	$ 66,413

GIGAMEDIA LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - (Continued)
DECEMBER 31, 2016 AND 2017
(in thousands of US dollars, except share data)

	December 31	
	2016	**2017**
LIABILITIES & EQUITY		
CURRENT LIABILITIES		
Short-term borrowings (Note 15)	$ 2,480	$ —
Accounts payable	266	314
Accrued compensation	210	549
Accrued expenses (Note 16)	3,828	2,158
Deferred revenue	1,868	1,863
Other current liabilities	346	164
Total Current Liabilities	8,998	5,048
NONCURRENT LIABILITIES		
Deferred tax liabilities (Note 21)	1,671	—
Total Liabilities	10,669	5,048
COMMITMENTS AND CONTINGENCIES (Note 23)	—	—
SHAREHOLDERS' EQUITY (Note 18)		
Common shares, no par value, and additional paid-in capital; issued and outstanding 11,052 thousand shares in 2016 and 2017	308,754	308,747
Accumulated deficit	(226,485)	(225,399)
Accumulated other comprehensive loss	(22,611)	(21,983)
Total GigaMedia Shareholders’ Equity	59,658	61,365
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 70,327	$ 66,413

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

GIGAMEDIA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017
(in thousands of US dollars, except for earnings per share amounts)

	2015	2016	2017
OPERATING REVENUES			
Digital entertainment service revenues	$ 8,545	$ 8,971	$ 11,596
Other revenues	1,706	—	—
	10,251	8,971	11,596
COSTS OF REVENUES			
Cost of digital entertainment service revenues	(7,018)	(4,138)	(5,098)
Cost of other revenues	(1,871)	—	—
	(8,889)	(4,138)	(5,098)
GROSS PROFIT	1,362	4,833	6,498
OPERATING EXPENSES			
Product development and engineering expenses	(688)	(1,045)	(1,072)
Selling and marketing expenses	(8,655)	(5,513)	(3,993)
General and administrative expenses	(5,817)	(3,458)	(3,528)
Impairment loss on property, plant and equipment (Note 7)	(60)	(471)	—
Impairment loss on intangible assets (Note 7)	(5)	(57)	—
Impairment loss on prepaid licensing and royalty fees (Notes 6 and 7)	(4,187)	(1,386)	—
Termination of proposed acquisition (Note 3)	(2,000)	—	—
Gain on termination of licensing agreement (Note 6)	—	—	1,732
Other (Note 10)	(3)	(35)	(127)
	(21,415)	(11,965)	(6,988)
LOSS FROM OPERATIONS	(20,053)	(7,132)	(490)
NON-OPERATING INCOME (EXPENSES)			
Interest income	333	302	602
Gain on disposal of marketable securities (Note 9)	19,939	—	2
Gain on disposal of property, plant and equipment - net (Note 14)	—	751	1
Interest expense	(182)	(81)	(34)
Foreign exchange loss, net	(397)	(301)	(551)
Net loss on equity investments (Note 13)	(600)	(1,731)	(24)
Impairment loss on investments (Note 7)	(1,290)	—	(52)
Gain on disposal of subsidiary and equity investments (Note 4)	37	849	—
Other (Note 17)	(489)	128	(39)
	17,351	(83)	(95)
LOSS BEFORE INCOME TAXES	(2,702)	(7,215)	(585)
INCOME TAX BENEFIT (Note 21)	414	1,149	1,671
NET INCOME (LOSS)	(2,288)	(6,066)	1,086
LESS: NET LOSS ATTRIBUTABLE TO THE NONCONTROLLING INTERESTS	45	—	—
NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF GIGAMEDIA	$ (2,243)	$ (6,066)	$ 1,086
EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO GIGAMEDIA			
Basic and Diluted:	$ (0.20)	$ (0.55)	$ 0.10
WEIGHTED AVERAGE SHARES USED TO COMPUTE EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO GIGAMEDIA SHAREHOLDERS (Note 2)			
Basic	11,052	11,052	11,052
Diluted	11,052	11,052	11,052

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

GIGAMEDIA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017
(in thousands of US dollars)

	2015	2016	2017
NET INCOME (LOSS)	$ (2,288)	$ (6,066)	$ 1,086
OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX:			
Unrealized gain on marketable securities	8,553	(1)	—
Realized gain on marketable securities reclassified into income	(19,939)	—	(2)
Defined benefit pension plan adjustment	—	(58)	(11)
Foreign currency translation adjustment	538	(217)	641
	(10,848)	(276)	628
COMPREHENSIVE INCOME (LOSS)	(13,136)	(6,342)	1,714
COMPREHENSIVE LOSS ATTRIBUTABLE TO THE NONCONTROLLING INTERESTS	45	—	—
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO GIGAMEDIA SHAREHOLDERS	$ (13,091)	$ (6,342)	$ 1,714

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

GIGAMEDIA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017
(in thousands of US dollars and shares, except per share amounts)

	GIGAMEDIA SHAREHOLDERS					
	Common shares and additional paid-in capital					
	Shares	Amount	Accumulated deficit (Note 18)	Accumulated other comprehensive loss (Note 19)	Noncontrolling interest	Total
Balance as of January 1, 2015	11,052	$ 308,682	$ (218,176)	$ (11,487)	$ 10	$ 79,029
Stock-based compensation	—	63	—	—	—	63
Deconsolidation of FingerRockz (Note 4)	—	—	—	—	35	35
Net loss	—	—	(2,243)	—	(45)	(2,288)
Other comprehensive loss	—	—	—	(10,848)	—	(10,848)
Balance as of December 31, 2015	11,052	308,745	(220,419)	(22,335)	—	65,991
Stock-based compensation	—	9	—	—	—	9
Net loss	—	—	(6,066)	—	—	(6,066)
Other comprehensive loss	—	—	—	(276)	—	(276)
Balance as of December 31, 2016	11,052	$ 308,754	$ (226,485)	$ (22,611)	—	$ 59,658
Stock-based compensation	—	(7)	—	—	—	(7)
Net income	—	—	1,086	—	—	1,086
Other comprehensive income	—	—	—	628	—	628
Balance as of December 31, 2017	11,052	$ 308,747	$ (225,399)	$ (21,983)	—	$ 61,365

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

GIGAMEDIA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017
(in thousands of US dollars)

	2015	2016	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (2,288)	$ (6,066)	$ 1,086
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation	294	162	43
Amortization	245	111	12
Stock-based compensation	65	9	(7)
Gain on disposal of subsidiary and equity investments	(37)	(849)	—
Impairment loss on property and equipment	60	471	—
Impairment losses on intangible assets	5	57	—
Impairment losses on prepaid licensing and royalty fees	4,187	1,386	—
Bad debt	3	35	127
Gains on disposals of property, plant and equipment - net	—	(751)	(1)
Gains on disposal of marketable securities	(19,939)	—	(2)
Net loss on equity investments	600	1,731	24
Impairment losses on marketable securities and investments	1,290	—	52
Deferred income tax benefits	(216)	(41)	(1,672)
Other	(11)	—	—
Net changes in:			
Accounts receivable	47	341	14
Prepaid expenses	17	(12)	137
Other current assets	82	49	(6)
Prepaid licensing and royalty fees	(43)	(2,167)	561
Prepaid pension assets	(64)	46	(9)
Accounts payable	(451)	(24)	48
Accrued compensation	(28)	(331)	339
Accrued expenses	(396)	1,071	(1,670)
Other current liabilities	(267)	(916)	(186)
Net cash used in operating activities	(16,845)	(5,688)	(1,110)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash dividends received from investees	—	1,438	—
Proceeds from disposals of marketable securities	42,583	—	2
Carrying amount of cash from divestiture of business	(78)	(482)	—
Purchases of property, plant and equipment	(158)	(496)	(192)
Proceeds from disposals of property, plant and equipment	23	1,950	1
Proceeds from disposals of subsidiary and equity investments	—	872	1,058
Purchase of cost method investments	(1,000)	—	—
Increase in intangible assets	(112)	(86)	(11)
Decrease in refundable deposits	27	27	37
Other	(111)	30	40
Net cash provided by investing activities	41,174	3,253	935

GIGAMEDIA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017
(in thousands of US dollars)

	2015	2016	2017
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings	—	—	986
Repayments of short-term borrowings	(12,281)	(3,722)	(3,617)
Other	—	(10)	—
Net cash used in financing activities	(12,281)	(3,732)	(2,631)
Net foreign currency exchange differences on cash, restricted cash and cash equivalents	753	(54)	772
NET INCREASE (DECREASE) IN CASH, RESTRICTED CASH AND CASH EQUIVALENTS	12,801	(6,221)	(2,034)
CASH, RESTRICTED CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	59,631	72,432	66,211
CASH, RESTRICTED CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 72,432	$ 66,211	$ 64,177
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid during the year	$ 190	$ 83	$ 35
Income tax paid during the year	$ 44	$ 46	$ 1

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

NOTE 1. <u>Principal Activities, Basis of Presentation, and Summary of Significant Accounting Policies</u>

(a) Principal Activities

GigaMedia Limited (referred to hereinafter as GigaMedia, our Company, we, us, or our) is a diversified provider of digital entertainment services, with headquarters in Taipei, Taiwan.

Our digital entertainment service business operates a suite of play-for-fun digital entertainment services, mainly targeting online and mobile-device users across Asia.

Our cloud business aimed at providing an integrated platform of services and tools for medium-to-larger enterprises in Greater China to increase flexibility, efficiency and competitiveness, as well as in bidding for government contracts in Taiwan. After reviewing the business plan for 2016, we decided to redirect our cloud service business resources for internal use, in particular, by moving the servers used in our digital entertainment business to the cloud, including the related maintenance, and to wind down our cloud service activities.

On December 16, 2015, the Extraordinary General Meeting of our Company approved to effect a reverse share split of our Ordinary Shares by a ratio of five to one. We executed reverse splits of the issued and outstanding shares including but not limited to common shares, shares granted by employee plans, options, restricted stock awards, and units, warrants and convertible or exchange securities, effective at the open of the market on December 16, 2015. Based upon the Reverse Share Split Scheme, proportionate adjustments are generally required to be made to the per share exercise price and the number of shares issuable upon the exercise or conversion of all outstanding options. These consolidated financial statements reflect retroactive effect to such reverse split and all share and per share amounts have been adjusted accordingly.

(b) Basis of Presentation

The accompanying consolidated financial statements of our Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

(c) Summary of significant accounting policies

Principles of Consolidation

The consolidated financial statements include the accounts of GigaMedia and subsidiaries after elimination of all inter-company accounts and transactions.

Foreign Currency Translation and Transactions

Assets and liabilities denominated in non-U.S. dollars are translated to U.S. dollars at year-end exchange rates. Income and expense items are translated at average rates of exchange prevailing during the year. Cumulative translation adjustments resulting from this process are charged or credited to other comprehensive income. Gains and losses on foreign currency transactions are included in other income and expenses.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management bases its estimates on historical experience and also on assumptions that it believes are reasonable. Management assesses these estimates on a regular basis; however, actual results could differ from those estimates. Significant items subject to such estimates and assumptions include but not limit to the deferral of revenues; the useful lives of property, plant and equipment; allowances for doubtful accounts; the valuation of deferred tax assets, long-lived assets, investments and share-based compensation; and accrued pension liabilities (prepaid pension assets), income tax uncertainties and other contingencies. We believe the critical accounting policies listed below affect significant judgments and estimates used in the preparation of the financial statements.

Revenue Recognition

General

Revenues are recognized when persuasive evidence of an arrangement exists, delivery occurs and the customer takes ownership and assumes risks or services are rendered, the sales price is fixed or determinable and collectability is reasonably assured.

Sales taxes assessed by governmental authorities on our revenue transactions are presented on a net basis and therefore are excluded from revenues in our consolidated financial statements.

In addition to the aforementioned general policies, the following are the specific revenue recognition policies for each major category of revenue.

Digital Entertainment Product and Service Revenues

Digital entertainment product and service revenues are earned through the sale of virtual points, prepaid cards and game packs. Virtual points are sold to distributors or end-users who can make the payments through credit cards, Internet ATMs or telecommunication service operators. Prepaid cards and game packs are sold through distributors and convenience stores. Proceeds from sales of prepaid cards and game packs, net of sales discounts, and virtual points are deferred when received and revenue is recognized upon the actual usage of the playing time or in-game virtual items by the end-users; over the estimated useful life of virtual items; or when the sold points expire and can no longer be used to access the digital services in accordance with our published points expiration policy.

Sales of virtual points, prepaid cards and game packs are reported on a gross basis. In the sales of virtual points, we act as principal and we have latitude in establishing price. Fixed percentage fees retained by service providers for payment processing related to our digital entertainment services are recognized as cost of digital entertainment revenues.

Cloud Product and Service Revenues

Cloud service revenues that we provided prior to 2016 were related to cloud computing services provided by our Company. Revenues are recorded net of discounts. Cloud service revenues are recognized upon acceptance for project services provided, or for the period of time for which we provide services to the customer. Customers of subscriptions have a choice of paying either monthly or in advance for a certain period of time, for which they receive corresponding discounts. Our Company records any such advanced payment receipts as other current liabilities and amortizes such revenues over the subscription period.

Revenues from the sales of equipment and other related products are recognized upon acceptance.

Deferred Revenues

Deferred revenues consist mainly of the advanced income related to our digital entertainment business. Deferred revenue represents proceeds received relating to the sale of virtual points and in-game items which are activated or charged to the respective user account by users, but which have not been consumed by the users or expired. Deferred revenue is credited to profit or loss when the virtual points and in-game items are consumed or expired. Pursuant to relevant new requirements in Taiwan, as of December 31, 2016 and 2017, cash totaling $500 thousand and $507 thousand, respectively, has been deposited in an escrow account in a bank as a performance bond for the users' virtual points, and is included within restricted cash in the consolidated balance sheets.

Prepaid Licensing and Royalty Fees

Our Company, through our subsidiaries, routinely enters into agreements with licensors to acquire licenses for using, marketing, distributing, selling and publishing digital entertainment offerings.

Prepaid licensing fees paid to licensors are amortized on a straight-line basis over the shorter of the estimated useful economic life of the relevant product and service or license period, which is usually within one to two years.

Prepaid royalty fees and related costs are initially deferred when paid to licensors and amortized as operating costs based on certain percentage of revenues generated by the licensee from operating the related digital entertainment product and service in the specific country or region over the contract period.

Fair Value Measurements

Our Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. We determine fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

Our Company generally determines or calculates the fair value of financial instruments using quoted market prices in active markets when such information is available; otherwise we apply appropriate present value or other valuation techniques, such as discounted cash flow analyses, incorporating adjusted available market discount rate information and our Company's estimates for non-performance and liquidity risk. These techniques rely extensively on the use of a number of assumptions, including the discount rate, credit spreads, and estimates of future cash flows. (See Note 7, "Fair Value Measurements", for additional information.)

Cash Equivalents, Restricted Cash and Presentation of Statements of Cash Flows

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and so near to their maturity that they present relatively insignificant risk from changes in interest rates. Commercial paper, negotiable certificates of deposit, time deposits and bank acceptances with original maturities of three months or less are considered to be cash equivalents.

In accordance with Accounting Standards Update ("ASU") No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, issued in in November 2016, our consolidated statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Our Company applied the amendments in the ASU No. 2016-18 effective January 1, 2016. Each of prior periods presented is adjusted retrospectively, and accordingly, the amount of net cash provided by investing activities in 2015 was adjusted from $49.2 million to $41.2 million.

Marketable Securities

Our Company's investments in marketable securities are classified either as available-for-sale or trading. For the marketable securities classified as available-for-sale, the investments are stated at fair value with any unrealized gains or losses reported in accumulated other comprehensive income (loss) within equity until realized. For the marketable security classified as trading, we recognize the changes of the fair value of the investment in our consolidated statements of operations.

Other-than-temporary impairments, if any, are charged to non-operating expense in the period in which the loss occurs. In determining whether an other-than-temporary impairment has occurred, our Company primarily considers, among other factors, the length of the time and the extent to which the fair value of an investment has been at a value less than cost. When an other-than-temporary loss is recognized, the fair value of the investment becomes the new cost basis of the investment and is not adjusted for subsequent recoveries in fair value. Realized gains and losses also are included in non-operating income and expense in the consolidated statements of operations. (See Note 7, "Fair Value Measurements", for additional information.)

Investments

Equity investments in non-publicly traded securities of companies over which our Company has no ability to exercise significant influence are accounted for under the cost method.

For equity investments accounted for as available-for-sale or trading, cash dividends are recognized as investment income. Stock dividends are recognized as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares.

For equity investments accounted under equity method, stock dividends received from investees as a result of appropriation of net earnings and additional paid-in capital are recognized as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the weighted-average method. Cash dividends are accounted for as a reduction to the carrying value of the investment.

Equity investments in companies over which our Company has the ability to exercise significant influence but does not hold a controlling financial interest are accounted for under the equity method. We recognize our share of the earnings or losses of the investee. Under the equity method, the difference between the cost of the acquisition and our Company's share of the fair value of the net identifiable assets is recognized as goodwill and is included in the carrying amount of the investment. When our Company's carrying value in an equity method investee is reduced to zero, no further losses are recorded in our consolidated financial statements unless our Company guaranteed obligations of the investee or has committed to additional funding. When the investee subsequently reports income, our Company will not record its share of such income until it equals the amount of its share of losses not previously recognized.

Unrealized losses that are considered other-than-temporary, if any, are charged to non-operating expenses. Realized gains and losses, measured against carrying amount, are also included in non-operating income and expenses. (See Note 7, "Fair Value Measurements", for additional information.)

Receivables

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. Our Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and our customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is recorded on a straight-line basis over useful lives that correspond to categories as follows:

Categories	Years
Buildings	50
Information and communication equipment	2 to 5
Office furniture and equipment	3 to 5
Leasehold improvements	3 to 5

Leasehold improvements are amortized over the shorter of the term of the lease or the economic useful life of the assets. Improvements and replacements are capitalized and depreciated over their estimated useful lives, while ordinary repairs and maintenance are expensed as incurred.

We had entered into agreements to lease certain of our Company's land and buildings to a third party under operating leases, which were renewed in September and October 2013 and expired in 2016. As of December 31, 2015, the carrying amount of the land and buildings under lease was $1.1 million. In January 2016, we entered into disposal agreements to sell these land and buildings. The closing of the disposal occurred in March 2016. (See Note 14, "Property, Plant and Equipment", for additional information.)The rental income under the operating lease amounted to $69 thousand and $9 thousand for 2015 and 2016, respectively.

Business Acquisitions

Our Company accounts for its business acquisitions using the acquisition method. Under this method, our Company recognizes and measures the identifiable assets acquired, the liabilities assumed and any noncontrolling interest at their acquisition-date fair values, with limited exceptions. Acquisition-related costs are generally expensed as incurred.

Intangible Assets and Goodwill

Intangible assets with finite lives are amortized by the straight-line method over their estimated useful lives, typically one to three years.

