

# YC INOX CO., LTD.

## Parent Company Only Financial Statements for the Years Ended December 31, 2016 and 2015 and Independent Auditors' Report

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

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
YC INOX Co., Ltd.

### Opinion

We have audited the accompanying parent company only financial statements of YC INOX Co., Ltd., which comprise the consolidate balance sheets as of December 31, 2016 and 2015, and the parent company only statements of comprehensive income, changes in equity and cash flow for the years then ended, and the notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of YC INOX Co., Ltd. as of December 31, 2016 and 2015, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

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

### Key Audit Matters

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

(1) Valuation of inventories

As of December 31, 2016, the inventory of YC INOX Co., Ltd. amounted to \$4,029,127 thousand, the accounting policy of valuation of inventories please refer to Note 4(9). YC INOX Co., Ltd. engages in manufacturing, processing and trading of stainless steel products, as the carrying amount of inventories are material; constituting 35% of the total assets, and the policy of valuation of inventories is based on the management's judgment, simultaneously because international raw material market prices frequent fluctuation affect the price of stainless steel raw materials and products, we consider the valuation of inventories a key audit matter. Our key audit procedures performed in report of the above area included the following:

- A. Assessing and testing the effectiveness of design and operation of the internal control of valuation of inventories established by the management.
- B. Testing the accuracy and completeness of the lower of cost and net realizable value.
- C. Evaluating the bases used by management in assessment of net realizable value.
- D. Performing the analytical review procedures to assess the reasonableness of valuation of inventories.

(2) Impairment assessment of trade receivable

As of December 31, 2016, the note receivable and account receivable of YC INOX Co., Ltd. amounted to \$1,945,955 thousand, constituting 17% of the total assets, the accounting policy of valuation of receivable please refer to Note 4(6). Since the provision of allowance for doubtful accounts and the individual impairment of trade receivables are subject to the management's judgment, we consider the impairment allowance for doubtful accounts that are individual significant and long pass its due date a key audit matter. Our key audit procedures performed in report of the above area included the following:

- A. Assessing the estimation method of allowance for doubtful accounts established by the management, and testing the accuracy of aging of accounts receivable.
- B. Reviewing the management's report used in manages the overdue receivable, and referred historical aging and transaction record, understood account receivables that are individual significant and long pass its due date whether there is any unusual situation, as well as examining the historical recovery records, and examining the amount received in subsequent period to confirm the possibility of recovery.

**Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements**

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

In preparing the parent company only financial statements, management is responsible for assessing the Company'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 Company or to cease

operations, or has no realistic alternative but to do so.

Those charged with governance (including members of the Audit Committee) are responsible for overseeing YC INOX Co., Ltd.'s financial reporting process.

### **Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements**

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

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

1. Identify and assess the risk of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on YC INOX Co., Ltd.'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 parent company only 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 YC INOX Co., Ltd. to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only


financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within YC INOX Co., Ltd. to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Certified Public Accountants

Taipei, Taiwan R.O.C.

March 17, 2017

YC INOX CO., LTD.

PARENT COMPANY ONLY BALANCE SHEETS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS                       |          |                   |     |                   |     |
|--|----------|-------------------|-----|-------------------|-----|
|  | Note     | December 31, 2016 |     | December 31, 2015 |     |
|  |          | Amount            | %   | Amount            | %   |
| ASSETS   |          |                   |     |                   |     |
| CURRENT ASSETS   |          |                   |     |                   |     |
| Cash   | 6(1)     | \$458,143         | 4   | \$677,116         | 7   |
| Financial assets at fair value through profit or loss-current      | 6(2)     | 7,992             | 0   | 1,606             | 0   |
| Notes receivable - net   | 6(4)     | 116,746           | 1   | 61,748            | 1   |
| Accounts receivable - net  | 6(5)     | 1,829,209         | 16  | 1,492,407         | 15  |
| Other receivables  | 6(6)     | 552,011           | 5   | 391,034           | 4   |
| Inventories  | 6(7)     | 4,029,127         | 35  | 3,792,822         | 37  |
| Prepayments  |          | 26,276            | 0   | 10,472            | 0   |
| Other current assets   | 8        | 1,547             | 0   | 27,974            | 0   |
| Total current assets   |          | 7,021,051         | 61  | 6,455,179         | 64  |
| NON-CURRENT ASSETS   |          |                   |     |                   |     |
| Financial assets carried at cost - non-current                     | 6(3)     | 840,067           | 7   | 725,902           | 7   |
| Investments accounted for using equity method                      | 6(8)     | 97,859            | 1   | 90,649            | 1   |
| Property, plant and equipment                                      | 6(9) 、 8 | 2,553,194         | 22  | 2,573,244         | 25  |
| Deferred income tax assets   | 6(22)    | 23,652            | 0   | 62,186            | 1   |
| Prepayment for equipment   |          | 41,483            | 0   | 49,339            | 0   |
| Refundable deposits  |          | 83,085            | 1   | 25,024            | 0   |
| Other non-current assets   | 6(5)     | 878,559           | 8   | 199,739           | 2   |
| Total other assets   |          | 4,517,899         | 39  | 3,726,083         | 36  |
| TOTAL ASSETS   |          | \$11,538,950      | 100 | \$10,181,262      | 100 |
| LIABILITIES AND EQUITY   |          |                   |     |                   |     |
| CURRENT LIABILITIES  |          |                   |     |                   |     |
| Short-term loans(Note12)   | 6(10)    | \$2,695,702       | 23  | \$1,629,725       | 16  |
| Short-term bills payable(Note13)                                   | 6(11)    | 299,607           | 3   | 99,969            | 1   |
| Financial liabilities at fair value through profit or loss-current | 6(2)     | 0                 | 0   | 2,794             | 0   |
| Notes payable  |          | 257               | 0   | 371               | 0   |
| Accounts payable   |          | 192,505           | 2   | 194,050           | 2   |
| Other payables   | 6(12)    | 347,635           | 3   | 257,189           | 3   |
| Current income tax liabilities                                     |          | 40,161            | 0   | 67,526            | 1   |
| Advance receipts   |          | 337,534           | 3   | 215,265           | 2   |
| Current portion of long-term liabilities(Note15)                   | 6(13)    | 0                 | 0   | 123,008           | 1   |
| Other current liabilities  |          | 12,690            | 0   | 52,369            | 1   |
| Total current liabilities  |          | 3,926,091         | 34  | 2,642,266         | 27  |
| NON-CURRENT LIABILITIES  |          |                   |     |                   |     |
| Long-term loans  | 6(13)    | 0                 | 0   | 312,859           | 3   |
| Deferred income tax liabilities                                    | 6(22)    | 4,903             | 0   | 3,727             | 0   |
| Net defined benefit liabilities - non-current                      | 6(14)    | 121,725           | 1   | 164,192           | 2   |
| Guarantee deposits   |          | 7,190             | 0   | 8,160             | 0   |
| Total not-current liabilities                                      |          | 133,818           | 1   | 488,938           | 5   |
| TOTAL LIABILITIES  |          | 4,059,909         | 35  | 3,131,204         | 32  |
| EQUITY   |          |                   |     |                   |     |
| Capital stock - common stock                                       | 6(15)    | 4,071,307         | 36  | 3,701,189         | 36  |
| Capital surplus  | 6(16)    | 1,663,578         | 14  | 1,848,637         | 18  |
| Retained Earnings  | 6(17)    |                   |     |                   |     |
| Legal reserve  |          | 809,860           | 7   | 756,744           | 7   |
| Special reserve  |          | 10,244            | 0   | 0                 | 0   |
| Unappropriated earnings  |          | 923,958           | 8   | 753,732           | 7   |
| Other equity   | 6(18)    | 94                | 0   | (10,244)          | (0) |
| Total equity   |          | 7,479,041         | 65  | 7,050,058         | 68  |
| TOTAL LIABILITIES AND EQUITY                                       |          | \$11,538,950      | 100 | \$10,181,262      | 100 |

The accompanying notes are an integral part of the parent company only financial statements.

YC INOX CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNING PER SHARE)

|  | Note  | For the Years Ended December 31 |      |              |      |
|--|-------|---------------------------------|------|--------------|------|
|  |       | 2016                            |      | 2015         |      |
|  |       | Amount                          | %    | Amount       | %    |
| NET REVENUE  |       | \$17,624,922                    | 100  | \$18,374,720 | 100  |
| COST OF REVENUE  | 6(7)  | (15,822,961)                    | (90) | (17,028,938) | (93) |
| GROSS PROFIT   |       | 1,801,961                       | 10   | 1,345,782    | 7    |
| OPERATING EXPENSES   |       |                                 |      |              |      |
| Selling and marketing  |       | (633,032)                       | (4)  | (618,764)    | (3)  |
| General and administrative   |       | (200,348)                       | (1)  | (163,536)    | (1)  |
| TOTAL OPERATING EXPENSES   |       | (833,380)                       | (5)  | (782,300)    | (4)  |
| OPERATING INCOME   |       | 968,581                         | 5    | 563,482      | 3    |
| NON-OPERATING INCOME AND EXPENSES  |       |                                 |      |              |      |
| Others gains and losses  | 6(19) | (11,786)                        | (0)  | 109,482      | (0)  |
| Finance costs  | 6(20) | (22,051)                        | (0)  | (25,162)     | (0)  |
| Share of profit of subsidiaries, associates and joint ventures                           | 6(8)  | (3,838)                         | (0)  | (22,019)     | (0)  |
| Interest income  |       | 391                             | 0    | 595          | 0    |
| Rent income  | 7     | 30                              | 0    | 30           | 0    |
| Total Non-Operating Income and Expenses  |       | (37,254)                        | (0)  | 62,926       | 0    |
| INCOME BEFORE INCOME TAX   |       | 931,327                         | 5    | 626,408      | 3    |
| INCOME TAX EXPENSE   | 6(22) | (137,764)                       | (1)  | (95,246)     | (1)  |
| NET INCOME   |       | 793,563                         | 4    | 531,162      | 2    |
| OTHER COMPREHENSIVE INCOME   |       |                                 |      |              |      |
| Items that will not be reclassified subsequently to profit or loss:                      |       |                                 |      |              |      |
| Remeasurement of defined benefit obligation  | 6(14) | (5,782)                         | (0)  | (4,467)      | (0)  |
| Income tax benefit (expense) related to items that will not be reclassified subsequently | 6(22) | 983                             | 0    | 759          | 0    |
| Items that may be reclassified subsequently to profit or loss:                           |       |                                 |      |              |      |
| Share of other comprehensive loss of subsidiaries, associates and joint ventures         |       | 10,338                          | 0    | (16,445)     | (0)  |
| Other comprehensive income for the year, net of income tax                               |       | 5,539                           | 0    | (20,153)     | (0)  |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR  |       | \$799,102                       | 4    | \$511,009    | 2    |
| NET INCOME ATTRIBUTED TO   |       |                                 |      |              |      |
| Owners of the parent   |       | \$793,563                       | 4    | \$531,162    | 2    |
| Non-controlling interests.   |       | 0                               | 0    | 0            | 0    |
|  |       | \$793,563                       | 4    | \$531,162    | 2    |
| COMPREHENSIVE INCOME ATTRIBUTED TO   |       |                                 |      |              |      |
| Owners of the parent   |       | \$799,102                       | 4    | \$511,009    | 2    |
| Non-controlling interests.   |       | 0                               | 0    | 0            | 0    |
|  |       | \$799,102                       | 4    | \$511,009    | 2    |
| EARNINGS PER SHARE   | 6(23) |                                 |      |              |      |
| Basic earnings per share   |       | \$1.95                          |      | \$1.30       |      |
| Diluted earnings per share   |       | \$1.94                          |      | \$1.30       |      |

The accompanying notes are an integral part of the parent company only financial statements.

