

**FORMOSA TAFFETA CO., LTD. AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2016 AND 2015**

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Formosa Taffeta Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of Formosa Taffeta Co., Ltd. and its subsidiaries (the “Group”) as at December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other independent accountants, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the reports of other independent accountants, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Valuation of allowance for uncollectible accounts

Description

Please refer to Note 4(10) for accounting policy on impairment of financial assets, Note 5(2) for accounting estimates and assumption uncertainty in relation to accounts receivable valuation, and Note 6(5) for details of allowance for uncollectible accounts. As of December 31, 2016, the Group's accounts receivable and allowance for uncollectible accounts amounted to NT\$3,656,576 thousand and NT\$93,352 thousand, respectively.

The Group assesses the collectibility of accounts receivable based on historical experience, known reason or existing objective evidence. For those accounts which are considered uncollectible, the Group recognizes impairment with a credit to accounts receivable. The Group examines the reasonableness periodically. As the estimation of allowance for uncollectible accounts is subject to management's judgement, and given the significance of accounts receivable and allowance for uncollectible accounts to the financial statements, we consider the valuation of allowance for uncollectible accounts a key audit matter.

How our audit addressed the matter

Our procedures in relation to management's assessment of the allowance for uncollectible accounts includes:

- A. Assessing the reasonableness of policies and procedures in determining the allowance for uncollectible accounts, including the reasonableness of classification of customer's credit quality and aging analysis;
- B. Assessing whether the provision policy on allowance for uncollectible accounts has been consistently applied in the comparative periods of financial statements;

- C. Assessing the adequacy of allowance for uncollectible accounts estimated by management; and
- D. Testing collections after balance sheet date to check the adequacy of allowance for uncollectible accounts.

Valuation of inventory

Description

Please refer to Note 4(12) for accounting policy on inventory valuation, Note 5(2) for accounting estimates and assumption uncertainty in relation to inventory valuation, and Note 6(6) for description of allowance for inventory valuation loss. As of December 31, 2016, the Group's inventory and allowance for market value decline and obsolete and slow-moving inventories amounted to NT\$8,360,348 thousand and NT\$503,921 thousand, respectively.

The Group is primarily engaged in fiber dyeing and finishing, manufacturing and sales of curtains. As the textile manufacturing market is competitive, there is higher risk of incurring loss on inventory valuation. The Group recognises inventories at the lower of cost and net realisable value, and the net realisable value is calculated based on the average price less estimated selling expenses. Since the calculation of net realisable value involves subjective judgement and uncertainty and the inventory is material to the financial statements, we consider the valuation of inventory a key audit matter.

How our audit addressed the matter

Our procedures in relation to management's assessment of the allowance for inventory valuation loss includes:

- A. Assessing the reasonableness of policies and procedures on allowance for inventory valuation loss, including the reasonableness of classification of inventory in determining the net realisable value;
- B. Understanding the inventory management procedures, examining and participating in annual physical count and assessing the effectiveness of inventory management and inventory classification determined by management; and

- C. Checking the method in calculating the net realisable value of inventory and assessing the reasonableness of allowance for valuation loss.

Other matter- audits of the other independent accountants

We did not audit the financial statements of a wholly-owned consolidated subsidiary and certain investments accounted for under the equity method, which statements reflect total assets (including investments accounted for using equity method) of NT\$10,782,491 thousand and NT\$10,176,374, constituting 12% and 13% of consolidated total assets as of December 31, 2016 and 2015, respectively, and operating income of NT\$4,876,098 thousand and NT\$4,294,178, constituting 12% and 10% of consolidated total operating income for the years then ended, respectively. Those financial statements were audited by other independent accountants whose report thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the accounts included in the financial statements relative to these subsidiary and investees, is based solely on the audit reports of the other independent accountants.