Impairment of Intangible Assets and Long-Lived Assets

Long-lived assets other than goodwill and intangible assets not being amortized are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value of an asset might not be recoverable from its related future undiscounted cash flows. If such assets are considered to be impaired, the impairment to be recognized is measured by the extent to which the carrying amount of the assets exceeds the fair value of the assets. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. When impairment is identified, the carrying amount of the asset is reduced to its estimated fair value, and is recognized as a loss from operations. (See Note 7, “Fair Value Measurements”, for additional information.)

Software Cost

We capitalize certain costs incurred to purchase computer software. These capitalized costs are amortized on a straight-line basis over the shorter of the useful economic life of the software or its contractual license period, which is typically one to three years.

Product Development and Engineering

Product development and engineering expenses primarily consist of research compensation, depreciation and amortization, and are expensed as incurred.

Advertising

Costs of broadcast advertising are recorded as expenses as advertising airtime is used. Other advertising expenditures are expensed as incurred.

Advertising expenses incurred in 2015, 2016 and 2017 totaled \$3.1 million, \$3.3 million and \$1.9 million, respectively. As of December 31, 2016 and 2017, prepaid advertising amounted to \$42 thousand and \$18 thousand, respectively.

Leases

Leases for which substantially all of the risks and rewards of ownership remain with the leasing company are accounted for as operating leases. Payments made under operating leases, net of any incentives received by our Company from the leasing company, are charged to the consolidated statements of operations on a straight-line basis over the lease periods.

Share-Based Compensation

Share-based compensation represents the cost related to share-based awards granted to employees. We measure share-based compensation cost at the grant date, based on the estimated fair value of the award. Share-based compensation is recognized for the portion of the award that is ultimately expected to vest, and the cost is amortized on a straight-line basis (net of estimated forfeitures) over the vesting period. Our Company estimates the fair value of stock options using the Black-Scholes valuation model. The cost is recorded in costs of revenues and operating expenses in the consolidated statements of operations on the date of grant based on the employees’ respective function.

For shares and stock options granted to non-employees, we measure the fair value of the equity instruments granted at the earlier of the performance commitment date or when the performance is completed.

The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* in March 2016. The amendments in this ASU simplify the accounting for share-based payments regarding (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. Our company adopted this ASU on January 1, 2017. The adoption did not have a material impact on our consolidated financial statements.

Retirement Plan and Net Periodic Pension Cost

Under our defined benefit pension plan, net periodic pension cost, which includes service cost, interest cost, expected return on plan assets, amortization of unrecognized net transition obligation and gains or losses on plan assets, is recognized based on an actuarial valuation report. We recognize the funded status of pension plans and non-pension post-retirement benefit plans (retirement-related benefit plans) as an asset or a liability in the consolidated balance sheets.

Under our defined contribution pension plans, net periodic pension cost is recognized as incurred.

The FASB issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715)*, in March 2017. The amendments in this ASU require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this Update also allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset). Our company early adopted this ASU on January 1, 2017, retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the statement of operations, and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The adoption only affected, immaterially, the presentation of our consolidated statements of operations. Refer to Note 17 - "Pension Benefits" for information about the effect of reclassification for 2015 and 2016.

Income Taxes

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities, classified as noncurrent on the consolidated balance sheets, are measured using the enacted tax rate and laws that will be in effect when the related temporary differences are expected to reverse. A valuation allowance is established when necessary to reduce deferred tax assets to the amount that will more-likely-than-not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences and loss carryforwards become deductible.

In addition, we recognize the financial statement impact of a tax position when it is more-likely-than-not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is measured at the largest amount that is greater than a 50 percent likely of being realized upon settlement. Interest and penalties on an underpayment of income taxes are reflected as income tax expense in the consolidated financial statements.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the net income (loss) attributable to common shareholders for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing the net earnings (loss) for the period by the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares, composed of incremental common shares issuable upon the exercise of options in all periods, are included in the computation of diluted earnings (loss) per share to the extent such shares are dilutive. Diluted earnings (loss) per share also takes into consideration the effect of dilutive securities issued by subsidiaries. In a period in which a loss is incurred, only the weighted average number of common shares issued and outstanding is used to compute the diluted loss per share, as the inclusion of potential common shares would be anti-dilutive. Therefore, for the years ended December 31, 2015 and 2016, basic and diluted loss per share were the same.

Noncontrolling Interest

Noncontrolling interest in the equity of a subsidiary is accounted for and reported as equity. Changes in our Company's ownership interest in a subsidiary that do not result in deconsolidation are accounted for as equity transactions. Any retained noncontrolling equity investment upon the deconsolidation of a subsidiary is initially measured at fair value.

Segment Reporting

Our segment reporting is mainly based on lines of business. We use the management approach in determining reportable operating segments. The management approach considers the internal organization and reporting used by our Company's chief operating decision maker for making operating decisions, allocating resources and assessing performance as the source for determining our operating segments. Our Company's chief operating decision maker ("CODM") has been identified as the Chief Executive Officer.

Segment profit and loss is determined on a basis that is consistent with how our Company reports operating loss in its consolidated statements of operations. Our Company does not report segment asset information to the CODM. Consequently, no asset information by segment is presented. There are no intersegment transactions.

(d) Recent Accounting Pronouncements Not Yet Adopted

The FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, in June 2016. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The ASU also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. Our Company will apply the amendments in ASU 2016-13 as of January 1, 2020, on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings. Our Company is currently evaluating the effect the adoption of ASU 2016-13 will have on our existing accounting policies and the consolidated financial statements in future reporting periods.

The FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, in October 2016. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to *an* outside party. The amendments require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments eliminate the exception for an intra-entity transfer of an asset other than inventory. Our Company will apply the amendments in ASU 2016-16 as of January 1, 2018, on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings. We do not expect the adoption of this new guidance to have a material impact on our Company's financial position, results or cash flows.

The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, in May 2014. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard was originally designated to be effective for annual reporting periods beginning after December 15, 2016. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers*, to defer the effective date of ASU 2014-09 by one year.

The FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, in March 2016. The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations. An entity is required to determine whether the nature of its promise for providing goods or services to a customer is to provide the specified good or service itself (as a principal) or to arrange for that good or service to be provided by the other party (as an agent), and accordingly to determine whether to recognize revenue in the gross amount of consideration for the specified good or service transferred to the customer, or to recognize revenue in the amount of any fee or commission for arranging for the specified good or service to be provided by the other party. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer. The effective date for the amendments in this Update is the same as the effective date of ASU 2014-09, deferred by one year.

The FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical* Expedients, in May 2016. The amendments do not change the core revenue recognition principle in Topic 606. The amendments provide clarifying guidance in certain narrow areas and add some practical expedients. These amendments are effective at the same date that Topic 606 is effective.

The FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, in April 2016. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance; the amendments do not change the core principle of the guidance in Topic 606. These amendments are effective at the same date that Topic 606 is effective.

The FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, in December 2016. The amendments clarify certain aspects of Topic 606. These amendments are effective at the same date that Topic 606 is effective.

Topic 606 is effective for our fiscal year beginning January 1, 2018. We will adopt the new standard retrospectively, with the cumulative effect recognized at the date of initial application. We do not expect the adoption of this new standard to have a material impact on our Company's financial position, results or cash flows. We do not anticipate significant changes to our current business processes and systems to support the adoption of the new standard in the year beginning January 1, 2018. Additionally, we are currently in the process of evaluating the required financial statement disclosures to allow users of our consolidated financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with our customers.

The FASB issued ASU No. 2017-05, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets* (Subtopic 610-20) in February 2017. The amendments clarify that a contract that includes the transfer of ownership interests in one or more consolidated subsidiaries is within the scope of Subtopic 610-20 if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets. The amendments also require that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. These amendments are effective for our fiscal year beginning January 1, 2018. We will adopt the amendments retrospectively, with the cumulative effect recognized at the date of initial application. We do not expect the adoption of this new standard to have a material impact on our Company's financial position, results or cash flows.

The FASB issued new lease accounting guidance in ASU No. 2016-02, *Leases (Topic 842)*, in February 2016. Under the new guidance, lessees will be required to recognize for all leases (with the exception of short-term leases), at the commencement date, (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. When measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Our Company will implement the amendments in ASU 2016-02 as of January 1, 2019 using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Our Company is currently evaluating the effect the adoption of ASU 2016-02 will have on our existing accounting policies and the consolidated financial statements in future reporting periods, but expects there will be an increase in assets and liabilities on its balance sheets at adoption due to the recording of right-of-use assets and corresponding lease liabilities, which may be significant.

The FASB issued ASU No. 2017-09, *Compensation—Stock Compensation* (Topic 718), in May 2017. This guidance clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the specified conditions are met. Our Company will apply the amendments in ASU 2017-09 as of January 1, 2018, prospectively to an award modified on or after the adoption date. We do not expect the adoption of this new guidance to have a material impact on our Company's financial position, results or cash flows.

NOTE 2. EARNINGS (LOSS) PER SHARE

The following table provides a reconciliation of the denominators of the basic and diluted per share computations:

(in thousand shares)	2015	2016	2017
Weighted average number of outstanding shares			
Basic	11,052	11,052	11,052
Effect of dilutive securities			
Employee share-based compensation	—	—	—
Diluted	11,052	11,052	11,052

Certain outstanding options were excluded from the computation of diluted EPS since their effect would have been anti-dilutive. The antidilutive stock options excluded and their associated exercise prices per share were 617 thousand shares at the range of $3.85 to

$83.00 as of December 31, 2015, 613 thousand shares at $3.85 to $83.00 as of December 31, 2016, and 308 thousand shares at $2.90 to $80.05 as of December 31, 2017. There were no antidilutive RSUs as of December 31, 2017, 2016, and 2015.

NOTE 3. ACQUISITIONS

Strawberry Cosmetics

On June 26, 2015, we entered into a share purchase agreement to acquire a 70% equity interest in Strawberry Cosmetics Holding Limited ("Strawberry Cosmetics"), a global cosmetics e-commerce company with a total consideration of approximately $93.1 million. The proposed acquisition was then duly approved by the Extraordinary General Meeting of our Company held on August 5, 2015.

However, in light of the drastic slowdown in global economy and turmoil in stock markets beginning in late August 2015 that resulted in a change in business development strategy on the part of GigaMedia, our board of directors concluded that the mutual termination of the acquisition was in the best interests of GigaMedia stockholders.

Accordingly, in October 2015, our Company entered into a mutual termination agreement with the shareholders of Strawberry Cosmetics to terminate the share purchase agreement, whereby GigaMedia paid US$2.0 million consideration to the shareholders of Strawberry Cosmetics and the parties, in turn, released each other from any claims relating to the proposed acquisition. The payment was reported in operating expenses in our consolidated statements of operations.

NOTE 4. DIVESTITURES

PerfectPairs

In January 2016, we entered into an agreement to sell our 100% ownership interest in PerfectPairs Gaming Co., Ltd. ("PerfectPairs), a Taiwan-based subsidiary of our digital entertainment service business operations, to two Taiwanese individuals unrelated to our Group for total cash consideration of $760 thousand. Upon the disposal, we deconsolidated the results of PerfectPairs' operations.

The disposal gain was as follows:

(In US$ thousand)	Amount
The fair value of consideration received, net of any transaction costs	$ 760
The carrying amount of PerfectPairs	
Cash	482
Receivables and other current assets	40
Property, plant and equipment	71
Intangible and other noncurrent assets	13
Accounts payable and accrued expenses	(528)
Other payable and other current liabilities	(144)
The carrying amount of PerfectPairs at the date of deconsolidation	(66)
Exchange difference	1
Gain on disposal of PerfectPairs	$ 827

East Gate

As the term of the East Gate fund expired in August 2017, the fund had stopped entering into new investments and in September 2016, it distributed excess cash to its investors. We received $1,438 thousand from the distribution.

In November 2016, we entered into an agreement to sell a 17.65% partnership interest in East Gate to a Korean investor unrelated to our Group. The disposal gain was as follows:

(In US$ thousand)	Amount
The fair value of consideration received, net of any transaction costs	$ 112
The fair value of consideration receivable, net of any transaction costs	1,058
	1,170
The carrying amount of the investment of East Gate at the date of disposal	1,398
Exchange difference	250
Gain on disposal of investment in East Gate	$ 22

The consideration receivable of $1.1 million as of December 31, 2016 was recorded as other receivable (Note 12) and has been fully collected in 2017.

FingerRockz

In September 2015, we entered into an agreement to sell all the ownership for a consideration of NT$1 we held in FingerRockz to its management. Upon the closing of the agreement, we deconsolidated the results of FingerRockz' operations.

The deconsolidation gain was as follows:

(In US$ thousand)	Amount
The fair value of consideration received and receivable, net of any transaction costs	$ —
The carrying amount of FingerRockz at the date of deconsolidation	(37)
Gain on disposal of FingerRockz	$ 37

NOTE 5. INTANGIBLE ASSETS - NET

The following table summarizes our Company's intangible assets, by major asset class:

	December 31, 2017		
(In US$ thousands)	Gross carrying amount	Accumulated amortization	Net
With finite-life intangible assets			
Purchased software cost	$ 11	$ 8	$ 3

For the years ended December 31, 2015, 2016 and 2017, total amortization expense of intangible assets were $236 thousand, $106 thousand and $7 thousand, respectively, which includes amortization of purchased software costs of $217 thousand, $89 thousand and $7 thousand.

At the end of 2016, we recognized an impairment loss of $57 thousand on intangible assets as a result of consecutive operating losses in recent years that are expected to continue and therefore the carrying amounts of those intangible assets would not be recoverable based on cash flow projections from current games, which typically have shorter lives.

NOTE 6. PREPAID LICENSING AND ROYALTY FEES

The following table summarizes changes to our Company's prepaid licensing and royalty fees:

(in US$ thousands)	2015	2016	2017
Balance at beginning of year	$ 4,383	$ 239	$ 1,020
Addition	1,801	2,581	486
Amortization and usage	(1,743)	(416)	(1,040)
Exchange difference	(15)	2	(7)
Impairment charges (Note 7)	(4,187)	(1,386)	—
Balance at end of year	$ 239	$ 1,020	$ 459

We have entered licensing arrangements for our digital entertainment business and in prior years, prepaid licensing and royalty fees for one of the licensed games had been fully impaired and as a result the cost became nil. In 2017, the licensor of that gaming development company reached an agreement with us to terminate the license by compensating us in the amount of $1.7 million and accordingly, we have recognized a gain of $1.7 million as a reduction of operating expenses in the consolidated statements of operations in 2017.

NOTE 7. FAIR VALUE MEASUREMENTS

The following table presents the carrying amounts and estimated fair values of our Company's financial instruments at December 31, 2016 and 2017.

(in US$ thousands)	2016		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	$ 65,711	$ 65,711	$ 63,670	$ 63,670
Marketable securities - current	3	3	—	—
Accounts receivable	871	871	751	751
Restricted cash	500	500	507	507
Refundable deposits	245	245	208	208
Financial liabilities				
Short-term borrowings	2,480	2,480	—	—
Accounts payable	266	266	314	314
Accrued compensation	210	210	549	549
Accrued expenses	3,828	3,828	2,158	2,158

The carrying amounts shown in the table are included in the consolidated balance sheets under the indicated captions.

The fair values of the financial instruments shown in the above table as of December 31, 2016 and 2017 represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an arm's length transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. In situations where there is little market activity for the asset or liability at the measurement date, the fair value measurement reflects our Company's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by us based on the best information available in the circumstances, including expected cash flows and appropriately risk-adjusted discount rates, available observable and unobservable inputs.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents, accounts receivable, restricted cash, accounts payable, accrued compensation and expenses, and short-term borrowings: The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.
- Marketable securities: Equity securities are measured using quoted market prices at the reporting date multiplied by the quantity held. Redeemable preferred shares are measured using valuation techniques.
- Refundable deposits: Measurement of refundable deposits with no fixed maturities is based on carrying amounts.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

Our Company has segregated all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below.

Assets and liabilities measured at fair value on a recurring basis are summarized as below:

(in US$ thousands)	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	At December 31, 2017
Assets				
Cash equivalents - time deposits	$ —	$ 6	$ —	$ 6
Restricted cash - time deposits	—	507	—	507
	$ —	$ 513	$ —	$ 513

(in US$ thousands)	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	At December 31, 2016
Assets				
Cash equivalents - time deposits	$ —	$ 6	$ —	$ 6
Restricted cash - time deposits	—	500	—	500
Marketable securities - current				
Equity securities	3	—	—	3
	$ 3	$ 506	$ —	$ 509

Our Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1 for the years ended December 31, 2016 and 2017.

Level 1 and 2 measurements:

Cash equivalents – time deposits and restricted cash – time deposits are interest-earning deposits in banks, and the cash flows are estimated based on the terms of the contracts and discounted using the market interest rates applicable to the maturity of the contracts, which are adjusted to reflect credit risks on counterparties. As the inputs into the valuation techniques are readily observable, these deposits are classified in Level 2 of the fair value hierarchy. Certain marketable securities are valued using a market approach based on the quoted market prices of identical instruments when available, or other observable inputs such as trading prices of identical instruments in inactive markets. The fair values of the marketable equity securities that have publicly quoted trading prices are valued using those observable prices, unless adjustments are required to available observable inputs.

In 2015, 2016 and 2017, we recognized unrealized gains of $4.8 million, $0 thousand and $0 thousand, respectively, on marketable securities valued using market observable inputs, which are included in other comprehensive income.

Level 3 measurements:

We did not hold assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2016 and 2017.

Realized and unrealized gains (or losses) included in the consolidated financial statements for 2015 for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are reported in the consolidated financial statements as follows:

(in US$ thousands)	Gain on sales of marketable debt securities	Impairment loss on marketable securities and investments
Total gains (losses) included in earnings		
for 2015	$ 5,845	$ —
Change in unrealized gains (losses) relating to assets still held at the reporting date		
for 2015	$ —	$ —

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities measured at fair value on a nonrecurring basis include measuring impairment when required for long-lived assets. For GigaMedia, long-lived assets measured at fair value on a nonrecurring basis include investments accounted for under the equity method and cost method, property, plant, and equipment, intangible assets, and prepaid licensing and royalty fees.

Assets and liabilities measured at fair value on a nonrecurring basis that were determined to be impaired as of December 31, 2016 and 2017 are summarized as below:

(in US$ thousands)	**Fair Value measurement Using**				
Assets	**Level 1**	**Level 2**	**Level 3**	**At December 31, 2017**	**Total Impairment Losses**
(a) Investments - Cost-method	$ —	$ —	$ —	$ —	$ 52
(d) Prepaid licensing and royalty fees	—	—	—	—	—
Total	$ —	$ —	$ —	$ —	$ 52

(in US$ thousands)	**Fair Value measurement Using**				
Assets	**Level 1**	**Level 2**	**Level 3**	**At December 31, 2016**	**Total Impairment Losses**
(b) Property, plant and equipment	$ —	$ —	$ —	$ —	$ 471
(c) Intangible assets	—	—	—	—	57
(d) Prepaid licensing and royalty fees	—	—	820	820	1,386
Total	$ —	$ —	$ 820	$ 820	$ 1,914

(a) Impairment losses on certain cost method investments which were determined to be impaired:
In 2017, certain cost method investment with carrying amounts of $52 thousand was considered fully impaired as it has incurred consecutive losses but unable to reduce cash burn, and thus its cash was expected to be depleted within months. Therefore it was fully written down to zero, resulting in an impairment charge of $52 thousand. The impairment charges are included in non-operating expenses within “impairment loss on marketable securities and investments” in the consolidated statements of operations.