YC INOX CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| Items   | Capital Stock   |                    | Retained Earnings |                    |                            | Other Equity  |             |
|---|-----------------|--------------------|-------------------|--------------------|----------------------------|---|-------------|
|   | Common<br>Stock | Capital<br>Surplus | Legal<br>Reserve  | Special<br>Reserve | Unappropriated<br>Earnings | Unrealized Gains(Losses)<br>on Available-for-sale<br>Financial Assets | Total       |
| BALANCE, JANUARY 1, 2015                        | \$3,701,189     | \$1,848,637        | \$658,463         | \$0                | \$1,064,797                | \$6,201   | \$7,279,287 |
| Appropriation and distribution of 2014 earnings |                 |                    |                   |                    |                            |   |             |
| Legal reserve                                   |                 |                    | 98,281            |                    | (98,281)                   |   | 0           |
| Cash dividends                                  |                 |                    |                   |                    | (740,238)                  |   | (740,238)   |
| Net income in 2015                              |                 |                    |                   |                    | 531,162                    |   | 531,162     |
| Other comprehensive income in 2015              |                 |                    |                   |                    | (3,708)                    | (16,445)  | (20,153)    |
| BALANCE AT DECEMBER 31, 2015                    | 3,701,189       | 1,848,637          | 756,744           | 0                  | 753,732                    | (10,244)  | 7,050,058   |
| Appropriation and distribution of 2015 earnings |                 |                    |                   |                    |                            |   |             |
| Legal reserve                                   |                 |                    | 53,116            |                    | (53,116)                   |   | 0           |
| Special reserve                                 |                 |                    |                   | 10,244             | (10,244)                   |   | 0           |
| Cash dividends                                  |                 |                    |                   |                    | (370,119)                  |   | (370,119)   |
| Stock dividends                                 | 185,059         |                    |                   |                    | (185,059)                  |   | 0           |
| Stock dividends from capital surplus            | 185,059         | (185,059)          |                   |                    |                            |   | 0           |
| Net income in 2016                              |                 |                    |                   |                    | 793,563                    |   | 793,563     |
| Other comprehensive income in 2016              |                 |                    |                   |                    | (4,799)                    | 10,338  | 5,539       |
| BALANCE, DECEMBER 31, 2016                      | \$4,071,307     | \$1,663,578        | \$809,860         | \$10,244           | \$923,958                  | \$94  | \$7,479,041 |

The accompanying notes are an integral part of the parent company only financial statements.



YC INOX CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

|  | For the Years Ended December 31 |                  |
|--|---------------------------------|------------------|
|  | 2016                            | 2015             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES :</b>                  |                                 |                  |
| Income before income tax                                       | \$931,327                       | \$626,408        |
| Adjustments for:   |                                 |                  |
| Depreciation   | 199,174                         | 192,542          |
| Finance costs  | 22,051                          | 25,162           |
| Interest income  | (391)                           | (595)            |
| Share of profit of subsidiaries, associates and joint ventures | 3,838                           | 22,019           |
| (Gain) Loss on disposal of property, plant and equipments      | 3,449                           | 7,184            |
| Property, plant and equipments reclassified to expenses        | 3                               | 406              |
| Gains (losses) on disposal of investments                      | (710)                           | 0                |
| Changes in operating assets and liabilities:                   |                                 |                  |
| (Increase) Decrease in financial assets held for trading       | (6,386)                         | (1,569)          |
| (Increase) Decrease in notes receivable                        | (49,798)                        | (4,938)          |
| (Increase) Decrease in accounts receivable                     | (336,802)                       | 991,549          |
| (Increase) Decrease in other receivables                       | (160,977)                       | (186,538)        |
| (Increase) Decrease in inventories                             | (236,618)                       | 798,430          |
| (Increase) Decrease in prepayments                             | (15,804)                        | 14,155           |
| (Increase) Decrease in Other current assets                    | (747)                           | (27,174)         |
| Increase (Decrease) in financial liabilities held for trading  | (2,794)                         | 1,455            |
| Increase (Decrease) in notes payable                           | (114)                           | (257)            |
| Increase (Decrease) in accounts payable                        | (1,545)                         | 26,890           |
| Increase (Decrease) in other payable                           | 81,516                          | (66,004)         |
| Increase (Decrease) in advance receipts                        | 122,269                         | (124,683)        |
| Increase (Decrease) in other current liabilities               | (39,679)                        | (2,393)          |
| Increase (Decrease) in net defined benefit liabilities         | (48,249)                        | (2,403)          |
| Cash generated from operations                                 | 463,013                         | 2,289,646        |
| Interest received  | 391                             | 595              |
| Interest paid  | (21,988)                        | (25,376)         |
| Income tax paid  | (124,436)                       | (138,124)        |
| Net cash generated from (used in) operating activities         | 316,980                         | 2,126,741        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES :</b>                  |                                 |                  |
| Acquisitions of financial assets carried at cost -non-current  | (114,165)                       | (370,332)        |
| Acquisitions of property, plant and equipment                  | (837,480)                       | (387,823)        |
| Proceeds from disposal of property, plant and equipment        | 8,394                           | 14,960           |
| Refundable deposits (paid) refunded                            | (58,061)                        | (3)              |
| Increase in other non-current assets                           | (2,100)                         | 0                |
| Decrease in other non-current assets                           | 8,800                           | 0                |
| Net cash generated from (used in) investing activities         | (994,612)                       | (743,198)        |
| <b>CASH FLOW FROM FINANCING ACTIVITIES :</b>                   |                                 |                  |
| Increase (Decrease) in short-term loans                        | 1,065,977                       | (73,891)         |
| Increase (Decrease) in short-term bills payable                | 199,638                         | 114              |
| Payment in long-term loans                                     | (435,867)                       | (718,841)        |
| Guarantee deposits received (refunded)                         | (970)                           | 41,622           |
| Cash dividends   | (370,119)                       | (740,238)        |
| Net cash generated from (used in) financing activities         | 458,659                         | (1,491,234)      |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>        | <b>(218,973)</b>                | <b>(107,691)</b> |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>        | <b>677,116</b>                  | <b>784,807</b>   |
| <b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>              | <b>\$458,143</b>                | <b>\$677,116</b> |

The accompanying notes are an integral part of the parent company only financial statements.

# YC INOX CO., LTD.

## NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, UNLESS OTHERWISE STATED)

### 1. ORGANIZATION AND OPERATIONS

YC INOX Co., Ltd (the “Company”) was incorporated on January 31, 1973 under the provisions of the Company Act of the Republic of China. The Company engages in the manufacturing, processing and trading of stainless steel pipe, and cutting processing and trading of stainless steel plate and stainless steel coil. The Company’s stocks was listed on the Taiwan Stock Exchange since September ,2001.

### 2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The parent company only financial statements were authorized for issuance by the Board of Directors on March 17, 2017.

### 3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

None.

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

The following IFRSs as endorsed by the FSC should be adopted by the Company starting 2017:

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

| New Standards, Interpretations and Amendments |  | IASB Effective Date |
|---|--|---------------------|
| Amendment to IAS 27                           | Equity Method in Separate Financial Statements               | January 1, 2016     |
| Amendment to IAS 36                           | Recoverable Amount Disclosures for Non-Financial Assets      | January 1, 2014     |
| Amendment to IAS 39                           | Novation of Derivatives and Continuation of Hedge Accounting | January 1, 2014     |
| IFRIC 21                                      | Levies   | January 1, 2014     |
| Amendments to IFRS                            | Improvements to IFRSs 2010-2012                              | July 1, 2014        |
| Amendments to IFRS                            | Improvements to IFRSs 2011-2013                              | July 1, 2014        |
| Amendments to IFRS                            | Improvements to IFRSs 2012-2014                              | January 1, 2016     |

Base on the Company's assessments, the adoption of aforementioned standards or interpretations will not have a significant effect on the its financial position and financial performance.

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

The following are the assessment of 2017 Taiwan-IFRSs, interpretations and amendments issued by IASB but not yet endorsed by the FSC:

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

| New Standards, Interpretations and Amendments |   | IASB Effective Date |
|---|---|---------------------|
| IFRIC 22                                      | Foreign Currency Transactions and Advance Consideration | January 1, 2018     |
| Amendments to IFRS                            | Improvements to IFRSs 2014-2016                         | Note                |

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

Except for the following, the initial application of the above new standards and interpretations have not had any material impact on the Company's accounting policies:

**A. IFRS 9 “Financial Instruments”**

- (1) Financial assets debt instruments according to the business model and the contractual cash flow characteristics of the business to judge, may be classified financial assets at fair value through profit or loss, financial assets at fair value through other profit or loss and financial assets carried at amortized cost; financial assets equity instruments as classified financial assets at fair value through profit or loss, unless companies make irrevocable option to fair value of non-trading purposes equity instruments recognized in other comprehensive income.
- (2) Impairment assessment of financial asset debt instruments should allow expected loss impairment model, at each balance sheet date to assess whether the credit risk of the tool it has significantly increased in order to apply the expected credit losses or anticipated credit losses existing period of 12 months (interest income before impairment should be estimate as total book assets), or whether impairment has occurred, interest after impairment should estimate as net book amount after allowance of debts.
- (3) Amendment of generally accounting of hedge makes accounting treatment and risk management policy of enterprise more consistent, open component of non-financial item group, etc. have been used as the hedged item, highly effective hedging of threshold be deleted, and adds hedge ratio of rebalancing hedge item and hedge instruments with risk management objectives of the enterprise unchanged.

**B. IFRS 15 “Revenue from Contracts with customers”**

IFRS 15 “Revenue from Contracts with customers,” will supersede IFRS11 “Construction Contracts,” IAS 18 “revenue,” and a number of revenue-related interpretations. Accordingly, the Company should recognize revenue when “Control” of the underlying goods or services is transferred to the customers. “Control” is defined as the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the asset.

The core principle of IFRS15 is that an entity should 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. Accordingly, the entity shall recognize revenue by applying the following 5-steps:

Step 1 : Identify the contract with the 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 contracts; and

Step 5 : Recognize revenue when the entity satisfies a performance obligation.

In addition, IFRS15 also includes a set of integrated disclosure rules. The disclosure requirements are driven by the objective of providing users of the financial statements with information that will help them to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Except for the aforementioned impact, as of the date that the accompanying consolidated financial statements were authorized for issue, the Company continues to evaluate the impact on its financial position and financial performance as a result of the initial adoption of the other standards or interpretations. The related impact will be disclosed when the Company completes the evaluation.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### (1) Compliance statement

The accompanying parent company only financial statements have been prepared in conformity with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

##### (2) Basis of preparation

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

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Available-for-sale financial assets measured at fair value.
- (c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its

judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(3) Foreign currency translation

- A. Items included in the financial statements of each of the Company are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Company's presentation currency.
- B. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- C. Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- D. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- E. All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

(4) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
  - (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
  - (b) Assets held mainly for trading purposes;
  - (c) Assets that are expected to be realized within twelve months from the balance sheet date;
  - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

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

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

(5) Financial assets at fair value through profit or loss

A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

- (a) Hybrid (combined) contracts; or
- (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
- (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using settlement date accounting, designated at initial recognition as financial assets at fair value through profit or loss using settlement date accounting.

C. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured and stated at fair value, and any changes in the fair value are recognized in profit or loss.

D. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss. Investments in equity instruments that do not have a listed market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are recognized in a separate line item as financial assets carried at cost.

(6) Loans and receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment, except for short-term accounts receivable when the effect of discounting is immaterial.

(7) Impairment of financial assets

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

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

- (a) Significant financial difficulty of the issuer or debtor;
- (b) A breach of contract, such as a default or delinquency in interest or principal payments;
- (c) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
- (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) The disappearance of an active market for that financial asset because of financial difficulties;
- (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
- (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as



follows according to the category of financial assets:

(a) Financial assets measured at amortized cost

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

(b) Financial assets measured at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognized in profit or loss. Impairment loss recognized for this category shall not be reversed subsequently. Impairment loss is recognized by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(8) Derecognition of financial assets

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

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Company has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The Company neither transfers nor retains substantially all risks and rewards of the financial assets; however, the Company has not retained control of the financial asset.

(9) Inventories

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

course of business, less the estimated cost of completion and applicable variable selling expenses.

(10) Investments accounted for using equity method

- A. Subsidiary is an entity that is controlled by the Company. Investments in subsidiaries are accounted for using the equity method and are initially recognized at cost.
- B. The Company's share of its subsidiaries' profits or losses is recognized in profit or loss, and its share of movements in other comprehensive income is recognized in other comprehensive income.
- C. When changes in an subsidiary's equity are not recognized in profit or loss or other comprehensive income of the subsidiary and such change do not affect the Company's ownership percentage of the subsidiary, the Company recognizes change in ownership interests in the subsidiary in capital surplus in proportion to its ownership.
- D. Unrealized gain on transactions between the Company and its subsidiaries are eliminated to extent of the Company's interest in the subsidiaries. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- E. Upon loss of control over an subsidiary, the amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of.