Other matter – Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of Formosa Taffeta Co., Ltd. as at and for the years ended December 31, 2016 and 2015.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and

using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

Chou, Chien-Hung

Juanlu, Man-Yu

for and on behalf of PricewaterhouseCoopers, Taiwan
May 3, 2017

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

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

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2016		December 31, 2015			
			AMOUNT	%	AMOUNT	%		
Current assets								
1100	Cash and cash equivalents	6(1)	\$	5,653,854	6	\$	5,640,597	7
1110	Financial assets at fair value	6(2)						
	through profit or loss - current			627,621	1		655,811	1
1125	Available-for-sale financial assets	6(3)						
	- current			2,345,355	3		1,824,656	2
1150	Notes receivable, net	6(4)		191,094	-		72,028	-
1160	Notes receivable - related parties	7		11,643	-		5,236	-
1170	Accounts receivable, net	6(5)		3,563,224	4		3,764,065	5
1180	Accounts receivable - related	7						
	parties			1,193,169	1		1,277,332	2
1200	Other receivables	7		454,087	-		360,728	-
130X	Inventory	6(6) and 8		7,856,427	9		7,827,720	10
1410	Prepayments			848,609	1		991,013	1
1470	Other current assets	6(10)		465,903	-		508,021	1
11XX	Total current assets			23,210,986	25		22,927,207	29
Non-current assets								
1523	Available-for-sale financial assets	6(3) and 7						
	- non-current			42,381,294	46		29,476,126	37
1543	Financial assets carried at cost -	6(7)						
	non-current			5,438,697	6		5,786,109	7
1550	Investments accounted for under	6(8)						
	equity method			3,428,263	4		3,158,212	4
1600	Property, plant and equipment	6(9) and 8		16,644,213	18		17,311,841	22
1840	Deferred income tax assets	6(28)		262,802	-		450,573	-
1900	Other non-current assets	6(11)		663,841	1		944,987	1
15XX	Total non-current assets			68,819,110	75		57,127,848	71
1XXX	Total assets		\$	92,030,096	100	\$	80,055,055	100

(Continued)

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity		Notes	December 31, 2016		December 31, 2015	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(12) and 8	\$ 2,989,383	3	\$ 3,507,956	5
2110	Short-term notes and bills payable	6(13)	999,827	1	1,699,525	2
2120	Financial liabilities at fair value through profit or loss - current	6(14)	1,381	-	818	-
2150	Notes payable		196,870	-	200,128	-
2160	Notes payable - related parties	7	129,706	-	140,382	-
2170	Accounts payable		1,761,510	2	1,602,029	2
2180	Accounts payable - related parties	7	1,127,766	1	981,723	1
2200	Other payables	6(15) and 7	1,564,711	2	1,813,430	2
2230	Current income tax liabilities	6(28)	188,151	-	381,633	1
2300	Other current liabilities	6(16)	334,222	1	281,377	-
21XX	Total current liabilities		9,293,527	10	10,609,001	13
Non-current liabilities						
2540	Long-term borrowings	6(16)	11,432,277	13	10,362,409	13
2570	Deferred income tax liabilities	6(28)	163,632	-	120,972	-
2600	Other non-current liabilities	6(17)	860,760	1	2,893,943	4
25XX	Total non-current liabilities		12,456,669	14	13,377,324	17
2XXX	Total liabilities		21,750,196	24	23,986,325	30
Equity attributable to owners of parent						
Share capital 6(18)						
3110	Share capital - common stock		16,846,646	18	16,846,646	21
Capital surplus 6(19)						
3200	Capital surplus		266,458	-	20,791	-
Retained earnings 6(20)						
3310	Legal reserve		6,791,478	7	6,508,610	8
3320	Special reserve		1,708,542	2	1,381,824	2
3350	Unappropriated retained earnings		4,830,100	5	3,819,939	5
Other equity interest 6(21)						
3400	Other equity interest		36,326,427	40	24,143,610	30
3500	Treasury stocks	6(18)	(21,501)	-	(22,285)	-
31XX	Equity attributable to owners of the parent		66,748,150	72	52,699,135	66
36XX	Non-controlling interest		3,531,750	4	3,369,595	4
3XXX	Total equity		70,279,900	76	56,068,730	70
Significant contingent liabilities and unrecognized contract commitments 9						
Significant events after the balance sheet 11						
3X2X	Total liabilities and equity		\$ 92,030,096	100	\$ 80,055,055	100

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

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)