(b) Impairment losses on certain property, plant, and equipment which were determined to be impaired:
In 2016, we recognized an impairment loss of $471 thousand on property, plant and equipment as a result of consecutive operating losses in recent years that are expected to continue and therefore the carrying amounts of those long-lived assets would not be recoverable based on cash flow projections from current games, which are typically with shorter lives.

(c) Impairment losses on certain intangible assets which were determined to be impaired:
In 2016, we recognized an impairment loss of $57 thousand on intangible assets as a result of consecutive operating losses in recent years that are expected to continue and therefore the carrying amounts of those intangibles assets would not be recoverable based on cash flow projections from current games, which are typically with shorter lives.

(d) Impairment losses on certain prepaid licensing and royalty fees which were determined to be impaired:
In 2016, certain prepaid licensing and royalty fees were written down to $0, resulting in an impairment charge of $1.4 million. This impairment is included in operating expenses in the consolidated statements of operations. The impairment charges for the prepaid licensing and royalty fees related to certain licensed games within our Asian digital entertainment business that we stopped operating or for which the carrying amounts of the related assets were determined not to be recoverable from their expected future undiscounted cash flows. The licensing fee games and related royalties are re-valued on when impairment exists, using unobservable inputs such as discounted cash flows, incorporating adjusted available market discount rate information and our Company’s estimates for liquidity risk, along with other cash flow model related assumptions.

NOTE 8. CASH, RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

(in US$ thousands)	December 31 2016	2017
Cash and savings accounts	$ 65,705	$ 63,664
Time deposits	6	6
Cash and cash equivalents reported on the consolidated balance sheets	65,711	63,670
Cash restricted as collateral and performance bond	500	507
Total cash, restricted cash and cash equivalents reported on the consolidated statements of cash flows	$ 66,211	$ 64,177

As of December 31, 2016 and 2017, cash amounting to $500 thousand and $507 thousand, respectively, has been deposited in an escrow account in a bank as a performance bond for our players' game points. These deposits are restricted and are included in restricted cash in the consolidated balance sheets.

We maintain cash and cash equivalents, as well as restricted cash, in bank accounts with major financial institutions with high credit ratings located in the following jurisdictions:

(in US$ thousands)	December 31 2016	2017
Taiwan	$ 65,093	$ 62,350
Hong Kong	1,102	1,811
China	16	16
	$ 66,211	$ 64,177

NOTE 9. MARKETABLE SECURITIES – CURRENT

Marketable securities – current consist of the following:

(in US$ thousands)	December 31 2016	2017
Equity securities, classified as available-for-sale	$ 3	$ —

As of December 31, 2016 and 2017, the balances of unrealized gains for marketable securities - current were $2 thousand and $0, respectively. During 2015, 2016 and 2017, realized gains from the disposal of marketable securities - current amounted to $14.1 million, $0 thousand, and $2 thousand, respectively. The costs for calculating gains on disposal were based on each security's average cost.

NOTE 10. ACCOUNTS RECEIVABLE – NET

Accounts receivable consist of the following:

(in US$ thousands)	December 31 2016	2017
Accounts receivable	$ 903	$ 763
Less: Allowance for doubtful accounts	(32)	(12)
	$ 871	$ 751

The following is a summary of the changes in our Company's allowance for doubtful accounts during the years ended December 31, 2015, 2016 and 2017:

(in US$ thousands)	2015	2016	2017
Balance at beginning of year	$ 56	$ 29	$ 32
Additions: Bad debt expense	3	35	127
Less: Write-offs	(28)	(33)	(149)
Translation adjustment	(2)	1	2
Balance at end of year	$ 29	$ 32	$ 12

NOTE 11. OTHER CURRENT ASSETS

Other current assets consist of the following:

(in US$ thousands)	December 31 2016	December 31 2017
Loans receivable - current	65	64
Less: Allowance for loans receivable - current	(28)	(30)
Other receivables (Note 4)	1,062	34
Other	151	125
	$ 1,250	$ 193

The following is a reconciliation of changes in our Company's allowance for loans receivable - current during the years ended December 31, 2015, 2016 and 2017:

(in US$ thousands)	2015	2016	2017
Balance at beginning of year	$ 27	$ 28	$ 28
Reversal for collection of bad debt	2	—	—
Translation adjustment	(1)	—	2
Balance at end of year	$ 28	$ 28	$ 30

NOTE 12. MARKETABLE DEBT SECURITIES – NONCURRENT

Our Company's marketable securities - noncurrent were invested in convertible preferred shares and were classified as available-for-sale securities. As of December 31, 2016 and 2017, there was no marketable securities-noncurrent.

We had considered and determined whether our investments in preferred shares were in-substance common shares which should be accounted for under the equity method. Given that our convertible preferred shares had substantive redemption rights and thus did not meet the criteria of in-substance common shares, we had accounted for them as debt securities.

During 2015, realized gains (losses) from the disposal of marketable securities - non-current amounted to $5.8 million. Gains (losses) on disposal were calculated based on the security's average cost.

NOTE 13. EQUITY INVESTMENTS

Equity investments consist of the following:

(in US$ thousands)	December 31 2016	December 31 2017
Investments accounted for under the equity method	$ 72	$ —

Our Company's investments accounted for under the equity method primarily consist of the following: (a) from August 2010 to November 2016, a 17.65 percent equity interest investment in East Gate Media Contents & Technology Fund ("East Gate"), a Korean Fund Limited Partnership that invests in online game businesses and films (See Note 4 "Divestitures", for additional information); and (b) from May 2014 to February 2017, a 22.86 percent equity interest investment in Double2 Network Technology Co., Ltd. ("Double2"), a Taiwanese company that mainly engaged in development of causal gaming software. In March 2017, our share of equity interest in Double 2 was diluted to 11.43 percent, and as the investment no longer qualified for the equity method, we discontinued accruing the share of the earnings or losses of the investee and began accounted for it under the cost method.

In November 2016, we entered into an agreement to sell a 17.65 percent partnership interest in East Gate to a Korean investor unrelated to our Group. (See Note 4, "Divestitures" for additional information.)

East Gate

Our Company had a 17.65 percent interest in East Gate, a Korean fund partnership. Before the disposal of such interest, we accounted for our investment in this limited partnership under the equity method accounting since we had the ability to exercise significant influence over partnership operating and financial policies based on the terms of the partnership agreement.

East Gate was considered an investment company that primarily invests in: (1) Equity securities of small, medium-sized companies or venture companies, mainly Korean game companies, and (2) funding for specific projects, mainly Korean films, of an entrepreneur or venture company in return for the rights to a future revenue stream from the income generated by the entrepreneur or venture company from the film and related products.

Summarized U.S. GAAP financial information of East Gate as of November 30, 2016 (right before we disposed of it), and for the years ended December 31, 2015 and the eleven-month period ended November 30, 2016 is presented below (in US$ thousands):

	2016
Investments and other related assets	$ 7,911
Other assets	332
Total assets	$ 8,243
Total liabilities	$ 318
Total net assets of the fund	$ 7,925

	2015	2016
Investment and related income (loss)	$ 5,419	$ (1,513)
Impairment loss	—	(105)
Other costs and expenses	(8,219)	(7,513)
Net loss	$ (2,800)	$ (9,131)

NOTE 14. PROPERTY, PLANT AND EQUIPMENT

In January 2016, we entered into disposal agreements to sell certain office premises which were not used for our principal business to several counterparties unrelated to our Group, for total cash considerations approximating $1.9 million. The closing of the disposal occurred in March 2016. Upon the closing, we recognized disposal gains of approximately $798 thousand.

At the end of 2016, we recognized an impairment loss of $471 thousand on property, plant and equipment as a result of consecutive operating losses in recent years that are expected to continue and therefore the carrying amounts of those long-lived assets would not be recoverable based on cash flow projections from current games, which are typically with shorter lives.

For the year ended December 31, 2017, there were no significant changes in our property, plant and equipment. For the year ended December 31, 2016, a reconciliation of the beginning and ending amounts of our property, plant and equipment is as follows:

(in US$ thousands)	Cost	Accumulated depreciation	Net
Balance at beginning of year	$ 5,165	$ 3,774	$ 1,391
Purchase	496	—	496
Depreciation	—	162	(162)
Disposal of office premises	(1,120)	(44)	(1,076)
Disposal of other property, plant and equipment	(1,092)	(969)	(123)
Deconsolidation (Note 4)	(104)	(33)	(71)
Impairment (Note 7)	(3,423)	(2,952)	(471)
Exchange differences	85	62	23
Balance at end of year	$ 7	$ —	$ 7

NOTE 15. SHORT-TERM BORROWINGS

As of December 31, 2016, short-term borrowings amounted to $2.5 million. These amounts were borrowed from certain financial institutions. The annual interest rates on these borrowings ranged from 1.70 percent to 2.13 percent for 2016. The maturity dates fell in January and May 2017. As of December 31, 2016, the weighted-average interest rate on total short-term borrowings was 1.86 percent.

As of December 31, 2016 and 2017, the total amount of unused lines of credit available for borrowing under these agreements was approximately $17.0 million and $7.6 million, respectively.

NOTE 16. ACCRUED EXPENSES

Accrued expenses consist of the following:

	December 31	
(in US$ thousands)	**2016**	**2017**
Accrued advertising expenses	$ 1,961	$ 371
Accrued professional fees	765	580
Accrued royalties	350	502
Accrued director compensation and liability insurance	272	256
Other	480	449
	$ 3,828	$ 2,158

NOTE 17. PENSION BENEFITS

Our Company and our subsidiaries have defined benefit and defined contribution pension plans that cover substantially all of our employees.

Defined Benefit Pension Plan

We have a defined benefit pension plan in accordance with the Labor Standards Law of the Republic of China (R.O.C.) for our employees located in Taiwan, covering substantially all full-time employees for services provided prior to July 1, 2005, and employees who have elected to remain in the defined benefit pension plan subsequent to the enactment of the Labor Pension Act on July 1, 2005. Under the defined benefit pension plan, employees are entitled to a lump sum retirement benefit upon retirement equivalent to the aggregate of 2 months' pensionable salary for each of the first 15 years of service and 1 month's pensionable salary for each year of service thereafter subject to a maximum of 45 months' pensionable salary. The pensionable salary is the monthly average salary or wage of the final six months prior to approved retirement.

We use December 31 as the measurement date for our defined benefit pension plan. As of December 31, 2016 and 2017, the accumulated benefit obligation amounted to $185 thousand and $211 thousand, respectively, and the funded status of prepaid pension assets amounted to $62 thousand and $70 thousand, respectively. The fair value of plan assets amounted to $325 thousand and $365 thousand as of December 31, 2016 and 2017, respectively. The accumulated other comprehensive income (loss) amounted to ($58) thousand and $(69) thousand as of December 31, 2016 and 2017, respectively. The net periodic benefit cost (income) for 2015, 2016 and 2017 amounted to ($58) thousand, ($2) thousand and $0 thousand, respectively, for each year of 2015, 2016 and 2017..

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status at December 31, 2016 and 2017:

(in US$ thousands)	December 31 2016	December 31 2017
Benefit Obligation	$ 263	$ 295
Fair value of plan assets	325	365
	$ (62)	$ (70)
Amounts recognized in the balance sheet consist of:		
Noncurrent liabilities (assets)	$ (62)	$ (70)
Accumulated other comprehensive income	—	—
Net amount recognized	$ (62)	$ (70)
Amounts recognized in accumulated comprehensive income (loss) consist of:		
Unrecognized net gain (loss)	$ (58)	$ (69)

For the years ended December 31, 2015, 2016 and 2017, the net period pension cost consisted of the following:

(in US$ thousands)	December 31 2015	December 31 2016	December 31 2017
Service cost	$ —	$ —	$ —
Interest cost	5	4	4
Expected return on plan assets	(6)	(6)	(5)
Amortization of net loss	—	—	1
Curtailment gain	(57)	—	—
	$ (58)	$ (2)	$ —

Effective January 1, 2017, our Company applied the amendments in ASU No. 2017-07 retrospectively for the presentation of the service cost component and the other components of net periodic pension cost in the statement of operations, and accordingly, all components other than service cost, amounting to income of $58 thousand and income of $2 thousand, respectively for 2015 and 2016, were reclassified to non-operating income (expense) – other.

Weighted average assumptions used to determine benefit obligations for 2016 and 2017 were as follows:

	December 31 2016	December 31 2017
Discount rate	1.375%	1.625%
Rate of compensation increase	2.00%	2.00%

Weighted average assumptions used to determine net periodic benefit cost for end of fiscal year were as follows:

	2016	2017
Discount rate	1.875%	1.375%
Rate of return on plan assets	1.875%	1.375%
Rate of compensation increase	1.50%	2.00%

Management determines the discount rate and rate of return on plan assets based on the yields of twenty year ROC central government bonds which is in line with the respective employees remaining service period and the historical rate of return on the above mentioned Fund mandated by the ROC Labor Standard Law.

We have contributed an amount equal to 2 percent of the salaries and wages paid to all qualified employees located in Taiwan to a pension fund (the "Fund"). The Fund is administered by a pension fund monitoring committee (the "Committee") and deposited in the Committee's name in the Bank of Taiwan. Our Company makes pension payments from our account in the Fund unless the Fund is insufficient, in which case we make payments from internal funds as payments become due. We seek to maintain a normal, highly liquid working capital balance to ensure payments are made timely.

We expect to make a contribution of $8 thousand to the Fund in 2018. We expect to make benefit payments of $1 thousand from 2018 to 2022 and $12 thousand from 2023 to 2027.

Defined Contribution Pension Plans

We have provided defined contribution plans for employees located in Taiwan and Hong Kong. Contributions to the plans are expensed as incurred.

<u>Taiwan</u>

Pursuant to the new "Labor Pension Act" enacted on July 1, 2005, our Company has a defined contribution pension plan for our employees located in Taiwan. For eligible employees who elect to participate in the defined contribution pension plan, we contribute no less than 6 percent of an employee's monthly salary and wage and up to the maximum amount of NT$9 thousand (approximately $302), to each of the eligible employees' individual pension accounts at the Bureau of Labor Insurance each month. Pension payments to employees are made either by monthly installments or in a lump sum from the accumulated contributions and earnings in employees' individual accounts.

<u>Hong Kong</u>

According to the relevant Hong Kong regulations, we provide a contribution plan for the eligible employees in Hong Kong. We must contribute at least 5 percent of the employees' total salaries. For this purpose, the monthly relevant contribution to their individual contribution accounts is subject to a cap of HK$1.5 thousand (approximately $192). After the termination of employment, the benefits still belong to the employees in any circumstances.

The total amount of defined contribution pension expenses pursuant to our defined contribution plans for the years ended December 31, 2015, 2016, and 2017 were $318 thousand, $183 thousand, and $190 thousand, respectively.

NOTE 18. <u>SHAREHOLDERS' EQUITY</u>

In accordance with Singapore law, the holders of ordinary shares that do not have par value, are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the general meeting of our company. All shares rank equally with regard to our company's residual assets. In addition, we are not required to have a number of authorized common shares to be issued.

A 1-for-5 reverse stock split was approved by our shareholders at a special shareholders meeting held on December 16, 2015. The reverse stock split was effective as of December 16, 2015, which resulted in our common stock trading on a split-adjusted basis at market open on December 16, 2015. Upon completion of the reverse stock split, every five shares of common stock owned by a shareholder were combined into one share of common stock, with a proportionate adjustment made to the per-share value of common stock.

In accordance with R.O.C. law, an appropriation for legal reserve amounting to 10 percent of a company's net profit is required until the reserve equals the aggregate par value of such Taiwan company's issued capital stock. As of December 31, 2016 and 2017, the legal reserves of Hoshin GigaMedia Center Inc. ("Hoshin GigaMedia") were $1.5 million and $1.5 million, respectively. The reserve can only be used to offset a deficit or be distributed as a stock dividend of up to 50 percent of the reserve balance when the reserve balance has reached 50 percent of the aggregate paid-in capital of Hoshin GigaMedia.

NOTE 19. ACCUMULATED OTHER COMPREHENSIVE LOSS

The accumulated balances for each component of other comprehensive income (loss) are as follows:

(in US$ thousands)	Foreign currency items	Unrealized gain on securities	Pension and post retirement benefit plans	Accumulated other comprehensive loss
Balance at January 1, 2015	$ (22,876)	$ 11,389	$ —	$ (11,487)
Net current period change	(118)	8,553	—	8,435
Reclassification adjustments for gains reclassified into income	656	(19,939)	—	(19,283)
Balance at December 31, 2015	(22,338)	3	—	(22,335)
Net current period change	5	(1)	(58)	(54)
Reclassification adjustments for gains reclassified into income	(222)	—	—	(222)
Balance at December 31, 2016	$ (22,555)	$ 2	$ (58)	$ (22,611)
Net current period change	641	—	(11)	630
Reclassification adjustments for gains reclassified into income	—	(2)	—	(2)
Balance at December 31, 2017	$ (21,914)	$ —	$ (69)	$ (21,983)

There were no significant tax effects allocated to each component of other comprehensive income for the years ended December 31, 2015, 2016 and 2017.

NOTE 20. SHARE-BASED COMPENSATION

During 2015, 2016 and 2017, all the stock-based compensation expenses were recognized in the general and administrative expenses in our consolidated statements of operations. The stock-based compensation expense recognized in the general and administrative expenses in our consolidated statements of operations were $65 thousand, $9 thousand and ($7) thousand, respectively.

There were no significant capitalized stock-based compensation costs at December 31, 2016 and 2017. There was no recognized stock-based compensation tax benefit for the years ended December 31, 2015, 2016 and 2017, as our Company recognized a full valuation allowance on net deferred tax assets as of December 31, 2016 and 2017.

(a) Overview of Stock-Based Compensation Plans

2004 Employee Share Option Plan

At the June 2004 annual general meeting of shareholders, the shareholders of our Company approved the GigaMedia Limited 2004 Employee Share Option Plan (the "2004 Plan") under which up to 1.4 million common shares of our Company have been reserved for issuance. All employees, officers, directors, supervisors, advisors, and consultants of our Company are eligible to participate in the 2004 Plan. The 2004 Plan is administered by a committee designated by the board of directors. The committee as plan administrator has complete discretion to determine the exercise price for the option grants, the eligible individuals who are to receive option grants, the time or times when options grants are to be made, the number of shares subject to grant and the vesting schedule. The maximum contractual term for the options under the 2004 Plan is 10 years.