(11) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of

land improvements are 10 years, buildings are 10~35 years, machinery and equipment are 3~15 years, transportation equipment are 8 years, and others are 1~20 years.

(12) Leases

- A. Based on the terms of a lease contract, a lease is classified as a finance lease if the Company assumes substantially all the risks and rewards incidental to ownership of the leased asset.
- B. Operating lease is a lease other than a finance lease. Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(13) Impairment of non-financial assets

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

(14) Borrowings cost

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset, therefore, should be capitalized. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete. Other borrowing costs are recognized as an expense.

(15) Employee benefits

A. Employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rates of government bonds (at the balance sheet date) instead.
- ii. Remeasurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise, and are recorded as retained earnings.

C. Employees' and directors' remuneration

Employees' and directors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' and directors' remuneration are different from the actual distributed amounts as resolved by the stockholders at their stockholders' meeting subsequently, the differences should be recognized based on the accounting for changes in estimates.

(16) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

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

(17) Revenue recognition

A. The Company manufactures and sells stainless steel products. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods should be recognized when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the

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

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

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

(18) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

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

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

(1) Impairment assessment of tangible and intangible assets (excluding goodwill)

Assessing impairment based on its subjective judgement and determines the separate cash flow of specific group of assets, useful lives of assets and the future possible income and expenses arising from the assets depending on how assets are utilised and industrial characteristics. Any changes of economic circumstances or estimates due to the change of Company strategy might cause material impairment on assets in the future.

(2) Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company

evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2016, the carrying amount of inventories was \$4,029,127 thousand.

(3) Impairment assessment of financial assets without active markets

When there is an impairment indication that a financial instrument is impaired so the carrying amount of such investment may not be recoverable, the Company would assess the impairment loss of the investment accordingly. For a financial asset without an active market, the Company assesses its impairment based on the present value of estimated future cash flows from the expected cash dividends and disposal value discounted using the market rate of return at the balance sheet date for a similar financial instrument to determine its recoverable amount as well as by analysing the reasonableness of the related assumptions used.

As of December 31, 2016, the carrying amount of financial assets measured at cost was \$840,067 thousand.

(4) Realisability of deferred income tax assets

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Assessment of the realisability of deferred income tax assets involves critical accounting judgements and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, tax exempt duration, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred income tax assets.

(5) Calculation of defined benefit liabilities

When calculating the present value of defined benefit obligations, the Company must apply judgements and estimates to determine the actuarial assumptions on balance sheet date, including discount rates and expected rate of return on plan assets. Any changes in these assumptions could significantly impact the carrying amount of defined benefit obligations.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) CASH

|                                       | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---------------------------------------|--------------------------|--------------------------|
| Cash on hand and petty cash           | \$1,438                  | \$1,103                  |
| Checking accounts and demand deposits | 456,705                  | 676,013                  |
| Total                                 | <u>\$458,143</u>         | <u>\$677,116</u>         |

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

B.Please refer to Note 8 for cash pledged as collateral.

(2) FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS-CURRENT

| Items                                  | December 31, 2016 | December 31, 2015 |
|--|-------------------|-------------------|
| Financial assets held for trading      |                   |                   |
| Non-hedging derivatives                |                   |                   |
| Exchange contracts futures             | \$7,992           | \$1,606           |
| Financial liabilities held for trading |                   |                   |
| Non-hedging derivatives                |                   |                   |
| Exchange contracts futures             | \$0               | \$2,794           |

A.The Company's financial assets or liabilities held for trading recognized net gain (loss) of (\$5,741) thousand and \$7,722 thousand for the year periods ended December 31, 2016 and 2015, respectively.

B.The Derivative financial instruments transaction and contract information are as follows:

| Financial Instruments      | December 31, 2016                       |                  |                       |
|----------------------------|---|------------------|-----------------------|
|                            | Contract Amount<br>(Notional Principal) |                  | Contract Period       |
| Exchange contracts futures |   |                  |                       |
| Sell JPY/Buy NT            | JPY                                     | 238,000thousand  | 2016.10.19~2017.02.10 |
| Sell EUR/Buy USD           | EUR                                     | 390 thousand     | 2016.09.09~2017.02.24 |
| Financial Instruments      | December 31, 2015                       |                  |                       |
|                            | Contract Amount<br>(Notional Principal) |                  | Contract Period       |
| Exchange contracts futures |   |                  |                       |
| Sell JPY/Buy NT            | JPY                                     | 127,000 thousand | 2015.11.17~2016.03.30 |
| Sell JPY/Buy USD           | JPY                                     | 292,000 thousand | 2015.11.30~2016.03.31 |
| Sell EUR/Buy USD           | EUR                                     | 3,470 thousand   | 2015.09.23~2016.02.26 |

The Company entered into derivative contracts to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for derivative contracts.

C.The Company has no financial assets at fair value through profit or loss pledged to others.



(3) FINANCIAL ASSETS CARRIED AT COST -NON-CURRENT

| Items                      | December 31, 2016 | December 31, 2015 |
|----------------------------|-------------------|-------------------|
| Non-publicly traded stocks | \$840,067         | \$725,902         |
| Accumulated impairment     | 0                 | 0                 |
| Total                      | \$840,067         | \$725,902         |

A. Based on the Company's intention, its stocks should be classified as available-for-sale financial assets. However, as the investments are not traded in active market, and no sufficient industry and financial information can be obtained, the fair value of the investments cannot be measured reliably. Thus, the Company classified those investments as 'financial assets measured at cost'.

B. The Company has no financial assets measured at cost pledged to others.

(4) NOTES RECEIVABLE

|                               | December 31, 2016 | December 31, 2015 |
|-------------------------------|-------------------|-------------------|
| Notes receivable              | \$116,746         | \$61,748          |
| Less: allowance for bad debts | 0                 | 0                 |
| Total                         | \$116,746         | \$61,748          |

(5) ACCOUNTS RECEIVABLE

|                               | December 31, 2016 | December 31, 2015 |
|-------------------------------|-------------------|-------------------|
| Accounts receivable           | \$1,830,745       | \$1,494,885       |
| Less: allowance for bad debts | (1,536)           | (2,478)           |
| Total                         | \$1,829,209       | \$1,492,407       |

|                               | December 31, 2016 | December 31, 2015 |
|-------------------------------|-------------------|-------------------|
| Overdue receivable            | \$3,782           | \$4,285           |
| Less: allowance for bad debts | (3,782)           | (4,285)           |
| Total                         | \$0               | \$0               |

A. The ageing analysis of accounts receivable is as follows:

|                               | December 31, 2016 | December 31, 2015 |
|-------------------------------|-------------------|-------------------|
| Neither past due nor impaired | \$1,677,091       | \$1,397,834       |
| Past due but not impaired     |                   |                   |
| Past due within 30 days       | 141,003           | 55,766            |
| Past due 31-90 days           | 11,115            | 3,003             |
| Past due 91-180 days          | 0                 | 35,804            |
| Total                         | \$1,829,209       | \$1,492,407       |

B.Movement analysis of allowance for doubtful is as follows:

|                              | Individually<br>Provision | Group<br>Provision | Total   |
|------------------------------|---------------------------|--------------------|---------|
| Balance at January 1, 2016   | \$6,169                   | \$594              | \$6,763 |
| Provision for impairment     | 0                         | 942                | 942     |
| Write-offs during the period | (2,387)                   | 0                  | (2,387) |
| Balance at December 31, 2016 | \$3,782                   | \$1,536            | \$5,318 |

|                              | Individually<br>Provision | Group<br>Provision | Total   |
|------------------------------|---------------------------|--------------------|---------|
| Balance at January 1, 2015   | \$4,338                   | \$3,534            | \$7,872 |
| Provision for impairment     | 1,884                     | 0                  | 1,884   |
| Write-offs during the period | (53)                      | (2,940)            | (2,993) |
| Balance at December 31, 2015 | \$6,169                   | \$594              | \$6,763 |

C. The Company does not hold any collateral as security.

#### (6) TRANSFERS OF FINANCIAL ASSETS

The Company entered into an agreement with bank to sell its accounts receivable. Under the agreement, the Company is not required to bear uncollectible risk of the underlying accounts receivable, the burden of losses caused by the commercial disputes only, and the Company has transferred the receivables does not have any continuing involvement. The Company has derecognized the accounts receivable. As of December 31, 2016 and 2015, the outstanding accounts receivable sold to bank were as follow :

| December 31, 2016 |                     |                    |                     |
|-------------------|---------------------|--------------------|---------------------|
| Purchaser         | Sold                | Amount advanced    | Amount retained     |
| Fubon Bank        | USD 13,371 thousand | USD 2,499 thousand | USD 10,872 thousand |
| Fubon Bank        | EUR 553 thousand    | EUR 497 thousand   | EUR 56 thousand     |

| December 31, 2015 |                    |                  |                    |
|-------------------|--------------------|------------------|--------------------|
| Purchaser         | Sold               | Amount advanced  | Amount retained    |
| Fubon Bank        | USD 9,859 thousand | USD 159 thousand | USD 9,700 thousand |
| Fubon Bank        | EUR 180 thousand   | EUR 138 thousand | EUR 42 thousand    |

#### (7) INVENTORIES

|  | December 31, 2016 | December 31, 2015 |
|--|-------------------|-------------------|
| Finished goods (including merchandise) | \$2,241,227       | \$2,007,212       |
| Work in process                        | 62,163            | 57,727            |
| Semi-finished goods                    | 247,556           | 208,330           |
| Raw materials                          | 1,430,741         | 1,461,971         |
| Supplies                               | 47,440            | 57,582            |
| Carrying amount                        | \$4,029,127       | \$3,792,822       |

A.Inventory related operating costs of December 31, 2016 and 2015, respectively are listed as below:

|                                  | Years ended December 31, |              |
|----------------------------------|--------------------------|--------------|
|                                  | 2016                     | 2015         |
| Cost of goods sold               | \$16,094,724             | \$16,994,143 |
| Loss(Gain) on physical inventory | (341)                    | (287)        |
| Inventory disposal               | 8,640                    | 8,125        |
| Scrap sales                      | (95,862)                 | (95,333)     |
| Loss for value declined          | (184,200)                | 122,290      |
| (Gain from value recover)        |                          |              |
| Total                            | \$15,822,961             | \$17,028,938 |

Gain from value recovery in 2016 results mainly from the increase in price of raw materials.

B.No inventories held by the Company were pledged to others.