			For the years ended December 31,			
			2016		2015	
Items	Notes		AMOUNT	%	AMOUNT	%
4000 Operating revenue	6(22) and 7	\$	39,848,986	100	\$ 42,872,570	100
5000 Operating costs	6(6)(25)(26) and 7	(	34,354,879)	(86)	(36,732,939)	(86)
5900 Net operating margin			5,494,107	14	6,139,631	14
Operating expenses	6(25)(26) and 7					
6100 Selling expenses		(	1,728,789)	(4)	(1,836,218)	(4)
6200 General and administrative expenses		(	939,161)	(3)	(918,716)	(2)
6300 Research and development expenses		(	53,925)	-	(52,197)	-
6000 Total operating expenses		(	2,721,875)	(7)	(2,807,131)	(6)
6900 Operating profit			2,772,232	7	3,332,500	8
Non-operating income and expenses						
7010 Other income	6(23) and 7		1,941,094	5	653,564	1
7020 Other gains and losses	6(7)(24)	(	445,983)	(1)	(352,197)	(1)
7050 Finance costs	6(27)	(	177,762)	(1)	(190,352)	-
7060 Share of profit of associates and joint ventures accounted for under equity method	6(8)		385,218	1	317,782	1
7000 Total non-operating income and expenses			1,702,567	4	428,797	1
7900 Profit before income tax			4,474,799	11	3,761,297	9
7950 Income tax expense	6(28)	(	634,299)	(1)	(537,345)	(2)
8200 Profit for the year		\$	3,840,500	10	\$ 3,223,952	7

(Continued)

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)

		For the years ended December 31,			
		2016		2015	
Items	Notes	AMOUNT	%	AMOUNT	%
Other comprehensive income	6(21)				
Components of other comprehensive income that will not be reclassified to profit or loss					
8311 Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans		\$ 160,060	-	(\$ 197,495)	-
Components of other comprehensive income that will be reclassified to profit or loss					
8361 Financial statements translation differences of foreign operations		(522,332)	(1)	270,933	1
8362 Unrealized gain on valuation of available-for-sale financial assets	6(3)	12,929,669	32	3,168,512	7
8370 Share of other comprehensive loss of associates and joint ventures accounted for under equity method		(109,839)	-	(19,388)	-
8360 Components of other comprehensive income that will be reclassified to profit or loss		12,297,498	31	3,420,057	8
8300 Total other comprehensive income for the year		<u>\$ 12,457,558</u>	<u>31</u>	<u>\$ 3,222,562</u>	<u>8</u>
8500 Total comprehensive income for the year		<u>\$ 16,298,058</u>	<u>41</u>	<u>\$ 6,446,514</u>	<u>15</u>
Profit attributable to:					
8610 Owners of the parent		\$ 3,481,285	9	\$ 2,828,679	6
8620 Non-controlling interest		359,215	1	395,273	1
		<u>\$ 3,840,500</u>	<u>10</u>	<u>\$ 3,223,952</u>	<u>7</u>
Comprehensive income attributable to:					
8710 Owners of the parent		\$ 15,824,162	40	\$ 6,057,275	14
8720 Non-controlling interest		473,896	1	389,239	1
		<u>\$ 16,298,058</u>	<u>41</u>	<u>\$ 6,446,514</u>	<u>15</u>
		Before Tax	After Tax	Before Tax	After Tax
Basic and diluted earnings per share (in dollars)	6(28)				
9710 Profit for the year from continuing operations		\$ 2.66	\$ 2.28	\$ 2.24	\$ 1.92
Non-controlling interest		(0.42)	(0.21)	(0.43)	(0.24)
9750 Profit attributable to common shareholders of the parent		<u>\$ 2.24</u>	<u>\$ 2.07</u>	<u>\$ 1.81</u>	<u>\$ 1.68</u>
Assuming shares held by subsidiaries are not deemed as treasury stock:					
Profit for the year from continuing operations		\$ 2.66	\$ 2.28	\$ 2.23	\$ 1.91
Non-controlling interest		(0.42)	(0.21)	(0.43)	(0.23)
Profit attributable to common shareholders of the parent		<u>\$ 2.24</u>	<u>\$ 2.07</u>	<u>\$ 1.80</u>	<u>\$ 1.68</u>