2006 Equity Incentive Plan

At the June 2006 annual general meeting of shareholders, the shareholders of our Company approved the GigaMedia Limited 2006 Equity Incentive Plan (the "2006 Plan") under which up to 200 thousand common shares of our Company have been reserved for issuance. The 2006 Plan is administered by a committee designated by the board of directors. The committee as plan administrator has complete discretion to determine the grant of awards under the 2006 Plan. The maximum contractual term for the options under the 2006 Plan is 10 years.

2007 Equity Incentive Plan

At the June 2007 annual general meeting of shareholders, the shareholders of our Company approved the GigaMedia Limited 2007 Equity Incentive Plan (the "2007 Plan") under which up to 400 thousand common shares of our Company have been reserved for issuance. The 2007 Plan is administered by a committee designated by the board of directors. The committee as plan administrator has complete discretion to determine the grant of awards under the 2007 Plan. The maximum contractual term for the options under the 2007 Plan is 10 years.

2008 Equity Incentive Plan

At the June 2008 annual general meeting of shareholders, the shareholders of our Company approved the GigaMedia Limited 2008 Equity Incentive Plan (the "2008 Plan") under which up to 200 thousand common shares of our Company have been reserved for issuance. The 2008 Plan is administered by a committee designated by the board of directors. The committee as plan administrator has complete discretion to determine the grant of awards under the 2008 Plan. The maximum contractual term for the options under the 2008 Plan is 10 years.

2008 Employee Share Purchase Plan

At the June 2008 annual general meeting of shareholders, the shareholders of our Company approved the GigaMedia Limited 2008 Employee Share Purchase Plan (the "2008 ESPP") under which up to 40 thousand common shares of our Company were reserved for issuance. Any person who is regularly employed by our Company or our designated subsidiaries shall be eligible to participate in the 2008 ESPP. Pursuant to the 2008 ESPP, our Company would offer the shares to qualified employees on favorable terms. Employees are also subject to certain restrictions on the amount that may be invested to purchase the shares and to other terms and conditions of the 2008 ESPP. The 2008 ESPP is administered by a committee designated by the board of directors. As of December 31, 2017, no shares have been subscribed by qualified employees under the 2008 ESPP.

2009 Equity Incentive Plan

At the June 2009 annual general meeting of shareholders, the shareholders of our Company approved the GigaMedia Limited 2009 Equity Incentive Plan (the "2009 Plan") under which up to 300 thousand common shares of our Company have been reserved for issuance. The 2009 Plan is administered by a committee designated by the board of directors. The committee as plan administrator has complete discretion to determine the grant of awards under the 2009 Plan. The maximum contractual term for the options under the 2009 Plan is 10 years.

2009 Employee Share Purchase Plan

At the June 2009 annual general meeting of shareholders, the shareholders of our Company approved the GigaMedia Limited 2009 Employee Share Purchase Plan (the "2009 ESPP") under which up to 40 thousand common shares of our Company have been reserved for issuance. To be eligible, employees must be regularly employed by us or our designated subsidiaries. Employees are also subject to certain restrictions on the amount that may be invested to purchase the shares and to other terms and conditions of the 2009 ESPP. The 2009 ESPP is administered by a committee designated by the board of directors. As of December 31, 2017, no shares were issued to employees under the 2009 ESPP.

2010 Equity Incentive Plan

At the June 2010 annual general meeting of shareholders, the shareholders of our Company approved the GigaMedia Limited 2010 Equity Incentive Plan (the "2010 Plan") under which up to 200 thousand common shares of our Company have been reserved for issuance. The 2010 Plan is administered by a committee designated by the board of directors. The committee as plan administrator has complete discretion to determine the grant of awards under the 2010 Plan. The maximum contractual term for the options under the 2010 Plan is 10 years.

2010 Employee Share Purchase Plan

At the June 2010 annual general meeting of shareholders, the shareholders of our Company approved the GigaMedia Limited 2010 Employee Share Purchase Plan (the "2010 ESPP") under which up to 40 thousand common shares of our Company have been reserved for issuance. To be eligible, employees must be regularly employed by us or our designated subsidiaries. Employees are also subject to certain restrictions on the amount that may be invested to purchase the shares and to other terms and conditions of the 2010 ESPP. The 2010 ESPP is administered by a committee designated by the board of directors. As of December 31, 2017, no shares were issued to employees under the 2010 ESPP.

Summarized below are the general terms of our stock-based compensation plans, for which awards have been granted as of December 31, 2017.

Stock-Based compensation plan	Granted awards	Vesting schedule	Options' exercise price	RSUs' grant date fair value
2004 plan	1,575,037 (1)	immediately upon granting to four years	\$3.95~\$12.75	—
2006 Plan	256,716 (2)	immediately upon granting to four years	\$3.85~\$83	\$14.55~\$80.05
2007 Plan	675,057 (3)	immediately upon granting to four years	\$2.90~\$90.85	\$12.35~\$76.75
2008 Plan	200,000	immediately upon granting to six years	\$12.35~\$21.2	—
2009 Plan	500,000 (4)	immediately upon granting to four years	\$4.775~\$12.35	—
2010 Plan	440,000 (5)	three years	\$4.0505~\$5.7	—

(1) The granted awards, net of forfeited or canceled options, were within reserved shares of 1,400 thousand common shares.

(2) The granted awards, net of forfeited or canceled options or shares, were within reserved shares of 200 thousand common shares.

(3) The granted awards, net of forfeited or canceled options or shares, were within reserved shares of 400 thousand common shares.

(4) The granted awards, net of forfeited or canceled options, were within reserved shares of 300 thousand common shares.

(5) The granted awards, net of forfeited or canceled options, were within reserved shares of 200 thousand common shares.

Options and Restricted Stock Units ("RSUs") generally vest over the schedule described above. Certain RSUs provide for accelerated vesting if there is a change in control. All options and RSUs are expected to be settled by issuing new shares.

(b) Options

In 2015, 2016 and 2017, no options were exercised for each year.

Our Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options granted to employees on the grant date. No options were granted to employees during 2016. The following table summarizes the assumptions used in the model for options granted during 2015 and 2017:

	2015	2017
Option term (years)	5.75	6.01
Volatility	49.239%	48.997%
Weighted-average volatility	49.000%	48.997%
Risk-free interest rate	1.506%	2.031%
Dividend yield	0%	0%
Weighted-average fair value of option granted	\$ 1.80	\$ 1.41

Option term. The expected term of the options granted represents the period of time that they are expected to be outstanding. Our Company estimates the expected term of options granted based on historical experience with grants and option exercises.

Expected volatility rate. An analysis of historical volatility was used to develop the estimate of expected volatility.

Risk-free interest rate. The risk-free interest rate is based on yields of U.S. Treasury bonds for the expected term of the options.

Expected dividend yield. The dividend yield is based on our Company's current dividend yield.

Option transactions during the last three years are summarized as follows:

	2015		2016		2017			
	Weighted Avg. Exercise Price	No. of Shares (in thousands)	Weighted Avg. Exercise Price	No. of Shares (in thousands)	Weighted Avg. Exercise Price	No. of Shares (in thousands)	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Balance at January 1	$ 20.30	626	$ 20.51	617	$ 20.63	613		
Options granted	3.85	12	—	—	3	4		
Options exercised	—	—	—	—	—	—		
Options Forfeited / canceled / expired	5.31	(21)	3.85	(4)	26.24	(309)		
Balance at December 31	$ 20.51	617	$ 20.63	613	$ 14.78	308	2.53	$ 1
Exercisable at December 31	$ 21.28	586	$ 20.57	606	$ 34.29	298	2.34	$ —
Vested and expected to vest at December 31	$ 20.51	617	$ 20.63	613	$ 14.78	308	2.53	$ 1

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between GigaMedia's closing stock price on the last trading day of 2017 and the exercise price of an option, multiplied by the number of in-the-money options) that would have been received by the option holders had they exercised their options on December 31, 2017. This amount changes based on the fair market value of GigaMedia's stock.

As of December 31, 2017, there was approximately $4 thousand of unrecognized compensation cost related to nonvested options. That cost is expected to be recognized over a period of 0.94 years.

The following table sets forth information about stock options outstanding at December 31, 2017:

Options outstanding			Option currently exercisable	
Exercise price	No. of Shares (in thousands)	Weighted average remaining contractual life	Exercise price	No. of Shares (in thousands)
Under $5	16	6.97 years	Under $5	8
$5~$50	284	2.35 years	$5~$50	282
$50~$100	8	0.08 years	$50~$100	8
	308			298

(c) RSUs

The fair value of RSUs is determined and fixed on the grant date based on our stock price. No RSUs were granted during the years ended December 31, 2015, 2016 and 2017.

As of December 31 2016 and 2017, there was no unrecognized compensation cost related to nonvested RSUs. Our Company received no cash from employees as a result of employee stock award vesting and the forfeiture of RSUs during 2015, 2016 and 2017.

NOTE 21. INCOME TAXES

Income (loss) before income taxes by geographic location is as follows:

(in US$ thousands)	2015	2016	2017
Taiwan operations	$ (13,177)	$ (1,119)	$ 893
Non-Taiwan operations	10,475	(6,096)	(1,478)
	$ (2,702)	$ (7,215)	$ (585)

The components of income tax benefit (expense) by taxing jurisdiction are as follows:

(in US$ thousands)	2015	2016	2017
Taiwan:			
Current	$ 198	$ 1,108	$ —
Deferred	—	—	—
	$ 198	$ 1,108	$ —
Non-Taiwan:			
Current	$ —	$ —	$ (1)
Deferred	216	41	1,672
	$ 216	$ 41	$ 1,671
Total current income tax benefit (expense)	$ 198	$ 1,108	$ (1)
Total deferred income tax benefit (expense)	$ 216	$ 41	$ 1,672
Total income tax benefit (expense)	$ 414	$ 1,149	$ 1,671

Our ultimate parent company is based in Singapore.

A reconciliation of our effective tax rate related to the statutory tax rate in Taiwan, where our major operations are based, is as follows:

	2015	2016	2017
Taiwan statutory rate, including taxes on income and retained earnings	23.85%	23.85%	23.85%
Foreign tax differential	183.28%	(12.37)%	1.10%
Reversal of deferred withholding tax liabilities	—	—	285.84%
Tax-exempt income	2.71%	3.28%	0.00%
Non-deductible items - bad debts	(57.91)%	(3.08)%	—
Other non-deductible expenses	(17.47)%	(1.65)%	(44.79)%
Changes in unrecognized tax benefits	6.84%	1.10%	—
Adjustment for prior year payable	0.00%	0.04%	0.00%
Change in deferred tax assets and valuation allowance	(130.14)%	6.87%	13.43%
Other	4.17%	(2.12)%	6.33%
Effective rate	15.33%	15.92%	285.76%

The significant components of our deferred tax assets consist of the following:

(in US$ thousands)	December 31	
	2016	2017
Net operating loss carryforwards	$ 9,730	$ 9,178
Prepaid licensing and royalty fees	952	5
Investments	501	135
Intangible assets and goodwill	226	183
Share-based compensation	276	299
Other	167	128
	11,852	9,928
Less: valuation allowance	(11,852)	(9,928)
Deferred tax assets - net	$ —	$ —

The significant components of our deferred tax liabilities consist of the following:

(in US$ thousands)	December 31	
	2016	2017
Investment in subsidiaries, principally due to undistributed income	$ 1,671	$ —

In October 2017, a subsidiary of ours in the U.S. resolved to dissolve and liquidate and completed the process and filed a final tax return in February 2018. The gain resulted from such liquidation was treated as capital gain, which is exempt from U.S. withholding tax. As such, there was a reversal of the deferred income tax liabilities of $1,671 thousand as such deferred income tax liabilities were originally accrued for potential withholding obligation upon possible distribution.

A reconciliation of the beginning and ending amounts of our valuation allowance on deferred tax assets for the years ended December 31, 2015, 2016 and 2017 are as follows:

(in US$ thousands)	2015	2016	2017
Balance at beginning of year	$ 7,147	$ 11,025	$ 11,852
Subsequent reversal and utilization of valuation allowance	—	(753)	(3,352)
Additions to valuation allowance	4,185	1,739	745
Divestitures	—	(312)	—
Exchange differences	(307)	153	683
Balance at end of year	$ 11,025	$ 11,852	$ 9,928

Under ROC Income Tax Act, the tax loss carryforward in the preceding ten years would be deducted from income tax for Taiwan operations. The statutory losses from Taiwan operations would be deducted from undistributed earnings when calculating the tax on the undistributed earnings and were not subject to expiration.

As of December 31, 2017, we had net operating loss carryforwards available to offset future taxable income, shown below by major jurisdictions:

Jurisdiction	Amount	Expiring year
Hong Kong	$ 15,444	indefinite
Taiwan	30,952	2020~2027
	$ 46,396	

As of December 31, 2017, we had accumulated statutory losses from Taiwan operations available to offset future undistributed earnings:

Jurisdiction	Amount	Expiring year
Taiwan	$ 19,920	indefinite

In January 2018, it was announced that the ROC Income Tax Act was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the tax rate applicable to the undistributed portion of earnings to be made in 2018 and thereafter will be reduced from 10% to 5%. Our company didn’t expect any material impacts due to the change of tax rate.

Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding the effects of accrued interest) for the years 2015, 2016 and 2017 are as follows:

(in US$ thousands)	2015	2016	2017
Balance at beginning of year	$ 8,287	$ 1,203	$ 1,024
Increase related to prior year tax positions	—	1,025	—
Decrease related to prior year tax positions	(185)	—	—
Settlement	(6,830)	—	—
Expiration of statute of limitations	—	(1,225)	—
Exchange differences	(69)	21	86
Balance at end of year	$ 1,203	$ 1,024	$ 1,110

As of December 31, 2015, 2016 and 2017, there were $1.2 million, $0 and $0 of unrecognized tax benefits that if recognized would affect the effective tax rate. As of December 31, 2015, 2016 and 2017, $0 million, $1.0 million and $1.1 million of the total unrecognized tax benefit were presented as a reduction of a deferred tax asset that, if recognized, would be offset by a valuation allowance.

There were no interest and penalties related to income tax liabilities recognized for the years ended December 31, 2015, 2016 and 2017.

Our major tax paying components are all located in Taiwan. As of December 31, 2017, the income tax filings in Taiwan have been examined for the years through 2014, but we have filed appeals for the 2014 tax filings.

In 2015, our unrecognized tax benefits were related to amortization of goodwill and intangible assets resulting from the acquisition of FunTown in 2006. The income tax authority has made decisions on the amortization for our tax filings through 2014. We had filed appeals against the unfavorable parts of the decision regarding these amortization adjustments, but all were rejected by the tax authority. As court decisions in precedent cases were mostly unfavorable, we decided not to bring the case to the court and considered the tax position settled. In 2016 and 2017, our unrecognized tax benefits were related to intercompany charges in 2014 and 2015. The income tax authority has made decisions on the intercompany charges for our tax filings through 2014. We had filed appeals against the unfavorable parts of the decision regarding these intercompany charge adjustments, pending the tax authority's re-examination.

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons such as current year tax positions, expiration of statutes of limitations, litigation, legislative activity, or other changes in facts regarding realizability. Taiwanese entities are customarily examined by the tax authorities and it is reasonably possible that a future examination may result in positive or negative adjustment to our unrecognized tax benefit within the next 12 months. As for the intercompany charges tax matters, we have taken the reasonably potential changes in these uncertain tax positions into consideration in our tax provision.

NOTE 22. RELATED-PARTY TRANSACTIONS

During 2015, we have outsourced certain development of software to Double2 Network Technology Co., Ltd., an equity-method investee. The costs of revenues amounted to $108 thousand for the year ended December 31, 2015.

NOTE 23. COMMITMENTS AND CONTINGENCIES

Commitments

(a) Operating Leases

We rent certain properties which are used as office premises under lease agreements that expire at various dates through 2021. The following table sets forth our future aggregate minimum lease payments required under these operating leases, as of December 31, 2017:

(in US$ thousands)	Amount
2018	$ 499
2019	456
2020	438
2021	73
	$ 1,466

Rental expense for operating leases amounted to $909 thousand, $821 thousand and $577 thousand for the years ended December 31, 2015, 2016 and 2017, respectively.

Upon adoption of ASU 2016-02 as of January 1, 2019 using a modified retrospective transition approach, we expect that most of our operating lease commitments will be subject to the new standard and recognized as lease liabilities and right-of-use assets, which will increase the total assets and total liabilities we report.

(b) License Agreements

We have contractual obligations under various license agreements to pay the licensors license fees and minimum guarantees against future royalties. The following table summarizes the committed license fees and minimum guarantees against future royalties set forth in our significant license agreements as of December 31, 2017.

(in US$ thousands)	License fees	Minimum guarantees against future royalties	Total
Minimum required payments:			
In 2018	$ 60	$ 400	$ 460
After 2018	—	—	—
	$ 60	$ 400	$ 460

The minimum guarantees against future royalties and license fees are generally not required to be paid until the licensed games are commercially released or until certain milestones are achieved, as stipulated in the individual license agreements.

Contingencies

We are subject to legal proceedings and claims that arise in the normal course of business.

On January 15, 2018, Ennoconn Corporation ("Ennoconn") filed a complaint against one of our subsidiaries, GigaMedia Cloud Services Co., Ltd. ("GigaMedia Cloud") in the Taiwan Taipei District Court. The complaint alleged that GigaMedia Cloud is obligated to pay Ennoconn the amount totally NTD 79,477,648 (around $2,697,471) to compensate their loss pursuant to certain documents in connection with purchasing taximeters signed in 2015. GigaMedia Cloud filed an answer to the complaint denying all their allegations in the lack of factual and legal basis on March 1, 2018. The Company believes these claims to be without merit and will defend them vigorously. Due to the early stage in the ligation process, we are unable to assess the likelihood of the claim and the amount of potential damages. However, we believe the ultimate result with respect to this claim will not have a material adverse effect on our financial condition, results of operations or cash flows.

NOTE 24. SEGMENT, PRODUCT, GEOGRAPHIC AND OTHER INFORMATION

In 2015, we had two operating segments: a digital entertainment business segment, and a cloud service business segment. The Asian digital entertainment business segment mainly derives its revenues from recognizing the usage of game playing time or in-game items by the end-users. The cloud service business segment mainly derived its revenues from providing cloud products and services to medium-to-larger enterprises as well as public sectors. After reviewing the business plan for 2016, we decided to redirect our cloud service business resources for internal use, in particular, by moving the servers used in our digital entertainment business to the cloud, including the related maintenance, and to wind down our cloud service activities. Therefore, the financial result of cloud service was nil and starting from 2016, we only have one segment. Certain corporate activities are not allocated to the segment and therefore are reflected as adjustments in the reconciliation.