(8) INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

|                                     | December 31, 2016 |            | December 31, 2015 |            |
|-------------------------------------|-------------------|------------|-------------------|------------|
|                                     | %                 | Book value | %                 | Book value |
| Ji-Mao Investment Corporation., Ltd | 100%              | \$97,859   | 100%              | \$90,649   |

A.Share of profit of subsidiaries for using the equity method is as follow:

|                                     | Years ended December 31, |            |
|-------------------------------------|--------------------------|------------|
|                                     | 2016                     | 2015       |
| Ji-Mao Investment Corporation., Ltd | (\$3,838)                | (\$22,019) |

B.The summarized financial information of Ji-Mao Investment Corporation., Ltd.'s is shown below:

|                          | December 31, 2016 | December 31, 2015 |
|--------------------------|-------------------|-------------------|
| Current assets           | \$66, 076         | \$87, 554         |
| Non-current assets       | \$34, 937         | \$7, 388          |
| Current liabilities      | \$70              | \$500             |
| Non- current liabilities | \$0               | \$0               |

|  | Years ended December 31, |             |
|--|--------------------------|-------------|
|  | 2016                     | 2015        |
| Revenue                                      | \$101, 169               | \$67, 640   |
| Loss for the year from continuing operations | (\$3, 838)               | (\$22, 019) |
| Total comprehensive income (loss)            | \$6, 501                 | (\$38, 464) |
| Dividends received from associates           | \$0                      | \$0         |

(9) PROPERTY, PLANT AND EQUIPMENT

|   | <u>January 1, 2016</u> | <u>Additions</u> | <u>Disposals</u>  | <u>Reclassifications</u> | <u>December 31, 2016</u> |
|---|------------------------|------------------|-------------------|--------------------------|--------------------------|
| <u>Cost</u>   |                        |                  |                   |                          |                          |
| Land  | \$1,170,362            | \$0              | \$0               | \$0                      | \$1,170,362              |
| Land improvements                                       | 8,533                  | 2,000            | 0                 | 0                        | 10,533                   |
| Buildings   | 778,637                | 8,345            | 0                 | 0                        | 786,982                  |
| Machinery and equipment                                 | 1,876,128              | 82,493           | (6,079)           | 2,094                    | 1,954,636                |
| Transportation equipment                                | 108,614                | 54,193           | (20,294)          | 0                        | 142,513                  |
| Office equipment  | 72,813                 | 5,445            | (1,709)           | 0                        | 76,549                   |
| Other equipment   | 281,028                | 24,743           | (6,545)           | 0                        | 299,226                  |
| Construction in progress and equipment under acceptance | 2,094                  | 13,747           | 0                 | (2,094)                  | 13,747                   |
|   | <u>4,298,209</u>       | <u>\$190,966</u> | <u>(\$34,627)</u> | <u>\$0</u>               | <u>4,454,548</u>         |
| <u>Accumulated depreciation</u>                         |                        |                  |                   |                          |                          |
| Land improvements                                       | 2,217                  | \$1,003          | \$0               | \$0                      | 3,220                    |
| Buildings   | 290,579                | 39,937           | 0                 | 0                        | 330,516                  |
| Machinery and equipment                                 | 1,212,152              | 117,736          | (6,075)           | 0                        | 1,323,813                |
| Transportation equipment                                | 20,139                 | 15,545           | (10,115)          | 0                        | 25,569                   |
| Office equipment  | 41,717                 | 8,260            | (1,709)           | 0                        | 48,268                   |
| Other equipment   | 158,161                | 16,693           | (4,886)           | (0)                      | 169,968                  |
|   | <u>1,724,965</u>       | <u>\$199,174</u> | <u>(\$22,785)</u> | <u>\$0</u>               | <u>1,901,354</u>         |
| Net book amount   | <u>\$2,573,244</u>     |                  |                   |                          | <u>\$2,553,194</u>       |
|   | <u>January 1, 2015</u> | <u>Additions</u> | <u>Disposals</u>  | <u>Reclassifications</u> | <u>December 31, 2015</u> |
| <u>Cost</u>   |                        |                  |                   |                          |                          |
| Land  | \$1,154,362            | \$16,000         | \$0               | \$0                      | \$1,170,362              |
| Land improvements                                       | 8,533                  | 0                | 0                 | 0                        | 8,533                    |
| Buildings   | 698,267                | 18,729           | (7,024)           | 68,665                   | 778,637                  |
| Machinery and equipment                                 | 1,805,410              | 75,170           | (4,452)           | 0                        | 1,876,128                |
| Transportation equipment                                | 81,094                 | 67,896           | (40,376)          | 0                        | 108,614                  |
| Office equipment  | 61,936                 | 11,381           | (504)             | 0                        | 72,813                   |
| Other equipment   | 250,301                | 35,303           | (4,576)           | 0                        | 281,028                  |
| Construction in progress and equipment under acceptance | 68,665                 | 2,094            | 0                 | (68,665)                 | 2,094                    |
|   | <u>4,128,568</u>       | <u>\$226,573</u> | <u>(\$56,932)</u> | <u>\$0</u>               | <u>4,298,209</u>         |

|                                 | January 1, 2015    | Additions        | Disposals         | Reclassifications | December 31, 2015  |
|---------------------------------|--------------------|------------------|-------------------|-------------------|--------------------|
| <u>Accumulated depreciation</u> |                    |                  |                   |                   |                    |
| Land improvements               | 1,363              | \$854            | \$0               | \$0               | 2,217              |
| Buildings                       | 254,460            | 37,679           | (1,560)           | 0                 | 290,579            |
| Machinery and equipment         | 1,097,791          | 118,613          | (4,252)           | 0                 | 1,212,152          |
| Transportation equipment        | 32,193             | 12,088           | (24,142)          | 0                 | 20,139             |
| Office equipment                | 33,626             | 8,595            | (504)             | 0                 | 41,717             |
| Other equipment                 | 147,778            | 14,713           | (4,330)           | (0)               | 158,161            |
|                                 | <u>1,567,211</u>   | <u>\$192,542</u> | <u>(\$34,788)</u> | <u>\$0</u>        | <u>1,724,965</u>   |
| Net book amount                 | <u>\$2,561,357</u> |                  |                   |                   | <u>\$2,573,244</u> |

A.The significant part of the Company's buildings includes main plants, and the related depreciation is calculated using the estimated useful lives of 10-35 years.

B.Interest capitalization amounted to \$47 thousand and \$522 thousand for the year ended December 31, 2016 and 2015, respectively, and the range of interest rates is 0.73%~1.13% and 0.99%~1.45% for the year ended December 31, 2016 and 2015, respectively.

C.The Company won a bid which registers to Yunlin Technology-based Industrial Park Phase II (Shiliuban Farms) land in advance. The land covers an area of 67,919.46 m<sup>2</sup>, the Company paid \$829,432 thousand for the land price (reported under other non-current asset) and \$82,943 thousand for completion guarantee (reported under refundable deposits). However, the Company has not handed over and transferred the land.

D.The Company's land meant for 75-1, 75-2 (2,044 m<sup>2</sup>) located at Jiumei Section, Xizho Township, Changhua County and land meant for Lot 115 (171 m<sup>2</sup>), 115-1 and 115-2 (3,218 m<sup>2</sup>), and 116 (120 m<sup>2</sup>) located at Xinguan Section, Puxin Township, it is zoned for agriculture and ranch but used for a parking lot and finished goods storage, and delivery loading/unloading area; moreover, the ownership to the lot cannot be transferred by law temporarily; therefore, it is registered in the name of Mr. G.Y. Chang, General manager of the Company. The said six lots of land are used as collateral for a mortgage loan for an amount of \$40,000 thousand.

E.Please refers to Note 8 for property, plant and equipment pledged as collateral.

#### (10) SHORT-TERM LOANS

|                         | December 31, 2016  | December 31, 2015  |
|-------------------------|--------------------|--------------------|
| Unsecured bank loans    |                    |                    |
| Material purchase       | \$1,447,935        | \$690,488          |
| Exporting               | 747,767            | 639,237            |
| Fiduciary loans         | 500,000            | 300,000            |
| Net                     | <u>\$2,695,702</u> | <u>\$1,629,725</u> |
| Range of interest rates | <u>0.05%~2.24%</u> | <u>0.61%~1.47%</u> |

(11) SHORT-TERM BILLS PAYABLE

|                             | December 31, 2016 | December 31, 2015 |
|-----------------------------|-------------------|-------------------|
| Short-term bills payable    | \$300,000         | \$100,000         |
| Less: Unamortized discounts | (393)             | (31)              |
| Net                         | \$299,607         | \$99,969          |
| Range of interest rates     | 0.65%~0.75%       | 0.93%             |

(12) OTHER PAYABLE

|   | December 31, 2016 | December 31, 2015 |
|---|-------------------|-------------------|
| Salary and bonus payable                        | \$147,951         | \$116,016         |
| Accrued employees', and directors' remuneration | 70,100            | 47,149            |
| Payable on construction and equipment           | 14,525            | 5,658             |
| Commissions payable                             | 19,508            | 17,718            |
| Other payable -others                           | 95,551            | 70,648            |
| Total   | \$347,635         | \$257,189         |

(13) LONG-TERM LOANS

|                         | December 31, 2016 | December 31, 2015 |
|-------------------------|-------------------|-------------------|
| Secured loans :         |                   |                   |
| Bank Of Taiwan          | \$0               | \$435,867         |
| Less : Current portion  | (0)               | (123,008)         |
| Long-term loans         | \$0               | \$312,859         |
| Range of interest rates | NA                | 1.33%             |

A. The long-term secured loans maturity dates are from August, 2017 to June, 2027. On September 20, 2016, the Company prepaid all loans before maturity.

B. The Company's collateral information for long-term loans please refer to Note 8.

C. The Company's loan commitment is as follow:

|                  | December 31, 2016 | December 31, 2015 |
|------------------|-------------------|-------------------|
| Drawing amount   | \$2,995,702       | \$2,165,591       |
| Remaining amount | 12,305,548        | 14,031,784        |
|                  | \$15,301,250      | \$16,197,375      |

(14) PENSION

A. Defined benefit plans

(a) The Company have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each

year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 5% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee.

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

|  | December 31, 2016 | December 31, 2015 |
|--|-------------------|-------------------|
| Present value of defined benefit obligations | \$195,258         | \$189,368         |
| Fair value of plan assets                    | (73,008)          | (24,651)          |
| Net liability in the balance sheet           | 122,250           | 164,717           |
| Booked as other payable                      | (525)             | (525)             |
| Booked as defined benefit liabilities        | \$121,725         | \$164,192         |

(c) Changes in present value of funded obligations are as follows:

|  | 2016      | 2015      |
|--|-----------|-----------|
| Present value of defined benefit obligations |           |           |
| At January 1                                 | \$189,368 | \$185,839 |
| Current service cost                         | 742       | 746       |
| Interest expense                             | 2,779     | 3,190     |
| Remeasurements:                              |           |           |
| Actuarial loss (gain) arising from           |           |           |
| experience adjustments                       | 374       | (1,248)   |
| changes in demographics assumptions          | 130       | 522       |
| changes in financial assumptions             | 5,338     | 5,357     |
| Benefits paid                                | (3,473)   | (5,038)   |
| At December 31                               | \$195,258 | \$189,368 |

(d) Changes in fair value of plan assets are as follows:

|                             | 2016     | 2015     |
|-----------------------------|----------|----------|
| Fair value of plan assets   |          |          |
| At January 1                | \$24,651 | \$23,173 |
| Interest income             | 357      | 400      |
| Remeasurements:             |          |          |
| Return on plan assets       | 60       | 164      |
| Contributions from employer | 51,413   | 5,952    |
| Benefits paid               | (3,473)  | (5,038)  |
| At December 31              | \$73,008 | \$24,651 |

(e) Changes in present value of defined benefit obligations are as follows:

|   | 2016      | 2015      |
|---|-----------|-----------|
| Net defined benefit liability                         |           |           |
| At January 1  | \$164,717 | \$162,666 |
| Current service cost                                  | 742       | 746       |
| Net interest expense of net defined benefit liability | 2,422     | 2,790     |
| Remeasurements:                                       |           |           |
| Actuarial loss (gain) arising from                    |           |           |
| experience adjustments                                | 374       | (1,248)   |
| changes in demographics assumptions                   | 130       | 522       |
| changes in financial assumptions                      | 5,338     | 5,357     |
| Return on plan assets                                 | (60)      | (164)     |
| Contributions from employer                           | (51,413)  | (5,952)   |
| At December 31  | \$122,250 | \$164,717 |

(f) Amounts of expenses recognized in comprehensive income statements are as follows:

|  | 2016    | 2015    |
|--|---------|---------|
| Current service costs  | \$742   | \$746   |
| Net interest expense   | 2,422   | 2,790   |
| Components of defined benefit costs recognized in profit or loss | 3,164   | 3,536   |
| Remeasurements:  |         |         |
| Actuarial loss (gain) arising from                               |         |         |
| experience adjustments   | 374     | (1,248) |
| changes in demographics assumptions                              | 130     | 522     |
| changes in financial assumptions                                 | 5,338   | 5,357   |
| Return on plan assets  | (60)    | (164)   |
| Components of defined benefit costs recognized in profit or loss | 5,782   | 4,467   |
| Total  | \$8,946 | \$8,003 |

The pension costs of the aforementioned defined benefit plans were recognized in profit or loss by the following categories:

|                                     | 2016    | 2015    |
|-------------------------------------|---------|---------|
| Cost of revenue                     | \$2,199 | \$2,334 |
| Selling and marketing expenses      | 267     | 303     |
| General and administrative expenses | 698     | 899     |
|                                     | \$3,164 | \$3,536 |

(g) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for



the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If losses, national treasury to make up. The company does not have any right participate operation and management of the fund. The constitution of fair value of plan assets as of December 31, 2016 and 2015 is given in the Annual Labor Retirement Fund Utilization Report published by the government.