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

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

		Equity attributable to owners of the parent													
		Capital Reserves				Retained Earnings				Other Equity Interest					
				Difference between the price for acquisition or disposal of subsidiaries and carrying amount	Donated assets received	Change in net equity of associates and joint ventures accounted for under equity method	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	Total	Non-controlling interest	Total equity
Notes		Share capital - common stock	Treasury stock transactions												
For the year ended December 31, 2015															
Balance at January 1, 2015		\$16,846,646	\$11,077	\$ 545	\$2,032	\$24,694	\$6,156,773	\$ 644,262	\$ 4,636,684	\$385,721	\$20,331,798	(\$22,723)	\$ 49,017,509	\$ 3,209,154	\$52,226,663
Appropriations of 2014 earnings:	6(20)														
Legal reserve		-	-	-	-	-	351,837	-	(351,837)	-	-	-	-	-	-
Special reserve		-	-	-	-	-	-	737,562	(737,562)	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	(2,358,530)	-	-	-	(2,358,530)	-	(2,358,530)
Profit for the year		-	-	-	-	-	-	-	2,828,679	-	-	-	2,828,679	395,273	3,223,952
Disposal of treasury stock	6(18)	-	1,058	-	-	-	-	-	-	-	-	438	1,496	-	1,496
Changes in the net interest of associates recognized under the equity method		-	-	-	-	18,615	-	-	-	-	-	-	(18,615)	-	(18,615)
Other comprehensive income for the year	6(21)	-	-	-	-	-	-	-	(197,495)	260,455	3,165,636	-	3,228,596	(6,034)	3,222,562
Cash dividends paid by consolidated subsidiaries	6(21)	-	-	-	-	-	-	-	-	-	-	-	-	(228,798)	(228,798)
Balance at December 31, 2015		<u>\$16,846,646</u>	<u>\$12,135</u>	<u>\$ 545</u>	<u>\$2,032</u>	<u>\$6,079</u>	<u>\$6,508,610</u>	<u>\$ 1,381,824</u>	<u>\$ 3,819,939</u>	<u>\$646,176</u>	<u>\$23,497,434</u>	<u>(\$22,285)</u>	<u>\$ 52,699,135</u>	<u>\$ 3,369,595</u>	<u>\$56,068,730</u>
For the year ended December 31, 2016															
Balance at January 1, 2016		\$16,846,646	\$12,135	\$ 545	\$2,032	\$6,079	\$6,508,610	\$ 1,381,824	\$ 3,819,939	\$646,176	\$23,497,434	(\$22,285)	\$ 52,699,135	\$ 3,369,595	\$56,068,730
Appropriations of 2015 earnings:	6(20)														
Legal reserve		-	-	-	-	-	282,868	-	(282,868)	-	-	-	-	-	-
Special reserve		-	-	-	-	-	-	326,718	(326,718)	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	(2,021,598)	-	-	-	(2,021,598)	-	(2,021,598)
Profit for the year		-	-	-	-	-	-	-	3,481,285	-	-	-	3,481,285	359,215	3,840,500
Disposal of treasury stock	6(18)	-	1,434	-	-	-	-	-	-	-	-	784	2,218	-	2,218
Changes in the net interest of associates recognised under the equity method	6(8)	-	-	-	-	244,233	-	-	-	-	-	-	244,233	-	244,233
Other comprehensive income for the year	6(21)	-	-	-	-	-	-	-	160,060	(632,789)	12,815,606	-	12,342,877	114,681	12,457,558
Cash dividends paid by consolidated subsidiaries	6(21)	-	-	-	-	-	-	-	-	-	-	-	-	(311,741)	(311,741)
Balance at December 31, 2016		<u>\$16,846,646</u>	<u>\$13,569</u>	<u>\$ 545</u>	<u>\$2,032</u>	<u>\$250,312</u>	<u>\$6,791,478</u>	<u>\$ 1,708,542</u>	<u>\$ 4,830,100</u>	<u>\$ 13,387</u>	<u>\$36,313,040</u>	<u>(\$21,501)</u>	<u>\$ 66,748,150</u>	<u>\$ 3,531,750</u>	<u>\$70,279,900</u>