Financial information for each operating segment was as follows for the years ended December 31, 2015, 2016, and 2017:

(in US$ thousands)	Digital entertainment	Cloud service business	Total
2015:			
Net revenue from external customers	$ 8,545	$ 1,706	$ 10,251
Loss from operations	$ (12,735)	$ (1,240)	$ (13,975)
Share-based compensation	$ 6	$ (23)	$ (17)
Impairment loss on property, plant and equipment	$ —	$ 60	$ 60
Impairment loss on intangible assets	$ —	$ 5	$ 5
Impairment loss on prepaid licensing and royalty fees	$ 4,187	$ —	$ 4,187
Interest income	$ 12	$ —	$ 12
Interest expense	$ 128	$ 1	$ 129
Gain on disposal of marketable securities - net	$ 19,939	$ —	$ 19,939
Foreign exchange gain (loss)	$ (145)	$ —	$ (145)
Net gain (loss) on equity investments	$ (600)	$ —	$ (600)
Impairment loss on marketable securities and investments	$ 1,290	$ —	$ 1,290
Depreciation	$ 233	$ 40	$ 273
Amortization, including intangible assets	$ 212	$ 32	$ 244
Income tax expense (benefits)	$ (14)	$ —	$ (14)

(in US$ thousands)	Digital entertainment
2016:	
Net revenue from external customers	$ 8,971
Loss from operations	$ (3,924)
Share-based compensation	$ 3
Impairment loss on property, plant and equipment	$ 288
Impairment loss on intangible assets	$ 53
Impairment loss on prepaid licensing and royalty fees	$ 1,386
Interest income	$ 2
Interest expense	$ —
Gain on disposal of marketable securities - net	$ —
Foreign exchange gain (loss)	$ (174)
Net gain (loss) on equity investments	$ (1,731)
Impairment loss on marketable securities and investments	$ —
Depreciation	$ 142
Amortization, including intangible assets	$ 93
Income tax expense (benefits)	$ —

(in US$ thousands)		Digital entertainment
2017:		
Net revenue from external customers	$	11,596
Income from operations	$	1,747
Share-based compensation	$	1
Impairment loss on property, plant and equipment	$	—
Impairment loss on intangible assets	$	—
Impairment loss on prepaid licensing and royalty fees	$	—
Interest income	$	1
Interest expense	$	1
Gain on disposal of marketable securities - net	$	2
Foreign exchange gain (loss)	$	(148)
Net gain (loss) on equity investments	$	(24)
Impairment loss on marketable securities and investments	$	52
Depreciation	$	43
Amortization, including intangible assets	$	12
Income tax expense (benefits)	$	—

The reconciliations of segment information to GigaMedia's consolidated totals are as follows:

(in US$ thousands)	2015	2016	2017
Loss from operations:			
Total segments	$ (13,975)	$ (3,924)	$ 1,747
Adjustment*	(6,078)	(3,208)	(2,237)
Total GigaMedia consolidated	$ (20,053)	$ (7,132)	$ (490)
Share-based compensation			
Total segments	$ (17)	$ 3	$ 1
Adjustment**	82	6	(8)
Total GigaMedia consolidated	$ 65	$ 9	$ (7)
Impairment loss on property, plant and equipment:			
Total segments	$ 60	$ 288	$ —
Adjustment**	—	183	—
Total GigaMedia consolidated	$ 60	$ 471	$ —
Impairment loss on intangible assets:			
Total segments	$ 5	$ 53	$ —
Adjustment**	—	4	—
Total GigaMedia consolidated	$ 5	$ 57	$ —
Impairment loss on prepaid licensing and royalty fees:			
Total segments	$ 4,187	$ 1,386	$ —
Adjustment**	—	—	—
Total GigaMedia consolidated	$ 4,187	$ 1,386	$ —
Interest income:			
Total segments	$ 12	$ 2	$ 1
Adjustment**	321	300	601
Total GigaMedia consolidated	$ 333	$ 302	$ 602
Interest expense:			
Total segments	$ 129	$ —	$ 1
Adjustment**	53	81	33
Total GigaMedia consolidated	$ 182	$ 81	$ 34
Gain on disposal of marketable securities - net:			
Total segments	$ 19,939	$ —	$ 2
Adjustments**	—	—	—
Total GigaMedia consolidated	$ 19,939	$ —	$ 2
Foreign exchange gain (loss):			
Total segments	$ (145)	$ (174)	$ (148)
Adjustments**	(252)	(127)	(403)
Total GigaMedia consolidated	$ (397)	$ (301)	$ (551)

(in US$ thousands)	2015	2016	2017
Net gain (loss) on equity investments:			
Total segments	$ (600)	$ (1,731)	$ (24)
Adjustment**	—	—	—
Total GigaMedia consolidated	$ (600)	$ (1,731)	$ (24)
Impairment loss on marketable securities and investments:			
Total segments	$ 1,290	$ —	$ 52
Adjustment**	—	—	—
Total GigaMedia consolidated	$ 1,290	$ —	$ 52
Depreciation:			
Total segments	$ 273	$ 142	$ 43
Adjustments**	21	20	—
Total GigaMedia consolidated	$ 294	$ 162	$ 43
Amortization:			
Total segments	$ 244	$ 93	$ 12
Adjustments**	1	18	—
Total GigaMedia consolidated	$ 245	$ 111	$ 12
Income tax expense (benefit):			
Total segments	$ (14)	$ —	$ —
Adjustments**	(400)	(1,149)	(1,671)
Total GigaMedia consolidated	$ (414)	$ (1,149)	$ (1,671)

* Adjustment items include corporate and certain back-office costs and expenses not attributable to any specific segment. For the years ended December 31, 2015, 2016 and 2017, the compensation related items were approximately $1.3 million $1.6 million and $1.3 million, respectively; professional fees were approximately $587 thousand $612 thousand and $365 thousand, respectively; the termination charge of proposed acquisition of $2.0 million in 2015 were also included in the adjustments.

** Adjustment items include corporate and certain back-office costs and expenses not attributable to any specific segment.

Major Product Lines

Revenues from the Company's major product lines are summarized as follow:

(in US$ thousands)	2015	2016	2017
MahJong and casino casual games	$ 3,113	$ 2,459	$ 2,364
PC massively multiplayer online games	1,670	1,560	1,400
Mobile role playing games	2,807	4,674	7,776
Other games and game related revenues	955	278	56
Cloud computing services	1,706	—	—
	$ 10,251	$ 8,971	$ 11,596

Major Customers

No single customer represented 10 percent or more of GigaMedia's consolidated total net revenues in any period presented.

Geographic Information

Revenues by geographic area are attributed by country of the operating entity location. Revenue from by geographic region is as follows:

(in US$ thousands) Geographic region / country	2015	2016	2017
Taiwan	$ 6,889	$ 2,664	$ 2,349
Hong Kong	3,362	6,307	9,247
	$ 10,251	$ 8,971	$ 11,596

Net tangible long-lived assets by geographic region are as follows:

(in US$ thousands)	December 31,		
Geographic region / country	2015	2016	2017
Taiwan	$ 1,320	$ 7	$ 62
Hong Kong	71	—	96
	$ 1,391	$ 7	$ 158

NOTE 25. SUBSEQUENT EVENT

There have been no events that have occurred subsequent to December 31, 2017 and through the date that the consolidated financial statements are issued that would require adjustment to or disclosure except as already disclosed in the consolidated financial statements.

GigaMedia Limited and its subsidiaries
Registration Number: 199905474H

Annual Report
Year ended 31 December 2017

Deloitte.

GIGAMEDIA LIMITED AND ITS SUBSIDIARIES
(Registration Number: 199905474H)

ANNUAL REPORT

YEAR ENDED 31 DECEMBER 2017

GIGAMEDIA LIMITED AND ITS SUBSIDIARIES

C O N T E N T S

Directors' statement

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2017.

In our opinion:

(a) the financial statements set out on pages 11 to 77 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors in office at the date of this statement are as follows:

Huang, James Cheng-Ming (appointed on 5 May 2017)
Hong, Chin Fock (Damian)
Huang, John Ping Chang
Huang, Billy Bing-Yuan
Liu, Nick Chia-En
Tung, Casey Kuo Chong

Directors' interests

According to the register kept by the Company for the purposes of Section 164 of the Act, particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

Name of director and corporation in which interests are held	**Holdings at beginning of the financial year or at date of appointment, if later**	**Holdings at end of the financial year**
Huang, James Cheng-Ming		
GigaMedia Limited		
- ordinary shares		
- interests held	-	336,811
- options to subscribe for ordinary shares	-	4,000

Name of director and corporation in which interests are held	Holdings at beginning of the financial year	Holdings at end of the financial year
Huang, John Ping Chang		
GigaMedia Limited		
- options to subscribe for ordinary shares	4,000	4,000
Huang, Billy Bing-Yuan		
GigaMedia Limited		
- options to subscribe for ordinary shares	4,000	4,000
Liu, Nick Chia-En		
GigaMedia Limited		
- options to subscribe for ordinary shares	4,000	4,000
Tung, Casey Kuo Chong		
GigaMedia Limited		
- options to subscribe for ordinary shares	4,000	4,000
Hong, Chin Fock (Damian)		
GigaMedia Limited		
- options to subscribe for ordinary shares	4,000	4,000

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company or of related corporations either at the beginning of the financial year or at the end of the financial year.

Except as disclosed under the "Share options" section of this statement, neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Share options

2007 Equity Incentive Plan

At the June 2007 annual general meeting of shareholders, the shareholders of the Company approved the GigaMedia Limited 2007 Equity Incentive Plan (the "2007 Plan") under which up to 400 thousand ordinary shares of the Company have been reserved for issuance. The 2007 Plan is administered by a committee designated by the board of directors. The committee as plan administrator has complete discretion to determine the grant of awards under the 2007 Plan. The maximum contractual term for the options under the 2007 Plan is 10 years. There were 4,000 shares granted in May 2017. The 2007 Plan has lapsed in June 2017.

2008 Equity Incentive Plan

At the June 2008 annual general meeting of shareholders, the shareholders of the Company approved the GigaMedia Limited 2008 Equity Incentive Plan (the "2008 Plan") under which up to 200 thousand ordinary shares of the Company have been reserved for issuance. The 2008 Plan is administered by a committee designated by the board of directors. The committee as plan administrator has complete discretion to determine the grant of awards under the 2008 Plan. The maximum contractual term for the options under the 2008 Plan is 10 years. No shares have been issued under the 2008 Plan during the current financial year.

2008 Employee Share Purchase Plan

At the June 2008 annual general meeting of shareholders, the shareholders of the Company approved the GigaMedia Limited 2008 Employee Share Purchase Plan (the "2008 ESPP") under which up to 40 thousand ordinary shares of the Company were reserved for issuance. Any person who is regularly employed by the Company or its designated subsidiaries shall be eligible to participate in the 2008 ESPP. Pursuant to the 2008 ESPP, the Company would offer the shares to qualified employees on favorable terms. Employees are also subject to certain restrictions on the amount that may be invested to purchase the shares and to other terms and conditions of the 2008 ESPP. The 2008 ESPP is administered by a committee designated by the board of directors. As of the date of this annual report, no shares have been granted or subscribed by qualified employees under the 2008 ESPP.

2009 Equity Incentive Plan

At the June 2009 annual general meeting of shareholders, the shareholders of the Company approved the GigaMedia Limited 2009 Equity Incentive Plan (the "2009 Plan") under which up to 300 thousand ordinary shares of the Company have been reserved for issuance. The 2009 Plan is administered by a committee designated by the board of directors. The committee as plan administrator has complete discretion to determine the grant of awards under the 2009 Plan. The maximum contractual term for the options under the 2009 Plan is 10 years. No shares have been issued under the 2009 Plan during the current financial year.

2009 Employee Share Purchase Plan

At the June 2009 annual general meeting of shareholders, the shareholders of the Company approved the GigaMedia Limited 2009 Employee Share Purchase Plan (the “2009 ESPP”) under which up to 40 thousand ordinary shares of the Company have been reserved for issuance. To be eligible, employees must be regularly employed by the Company or its designated subsidiaries. Employees are also subject to certain restrictions on the amount that may be invested to purchase the shares and to other terms and conditions of the 2009 ESPP. The 2009 ESPP is administered by a committee designated by the board of directors. As of the date of this annual report, no shares have been granted or subscribed by qualified employees under the 2009 ESPP.

2010 Equity Incentive Plan

At the June 2010 annual general meeting of shareholders, the shareholders of the Company approved the GigaMedia Limited 2010 Equity Incentive Plan (the “2010 Plan”) under which up to 200 thousand ordinary shares of the Company have been reserved for issuance. The 2010 Plan is administered by a committee designated by the board of directors. The committee as plan administrator has complete discretion to determine the grant of awards under the 2010 Plan. The maximum contractual term for the options under the 2010 Plan is 10 years. No shares have been issued under the 2010 Plan during the current financial year.

2010 Employee Share Purchase Plan

At the June 2010 annual general meeting of shareholders, the shareholders of the Company approved the GigaMedia Limited 2010 Employee Share Purchase Plan (the “2010 ESPP”) under which up to 40 thousand ordinary shares of the Company have been reserved for issuance. To be eligible, employees must be regularly employed by the Company or its designated subsidiaries. Employees are also subject to certain restrictions on the amount that may be invested to purchase the shares and to other terms and conditions of the 2010 ESPP. The 2010 ESPP is administered by a committee designated by the board of directors. As of the date of this annual report, no shares have been granted or subscribed by qualified employees under the 2010 ESPP.

Summarised below are the general terms of its share-based compensation plans as of 31 December 2017.

Date granted	**Balance at beginning of year ’000**	**Granted during the year ’000**	**Expired/ forfeited during the year ’000**	**Balance at end of year ’000**	**Options’ exercise price US$**	**Exercise period**
09.08.2007	109	–	(109)	–	$50.75	09.08.2007 - 09.08.2017
01.10.2007	6	–	(6)	–	$83.00	01.10.2007 - 01.10.2017
29.01.2008	8	–	–	8	$80.05	29.01.2008 - 29.01.2018
01.12.2008	134	–	(66)	68	$21.20	01.12.2008 - 19.06.2018
13.05.2010	176	–	–	176	$12.35	13.05.2010 - 13.05.2020
20.05.2011	12	–	–	12	$6.25	20.05.2011 - 20.05.2021
05.01.2012	4	–	–	4	$4.05	05.01.2012 - 05.01.2022
26.11.2012	100	–	(100)	–	$4.78	26.11.2012 - 26.11.2022
28.10.2013	4	–	–	4	$5.05	28.10.2013 - 28.10.2023
01.11.2013	20	–	(20)	–	$5.20	01.11.2013 - 01.11.2023
28.03.2014	32	–	(7)	25	$7.15	28.03.2014 - 28.03.2024
31.03.2015	8	–	–	8	$3.85	31.03.2015 - 31.03.2025
05.05.2017	–	4	–	4	$2.90	05.05.2017 - 05.05.2027
	613	4	(308)	309		

All options are expected to be settled by issuing new shares.

Auditors

The auditors, Deloitte LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

/S/ HUANG, JAMES CHENG-MING

HUANG, JAMES CHENG-MING
Director

/S/ HUANG, JOHN PING CHANG

HUANG, JOHN PING CHANG
Director

27 April 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

GIGAMEDIA LIMITED

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of GigaMedia Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies, as set out on pages 11 to 77.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "**Act**") and Financial Reporting Standards in Singapore ("**FRSs**") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("**SSAs**"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("**ACRA**") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("**ACRA Code**") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Revenue recognition for sale of virtual points

Revenue from sale of virtual points of the Group amounted to US$10.1 million, which accounted for 87% of total revenue for the year ended December 31, 2017. Revenue for virtual points is recognised in profit or loss based on usage by end-users over its estimated life. The estimated lives for virtual points is a significant estimate which involves management's judgement. Key inputs include historical virtual points redemption ratio, amount of outstanding virtual points, and the projected time interval between purchases and consumption by end users. All unearned revenue is recorded as deferred revenue at the end of each reporting period. The revenue and deferred revenue are disclosed in Notes 18 and 19 to the financial statements.

Our audit performed and responses thereon

Our audit procedures focussed on evaluating and challenging the key assumptions used by management in the accuracy of revenue recognition.

Our procedures included:

- Obtaining an understanding and testing of the operative effectiveness of the relevant internal controls over management's process on revenue recognition of virtual points;
- Assessing and testing inputs used by management;
- Involving information technology specialists to assist in the testing of the general information technology ("IT") controls surrounding the Group's operating system and automated controls, including interface between different IT applications; and
- Independently developing expectation on estimated lives.

Based on our procedures, we noted that management's estimate to be reasonable.

Valuation of prepaid licensing and royalty fees

The Group recorded prepaid licensing and royalty fees of US$1.6 million arising from the purchase of licences for its online games for subsequent financial periods which accounted for 72% of the Group's non-financial assets. Due to increasing shortening lifespans of online games, management reviews the prepaid licensing and royalty fees regularly for impairment and estimates the recoverable amount based on the life cycle and sales generated from the online games. The carrying amount of the prepaid licensing and royalty fees are disclosed in Note 9 to the financial statements.

Our audit performed and responses thereon

We challenged management's assessment of the life cycle of each online game by comparing the forecasted life cycle of each online game to publicly available data on the expected life cycle of similar online games. We also performed a retrospective review to assess the reasonableness of the forecasted revenue generated from each online game by comparing prior year's forecasted sales to actual results.

Based on our procedures, we noted that management's estimate to be reasonable.

Other matters

The financial statements of the Group for the year ended 31 December 2016 were audited by another firm of auditors who expressed an unmodified opinion on those financial statements in their report dated 26 April 2017.

Other information

Management is responsible for the other information. The other information comprises the directors' statement.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the 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.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 SSAs 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 financial statements.

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors 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 the directors 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 the directors, we determine those matters that were of most significance in the audit of the 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.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Lee Boon Teck.

/S/ Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

27 April 2018

Statements of financial position
As at 31 December 2017

	Note	Group		Company	
		2017	**2016**	**2017**	**2016**
		US$'000	**US$'000**	**US$'000**	**US$'000**
Assets					
Property, plant and equipment	4	158	7	–	–
Intangible assets	5	3	–	–	–
Subsidiaries	6	–	–	64,650	59,658
Associates	7	–	72	–	–
Other investments	8	–	–	–	–
Other assets (non-current)	9	282	346	–	–
Non-current assets		443	425	64,650	59,658
Trade and other receivables	11	1,334	2,668	1,760	1,785
Other investments	8	–	3	–	–
Other assets (current)	9	459	1,020	–	–
Cash and cash equivalents	12	64,177	66,211	2,652	3,100
Current assets		65,970	69,902	4,412	4,885
Total assets		66,413	70,327	69,062	64,543
Equity attributable to owners of the Company					
Share capital	13	213,238	213,238	213,238	213,238
Reserves	14	(6,495)	(7,122)	429	(4,924)
Accumulated losses		(145,378)	(146,458)	(144,857)	(144,027)
Total equity		61,365	59,658	68,810	64,287
Liabilities					
Deferred tax liabilities	10	–	1,671	–	–
Non-current liability		–	1,671	–	–
Trade and other payables	16	3,185	4,650	252	256
Loans and borrowings	17	–	2,480	–	–
Deferred revenue	18	1,863	1,868	–	–
Current liabilities		5,048	8,998	252	256
Total liabilities		5,048	10,669	252	256
Total equity and liabilities		66,413	70,327	69,062	64,543

Consolidated statement of profit or loss
Year ended 31 December 2017

	Note	2017 US$'000	2016 US$'000
Revenue	19	11,596	8,971
Cost of sales		(5,098)	(4,138)
Gross profit		6,498	4,833
Other income	20	1,735	1,561
Product development and engineering expenses		(1,072)	(1,045)
Selling and marketing expenses		(3,993)	(5,513)
General and administrative expenses		(3,527)	(3,457)
Other operating expenses	21	(769)	(2,241)
Results from operating activities		(1,128)	(5,862)
Finance income		602	302
Finance expenses		(34)	(81)
Net finance income	22	568	221
Share of loss of associates, net of tax	7	(24)	(1,731)
Loss before tax		(584)	(7,372)
Tax credit	23	1,671	1,149
Profit (loss) for the year	24	1,087	(6,223)
Basic and diluted earnings (loss) per share (US dollars)	25	0.10	(0.56)

See accompanying notes to financial statements.