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

|   | 2016  | 2015  |
|---|-------|-------|
| Discount rate used in determining present values  | 1.25% | 1.50% |
| Future salary increase rate   | 2.00% | 2.00% |
| Assumptions regarding future mortality experience are set based on Taiwan Standard Ordinary Experience 5th Mortality Table. |       |       |

The sensitivity of defined benefit obligation to changes in actuarial assumptions is set out below:

|  | Discount rate     |                   | Future salary increase rate |                   |
|--|-------------------|-------------------|-----------------------------|-------------------|
|  | Increase<br>0.25% | Decrease<br>0.25% | Increase<br>0.25%           | Decrease<br>0.25% |
| Effect of defined benefit obligation present value |                   |                   |                             |                   |
| December 31, 2016                                  | (\$5,343)         | \$5,565           | \$5,509                     | (\$5,318)         |
| December 31, 2015                                  | (\$5,381)         | \$5,611           | \$5,569                     | (\$5,368)         |

The sensitivity analysis disclosed above is based on changing one assumption while holding all other assumptions constant. In practice, changes in some of assumptions may be correlated. The same method has been applied as for calculating the net pension liability recognized in the Balance Sheet.

(i)Expected contributions to the defined benefit pension plans of the Company in 2017 are \$6,552 thousand.

(j)As of December 31, 2016, the weighted average duration of the defined benefit obligation is 11 years.

Expected maturity analysis of pension payments as follows:

|                  |                  |
|------------------|------------------|
| Less than 1 year | \$8,831          |
| 1 to 2 years     | 6,344            |
| 2 to 5 years     | 27,414           |
| Over 5 years     | 183,905          |
|                  | <u>\$226,494</u> |

## B. Defined contribution plans

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

(b) The net pension costs recognized under the defined contribution plan for the year periods ended December 31, 2016 and 2015 were \$20,491 thousand and \$19,786 thousand respectively.

## (15) CAPITAL STOCK

|                                       | December 31, 2016 | December 31, 2015 |
|---------------------------------------|-------------------|-------------------|
| Authorized shares (in thousands)      | 460,000           | 460,000           |
| Authorized capital                    | \$4,600,000       | \$4,600,000       |
| Issued and paid shares (in thousands) | 407,131           | 370,119           |
| Issued capital                        | \$4,071,307       | \$3,701,189       |

On June 15, 2016, the Company’s stockholders’ meeting adopted a resolution to capitalized retained earnings and capital surplus of \$185,059 thousand, respectively. The amount of capitalization had been approved by FSC and had been registered on August 9, 2016.

## (16) CAPITAL SURPLUS

|                                       | December 31, 2016 | December 31, 2015 |
|---------------------------------------|-------------------|-------------------|
| Share issuance in excess of par value | \$1,663,578       | \$1,848,637       |

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

## (17) RETAINED EARNINGS

A. Under the Company’s Articles of Incorporation, the current year’s earnings, if any, shall first be used to pay all taxes and offset prior years’ operating losses and then 10% of the remaining amount shall be set aside as legal reserve. The Company may

then appropriate or reverse a certain amount as special reserve according to the demand for the business or relevant regulations. After the distribution of earnings, the remaining earnings and prior year's undistributed earnings may be appropriated according to a resolution of the Board of Directors adopted in the shareholders' meeting.

- B. The Company's dividend policy subject to current and future development plan, take into consideration the Company's investment environment, capital demand, market competition situation, shareholders' benefits, and etc., the amount of bonus distributed to shareholders' shall be no less than 50% of the distributable earnings for the current period, however, if the amount of bonus distributed to shareholders is lower than 0.5 per share, it may be reserved and not distributed. Since the Company is in a conventional industry at the steady stage of its business, distribution of earnings shall be made preferably by way of cash dividend. Distribution of earnings may also be made by way of stock dividend, provided however, the ratio for cash dividend shall not less than 20% of total distribution.
- C. Except for covering accumulated deficit, increasing capital or payment of cash in proportion to ownership percentage, the legal reserve shall not be used for any other purpose. The amount capitalized or the cash payment shall be limited to the portion of legal reserve which exceeds 25% of the paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- (b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land.
- E. The appropriations of 2015 and 2014 earnings have been approved by the Company's shareholders in its meetings held on June 15, 2016 and on June 17, 2015, respectively.

|                 | December 31, 2015 |  | December 31, 2014 |  |
|-----------------|-------------------|--|-------------------|--|
|                 | Amount            | Dividends<br>per share<br>(in dollars) | Amount            | Dividends<br>per share<br>(in dollars) |
| Legal reserve   | \$53,116          |  | \$98,281          |  |
| Special reserve | 10,244            |  | 0                 |  |
| Cash Dividend   | 370,119           | \$1                                    | 740,238           | \$2                                    |
| Stock dividends | 185,059           | 0.5                                    | 0                 | -                                      |
| Total           | <u>\$618,538</u>  |  | <u>\$838,519</u>  |  |

**(18)OTHER EQUITY**

| Unrealized Gains/(Losses) on<br>Available-for-sale financial assets | 2016       | 2015     |
|---|------------|----------|
| Balance at January 1  | (\$10,244) | \$6,201  |
| Changes in fair value of available-for-sale financial assets        | 10,338     | (16,445) |
| Balance at December 31  | \$94       | (10,224) |

**(19)OTHER GAINS AND LOSSES**

|  | Years ended December 31 |           |
|--|-------------------------|-----------|
|  | 2016                    | 2015      |
| Net gains (losses) on financial assets and liabilities at fair<br>value through profit or loss | (\$5,741)               | \$7,571   |
| Gains (losses) on disposal of investments  | 710                     | 151       |
| Losses on disposal of property, plant and equipment  | (3,449)                 | (7,184)   |
| Net currency exchange gains (losses)   | (16,461)                | 100,280   |
| Others   | 13,155                  | 8,664     |
| Total  | (\$11,786)              | \$109,482 |

**(20)FINANCE COSTS**

|                          | Years ended December 31 |          |
|--------------------------|-------------------------|----------|
|                          | 2016                    | 2015     |
| Interest expense         |                         |          |
| Bank borrowings          | \$21,024                | \$24,757 |
| Short-term bills payable | 1,074                   | 927      |
|                          | 22,098                  | 25,684   |
| Less: capitalisation     | (47)                    | (522)    |
| Finance costs            | \$22,051                | \$25,162 |

**(21)ADDITIONAL INFORMATION OF EXPENSES BY NATURE**

|                               | 2016               |                       |           | 2015               |                       |           |
|-------------------------------|--------------------|-----------------------|-----------|--------------------|-----------------------|-----------|
|                               | Operating<br>Costs | Operating<br>Expenses | Total     | Operating<br>Costs | Operating<br>Expenses | Total     |
| Employee benefit expense      |                    |                       |           |                    |                       |           |
| Salary                        | \$475,668          | \$188,639             | \$664,307 | \$418,758          | \$152,009             | \$570,767 |
| Labor and health<br>insurance | 39,476             | 8,937                 | 48,413    | 39,472             | 9,504                 | 48,976    |
| Pension                       | 18,771             | 4,884                 | 23,655    | 18,237             | 5,085                 | 23,322    |
| Other                         | 45,746             | 7,820                 | 53,566    | 44,384             | 8,476                 | 52,860    |
|                               | \$579,661          | \$210,280             | \$789,941 | \$520,851          | \$175,074             | \$695,925 |
| Depreciation                  | \$176,166          | \$23,008              | \$199,174 | \$172,879          | 19,663                | \$192,542 |

- A. According to the Articles of Incorporation of the Company, a ratio of profit of the current year distributable, after covering accumulated losses, should be distributed as employees' compensation and directors' remuneration. The ratio shall be 5% for employees' compensation and shall not be higher than 2% for directors' remuneration.
- B. For the years ended December 31, 2016 and 2015, employees' compensation was accrued at \$50,071 thousand and \$33,678 thousand, respectively; while directors' remuneration was accrued at \$20,029 thousand and \$13,471 thousand, respectively. The employees' bonus and directors' remuneration were estimated and accrued based on profit of current year distributable as of the end of reporting period. The employees' bonus and directors' remuneration of 2015 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2015 financial statements. Information about the appropriation of employees' bonus and directors' remuneration by the Company as proposed by the Board of Directors and resolved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.
- C. As of December 31, 2016 and 2015, the Company had 891 and 867 employees, respectively.

(22) INCOME TAX

A. Income tax expense

(a) Components of income tax expense:

|   | 2016      | 2015     |
|---|-----------|----------|
| Current tax                                       |           |          |
| Current tax on profit for the period              | \$87,795  | \$93,360 |
| Additional 10% tax on undistributed earnings      | 0         | 17,121   |
| Adjustments in respect of prior years             | 9,277     | 5,200    |
| Total current tax                                 | 97,072    | 115,681  |
| Deferred tax                                      |           |          |
| Origination and reversal of temporary differences | 40,692    | (20,435) |
| Income tax expense                                | \$137,764 | \$95,246 |

(b) The income tax (charge)/credit relating to components of other comprehensive income are as follows:

|   | 2016  | 2015  |
|---|-------|-------|
| Actuarial gains/losses on defined benefit obligations | \$983 | \$759 |

B.Reconciliation between income tax expenses and accounting profit:

|   | 2016      | 2015      |
|---|-----------|-----------|
| Accounting profit (income before tax)   | \$931,327 | \$626,408 |
| Income tax expense at the statutory rate 17%                                  | \$158,325 | \$106,489 |
| Effect from investment tax credit   | (31,706)  | (36,325)  |
| Tax-exempt income   | (1,681)   | (45)      |
| Nondeductible items in determining taxable income                             | 3,549     | 2,806     |
| Additional 10% tax on undistributed earnings                                  | 0         | 17,121    |
| Difference between prior year's<br>income tax estimation and assessed results | 9,277     | 5,200     |
| Income tax expense  | \$137,764 | \$95,246  |

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

|                                   | 2016      |                                 |   |             |
|-----------------------------------|-----------|---------------------------------|---|-------------|
|                                   | January 1 | Recognized in<br>profit or loss | Recognized in other<br>comprehensive income | December 31 |
| Temporary differences             |           |                                 |   |             |
| — Deferred tax assets             |           |                                 |   |             |
| Loss on inventory                 | \$34,034  | (\$31,314)                      | \$0   | \$2,720     |
| Accrued pension cost              | 28,002    | (8,203)                         | 983   | 20,782      |
| Other                             | 150       | 0                               | 0   | 150         |
| Subtotal                          | \$62,186  | (\$39,517)                      | \$983                                       | \$23,652    |
| — Deferred tax liabilities        |           |                                 |   |             |
| Unrealized exchange gain(loss)    | \$1,423   | \$1,176                         | \$0   | \$2,599     |
| Allowance for bad debts           | 1,414     | 0                               | 0   | 1,414       |
| Unrealized revaluation increments | 890       | 0                               | 0   | 890         |
| Subtotal                          | \$3,727   | \$1,176                         | \$0   | \$4,903     |
| 2015                              |           |                                 |   |             |
|                                   | January 1 | Recognized in<br>profit or loss | Recognized in other<br>comprehensive income | December 31 |
| Temporary differences             |           |                                 |   |             |
| — Deferred tax assets             |           |                                 |   |             |
| Loss on inventory                 | \$13,245  | \$20,789                        | \$0   | \$34,034    |
| Accrued pension cost              | 27,653    | (410)                           | 759   | 28,002      |
| Unrealized investment loss        | 150       | 0                               | 0   | 150         |
| Subtotal                          | \$41,048  | \$20,379                        | \$759                                       | \$62,186    |
| — Deferred tax liabilities        |           |                                 |   |             |
| Unrealized exchange gain(loss)    | \$1,479   | (\$56)                          | \$0   | \$1,423     |
| Allowance for bad debts           | 1,414     | 0                               | 0   | 1,414       |
| Unrealized revaluation increments | 890       | 0                               | 0   | 890         |
| Subtotal                          | \$3,783   | (\$56)                          | \$0   | \$3,727     |

D.The Company expansion plan is eligible for a five-year (1st January, 2012 to 31th December, 2016) exemption on income tax.