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

FORMOSA TAFFETA CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	For the year ended December 31,	
		2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 4,474,799	\$ 3,761,297
Adjustments			
Adjustments to reconcile profit (loss)			
Reversal of impairment of receivables	6(5)	(3,152)	(22,373)
Depreciation	6(9)(25)	2,641,041	2,857,619
Interest expense	6(27)	177,762	190,352
Impairment loss	6(7)(24)	207,066	-
Interest income	6(23)	(25,583)	(27,750)
Dividend income	6(23)	(1,637,777)	(386,084)
Loss on disposal of available--for-sale financial assets	6(24)	7,294	-
Gain on valuation of financial assets	6(2)(24)	(2,160)	(3,706)
Loss (gain) on valuation of financial liabilities	6(14)(24)	563	(2,632)
Share of profit of associates and joint ventures accounted for under equity method	6(8)	(385,218)	(317,782)
Cash dividends from investments accounted for under equity method		245,764	56,595
(Gain) loss on disposal and scrap of property, plant and equipment	6(24)	(23,058)	199,113
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss		30,371	-
Notes receivable, net		(119,066)	23,038
Notes receivable - related parties		(6,407)	(2,493)
Accounts receivable, net		206,662	410,350
Accounts receivable - related parties		84,163	44,598
Other receivables		961	(5,746)
Inventory		(28,707)	122,569
Prepayments		142,404	(597,342)
Other current assets		106,627	(123,266)
Changes in operating liabilities			
Notes payable		(3,258)	(5,439)
Notes payable - related parties		(10,676)	(147,778)
Accounts payable		159,481	432,143
Accounts payable - related parties		146,043	(204,291)
Other payables		(251,692)	(173,062)
Other current liabilities		(27,520)	(121,920)
Increase in other non-current liabilities		(2,033,183)	53,263
Cash inflow generated from operations		4,073,544	6,009,273
Interest received		25,583	27,750
Dividends received		1,637,777	386,084
Interest paid		(194,123)	(202,574)
Income tax paid		(639,011)	(218,387)
Net cash flows from operating activities		4,903,770	6,002,146

(Continued)

FORMOSA TAFFETA CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

		For the year ended December 31,	
	Notes	2016	2015
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of available-for-sale financial assets		(\$ 582,462)	(\$ 95,802)
Proceeds from disposal of available-for-sale financial assets		81,126	-
Proceeds from capital reduction of financial assets measured at cost		10,704	13,380
Acquisition of property, plant and equipment	6(30)	(2,378,135)	(2,776,031)
Proceeds from disposal of property, plant and equipment		49,228	119,536
Other non-current assets		<u>268,189</u>	<u>134,374</u>
Net cash flows used in investing activities		<u>(2,551,350)</u>	<u>(2,604,543)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
(Decrease) increase in short-term borrowings		(518,573)	746,270
Decrease in short-term notes and bills payable		(699,698)	(649,999)
Payment of long-term borrowings		(4,829,207)	(4,962,052)
Increase in long-term borrowings		5,997,500	6,167,902
Cash dividends paid	6(20)	(2,021,598)	(2,358,530)
Cash dividends paid non-controlling interest		<u>(311,741)</u>	<u>(228,798)</u>
Net cash flows used in financing activities		<u>(2,383,317)</u>	<u>(1,285,207)</u>
Effect of foreign exchange rate		<u>44,154</u>	<u>(268,667)</u>
Net increase in cash and cash equivalents		13,257	1,843,729
Cash and cash equivalents at beginning of year	6(1)	<u>5,640,597</u>	<u>3,796,868</u>
Cash and cash equivalents at end of year	6(1)	<u>\$ 5,653,854</u>	<u>\$ 5,640,597</u>

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

FORMOSA TAFFETA CO., LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

(Reviewed, not audited)

1. HISTORY AND ORGANIZATION

(1) Formosa Taffeta Co., Ltd. (the “Company”) was incorporated on April 19, 1973 under the provisions of the Company Law of the Republic of China (R.O.C.). Factories were established in Douliou City of Yulin County, R.O.C. On December 24, 1985, the Company’s common stock was officially listed on the Taiwan Stock Exchange. The major operations of the Company’s various departments are as follows:

<u>Business departments</u>	<u>Major activities</u>
Primary department: Fabrics, dyeing and others	Amine fabrics, polyester fabrics, cotton fabrics, blending fabrics and umbrella ribs
Secondary department: Cord fabrics, petroleum	Cord, plastic bags, refineries for gasoline, diesel, crude oil and the related petroleum products, cotton fibers, blending fibers and protection fibers
Formosa Advanced Technologies Co., Ltd.	Assembly, testing, model processing and research and development of various integrated circuits

(2) Formosa Chemicals & Fiber Corp. has significant control over the Company since Formosa Chemicals & Fiber Corp. holds over half of the Board seats after the stockholders’ meeting on June 27, 2008. Since June 27, 2008, Formosa Chemicals & Fiber Corp. became the Company’s parent company and accordingly, the Company and its subsidiaries are included in its consolidated financial statements.