Consolidated statement of comprehensive income
Year ended 31 December 2017

	Note	2017 US$'000	2016 US$'000
Profit (loss) for the year		1,087	(6,223)
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
Defined benefit plan remeasurements	15	(7)	(58)
		(7)	(58)
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		–	(1)
Net change in fair value of available-for-sale financial assets reclassified to profit or loss on disposal		(2)	–
Foreign currency translation differences – foreign operations		636	(222)
		634	(223)
Other comprehensive income (loss) for the year, net of tax *		627	(281)
Total comprehensive income (loss) for the year		1,714	(6,504)

* There was no tax effect on the components included in other comprehensive income.

See accompanying notes to financial statements.

Consolidated statement of changes in equity
Year ended 31 December 2017

		Attributable to owners of the Company						
	Note	**Share capital US$'000**	**Share option reserve US$'000**	**Statutory reserve US$'000**	**Accumulated losses US$'000**	**Fair value reserve US$'000**	**Foreign currency translation reserve US$'000**	**Total US$'000**
At 1 January 2016		213,238	12,856	3,022	(141,683)	3	(21,283)	66,153
Total comprehensive income (loss) for the year								
Loss for the year		–	–	–	(6,223)	–	–	(6,223)
Other comprehensive income								
Foreign currency translation		–	–	–	–	–	(222)	(222)
Defined benefit plan remeasurements	15	–	–	–	(58)	–	–	(58)
Net change in fair value of available-for-sale financial assets		–	–	–	–	(1)	–	(1)
Total other comprehensive income, net of tax		–	–	–	(58)	(1)	(222)	(281)
Total comprehensive income (loss) for the year		–	–	–	(6,281)	(1)	(222)	(6,504)
Transactions with owners, recognised directly in equity								
Contributions by and distributions to owners								
Share-based payment transactions	14	–	9	–	–	–	–	9
Total transactions with owners		–	9	–	–	–	–	9
Transfer out of statutory reserves to offset deficit	14	–	–	(1,506)	1,506	–	–	–
At 31 December 2016		213,238	12,865	1,516	(146,458)	2	(21,505)	59,658

Consolidated statement of changes in equity (cont'd)
Year ended 31 December 2017

		Attributable to owners of the Company						
	Note	**Share capital US$'000**	**Share option reserve US$'000**	**Statutory reserve US$'000**	**Accumulated losses US$'000**	**Fair value reserve US$'000**	**Foreign currency translation reserve US$'000**	**Total US$'000**
At 1 January 2017		213,238	12,865	1,516	(146,458)	2	(21,505)	59,658
Total comprehensive income for the year								
Income for the year		–	–	–	1,087	–	–	1,087
Other comprehensive income								
Foreign currency translation		–	–	–	–	–	636	636
Defined benefit plan remeasurements	15	–	–	–	(7)	–	–	(7)
Net change in fair value of available-for-sale financial assets on disposal		–	–	–	–	(2)	–	(2)
Total other comprehensive income, net of tax		–	–	–	(7)	(2)	636	627
Total comprehensive income for the year		–	–	–	1,080	(2)	636	1,714
Transactions with owners, recognised directly in equity								
Contributions by and distributions to owners								
Share-based payment transactions	14	–	(7)	–	–	–	–	(7)
Total transactions with owners		–	(7)	–	–	–	–	(7)
At 31 December 2017		213,238	12,858	1,516	(145,378)	–	(20,869)	61,365

Consolidated statement of cash flows
Year ended 31 December 2017

	Note	2017 US$'000	2016 US$'000
Cash flows from operating activities			
Loss before tax		(584)	(7,372)
Adjustments for:			
Allowance for doubtful receivables		127	35
Amortisation – intangible assets		7	106
Depreciation of property, plant and equipment		42	163
Gain on sale of available-for-sale financial assets		(2)	–
Gain on disposal of a subsidiary	30	–	(827)
Loss (gain) on disposal of an associate		52	(22)
Gain on disposal of property, plant and equipment		–	(586)
Impairment loss on property, plant and equipment		–	471
Impairment loss on prepaid licensing fees and royalty fees		–	1,386
Impairment loss on intangible assets		–	57
Interest expense		34	81
Interest income		(602)	(302)
Share-based compensation		(7)	9
Share of loss of associates, net of tax		24	1,731
Operating loss before working capital changes		(909)	(5,070)
Changes in:			
Trade and other receivables		149	262
Other assets		561	(2,163)
Trade and other payables		(1,464)	1,054
Employee benefits		(9)	46
Cash used in operating activities		(1,672)	(5,871)
Tax paid		–	(46)
Net cash used in operating activities		(1,672)	(5,917)

Consolidated statement of cash flows (cont'd)
Year ended 31 December 2017

	Note	2017 US$'000	2016 US$'000
Cash flows from investing activities			
Dividends from associate		–	1,438
Disposal of a subsidiary, net of cash disposed of	30	–	278
Interest received		602	299
Proceeds from disposal of available-for-sale financial assets		3	–
Proceeds from disposal of an associate		1,058	112
Proceeds from disposal of property, plant and equipment		–	1,950
Purchase of property, plant and equipment		(192)	(496)
Purchase of intangible assets		(11)	(86)
Refundable deposit		37	17
Others		35	30
Net cash from investing activities		1,532	3,542
Cash flows from financing activities			
Repayment of short-term borrowings		(2,631)	(3,722)
Deposits pledged		(7)	500
Interest paid		(35)	(83)
Net cash used in financing activities		(2,673)	(3,305)
Net decrease in cash and cash equivalents		(2,813)	(5,680)
Cash and cash equivalents at 1 January		65,711	71,432
Effect of exchange rate fluctuations on cash held in foreign currencies		772	(41)
Cash and cash equivalents at 31 December	12	63,670	65,711

1. Corporate information

GigaMedia Limited (the "Company") is a limited liability company domiciled and incorporated in Singapore. The address of its registered office is at 80 Robinson Road, #02-00, Singapore 068898. Its principal place of business is at 8th Floor, No.22, Ln. 407, Sec. 2, Tiding Blvd., Taipei, Taiwan, 114 Republic of China.

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are disclosed in Note 6 to the financial statements.

The Company is listed on the NASDAQ Stock Market in the United States.

The consolidated financial statements of the Group and statement of financial position of the Company for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 27 April 2018.

2. Summary of significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the historical cost basis except as disclosed in the accounting polices below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Financial Reporting Standards in Singapore ("FRS").

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of FRS 102 *Share-based Payment*, leasing transactions that are within the scope of FRS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in FRS 2 *Inventories* or value in use in FRS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

2. Summary of significant accounting policies (cont'd)

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - Unobservable inputs for the asset or liability.

Adoption of new and revised standards

On 1 January 2017, the Group adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") that are effective from that date and are relevant to its operations. The adoption of these new/revised FRSs and INT FRSs does not result in changes to the Group's and Company's accounting policies and has no material effect on the amounts reported for the current or prior years except for certain presentation improvements arising from Amendment to FRS 7 *Statement of Cash Flows: Disclosure Initiative*.

<u>Amendments to FRS 7 Statement of Cash Flows: Disclosure Initiative</u>

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flows and non-cash changes.

The Group's liabilities arising from financing activities and a reconciliation between the opening and closing balances of these liabilities are set out in Note 17 to the financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 17, the application of these amendments has had no impact on the Group's consolidated financial statements.

At the date of authorisation of these financial statements, the following new and revised FRSs and amendments to FRSs that are relevant to the Group and the Company were issued but not effective:

- FRS 109 *Financial Instruments*[1]
- FRS 115 *Revenue from Contracts with Customers*[1]
- FRS 116 *Leases*[2]

2. Summary of significant accounting policies (cont'd)

- Amendments to FRS 110 *Consolidated Financial Statements* and IAS 28 Investments in Associates and Joint Ventures: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]

- Amendments to FRS 102 *Share-based Payment: Classification and Measurement of Share-based Payment Transactions*[1]

[1] Effective for annual periods beginning on or after 1 January 2018

[2] Effective for annual periods beginning on or after 1 January 2019

[3] Application has been deferred indefinitely, however, early application is still permitted

Consequential amendments were also made to various standards as a result of these new/revised standards. Management anticipates that the adoption of the above FRSs and amendments to FRS in future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption except for the following:

FRS 109 *Financial Instruments*

FRS 109 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. FRS 109 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of FRS 109 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of FRS 109 that may be relevant to the Group and the Company:

- all recognised financial assets that are within the scope of FRS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value.

2. Summary of significant accounting policies (cont'd)

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, FRS 109 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under FRS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, FRS 109 requires an expected credit loss model, as opposed to an incurred credit loss model under FRS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

On the initial application of FRS 109, management anticipates that the Group will need to account for expected credit losses and expect to use historical experience, modified by any future change such as credit risk of the customers. Additional disclosures may be made with respect of loans and receivables, including any significant judgement and estimation made.

Based on the assessment by the management, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under FRS 39 mainly attributable to expected credit losses provision on trade and other receivables. Such further impairment recognised under expected credit loss model may reduce the opening retained earnings and increase the unrecognised tax losses at 1 January 2018 but will not have a significant impact on the Group's financial performance in the foreseeable future.

FRS 115 *Revenue from Contracts with Customers*

FRS 115 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. FRS 115 will supersede the current revenue recognition guidance including FRS 18 *Revenue*, FRS 11 *Construction Contracts* and the related interpretations when it becomes effective.

2. Summary of significant accounting policies (cont'd)

The core principle of FRS 115 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under FRS 115, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in FRS 115 to deal with specific scenarios. Furthermore, extensive disclosures are required by FRS 115.

Management has performed a detailed analysis of the requirements of the initial application of FRS 115. Management has identified the performance obligations with respect to the various revenue streams of the Group and the Company. Based on the performance obligations identified, management has assessed that the current recognition method will continue to be appropriate under FRS 115. Accordingly, management anticipates that the adoption of FRS 115 will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption. However, the application of FRS 115 may result in additional disclosures including:

- Qualitative descriptions of the types of goods or services and typical timing of satisfying obligations of an entity's contracts with customers; and

- A description of the significant judgements about the amount and timing of revenue recognition.

2. Summary of significant accounting policies (cont'd)

FRS 116 *Leases*

The Standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The identification of leases, distinguishing between leases and service contracts, are determined on the basis of whether there is an identified asset controlled by the customer.

Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognised in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). The Standard maintains substantially the lessor accounting approach under the existing framework.

Management anticipates that the initial application of the new FRS 116 will result in changes to the accounting policies relating to operating leases, where the Group is a lessee. A leased asset will be recognised on statement of financial position, representing the Group's right to use the leased asset over the lease term and, recognise a corresponding liability to make lease payments.

Other than the above, management has considered and is of the view that the adoption of the other amendments to FRSs that are issued as at date of authorisation of these financial statements but effective only in future periods will not have a material impact on the financial statements in the period of their initial adoption.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

2. Summary of significant accounting policies (cont'd)

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

<u>Changes in the Group's ownership interests in existing subsidiaries</u>

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2. Summary of significant accounting policies (cont'd)

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable FRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's financial statements, investments in subsidiaries and associates are carried at cost less any impairment in net recoverable value that has been recognised in profit or loss.

Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred by the Group to the former owners of the acquiree, and equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

2. Summary of significant accounting policies (cont'd)

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under the FRS are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with FRS 12 *Income Taxes* and FRS 19 *Employee Benefits* respectively;

- Liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with share-based payment awards transactions of the acquirer in accordance with the method in FRS 102 *Share-based Payment* at the acquisition date; and

- Assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year from acquisition date.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

2. Summary of significant accounting policies (cont'd)

The results and assets and liabilities of the associate are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with FRS 105. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of FRS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with FRS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with FRS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with FRS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

2. Summary of significant accounting policies (cont'd)

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Foreign currency

The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The Group's consolidated financial statements are presented in US dollars as the Company is listed on the NASDAQ Stock Market at United States. The Company's functional currency is New Taiwan dollars.

a) Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under translation reserve in equity. The translation reserve is reclassified from equity to the profit or loss of the Group on disposal of the foreign operation.

2. Summary of significant accounting policies (cont'd)

b) Group companies

The assets and liabilities of foreign operations are translated into US dollars at the rate of exchange prevailing at the reporting date and income and expenses are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is charged so as to write off the cost of items of property, plant, and equipment less their residual values over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	-	50 years
Leasehold improvements	-	3 to 5 years
Information and communication equipment	-	2 to 5 years
Office furniture and equipment	-	3 to 5 years

Freehold land is not depreciated.

The residual values, useful life and depreciation method are reviewed at end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in profit or loss.

2. Summary of significant accounting policies (cont'd)

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The following useful life is used in the calculation of amortisation:

Purchased software development costs	-	1 to 3 years

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

2. Summary of significant accounting policies (cont'd)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Reversal is recognised in the profit or loss unless the asset is measured at revalued amount, in which case the reversal in excess of impairment loss previously recognised through the profit or loss is treated as a revaluation increase.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

<u>Effective interest method</u>

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period.

Financial assets

Initial recognition and measurement

Financial assets are recognised on the statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value plus transaction costs, except for those financial assets classified as fair value through profit or loss which are initially measured at fair value.

2. Summary of significant accounting policies (cont'd)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

a) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

The Group classifies the following financial assets as loans and receivables:

- cash and short term deposits
- trade and other receivables, including amounts due from subsidiaries, an associate and related parties.

b) Available-for-sale financial assets

Certain shares securities held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 28. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income and accumulated in fair value reserve is reclassified to profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established. The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at end of the reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the available-for-sale monetary asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

Investments in equity securities whose fair value cannot be reliably measured are carried at cost less impairment losses.

2. Summary of significant accounting policies (cont'd)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

a) Financial assets

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

2. Summary of significant accounting policies (cont'd)

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the profit or loss.

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

b) Available-for-sale financial assets

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any subsequent increase in fair value after an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserves.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and fixed deposits which are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

2. Summary of significant accounting policies (cont'd)

Financial liabilities

Financial liabilities include trade and other payables and interest bearing loans and borrowings.

Initial recognition and measurement

Financial liabilities are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Borrowings

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Interest expense calculated using the effective interest method is recognised over the term of the borrowings.

All borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

2. Summary of significant accounting policies (cont'd)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made on the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Employee benefits

a) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Company makes contributions to the Central Provident Fund (CPF) scheme in Singapore, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

b) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to reporting date.

2. Summary of significant accounting policies (cont'd)

c) Defined benefits plan

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 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 is deducted. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).

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 recognised asset is limited to 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 realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all expenses related to defined benefit plans in employee benefits expense in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

2. Summary of significant accounting policies (cont'd)

d) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the fair value of the liability are recognised as employee benefits expense in profit or loss.

Taxes

a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in the profit or loss except to the extent that the tax relates to items recognised outside the profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. Summary of significant accounting policies (cont'd)

b) Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

2. Summary of significant accounting policies (cont'd)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period. Except for investment properties measured using the fair value model, the measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Leases

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

As lessee

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, excluding discounts, rebates, and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

2. Summary of significant accounting policies (cont'd)

Digital entertainment service revenue

Digital entertainment business revenue are earned through the sale of virtual points, prepaid cards, and game packs. Virtual points are sold to distributors or end-users who can make the payments through credit cards, internet banking or telecommunication service operators. Physical prepaid cards and game packs are sold through distributors and convenience stores. Proceeds from sales of physical cards and game packs, net of sales discounts, and virtual points are deferred when received and revenue is recognised upon the actual usage of the playing time or in-game virtual items by the end-users; over the estimated life of virtual items; or when the sold points expire and are no longer eligible to access the digital entertainment products or services in accordance with the Group's published virtual points expiration policy.

The Group reports sales of virtual points on a gross basis. In the sales of virtual points, the Group acts as principal and the Group has latitude in establishing price. Fixed percentage fees retained by service providers for payment processing related to the Group's digital entertainment services are recognised as cost of digital entertainment revenue.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of Directors (the chief operating decision maker) to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses and tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and intangible assets.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the Group's accounting policies

Management is of the opinion that any instances of application of judgement are not expected to have a significant effect on the amounts recognised in the financial statements, except for judgements relating to accounting estimates as discussed below.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

a) Recognition of digital entertainment service revenue

Digital entertainment service revenue is earned via the sale of virtual points, prepaid cards and game packs. Proceeds from the sale of virtual points are deferred when received and revenue is recorded when the virtual points are consumed based on estimated life of virtual points. Management determines the estimated useful life of the virtual points based on the turnover ratio of virtual points and weighted average time intervals in spending by end-users.

The carrying amount of the Group's deferred revenue and digital entertainment service revenue are disclosed in Notes 18 and 19 to the financial statements.

b) Impairment of prepaid licensing and royalty fees

The Group regularly reviews whether there are any indications of impairment and recognises an impairment loss if the carrying amount of the prepaid licensing and royalty fees is lower than its recoverable amount. The determination of recoverable amount is subject to management's estimation based on the life cycle and sales generated from the online games.

The carrying amount of the Group's prepaid licensing and royalty fees is disclosed in Note 9 to the financial statements.

4 Property, plant and equipment

Group	Freehold land US$'000	Buildings US$'000	Leasehold improvements US$'000	Information and communication equipment US$'000	Office furniture and equipment US$'000	Equipment under installation US$'000	Total US$'000
Cost							
At 1 January 2016	677	1,154	116	4,400	166	–	6,513
Additions	–	–	187	181	–	128	496
Disposals/Write offs	(689)	(1,175)	(427)	(4,343)	(168)	–	(6,802)
Reclassification	–	–	122	–	–	(122)	–
Effect of movements in exchange rates	12	21	2	68	2	1	106
At 31 December 2016	–	–	–	306	–	7	313
Additions	–	–	141	3	32	16	192
Reclassification	–	–	–	23	–	(23)	–
Effect of movements in exchange rates	–	–	–	15	1	–	16
At 31 December 2017	–	–	141	347	33	–	521
Accumulated depreciation and impairment losses							
At 1 January 2016	193	418	112	4,082	155	–	4,960
Depreciation charge to profit or loss	–	3	30	127	3	–	163
Disposals/Write offs	(197)	(427)	(423)	(4,156)	(164)	–	(5,367)
Impairment loss	–	–	279	188	4	–	471
Effect of movements in exchange rates	4	6	2	65	2	–	79
At 31 December 2016	–	–	–	306	–	–	306
Depreciation charge to profit or loss	–	–	35	1	6	–	42
Effect of movements in exchange rates	–	–	–	14	1	–	15
At 31 December 2017	–	–	35	321	7	–	363
Carrying amounts							
At 31 December 2016	–	–	–	–	–	7	7
At 31 December 2017	–	–	106	26	26	–	158

In 2016, the Group recognised an impairment loss of US$471,000 on property, plant and equipment as a full provision to reflect consecutive operating losses in recent years and that the carrying amounts of those long-lived assets would not be recoverable with cash flow projections from current games, which are typically with shorter lives.