E.The Company's income tax returns prior to 2014 have been assessed and approved by the Tax Authority.

F.The unappropriated retained earnings information:

|                          | December 31, 2016 | December 31, 2015 |
|--------------------------|-------------------|-------------------|
| For 1997 and prior years | \$0               | \$0               |
| For 1998 and thereafter  | 923,958           | 753,732           |
| Total                    | \$923,958         | \$753,732         |

G.Integrated income tax information:

|                           | December 31, 2016 | December 31, 2015 |
|---------------------------|-------------------|-------------------|
| Imputation Credit Account | \$81,903          | \$80,247          |

The creditable tax rate for earnings distribution was 19.85% for 2015 and is estimated to be 13.21% for 2016.

## (23)EARNINGS PER SHARE

|  | 2016             |   |                  |
|--|------------------|---|------------------|
|  | Amount after tax | Weighted average of outstanding shares (share in thousands) | EPS (in dollars) |
| <u>Basic earnings per share</u>  |                  |   |                  |
| Profit attributable to the parent  | \$793,563        | 407,131   | \$1.95           |
| <u>Diluted earnings per share</u>  |                  |   |                  |
| Net income attributable to the shareholders of parent  | \$793,563        | 407,131   |                  |
| Effect of dilutive potential common shares:  |                  |   |                  |
| Employees' bonus   | 0                | 1,847   |                  |
| Net income attributable to the shareholders of parent including effect of dilutive potential common shares | \$793,563        | 408,978   | \$1.94           |
|  | 2015             |   |                  |
|  | Amount after tax | Weighted average of outstanding shares (share in thousands) | EPS (in dollars) |
| <u>Basic earnings per share</u>  |                  |   |                  |
| Profit attributable to the parent  | \$531,162        | 407,131   | \$1.30           |
| <u>Diluted earnings per share</u>  |                  |   |                  |
| Net income attributable to the shareholders of parent  | \$531,162        | 407,131   |                  |
| Effect of dilutive potential common shares:  |                  |   |                  |
| Employees' bonus   | 0                | 1,710   |                  |
| Net income attributable to the shareholders of parent including effect of dilutive potential common shares | \$531,162        | 408,841   | \$1.30           |

(24)OPERATING LEASES

The Company leases in land and buildings under non-cancellable operating lease agreements. The lease terms are between 5 and 12 years, the Company both recognized rental expenses of \$740 thousand for these leases in profit or loss for the years ended December 31, 2016 and 2015. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

|   | 2016    | 2015    |
|---|---------|---------|
| Not later than one year                           | \$740   | \$740   |
| Later than one year but not later than five years | 2,220   | 2,960   |
| Later than five years                             | 30      | 30      |
| Total   | \$2,990 | \$3,730 |

(25)SUPPLEMENTARY CASH FLOW INFORMATION

Investing activities with partial cash payments:

|  | 2016      | 2015      |
|--|-----------|-----------|
| Purchase of fixed assets                     | \$846,347 | \$369,017 |
| Add: opening balance of payable on equipment | 5,658     | 24,464    |
| Less: ending balance of payable on equipment | (14,525)  | (5,658)   |
| Cash paid during the period                  | \$837,480 | \$387,823 |

7. RELATED-PARTY TRANSACTIONS

(1)Significant related party transactions

- A. The Company received accounting fee from subsidiary in 2016 and 2015 amounted to \$36 thousand, respectively.
- B. The Company received rent charge from subsidiary in 2016 and 2015 amounted to \$30 thousand, respectively, which was determined based on the average rent of office near the leased office, the lease has a term from January 1 to December 31, 2016 and 2015.

(2)Chief management compensation

|                              | 2016     | 2015     |
|------------------------------|----------|----------|
| Short-term employee benefits | \$87,093 | \$72,459 |
| Post-employment benefits     | 493      | 522      |
| Total                        | \$87,586 | \$72,981 |



## 8. PLEDGED ASSETS

| Pledged asset                 | Book value        |                   | Purpose            |
|-------------------------------|-------------------|-------------------|--------------------|
|                               | December 31, 2016 | December 31, 2015 |                    |
| Property, plant and equipment | \$0               | \$570,503         | Long-term loans    |
| Other current assets          |                   |                   |                    |
| - Demand deposits             | 481               | 0                 | Reserve account    |
| - Time deposits               | 800               | 800               | Guarantee deposits |
| Total                         | <u>\$1,281</u>    | <u>\$571,303</u>  |                    |

## 9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

Capital expenditure contracted for at the balance sheet date but not yet paid is as follows:

|                               | December 31, 2016 | December 31, 2015 |
|-------------------------------|-------------------|-------------------|
| Property, plant and equipment | <u>\$32,912</u>   | <u>\$691,887</u>  |

## 10. SIGNIFICANT DISASTER LOSS

None.

## 11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

## 12. OTHERS

### (1)Capital management

The Company plans its working capital needs, capital asset purchases, research and development expenditures, dividend payments and other requirements over the future periods based on industry features, future development and influence of the exterior environment, to secure its ability to continue as a going concern, deserved return of shareholders and the interests of other stakeholders at the same time. The Company also maintains an optimal capital structure in order to enhance the value of the shareholders in the long term.

The Company may adjust the dividend payment to stockholders, issue new shares or return capital to stockholders to maintain or adjust the capital structure.

### (2)Financial instruments

#### A. Fair value information of financial instruments

Except those listed in the table below, the carrying amounts of the Company's financial instruments not measured at fair value are reasonably approximate to their fair value. The fair value information of financial instruments measured at fair value is provided in Note 12(3):

| Financial assets                 | December 31, 2016 |            | December 31, 2015 |            |
|----------------------------------|-------------------|------------|-------------------|------------|
|                                  | Book value        | Fair value | Book value        | Fair value |
| Financial assets carried at cost | \$840,067         | —          | \$725,902         | —          |

#### B. Financial risk management policies

(a) The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial position and financial performance. The Company uses derivative financial instruments to hedge certain risk exposures (see Notes 6(2)).

(b) Risk management is carried out by a treasury department (Company treasury) under policies approved by the management. Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Company provides written principles for overall risk management, as well as written policies covering specific areas and matters.

#### C. Significant financial risks and degrees of financial risks

##### (a) Market risk

##### Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and JPY. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities. The Company has foreign currency risk arising from purchases or sales and applies natural hedges, and the Company utilizes currency forward contracts to hedge its part of currency exposures.

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

|                           | December 31, 2016        |                  |             |
|---------------------------|--------------------------|------------------|-------------|
|                           | Amount<br>(In Thousands) | Exchange<br>Rate | NTD         |
| <u>Financial assets</u>   |                          |                  |             |
| <u>Monetary items</u>     |                          |                  |             |
| USD                       | \$39,804                 | 32.25            | \$1,283,675 |
| EUR                       | 504                      | 33.9             | 17,082      |
| JPY                       | 467,779                  | 0.2756           | 128,920     |
| <u>Non-monetary items</u> |                          |                  |             |
| USD                       | \$919                    | 32.25            | \$29,627    |

| December 31, 2015         |                |          |           |
|---------------------------|----------------|----------|-----------|
|                           | Amount         | Exchange | NTD       |
|                           | (In Thousands) | Rate     |           |
| <u>Financial assets</u>   |                |          |           |
| <u>Monetary items</u>     |                |          |           |
| USD                       | \$30,050       | 32.825   | \$986,407 |
| EUR                       | 1,350          | 35.880   | 48,437    |
| JPY                       | 118,637        | 0.2727   | 32,352    |
| <u>Non-monetary items</u> |                |          |           |
| USD                       | \$1,440        | 32.825   | \$47,275  |

Analysis of foreign currency market risk arising from significant foreign exchange variation:

| 2016                    |                     |                          |                                      |
|-------------------------|---------------------|--------------------------|--------------------------------------|
| Sensitivity analysis    |                     |                          |                                      |
|                         | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| <u>Financial assets</u> |                     |                          |                                      |
| <u>Monetary items</u>   |                     |                          |                                      |
| USD                     | 1%                  | \$12,837                 | \$0                                  |
| EUR                     | 1%                  | 171                      | 0                                    |
| JPY                     | 1%                  | 1,289                    | 0                                    |

| 2015                    |                     |                          |                                      |
|-------------------------|---------------------|--------------------------|--------------------------------------|
| Sensitivity analysis    |                     |                          |                                      |
|                         | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| <u>Financial assets</u> |                     |                          |                                      |
| <u>Monetary items</u>   |                     |                          |                                      |
| USD                     | 1%                  | \$9,864                  | \$0                                  |
| EUR                     | 1%                  | 484                      | 0                                    |
| JPY                     | 1%                  | 324                      | 0                                    |

#### Price risk

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the balance sheet as at fair value through profit or loss. The Company is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.

The Company's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the years ended December 31, 2016 and 2015 would have increased/decreased by

\$0 thousand and \$0 thousand, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss.

Interest rate risk

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. During the years ended December 31, 2016 and 2015, the Company's borrowings at variable rate were denominated in the NTD.

At December 31, 2016 and 2015, if interest rates on TWD-denominated borrowings at that date had been 0.1% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2016 and 2015 would have been \$0 thousand and \$826 thousand lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b)Credit risk

Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with good rating are accepted.

No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

The credit quality information of financial assets that are both neither past due nor impaired, and past due but not impaired in Note 6(5).

(c)Liquidity risk

- i. The Company manages liquidity risk to ensure that the Company possesses sufficient financial flexibility by maintaining adequate reserves of cash and reserve financing facilities, and also monitor forecasts of its liquidity requirements to ensure the Company has sufficient liquidity to fund its business requirements associated with existing operations.
- ii. The table below analyses the Company's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities.

| Non-derivative financial liabilities             | Less than 1 year   | Between 2 and 3 year        | Between 3 and 4 years | Between 4 and 5 years | Over 5 years |
|--|--------------------|-----------------------------|-----------------------|-----------------------|--------------|
| December 31, 2016                                |                    |                             |                       |                       |              |
| Short-term borrowings                            | \$2,695,702        | \$0                         | \$0                   | \$0                   | \$0          |
| Short-term notes and bills payable               | 299,607            | 0                           | 0                     | 0                     | 0            |
| Notes payable                                    | 257                | 0                           | 0                     | 0                     | 0            |
| Accounts payable                                 | 192,505            | 0                           | 0                     | 0                     | 0            |
| Guarantee deposits                               | 7,190              | 0                           | 0                     | 0                     | 0            |
| Derivative financial liabilities                 | Less than 3 months | Between 3 months and 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| December 31, 2016                                |                    |                             |                       |                       |              |
| Forward exchange contracts                       | \$0                | \$0                         | \$0                   | \$0                   | \$0          |
| Non-derivative financial liabilities             | Less than 1 year   | Between 2 and 3 year        | Between 3 and 4 years | Between 4 and 5 years | Over 5 years |
| December 31, 2015                                |                    |                             |                       |                       |              |
| Short-term borrowings                            | \$1,629,725        | \$0                         | \$0                   | \$0                   | \$0          |
| Short-term notes and bills payable               | 99,969             | 0                           | 0                     | 0                     | 0            |
| Notes payable                                    | 371                | 0                           | 0                     | 0                     | 0            |
| Accounts payable                                 | 194,050            | 0                           | 0                     | 0                     | 0            |
| Long-term borrowings (including current portion) | 123,008            | 123,008                     | 39,674                | 39,674                | 110,503      |
| Guarantee deposits                               | 45,842             | 0                           | 0                     | 0                     | 0            |
| Derivative financial liabilities                 | Less than 3 months | Between 3 months and 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| December 31, 2015                                |                    |                             |                       |                       |              |
| Forward exchange contracts                       | \$2,794            | \$0                         | \$0                   | \$0                   | \$0          |

**(3) Fair value estimation**

- A. The company's financial assets and financial liabilities not measured at fair value please refer to Note 12(2)A.
- B. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:
  - Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. The Company used to measure fair value of Listed and OTC stock.
  - Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The Company used to measure fair value of derivatives investments.
  - Level 3: Inputs for the asset or liability are not based on observable market data.

| December 31, 2016                                     | Level 1 | Level 2 | Level 3 | Total   |
|---|---------|---------|---------|---------|
| Financial assets:                                     |         |         |         |         |
| Financial assets at fair value through profit or loss |         |         |         |         |
| Forward exchange                                      | \$0     | \$7,992 | \$0     | \$7,992 |
| December 31, 2015                                     | Level 1 | Level 2 | Level 3 | Total   |
| Financial assets:                                     |         |         |         |         |
| Financial assets at fair value through profit or loss |         |         |         |         |
| Forward exchange                                      | \$0     | \$1,606 | \$0     | \$1,606 |
| Financial liabilities:                                |         |         |         |         |
| Financial assets at fair value through profit or loss |         |         |         |         |
| Forward exchange                                      | \$0     | \$2,794 | \$0     | \$2,794 |

The Company has no transfers the fair value between Level 1 and Level 2.