5 Intangible assets

	Purchased software development costs US$'000
Group	
Cost	
At 1 January 2016	775
Additions	86
Disposals/Write offs	(875)
Effect of movements in exchange rates	14
At 31 December 2016	–
Additions	11
At 31 December 2017	11
Accumulated amortisation and impairment losses	
At 1 January 2016	687
Amortisation for the year	106
Disposals/Write offs	(864)
Impairment loss	57
Effect of movements in exchange rates	14
At 31 December 2016	–
Amortisation for the year	7
Effect of movements in exchange rates	1
At 31 December 2017	8
Carrying amounts	
At 31 December 2016	–
At 31 December 2017	3

In 2016, the Group recorded an impairment loss of US$57,000 on intangible assets as a full provision to reflect consecutive operating losses in recent years and that the carrying amounts of those intangibles assets would not be recoverable with cash flow projections from current games, which are typically with shorter lives.

6 Subsidiaries

	Company 2017 US$'000	Company 2016 US$'000
At 1 January	59,658	76,366
Impairment loss made	-	(18,075)
Effect of movements in exchange rates	4,992	1,367
At 31 December	64,650	59,658

As at the reporting date, management has assessed the recoverable amount of its investment in subsidiaries. The recoverable amount has been determined based on the fair value less costs to sell. Fair value is based on the revalued net asset value of the subsidiaries at the reporting date as, in the opinion of the management of the Company, the revalued net asset value of the investment reasonably approximates the fair value. Based on the assessment, management has determined that no additional impairment is necessary in respect of the Company's investment in subsidiaries in 2017.

In 2016, an impairment loss amounted US$18,075,000 was charged to profit or loss of the Company.

Details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities	Country of incorporation	Percentage ownership interest 2017 %	Percentage ownership interest 2016 %
Held by the Company				
GigaMedia International Holdings Limited	Holding company	British Virgin Islands	100	100
Held by GigaMedia International Holdings Limited				
Cambridge Entertainment Software Limited	Holding company	British Virgin Islands	100	100
GigaMedia (HK) Limited	Holding company	Hong Kong	100	100
GigaMedia Online Entertainment Corp.	Holding company	Cayman Islands	100	100

Name of subsidiaries	Principal activities	Country of incorporation	Percentage ownership interest 2017 %	2016 %
GigaMedia (Cayman) Limited.	Holding company	Cayman Islands	100	100
Held by GigaMedia Online Entertainment Corp.				
FunTown World Limited	Holding company	British Virgin Islands	100	100
GigaMedia Capital Limited	Holding company	British Virgin Islands	100	100
Dragon Mark Holdings Limited	Holding company	British Virgin Islands	100	100
GigaMedia Freestyle Holdings Limited	Holding company	British Virgin Islands	100	100
GigaMedia (Labuan) Limited	Holding company	Labuan	100	100
Megabiz Limited	Holding company	British Virgin Islands	100	100
Held by FunTown World Limited				
FunTown Hong Kong Limited	Online games	Hong Kong	100	100
Held by GigaMedia (Cayman) Limited.				
Hoshin GigaMedia Center Inc.	Online games	Taiwan	100	100
Giga Development Corporation	Holding company	Taiwan	100	100

Name of subsidiaries	Principal activities	Country of incorporation	Percentage ownership interest 2017 %	2016 %
GigaMedia Cloud Services Co., Ltd.	Cloud computing services	Taiwan	100	100
Held by Cambridge Entertainment Software Limited				
Cambridge Interactive Development Corporation	Software development and application services	U.S.A.	100	100
Held by GigaMedia (Labuan) Limited				
Leisure Alliance Sdn. Bhd.	Holding company	Malaysia	100	100
Held by Hoshin GigaMedia Center Inc				
Play2gether Digital Technology Co., Ltd.	Online games	Taiwan	100	100
Gaminfinity Publishing Co., Ltd.	Online games	Taiwan	100	100
Held by Giga Development Corporation				
Wen He Investment Ltd.	Holding company	Taiwan	100	100
Held by GigaMedia (HK) Limited				
Shanghai Pontoon Networking Technology Co., Ltd.	Online games	China	100	100

7 Associates

	Group 2017 US$'000	Group 2016 US$'000
Equity shares at cost	–	667
Carrying amount		
At 1 January	72	4,524
Share of loss, net of tax	(24)	(1,731)
Distribution received	–	(1,438)
Disposal or deemed disposal of an associate	(52)	(1,398)
Effect of movements in exchange rates	4	115
At 31 December	–	72

All the associates were equity accounted. Details of the associates are as follows:

Name of associates	Nature of relationship with the Group	Principal place of business/ Country of incorporation	Effective equity held by the Group 2017 %	Effective equity held by the Group 2016 %
East Gate Media Contents & Technology Fund ("East Gate")	Online game business and films	Korea	–	–[1]
Double2 Network Technology Co., Ltd. ("Double2")	Online games	Taiwan	–[2]	22.9

[1] In 2016, the Group disposed of East Gate to East Gate Partners, LLC (a "Korean investor") for a consideration of US$1,170,000. As at 31 December 2016, the outstanding consideration receivables amounted to US$1,058,000. The receivables were fully collected during 2017 (see Note 11).

[2] In 2017, Double2 executed two rounds of capital increase and the Group did not participate to subscribe to the new shares. As a result, the Group's ownership interest decreased to 9.14%. Upon the loss of significant influence, the Group ceased accounting for the investment under the equity method and recognised a loss on deemed disposal of US$52,000 (Note 21). Following the deemed disposal, the remaining interest in Double2 is classified as an available-for sale investment (Note 8).

The following summarises the financial information of the Group's associates based on their respective (consolidated) financial statements prepared in accordance with FRS, modified for fair value adjustments on acquisition and differences in the Group's accounting policies. The information for 2017 presented in the table includes the results of the associate of Double2 for period from 1 January 2017 to the date the Group ceased using the equity method to account for the investment. The information for 2016 presented in the table includes the results of the associate of East Gate for period from 1 January 2016 to its disposal date.

	Double2 US$'000
2017	
Revenue	7
Loss for the period and total comprehensive income	(195)
Attributable to associates' shareholders	(195)
Group's interest in net assets of investee at beginning of the year	72
Group's share of loss for the period and total comprehensive income	(24)
Carrying amount of interest in associate deemed disposed of	(52)
Currency translation differences	4
Carrying amount of interest in investee at end of the year	–

	East Gate US$'000	Double2 US$'000	Total US$'000
2016			
Revenue	2,454	65	
Loss for the period and total comprehensive income	(9,131)	(522)	
Attributable to associates' shareholders	(9,131)	(522)	
Non-current assets	–	135	
Current assets	–	264	
Current liabilities	–	(84)	
Net assets	–	315	
Attributable to associates' shareholders	–	315	
Group's interest in net assets of investee at beginning of the year	4,336	188	4,524
Group's share of loss for the period and total comprehensive income	(1,612)	(119)	(1,731)
Dividends from associate	(1,438)	–	(1,438)
Carrying amount of interest in associate disposed	(1,398)	–	(1,398)
Currency translation differences	112	3	115
Carrying amount of interest in investee at end of the year	–	72	72

8 Other investments

	Group 2017 US$'000	Group 2016 US$'000
Current investments		
Available-for-sale financial assets:		
- Equity instrument (quoted)	–	3
Non-current investments		
Available-for-sale financial assets:		
- Equity instrument (unquoted)	–*	–

In 2016, the fair values of the investments classified under level 1 of the fair value hierarchy were based on the quoted closing market prices on the last market day of the financial year. Changes in fair value were recognised as part of fair value reserve. There was no transfer between Level 1 and Level 2 of the fair value hierarchy in 2017 and 2016.

* The investment in Double2 became an available-for-sale asset of the Group following the deemed disposal (Note 7) and fair value of the remaining retained equity interest in Double2 approximates US$ Nil based on the asset value (key unobservable input) and classified under level 3 of the fair value hierarchy.

9 Other assets

	Note	Group 2017 US$'000	Group 2016 US$'000
Refundable deposits		208	245
Prepaid licensing and royalty fees		1,619	2,406
Prepaid pension assets	15	70	62
Others		4	39
		1,901	2,752
Less: Impairment loss on prepaid licensing and royalty fees		(1,160)	(1,386)
		741	1,366
Non-current assets		282	346
Current assets		459	1,020
		741	1,366

Assessment of impairment of prepaid licensing and royalty fees

The Group recorded prepaid licensing and royalty fees of US$1,619,000 (2016: US$2,406,000) arising from the purchase of licences for its online games for subsequent financial periods.

At the reporting date, the impairment charge for prepaid licensing and royalty fees relates to certain licensed online games, which the carrying amounts of the related assets were determined not to be recoverable based on their expected life cycle and the forecasted sales. Based on the assessment, management has determined that no additional impairment is necessary in respect of the carrying amount as at end of the reporting date. In 2016, an impairment loss of US$1,386,000 was recorded in profit or loss. Movements in allowance for impairment losses on prepaid licensing and royalty fees during the year were as follows:

	Group 2017 US$'000	Group 2016 US$'000
At 1 January	1,386	4,187
Impairment loss recognised	–	1,386
Amounts written off	(226)	(4,187)
At 31 December	1,160	1,386

10 Deferred tax liabilities

Movement in temporary differences during the year

	At 1/1/2016 US$'000	Recognised in profit or loss (Note 23) US$'000	At 31/12/2016 US$'000	Recognised in profit or loss (Note 23) US$'000	At 31/12/2017 US$'000
Group					
Deferred tax liabilities					
Dividend withholding tax from investees	(1,712)	41	(1,671)	1,671	–

In October 2017, a subsidiary of the Group in the U.S. resolved to dissolve and liquidate. The subsidiary completed the process and filed final tax return in February 2018. The distributions from the liquidation were deemed capital gains and thus free of dividend withholding tax. Accordingly, the Group reversed the deferred income tax liabilities relating to the withholding obligations upon possible dividend distribution.

As at 31 December 2017, the Group has tax losses carried forward, available to offset against future taxable and statutory income, the natures and jurisdictions of which were summarised as follows:

	2017		2016	
Jurisdiction	Amount (US$'000)	Expiring year	Amount (US$'000)	Expiring year
Hong Kong– for taxable income	15,444	Indefinite	14,930	Indefinite
Taiwan– for taxable income	30,952	2020-2027	24,843	2020-2026
Taiwan– for statutory income	19,920	Indefinite	44,431	Indefinite

Deferred tax assets relating to unutilised tax losses has not been recognised due to the unpredictability of future profit streams. Consequently, the Group did not recognise deferred tax assets of US$10,322,000 (2016: US$11,852,000).

11 Trade and other receivables

	Group		Company	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Trade receivables				
- third parties	763	903	–	–
Less: Allowance for doubtful receivables	(12)	(32)	–	–
	751	871	–	–
Other receivables				
- subsidiaries	–	–	1,760	1,742
- third parties	68	1,099	–	–
Prepayments	390	547	–	43
Others	125	151	–	–
	1,334	2,668	1,760	1,785

The non-trade amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

The outstanding balances of other receivables in 2016 mainly represented the consideration receivables from a Korean investor for disposal of the associate in 2016 (see Note 7). The consideration receivables from the Korean investor had been fully collected during 2017.

The Group and the Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables are disclosed in Note 28.

Movement in the allowance for doubtful debts:

	Group		Company	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Balance at 1 January	32	29	–	–
Charge to profit or loss	127	35	–	–
Written off	(149)	(33)	–	–
Exchange difference	2	1		
Balance at 31 December	12	32	–	–

12 Cash and cash equivalents

	Group		Company	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Bank balances	63,664	65,705	2,652	3,100
Short-term deposits	513	506	–	–
	64,177	66,211	2,652	3,100
Less: Restricted cash	(507)	(500)		
Cash and cash equivalents in the statement of cash flows	63,670	65,711		

The weighted average effective interest rate per annum relating to the fixed deposits at the reporting date for the Group is 2.05% (2016: 1.58%). Depending on the terms of the deposit, interest rates reprice every half-yearly and yearly.

In 2017, restricted cash amounting to US$507,000 (2016: US$500,000) relates to deposits pledged for unutilised game point cards.

13 Share capital

	2017 No. of shares '000	2016 No. of shares '000
Group and Company		
In issue at 1 January and 31 December	11,052	11,052

All issued shares are fully paid, with no par value.

(i) Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All rights attached to the Company's shares held by the Group are suspended until those shares are reissued.

(ii) Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern while looking for appropriate opportunities to expand its business. In order to do so, the Group may obtain new borrowings or issue new shares.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

14 Reserves

	Group		Company	
	2017	**2016**	**2017**	**2016**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Share option reserve	12,858	12,865	12,858	12,865
Statutory reserve	1,516	1,516	–	–
Fair value reserve	–	2	–	–
Foreign currency translation reserve	(20,869)	(21,505)	(12,429)	(17,789)
	(6,495)	(7,122)	429	(4,924)

Share option reserve

Employee share options represent the equity-settled share option granted to employees and executive director of the Group. The reserve is made up of the cumulative value of services received from employee and executive directors recorded over the vesting period commencing from the grant date of share options, and is reduced by the expiry or exercise of the share options. The details of the share options are disclosed as follows:

2007 Equity Incentive Plan

At the June 2007 annual general meeting of shareholders, the shareholders of the Company approved the GigaMedia Limited 2007 Equity Incentive Plan (the “2007 Plan”) under which up to 400 thousand ordinary shares of the Company have been reserved for issuance. The 2007 Plan is administered by a committee designated by the board of directors. The committee as plan administrator has complete discretion to determine the grant of awards under the 2007 Plan. The maximum contractual term for the options under the 2007 Plan is 10 years. There were 4,000 shares granted in May 2017. The 2007 Plan has lapsed in June 2017.

2008 Equity Incentive Plan

At the June 2008 annual general meeting of shareholders, the shareholders of the Company approved the GigaMedia Limited 2008 Equity Incentive Plan (the “2008 Plan”) under which up to 200 thousand ordinary shares of the Company have been reserved for issuance. The 2008 Plan is administered by a committee designated by the board of directors. The committee as plan administrator has complete discretion to determine the grant of awards under the 2008 Plan. The maximum contractual term for the options under the 2008 Plan is 10 years. No shares have been issued under the 2008 Plan during the current financial year.

2008 Employee Share Purchase Plan

At the June 2008 annual general meeting of shareholders, the shareholders of the Company approved the GigaMedia Limited 2008 Employee Share Purchase Plan (the “2008 ESPP”) under which up to 40 thousand ordinary shares of the Company were reserved for issuance. Any person who is regularly employed by the Company or its designated subsidiaries shall be eligible to participate in the 2008 ESPP. Pursuant to the 2008 ESPP, the Company would offer the shares to qualified employees on favorable terms. Employees are also subject to certain restrictions on the amount that may be invested to purchase the shares and to other terms and conditions of the 2008 ESPP. The 2008 ESPP is administered by a committee designated by the board of directors. As of the date of this annual report, no shares have been granted or subscribed by qualified employees under the 2008 ESPP.

2009 Equity Incentive Plan

At the June 2009 annual general meeting of shareholders, the shareholders of the Company approved the GigaMedia Limited 2009 Equity Incentive Plan (the "2009 Plan") under which up to 300 thousand ordinary shares of the Company have been reserved for issuance. The 2009 Plan is administered by a committee designated by the board of directors. The committee as plan administrator has complete discretion to determine the grant of awards under the 2009 Plan. The maximum contractual term for the options under the 2009 Plan is 10 years. No shares have been issued under the 2009 Plan during the current financial year.

2009 Employee Share Purchase Plan

At the June 2009 annual general meeting of shareholders, the shareholders of the Company approved the GigaMedia Limited 2009 Employee Share Purchase Plan (the "2009 ESPP") under which up to 40 thousand ordinary shares of the Company have been reserved for issuance. To be eligible, employees must be regularly employed by the Company or its designated subsidiaries. Employees are also subject to certain restrictions on the amount that may be invested to purchase the shares and to other terms and conditions of the 2009 ESPP. The 2009 ESPP is administered by a committee designated by the board of directors. As of the date of this annual report, no shares have been granted or subscribed by qualified employees under the 2009 ESPP.

2010 Equity Incentive Plan

At the June 2010 annual general meeting of shareholders, the shareholders of the Company approved the GigaMedia Limited 2010 Equity Incentive Plan (the "2010 Plan") under which up to 200 thousand ordinary shares of the Company have been reserved for issuance. The 2010 Plan is administered by a committee designated by the board of directors. The committee as plan administrator has complete discretion to determine the grant of awards under the 2010 Plan. The maximum contractual term for the options under the 2010 Plan is 10 years. No shares have been issued under the 2010 Plan during the current financial year.

2010 Employee Share Purchase Plan

At the June 2010 annual general meeting of shareholders, the shareholders of the Company approved the GigaMedia Limited 2010 Employee Share Purchase Plan (the "2010 ESPP") under which up to 40 thousand ordinary shares of the Company have been reserved for issuance. To be eligible, employees must be regularly employed by the Company or its designated subsidiaries. Employees are also subject to certain restrictions on the amount that may be invested to purchase the shares and to other terms and conditions of the 2010 ESPP. The 2010 ESPP is administered by a committee designated by the board of directors. As of the date of this annual report, no shares have been granted or subscribed by qualified employees under the 2010 ESPP.

Summarised below are the general terms of its share-based compensation plans as of 31 December 2017.