The Company has no purchases and disposals for assets on Level 3.

C. Technique and assumption used in fair value measurement

- (1) The listed stock's value is determined with reference to quoted market prices.
- (2) Evaluation of derivative financial instruments is accordance with generally accepted pricing models. For example, discounted method and option pricing models. Forward exchange contracts based on current forward exchange rates.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

| No. | Items  | Remark    |
|-----|--|-----------|
| 1   | Loans to others  | None      |
| 2   | Provision of endorsements and guarantees to others   | None      |
| 3   | Holding of marketable securities at the end of the period (not include Investee, Associates and Joint ventures)                    | Table 1   |
| 4   | Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital | None      |
| 5   | Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more  | None      |
| 6   | Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more   | None      |
| 7   | Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more                  | None      |
| 8   | Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more  | None      |
| 9   | Derivative financial instruments undertaken during the year ended December 31, 2015  | Note 6(2) |
| 10  | Business relationship between the parent company and its subsidiaries and significant dealing circumstances and the amount.        | None      |

(2) Related information of investees: Table 2

(3) Information on investment in Mainland China: None

Tables (1) : Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures):

| Securities held by | Marketable securities type                       | Relationship With the Securities issuer | General ledger account  | December 31, 2016                      |            |              |            |
|--------------------|--|---|---|--|------------|--------------|------------|
|                    |  |   |   | ( In thousands of New Taiwan dollars ) |            |              |            |
|                    |  |   |   | Shares/Units (thousands)               | Book value | ownership(%) | Fair value |
| YC INOX CO., LTD   | Common stock<br>ABGENOMICS INTERNATIONAL INC.    | —                                       | Financial assets carried at cost<br>- non-current             | 733                                    | 31,900     | 3.64%        | —          |
| "                  | Gongwin Biopharm Holdings Co., Ltd.              | —                                       | Financial assets carried at cost<br>- non-current             | 7,350                                  | 484,497    | 7.56%        | —          |
| "                  | Preferred stock<br>ABGENOMICS INTERNATIONAL INC. | —                                       | Financial assets carried at cost<br>- non-current             | 2,100                                  | 323,670    | 20.69%       | —          |
| Ji-Mao             | Common stock<br>YEOU YIH STEEL Co., Ltd          | —                                       | Available-for-sale financial assets                           | 2,897                                  | 28,936     | —            | @9.99      |
| "                  | TAIWAN PULP&PAPER CO., LTD                       | —                                       | Financial assets at fair value through profit or loss-current | 2,000                                  | 22,400     | —            | @11.20     |
| "                  | Gongwin Biopharm Holdings Co., Ltd.              | —                                       | Financial assets carried at cost<br>- non-current             | 500                                    | 34,751     | 0.51%        | —          |

(2) Information on investees

| Investor         | Investee | Location          | Main business activities | Initial investment amount |                   | Shares held as at December 31, 2016 |                         | Net income (loss) of the investment | Investment Income(loss) | Note |
|------------------|----------|-------------------|--------------------------|---------------------------|-------------------|-------------------------------------|-------------------------|-------------------------------------|-------------------------|------|
|                  |          |                   |                          | December 31, 2016         | December 31, 2015 | Shares (thousands)                  | Percentage of ownership |                                     |                         |      |
| YC INOX CO., Ltd | Ji-Mao   | Chang-Hwa, Taiwan | Investment               | \$100,120                 | \$100,120         | 10,000                              | 100%                    | (\$3,838)                           | (\$3,838)               |      |



#### 14. SEGMENT INFORMATION

##### (1)General information

The Company recognizes the operating segments based on the reporting information used by chief operating decision maker to allocate resources to the segments and assess their performance. The chief operating decision maker operates the business by products, and the Company's reportable segments are segregated into stainless steel sheet/coil, stainless steel welded pipe/tube, and other operating segments (such like stainless steel angles, flat bar, and U-Channel) which did not exceed the quantitative threshold so that they are not the reportable segments. The reportable segments' revenue is arising from manufacturing and selling stainless steel products.

##### (2)Measurement of segment information

The accounting policies of the operating segments are in agreement with the significant accounting policies summarized in Note 4. The Company's segment profit (loss) is measured with the operating profit (loss) exclude directors' and supervisors' remuneration, which is used as a basis for the Company assessing the performance of the operating segment.

##### (3)Information about segment profit or loss, assets and liabilities

The segment information provided to the chief operating decision maker for the reportable segments is as follows:

As of and for the year ended December 31, 2016

|                      | Stainless Steel<br>Sheet/Coil | Stainless Steel<br>Welded<br>Pipe/Tube | Others    | Total        |
|----------------------|-------------------------------|--|-----------|--------------|
| Revenue              |                               |  |           |              |
| External revenue-net | \$9,921,186                   | \$7,471,744                            | \$231,992 | \$17,624,922 |
| Internal revenue-net | \$0                           | \$0                                    | \$0       | \$0          |
| Segment profit(loss) | \$338,408                     | \$650,976                              | \$1,146   | \$990,530    |
| Segment assets       | \$1,387,214                   | \$2,624,188                            | \$422,083 | \$4,433,485  |

As of and for the year ended December 31, 2015

|                      | Stainless Steel<br>Sheet/Coil | Stainless Steel<br>Welded<br>Pipe/Tube | Others     | Total        |
|----------------------|-------------------------------|--|------------|--------------|
| Revenue              |                               |  |            |              |
| External revenue-net | \$9,763,397                   | \$8,364,613                            | \$246,710  | \$18,374,720 |
| Internal revenue-net | \$0                           | \$0                                    | \$0        | \$0          |
| Segment profit(loss) | \$106,962                     | \$490,631                              | (\$19,090) | \$578,503    |
| Segment assets       | \$1,442,135                   | \$2,411,244                            | \$435,339  | \$4,288,718  |

(4) Reconciliation for segment income (loss)

The intra-segment transactions are based on fair value. The revenues from external customers reported to the chief operating decision-maker are measured in a manner consistent with the statements of comprehensive income.

The reconciliations of the reportable operating segment's profit is as follows:

|   | 2016             | 2015             |
|---|------------------|------------------|
| Income of reportable segments                       | \$990,530        | \$578,503        |
| Directors' and supervisors' remuneration            | (21,949)         | (15,021)         |
| Non-operating income and expenditure                | (37,254)         | 62,926           |
| Income from continuing operations before income tax | <u>\$931,327</u> | <u>\$626,408</u> |

(5) Geographical Information

The geographical information for the year ended December 31, 2016 and 2015 are as follow:

A. Revenue from external customers

|         | 2016                | 2015                |
|---------|---------------------|---------------------|
| Asia    | \$6,148,965         | \$7,068,275         |
| Europe  | 6,096,867           | 4,628,256           |
| America | 2,702,465           | 3,555,268           |
| Other   | 2,676,625           | 3,122,921           |
| Total   | <u>\$17,624,922</u> | <u>\$18,374,720</u> |

B. All non-current assets are located in the Company's country of domicile.

(6) Major customers' information

No single customers account for more than 10% of the operating revenue for the years ended December 31, 2016 and 2015.

**YC INOX CO., LTD.****STATEMENT OF CASH AND CASH EQUIVALENTS  
DECEMBER 31, 2016**

(In Thousands of New Taiwan Dollars)

| Item              | Description            | Amount           |
|-------------------|------------------------|------------------|
| Cash on hand      |                        | \$1,208          |
| Petty cash        |                        | 230              |
| Cash in banks     |                        |                  |
| Checking accounts |                        | 196              |
| Demand deposits   |                        | 171,134          |
| Foreign currency  | US\$7,215,718.54@32.25 |                  |
| deposits          | EUR180,889.53@33.90    | 285,375          |
|                   | JPY168,852,973@0.2756  |                  |
| Total             |                        | <u>\$458,143</u> |

**YC INOX CO., LTD.****STATEMENT OF ACCOUNTS RECEIVABLE, NET  
DECEMBER 31, 2016**

(In Thousands of New Taiwan Dollars)

| <u>Client name</u>                    | <u>Description</u>  | <u>Amount</u>      |
|---------------------------------------|---|--------------------|
| Non-Related parties                   |   |                    |
| Company-A                             |   | \$121,705          |
| Company-B                             |   | 99,163             |
| Other                                 | The amount of individual client<br>included in others does not exceed<br>5% of the account balance. | 1,609,877          |
| Total                                 |   | <u>1,830,745</u>   |
| Less: Allowance for doubtful accounts |   | <u>(1,536)</u>     |
| Total                                 |   | <u>\$1,829,209</u> |

**YC INOX CO., LTD.**

**STATEMENT OF OTHER RECEIVABLE  
DECEMBER 31, 2016**

(In Thousands of New Taiwan Dollars)

| <u>Item</u>         | <u>Description</u> | <u>Amount</u>    |
|---------------------|--------------------|------------------|
| Tax receivable      | Sales tax          | \$48,948         |
| Discount receivable |                    | 149,969          |
| Factored receivable |                    | 352,517          |
| Other               |                    | <u>577</u>       |
| Total               |                    | <u>\$552,011</u> |

**YC INOX CO., LTD.****STATEMENT OF INVENTORIES  
DECEMBER 31, 2016**

(In Thousands of New Taiwan Dollars)

| Item                                      | Cost        | Net Realizable<br>Value | Note |
|---|-------------|-------------------------|------|
| Finished goods (including<br>merchandise) | \$2,252,627 | \$2,561,229             |      |
| Work in process                           | 62,363      | 62,322                  |      |
| Semi-finished goods                       | 248,356     | 283,813                 |      |
| Raw materials                             | 1,434,341   | 1,664,583               |      |
| Supplies                                  | 47,440      | 47,327                  |      |
| Total                                     | 4,045,127   | \$4,619,274             |      |
| Allowance for valuation loss              | (16,000)    |                         |      |
| Net                                       | \$4,029,127 |                         |      |

**YC INOX CO., LTD.**

**STATEMENT OF CHANGES IN INVESTMENT ACCOUNTED FOR UNDER USING EQUITY METHOD  
DECEMBER 31, 2016**

(In Thousands of New Taiwan Dollars)

| Name                         | Balance, January 1, 2016 |                 | Increase                |                 | Decrease                |                | Balance, December 31, 2016 |                 | Net Value        | Collateral |
|------------------------------|--------------------------|-----------------|-------------------------|-----------------|-------------------------|----------------|----------------------------|-----------------|------------------|------------|
|                              | Shares<br>(In Thousand)  | Amount          | Shares<br>(In Thousand) | Amount          | Shares<br>(In Thousand) | Amount         | Shares<br>(In Thousand)    | Amount          |                  |            |
| Ji-Mao                       |                          |                 |                         |                 |                         |                |                            |                 |                  |            |
| Investment Corporation., Ltd | 10,000                   | <u>\$90,649</u> | —                       | <u>\$10,338</u> | —                       | <u>\$3,128</u> | 10,000                     | <u>\$97,859</u> | <u>\$100,943</u> | None       |

**YC INOX CO., LTD.**

**STATEMENT OF CHANGES OF PROPERTY, PLANT, EQUIPMENT  
DECEMBER 31, 2016**

(In Thousands of New Taiwan Dollars)

| Item   | Balance,<br>January 1, 2016 | Addition  | Decrease | Balance,<br>December 31, 2106 | Note   |
|--|-----------------------------|-----------|----------|-------------------------------|--------|
| Land   | \$1,170,362                 | \$0       | \$0      | \$1,170,362                   | Note 8 |
| Land improvements  | 8,533                       | 2,000     | 0        | 10,533                        |        |
| Buildings  | 778,637                     | 8,345     | 0        | 786,982                       | Note 8 |
| Machinery and equipment                                    | 1,876,128                   | 84,587    | 6,079    | 1,954,636                     |        |
| Transportation equipment                                   | 108,614                     | 54,193    | 20,294   | 142,513                       |        |
| Office equipment   | 72,813                      | 5,445     | 1,709    | 76,549                        |        |
| Other equipment  | 281,028                     | 24,743    | 6,545    | 299,226                       |        |
| Construction in progress and<br>equipment under acceptance | 2,094                       | 11,653    | 0        | 13,747                        |        |
| Total  | \$4,298,209                 | \$190,966 | \$34,627 | \$4,454,548                   |        |



YC INOX CO., LTD.