Date granted	Balance at beginning of year ’000	Granted during the year ’000	Expired/ forfeited during the year ’000	Balance at end of year ’000	Options’ exercise price US$	Exercise period
09.08.2007	109	–	(109)	–	$50.75	09.08.2007 - 09.08.2017
01.10.2007	6	–	(6)	–	$83.00	01.10.2007 - 01.10.2017
29.01.2008	8	–	–	8	$80.05	29.01.2008 - 29.01.2018
01.12.2008	134	–	(66)	68	$21.20	01.12.2008 - 19.06.2018
13.05.2010	176	–	–	176	$12.35	13.05.2010 - 13.05.2020
20.05.2011	12	–	–	12	$6.25	20.05.2011 - 20.05.2021
05.01.2012	4	–	–	4	$4.05	05.01.2012 - 05.01.2022
26.11.2012	100	–	(100)	–	$4.78	26.11.2012 - 26.11.2022
28.10.2013	4	–	–	4	$5.05	28.10.2013 - 28.10.2023
01.11.2013	20	–	(20)	–	$5.20	01.11.2013 - 01.11.2023
28.03.2014	32	–	(7)	25	$7.15	28.03.2014 - 28.03.2024
31.03.2015	8	–	–	8	$3.85	31.03.2015 - 31.03.2025
05.05.2017	–	4	–	4	$2.90	05.05.2017 - 05.05.2027
	613	4	(308)	309		

All options are expected to be settled by issuing new shares. At the end of the financial year, details of the options granted are as follow:

Range of exercise price	Number of outstanding share options					Weighted average remaining exercise period
	At beginning of the year ’000	Granted during the year ’000	Expired/ forfeited during the year ’000	Exercised during the year ’000	At end of the year ’000	
2017						
Under US$5	112	4	(100)	–	16	6.97 years
US$5–US$50	378	–	(93)	–	285	2.35 years
US$50–US$100	123	–	(115)	–	8	0.08 years
	613	4	(309)	–	309	
2016						
Under US$5	116	–	(4)	–	112	6.04 years
US$5–US$50	378	–	–	–	378	3.11 years
US$50–US$100	123	–	–	–	123	0.64 years
	617	–	(4)	–	613	

298,000 options (2016: 606,000) out of options 309,000 (2016: 613,000) are exercisable at the end of the year.

As at 31 December 2017, approximately US$4,000 (2016: US$2,000) of unrecognised compensation cost relates to non-vested options. That cost is expected to be recognised over a period of 0.94 years (2016: 0.25 years).

The Company has used the Black-Scholes option-pricing model to derive the fair value of share options granted to employees on the grant date. There was no share option granted in 2016. The following summarises the assumptions used for share option granted in 2017:

	2017
Option term (years)	6.01
Volatility	48.997%
Weighted average volatility	49%
Weighted average share price	US$2.90
Risk–free interest rate	2.031%
Dividend yield	0%
Weighted-average fair value of option granted during the year	US$1.41

Option term

Option term represents the period of time that they are expected to be outstanding. Management estimates this based on historical trends.

Expected volatility rate

An analysis of historical volatility was used to develop the estimate of expected volatility.

Risk-free interest rate

The risk-free interest rate is based on yields of U.S. Treasury bonds for the expected term of the options.

Expected dividend yield

Expected dividend yield is based on the Company's current dividend yield.

Statutory reserves

In accordance with R.O.C. law, an appropriation for legal reserve amounting to 10% of a company's net profit is required until the reserve equals the aggregate par value of such Taiwan company's issued capital stock. As of 31 December 2017 and 2016, the legal reserves of Hoshin GigaMedia Center Inc. ("Hoshin GigaMedia"), were US$1.5 million and US$1.5 million, respectively. The reserve can only be used to offset a deficit or be distributed as a stock dividend of up to 50% of the reserve balance when the reserve balance has reached 50% of the aggregate paid-in capital of Hoshin GigaMedia.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

15 Prepaid pension assets

The Group has defined benefit and defined contribution pension plans that covered substantially all of the Group's employees.

Defined benefit pension plan

In accordance with the Labor Standards Law of the Republic of China, the Group has a defined benefit pension plan for its employees in Taiwan. The pension plan covers substantially all full-time employees for services provided prior to 1 July 2005, and employees who have elected to remain in the defined benefit pension plan subsequent to the enactment of the Labor Pension Act on 1 July 2005. Under the defined benefit pension plan, employees are entitled to twice the monthly salary for each year of service for the first 15 years, and an additional one month for every additional year of service, up to a maximum of 45 months. The pension payment to employees is computed based on the average monthly salary for the six months prior to approved retirement.

The Group has contributed an amount equal to 2 percent of the salaries and wages paid to all qualified employees located in Taiwan to a pension fund (the "Fund"). The Fund is administered by a pension fund monitoring committee (the "Committee") and deposited in the Committee's name in the Bank of Taiwan. The Group makes pension payments from its account in the Fund unless the Fund is insufficient, in which case the Group makes payments from internal funds as payments become due. The Group seeks to maintain a normal, highly liquid working capital balance to ensure payments are made timely.

The following provides fund status of the plan and a reconciliation of employee benefits.

	Group	
	2017	2016
	US$'000	US$'000
Fair value of plan assets	(365)	(325)
Projected benefit obligation	295	263

Other assets – prepaid pension assets	(70)	(62)

Expense recognised in profit or loss

	Group	
	2017	**2016**
Current service costs	**US$'000**	**US$'000**
Net interest on net defined benefit liability	(1)	(2)
Employee benefits	(1)	(2)

Movement in the present value of the defined benefit obligations

Projected benefit obligation at 1 January	263	201
Interest cost	4	4
Actuarial loss	6	54
Currency translation difference	22	4
Defined benefit obligation at 31 December	295	263

Movement in the fair value of plan assets

Fair value of plan assets at 1 January	325	310
Expected return on plan assets	5	6
Actuarial losses	(1)	(4)
Contributions by employer	8	8
Currency translation difference	28	5
Fair value of plan assets at 31 December	365	325

Return on plan assets

Expected return on plan assets	5	6
Actuarial losses	(1)	(4)
Actual return on plan assets	4	2

Assets Categories

Cash	100%	100%

Actuarial assumptions

Weighted-average assumptions used to determine defined benefit obligations as at 31 December 2017 and 2016 were as follows:

	2017	**2016**
Discount rate	1.625%	1.375%
Rate of compensation increase	2.00%	2.00%

Weighted-average assumptions used to determine defined benefit costs for the year ended 31 December 2017 and 2016 were as follows:

	2017	**2016**
Discount rate	1.375%	1.875%
Rate of compensation increase	2.00%	1.50%

The Group expects to make a contribution of US$8,000 to the Fund in 2018. The Group expect to make benefit payments of US$1,000 from 2018 to 2022 and US$12,000 from 2023 to 2027.

Defined contribution pension plan

The Group has provided defined contribution plans for employees located in Taiwan and Hong Kong. Contributions to the plans are expensed as incurred.

Taiwan

Pursuant to the new "Labor Pension Act" enacted on 1 July 2005, the Group set up a defined contribution pension plan for its employees located in Taiwan. For eligible employees who elect to participate in the defined contribution pension plan, the Group contribute no less than 6% of the employees' salaries and wages paid each month, up to the maximum amount of NT$9,000 (approximately US$302 per individual), to the employees' individual pension accounts at the Bureau of Labor Insurance. Pension payments to employees are made either by monthly installments or in a lump sum from the accumulated contributions and earnings in employees' individual accounts.

Hong Kong

According to the relevant Hong Kong regulations, the Group provides a contribution plan for the eligible employees in Hong Kong. The Group must contribute at least 5 percent of their total salaries, up to the maximum amount of HK$1,500 (approximately US$192 per individual), to their individual contribution accounts of the authorities monthly. After the termination of employment, the benefits still belong to the employees in any circumstances.

The total amount of defined contribution pension expenses pursuant to defined contribution plans for the years ended 31 December 2017 were US$190,000 (2016: US$183,000).

16 Trade and other payables

	Group		Company	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Trade payables				
- third parties	314	266	–	–
Accrued expenses				
- third parties	2,707	4,038	252	218
Other payables	164	346	–	38
Trade and other payables	3,185	4,650	252	256

17 Loans and borrowings

	Group	
	2017 US$'000	2016 US$'000
Current liabilities		
Unsecured bank loans	–	2,480

Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings are as follows:

	Currency	Nominal interest rate	Year of maturity	Face value US$'000	Carrying amount US$'000
At 31 December 2016					
Unsecured bank loans	TWD	1.7% –2.13%	2017	2,480	2,480

Reconciliation of liabilities arising from financing activities

Group

	US$'000
Loans and borrowings:	
As at 1 January 2017	2,480
Financing cash flow [(1)]	(2,631)
Exchange difference	151
As at 31 December 2017	-

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

Intra-group financial guarantee

Intra-group financial guarantee comprises guarantees given by the Company to banks in respect of unsecured bank loans. The details are as follows:

	2017		2016	
	Amount US$'000	Expiry date	Amount US$'000	Expiry date
Intra-group financial guarantee				
Unsecured bank loans	7,560	31 August 2018	6,977	31 August 2017
Unsecured bank loans	–	–	6,201	30 June 2017
	7,560		13,178	

At the reporting date, the Company does not consider it probable that a claim will be made against the Company under the guarantee.

18 Deferred revenue

Deferred revenue consist mainly of the prepaid income related to the digital entertainment service business. Deferred revenue represents proceeds received relating to the sale of virtual points and in-game virtual items which are activated or charged to the respective player game account by players, but which have not been consumed by the players or expired. Deferred revenue is credited to profit or loss when the virtual points and virtual in-game items are consumed or expired.

19 Revenue

	Group	
	2017 US$'000	2016 US$'000
Digital entertainment service revenue*	11,596	8,971

* Included in the digital entertainment service revenue is revenue from sale of virtual points amounted to US$10.1 million (2016: US$7.1 million).

20 Other income

	Group 2017 US$'000	Group 2016 US$'000
Gain on disposal of a subsidiary	–	827
Gain on disposal of an associate	–	22
Gain on disposal of property, plant and equipment	–	586
Gain on sale of available-for sale financial asset	2	–
Refund of licensing and royalty fees written off in prior years	1,732	–
Others	1	126
	1,735	1,561

21 Other operating expenses

	Group 2017 US$'000	Group 2016 US$'000
Impairment loss on prepaid licensing and royalty fees	–	1,386
Impairment loss on intangible assets	–	57
Impairment loss on property, plant and equipment	–	471
Allowance for doubtful receivables	127	35
Loss on deemed disposal of an associate	52	–
Net exchange loss	551	292
Others	39	–
	769	2,241

22 Net finance (expenses) income

	Group 2017 US$'000	Group 2016 US$'000
Finance income		
Interest income	602	302
Finance expenses		
Interest expense	(34)	(81)
Net finance income	568	221

23 Tax credit

	Group	
	2017	**2016**
	US$'000	**US$'000**
Current tax credit		
Current year	–	–
Adjustment for prior years	–	1,108
	–	1,108
Deferred tax benefit		
Adjustment for prior years	1,671	41
Tax benefits	1,671	1,149

Reconciliation of effective tax rate

	2017	2016
Loss before tax	(584)	(7,372)
Tax calculated at 17% (2016: 17%)	99	1,253
Effect of tax rates in foreign jurisdictions	46	(387)
Non-deductible expenses	(240)	(330)
Tax exempt income	–	168
Current year losses for which no deferred tax asset was recognised	(117)	(1,740)
Over provision in prior years	1,671	1,108
Recognition of tax effects of previously unrecognised tax losses	544	753
Others	(332)	324
	1,671	1,149

24 Profit (loss) for the year

Other than those disclosed elsewhere in the financial statements, the following items have been included in arriving at loss for the year:

	Group	
	2017 US$'000	2016 US$'000
Employee benefits expense (see below)	4,364	4,093
Amortisation charge on intangible assets	7	106
Depreciation of property, plant and equipment	42	163
Rental expenses	600	608
Employee benefits expense		
Wages and salaries	4,162	3,870
Employee equity-settled share-based payment	(7)	9
Employee expense relating to defined benefit and contribution pension plans	190	181
Termination benefits	19	33
	4,364	4,093

25 Earnings (Loss) per share

The calculation of basic earnings (loss) per share at 31 December 2017 was based on the profit (loss) attributable to ordinary shareholders of US$1,087,000 (2016: loss of US$6,223,000), and a weighted average number of ordinary shares outstanding of 11,052,000 (2016: 11,052,000), calculated as follows:

Profit (loss) attributable to ordinary shareholders:

	2017 US$'000	2016 US$'000
Profit (loss) for the year	1,087	(6,223)

Weighted average number of ordinary shares:

	Group	
	2017 '000	2016 '000
Issued ordinary shares and weighted average number of ordinary shares at 1 January and 31 December	11,052	11,052

Diluted earnings per share

Diluted earnings per share is the same as the basic earnings per share as there are no dilutive potential shares during the year.

26 Commitments and Contingencies

Commitments

Operating leases

The Group leases offices premises under operating leases, where the lease agreements expire in 2021 (2016: 2021). The following table sets forth the future minimum lease payments required under these operating leases:

	2017 US$'000	**2016 US$'000**
Payable:		
Within 1 year	499	549
After 1 year but within 5 years	967	1,572
	1,466	2,121

Licence agreements

The Group has contractual obligations under various licence agreements to pay the licensors licence fees and minimum guarantees against future royalties. The following table summarises the committed licensing fees and minimum guarantees against future royalties set forth in the major licences agreements as at year end.

	Licence fees US$'000	**Minimum guarantees against future royalties US$'000**	**Total US$'000**
31 December 2017			
Minimum required payments:			
Within 1 year	–	400	400
31 December 2016			
Minimum required payments:			
Within 1 year	–	60	60
	–	460	460

The minimum guarantees against future royalties and licence fees are generally not required to be paid until the licensed games are commercially released or until certain milestones are achieved, as stipulated in the individual licence agreements.

27 Related parties

Except for the following transactions, the Group was not a party to any transaction with any related party that did not arise in the ordinary course of business or that was material to it.

Share options granted to key management

As at the end of the financial year, the total outstanding number of share options granted to key management of the Group was 24,911 (2016: 120,911).

Transaction with key management personnel

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. The directors are considered as key management personnel of the Group.

Key management personnel compensation comprised:

	Group	
	2017	**2016**
	US$'000	**US$'000**
Wages and salaries	402	372
Director fee	135	135
Share-based payments	–	8
Other benefit	31	12
	568	527

Other related party transactions

There are no significant related party transactions during 2017 and 2016.

28 Financial instruments

(a) Categories of financial instruments

The following table sets out the financial instruments as at the end of the reporting period:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Financial assets				
Loans and receivables (including cash and cash equivalents)	65,329	68,577	4,412	4,885
Available-for-sale financial assets	–	3	–	–
Financial liabilities				
Amortised cost	3,185	7,130	252	256

(b) *Financial risk management*

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit Committee, which is responsible for overseeing the Group's risk management policies. The Audit Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

The customers of the Group settle the payments in accordance with one of the following ways: (1) by bank transfer or credit card and (2) by advanced payment. The Group is subject to credit risk only for those receivables with credits granted.

None of the Group's customers accounted for over 10 percent of net operating revenue in 2017 and 2016 or of the balance of trade receivables as of 31 December 2017 and 2016. The Group has provided for trade receivables based on estimated irrecoverable amounts from the sale of goods and services, determined by reference to past default experience.

The credit risk of the Group's and the Company's other financial assets, which comprise bank deposits and other receivables, the maximum exposure to credit risk is the carrying amounts of these instruments.

Cash and cash equivalents are held with reputable financial institutions.

Trade and other receivables

The quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables (Note 11) is as follows:

	<------------------ Group			-------------------------->	<----------------- Company			------------------------>
	Gross 2017 US$'000	Impairment losses 2017 US$'000	Gross 2016 US$'000	Impairment losses 2016 US$'000	Gross 2017 US$'000	Impairment losses 2017 US$'000	Gross 2016 US$'000	Impairment losses 2016 US$'000
Not past due	793	(12)	1,990	(30)	1,760	–	1,742	–
Past due 0 – 90 days	152	–	144	–	–	–	–	–
Past due 91 – 180 days	1	–	2	–	–	–	–	–
More than 180 days	10	–	17	(2)	–	–	–	–
	956	(12)	2,121	(32)	1,760	–	1,742	–

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The allowance is a specific loss component that rebates to individual significant exposures. Based on historical default rates, the Group believes that no additional impairment is necessary.

Movements in allowance for impairment losses on trade and other receivables during the year were as follows:

	Group	
	2017 US$'000	2016 US$'000
At 1 January	32	29
Impairment loss recognised	127	35
Written off	(149)	(33)
Translation difference	2	1
At 31 December	12	32

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 will always have 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's and Company's financial assets and liabilities are due on demand or within one year from the end of the reporting period.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income of the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

Foreign currency risk

The Group holds some assets or liabilities in foreign currency other than functional currency and the value of these assets and liabilities are mainly subject to foreign currency risks resulting from fluctuations in exchange rates between the US dollar (USD) and the functional currency.

The Group's and Company's exposures to foreign currencies in US dollar equivalent are as follows:

	Group		**Company**	
	2017	**2016**	**2017**	**2016**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Group				
Financial assets				
USD	3,625	4,496	4,412	4,842
Financial liabilities				
USD	93	2,863	40	60

Sensitivity analysis

The following table details the Group's and Company's sensitivity to a 10% increase and decrease in the USD against the relevant functional currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

If the USD weakens by 10% against the functional currency of each group entity, profit before tax will increase (decrease by):

	Group		**Company**	
	2017	**2016**	**2017**	**2016**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Group				
USD	353	163	437	478

If the USD strengthens by 10% against the functional currency of each group entity, profit before tax will decrease (increase) by the same amount above.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and Company's financial instruments will fluctuate because of changes in market interest rates. The Group and Company are not exposed to significant interest rate risk.

(c) ***Fair values of financial assets and financial liabilities***

The fair values of current financial assets and liabilities approximate the carrying amounts of those assets and liabilities reported in the statement of financial position due to the relatively short-term maturity of these financial instruments.

The fair value of other classes of financial assets and liabilities are disclosed in their respective notes.

29 Segment information

Business segments

Following the review of the Group's business plan in 2016, management considers that the entire Group's operations constitute a single segment which is digital entertainment service to optimise the allocation of resources. For the reportable segment, the Group's chief operating decision maker reviews internal management reports on at least a quarterly basis. Management assesses the performance of the Group's operations based on the profit before income tax, total assets and total liabilities which are measured in a manner consistent with that of the consolidated financial statements. The following summary describes the operations in the Group's reportable segments:

Digital entertainment service:	The development and licensure of digital entertainment products and services and investment in associates and available-for-sale financial assets.

Major Customers

No single customer represented 10 percent or more of the Group's total revenue in 2017 and 2016.

Geographic Information

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of revenue sources. Segment assets are based on the geographical location of the assets.

Revenue	**2017 US$'000**	**2016 US$'000**
Taiwan	2,349	2,664
Hong Kong	9,247	6,307
Total	11,596	8,971
Non-current assets		
Taiwan	79	384
Hong Kong	364	41
Total	443	425

30 Disposal of subsidiary

In 2016, the Group disposed of PerfectPairs Gaming Co., Ltd. ("PerfectPairs"), a subsidiary of the Group's digital entertainment service business operations in Taiwan, for a cash consideration of US$760,000. The effect of the disposal is summarised as follows:

	2016 US$'000 Carrying amounts
Property, plant and equipment	71
Intangible and other non-current assets	13
Cash and cash equivalent	482
Receivables and other current assets	40
Trade payables and accruals	(528)
Other payables	(144)
The identified nets assets	(66)
Exchange differences	(1)
Gain on disposal	827
Sale consideration	760
Less: Cash and cash equivalents disposed	(482)
Net cash inflow	278