STATEMENT OF CHANGES OF PROPERTY, PLANT, EQUIPMENT ACCUMULATED DEPRECIATION  
DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

| Item                     | Balance,<br>January 1, 2016 | Addition  | Decrease | Balance,<br>December 31, 2106 | Note |
|--------------------------|-----------------------------|-----------|----------|-------------------------------|------|
| Land improvements        | \$2,217                     | \$1,003   | \$0      | \$3,220                       |      |
| Buildings                | 290,579                     | 39,937    | 0        | 330,516                       |      |
| Machinery and equipment  | 1,212,152                   | 117,736   | 6,075    | 1,323,813                     |      |
| Transportation equipment | 20,139                      | 15,545    | 10,115   | 25,569                        |      |
| Office equipment         | 41,717                      | 8,260     | 1,709    | 48,268                        |      |
| Other equipment          | 158,161                     | 16,693    | 4,886    | 169,968                       |      |
| Total                    | \$1,724,965                 | \$199,174 | \$22,785 | \$1,901,354                   |      |

YC INOX CO., LTD.

STATEMENT OF SHORT-TERM LOANS  
DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

| Type                                   | Balance,<br>End of year | Contract Period | Loan Commitments | Range Of<br>Interest Rates |
|--|-------------------------|-----------------|------------------|----------------------------|
| <b>OA Loans</b>                        |                         |                 |                  |                            |
| Fubon Bank Zhonggang Branch            | \$595,916               | 90 days         | \$1,500,000      | 0.93533%-0.93567%          |
| E.Sun Bank Taichung Branch             | 70,991                  | 30 days         | 600,000          | 0.980000%                  |
| Yuan Ta Bank Yuanlin Branch            | 211,683                 | 61 days         | 1,000,000        | 0.8831%-0.9752%            |
| Hua Nan Bank Yuanlin Branch            | 239,718                 | 178 days        | 600,000          | 0.9900%                    |
| Taiwan Cooperative Bank Yuanlin Branch | 300,000                 | 78 days         | 750,000          | 0.930220%                  |
| Mega Bank South Changhua Branch        | 29,627                  | 80 days         | 700,000          | 2.325600%                  |
|  | 1,447,935               |                 | 5,150,000        |                            |
| <b>Export Negotiation</b>              |                         |                 |                  |                            |
| Hua Nan Bank Yuanlin Branch            | 74,819                  | 7-118 days      | 645,000          | 1.24934%-2.03282%          |
| Taiwan Bank Yuanlin Branch             | 276,415                 | 10-177 days     | 3,225,000        | 1.03190%-1.92000%          |
| Chang Hwa Bank Yuanlin Branch          | 10,668                  | 7-119 days      | 322,500          | 1.50000%~2.01165%          |
| Fubon Bank Zhonggang Branch            | 14,300                  | 7-84 days       | 483,750          | 0.048%-0.082%              |
| Mega Bank South Changhua Branch        | 155,713                 | 56-179 days     | 322,500          | 1.23080%~1.68940%          |
| E.Sun Bank Taichung Branch             | 137,130                 | 7-119 days      | 645,000          | 1.07822%~2.00846%          |
| Taiwan Cooperative Bank Yuanlin Branch | 63,876                  | 10-119 days     | 322,500          | 1.2685%-1.7442%            |
| Yuan Ta Bank Yuanlin Branch            | 14,846                  | 7 days          | 645,000          | 1.300%~1.950%              |
|  | 747,767                 |                 | 6,611,250        |                            |
| <b>Fiduciary Loan</b>                  |                         |                 |                  |                            |
| The Export-Import Bank Of R.O.C        | 300,000                 | 365 days        | 400,000          | 0.7736%-1.3035%            |
| E.Sun Bank Taichung Branch             | 200,000                 | 29 days         | 200,000          | 0.90000000%                |
|  | 500,000                 |                 | 600,000          |                            |
|  | \$2,695,702             |                 | \$12,361,250     |                            |

Short-term loans above collateral or security: None.

**YC INOX CO., LTD.****STATEMENT OF ACCOUNTS PAYABLE  
DECEMBER 31, 2016**

(In Thousands of New Taiwan Dollars)

| <u>Client name</u>  | <u>Amount</u>    | <u>Note</u>  |
|---------------------|------------------|--|
| Non-Related parties |                  |  |
| Company-A           | \$14,931         |  |
| Company-B           | 13,145           |  |
| Other               | 164,429          |  |
| Total               | <u>\$192,505</u> | The amount of individual vendor in others does not exceed 5% of the account balance. |

**YC INOX CO., LTD.****STATEMENT OF OPERATING REVENUES  
DECEMBER 31, 2016**

(In Thousands of New Taiwan Dollars)

| <u>Item</u>                         | <u>Quantity<br/>(metric tons)</u> | <u>Amount</u>       | <u>Note</u> |
|-------------------------------------|-----------------------------------|---------------------|-------------|
| Stainless steel coil                | About 97,000                      | \$7,471,744         |             |
| Stainless steel welded<br>Pipe/Tube | About 167,100                     | 9,921,186           |             |
| Other                               | About 3,300                       | 231,992             |             |
| Total                               |                                   | <u>\$17,624,922</u> |             |

YC INOX CO., LTD.

**STATEMENT OF OPERATING COSTS**  
**DECEMBER 31, 2016**

(In Thousands of New Taiwan Dollars)

| Item   | Amount      |                     | Note |
|--|-------------|---------------------|------|
|  | Subtotal    | Total               |      |
| Cost of goods sold of outsourcer             |             |                     |      |
| Merchandise, January 1                       | \$84,125    |                     |      |
| Add: Net Purchases of Merchandise            | 93,710      |                     |      |
| Less: Merchandise, December 31               | (60,742)    |                     |      |
| Add: Transferred from raw-material           | 153,481     |                     |      |
| Others                                       | 190         |                     |      |
| Less: Others                                 | (14,520)    |                     |      |
| Cost of goods sold of outsourcer             |             | 256,244             |      |
| Cost of goods sold of self-made              |             |                     |      |
| Raw-material inventory, January 1            | 1,547,271   |                     |      |
| Add: Net Purchases of raw material           | 14,675,697  |                     |      |
| Less: Raw-material inventory, December 31    | (1,434,341) |                     |      |
| Add: Other                                   | 17,743      |                     |      |
| Less: Transferred to merchandise             | (153,481)   |                     |      |
| Other  | (81)        |                     |      |
| Raw-material used                            |             | 14,652,808          |      |
| Direct labor                                 |             | 296,864             |      |
| Manufacturing overhead                       |             | 999,348             |      |
| Manufacturing cost                           |             | 15,949,020          |      |
| Add: Work in process, January 1              |             | 58,927              |      |
| Less: Work in process, December 31           |             | (62,363)            |      |
| Add: Transferred from semi-finished products |             | 6,258,973           |      |
| Transferred from finished products           |             | 5,364,415           |      |
| Less: Transfers out                          |             | (5,504)             |      |
| Add: Semi-finished products, January 1       |             | 238,954             |      |
| Less: Semi-finished products, December 31    |             | (248,356)           |      |
| Add: Transfers in                            |             | 99,799              |      |
| Less: Transferred to work in process         |             | (6,258,973)         |      |
| Others                                       |             | (8,152)             |      |
| Cost of finished goods                       |             | 21,386,740          |      |
| Add: Finished goods, January 1               |             | 2,003,613           |      |
| Less: Finished goods, December 31            |             | (2,191,885)         |      |
| Add: Transfers in                            |             | 21,570              |      |
| Less: Transferred to work in process         |             | (5,364,415)         |      |
| Others                                       |             | (17,146)            |      |
| Cost of goods sold of self-made              |             | 15,838,477          |      |
| Processing costs                             |             | 3                   |      |
| Loss on inventory valuation                  |             | (184,200)           |      |
| Scrapped                                     |             | (95,862)            |      |
| Others                                       |             | 8,299               |      |
| <b>OPERATING COSTS</b>                       |             | <b>\$15,822,961</b> |      |

**YC INOX CO., LTD.****STATEMENT OF MANUFACTURING EXPENSES  
DECEMBER 31, 2016****(In Thousands of New Taiwan Dollars)**

| <b>Item</b>                    | <b>Amount</b>    | <b>Note</b> |
|--------------------------------|------------------|-------------|
| Indirect labor cost            | \$244,004        |             |
| Rental expenses                | 451              |             |
| Stationery                     | 2,197            |             |
| Travelling expenses            | 574              |             |
| Freight cost                   | 3,619            |             |
| Postage and phone expense      | 430              |             |
| Repair and maintenance expense | 55,197           |             |
| Packing expenses               | 46,556           |             |
| Utilities expenses             | 119,903          |             |
| Insurance expense              | 19,999           |             |
| Processing expense             | 8,456            |             |
| Taxes                          | 4,311            |             |
| Depreciation                   | 176,166          |             |
| Food stipend                   | 9,123            |             |
| Employee Benefits              | 11,174           |             |
| Indirect Materials             | 149,329          |             |
| Consumables                    | 90,006           |             |
| Research and test fees         | 790              |             |
| Entertainment                  | 566              |             |
| Service fee                    | 1,790            |             |
| Miscellaneous purchase         | 6,205            |             |
| Training fee                   | 1,294            |             |
| Sample expenses                | 149              |             |
| Incidental expenses            | 47,059           |             |
| Total                          | <u>\$999,348</u> |             |

**YC INOX CO., LTD.****STATEMENT OF OPERATING EXPENSES  
DECEMBER 31, 2016**

(In Thousands of New Taiwan Dollars)

| <u>Item</u>                                   | <u>Selling expenses</u> | <u>Management fee</u> | <u>Note</u> |
|---|-------------------------|-----------------------|-------------|
| Salary and wages                              | \$75,408                | \$118,956             |             |
| Rental expenses                               | 338                     | 15                    |             |
| Stationery                                    | 732                     | 618                   |             |
| Travelling expenses                           | 4,219                   | 712                   |             |
| Freight expenses                              | 264,813                 | 20                    |             |
| Postage/Cable Charge                          | 1,548                   | 906                   |             |
| Repair and maintenance<br>expense             | 64                      | 2,154                 |             |
| Advertisement                                 | 6,240                   | 835                   |             |
| Utilities expenses                            | 1,989                   | 1,382                 |             |
| Insurance expenses                            | 5,751                   | 6,373                 |             |
| Entertainment                                 | 1,601                   | 15,758                |             |
| Donations                                     | 0                       | 5,455                 |             |
| Taxes   | 359                     | 1,666                 |             |
| Depreciation                                  | 4,838                   | 18,170                |             |
| Food stipend                                  | 1,337                   | 1,229                 |             |
| Employee Benefits                             | 2,208                   | 1,735                 |             |
| Training fee                                  | 149                     | 296                   |             |
| Commission expenses                           | 62,461                  | 0                     |             |
| Paper and books                               | 42                      | 20                    |             |
| Service fee                                   | 996                     | 4,078                 |             |
| Exports charges                               | 189,426                 | 0                     |             |
| Sample expenses                               | 23                      | 0                     |             |
| Miscellaneous purchase<br>incidental expenses | 1,040<br>7,450          | 1,021<br>18,949       |             |
| Total   | <u>\$633,032</u>        | <u>\$200,348</u>      |             |