(3) As of December 31, 2016, the Company and its subsidiaries (collectively referred herein as the “Group”) had 10,110 employees.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 17, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) 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 Group

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

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

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9, 'Financial instruments' with IFRS 4, 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month

expected credit losses ('ECL') or lifetime ECL (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

B. IFRS 15, "Revenue from contracts with customers"

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

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

Step 1: Identify contracts with customer

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

Step 3: Determine the transaction price

Step 4: Allocate the transaction price

Step 5: Recognize revenue when the performance obligation is satisfied

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

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

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

D. IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

E. Amendments to IAS 7, ‘Disclosure initiative’

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

A. Except for the following items, these consolidated 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 recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the noncontrolling interests having a deficit balance.
- (d) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised 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 related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Description
			December 31, 2016	December 31, 2015	
Formosa Taffeta Co., Ltd.	Formosa Advanced Technologies Co., Ltd.	Assembly, testing, model processing and research and development of various integrated circuits	65.68	65.68	
Formosa Taffeta Co., Ltd.	Taffeta (Zhong Shan) Co, Ltd.	Manufacturing of nylon and polyester filament greige cloth, coloured cloth, printed cloth and textured processing yarn products	100.00	100.00	
Formosa Taffeta Co., Ltd.	Formosa Development Co., Ltd.	Urban land consolidation, development and rent and sale of residential and buildings, and development of new community and specialised zones	100.00	100.00	

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Description
			December 31, 2016	December 31, 2015	
Formosa Taffeta Co., Ltd.	Formosa Taffeta Vietnam Co., Ltd.	Manufacturing, processing, supply and marketing of yarn, knitted fabric, dyeing and finishing, carpets, curtains and cleaning supplies	100.00	100.00	
Formosa Taffeta Co., Ltd.	Formosa Taffeta (Hong Kong) Co., Ltd.	Sale of nylon and polyamine goods	100.00	100.00	
Formosa Taffeta Co., Ltd.	Schoeller F.T.C. (Hong Kong) Co., Ltd.	Sale of hi-tech performance fabric for 3XDRY, Nanosphere, Keprotec, Dynatec, Spirit and Reflex	43.00	43.00	Note 1
Formosa Taffeta Co., Ltd.	Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	Export trading, entrepot trading, displaying goods, processing of exporting goods, warehousing and black and white and colour design and graph	100.00	100.00	
Formosa Taffeta Co., Ltd.	Formosa Taffeta (Dong Nai) Co., Ltd.	Manufacturing of nylon and polyester filament products	100.00	100.00	Note 1
Formosa Taffeta Co., Ltd.	Formosa Taffeta (Cayman) Limited	Holding company	100.00	100.00	Note 1
Formosa Taffeta (Hong Kong) Co., Ltd.	Formosa Taffeta (Changshu) Co., Ltd.	Manufacturing and processing fabric of nylon filament knitted cloth, weaving and dyeing as well as post processing of knitted fabric	100.00	100.00	Note 1

Note 1: Even though the Company did not directly or indirectly own more than 50% voting rights of Schoeller F.T.C. (Hong Kong) Co., Ltd., the Company owns more than half of the seats in the Board of Directors of Schoeller F.T.C. (Hong Kong) Co., Ltd. and has substantive control over the company. Thus, Schoeller F.T.C. (Hong Kong) Co., Ltd. is included in the consolidated financial statements.

Except for the subsidiaries, Formosa Taffeta Vietnam Co., Ltd., Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd., Formosa Taffeta (Dong Nai) Co., Ltd. and Schoeller F.T.C. (Hong Kong) Co., Ltd. whose financial statements were audited by other independent accountants, the

financial statements of other subsidiaries were audited by the parent company's auditors.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group:

As of December 31, 2016, and 31 2015, the non-controlling interest amounted to \$3,531,750 and \$3,369,595, respectively. The information on non-controlling interest and respective subsidiaries is as follows:

Name of subsidiary	Principal place of business	Non-controlling interest			
		December 31, 2016		December 31, 2015	
		Amount	Ownership (%)	Amount	Ownership (%)
Formosa Advanced Technologies Co., Ltd.	Taiwan	\$ 3,524,894	34.32	\$ 3,366,457	34.32

Summarized financial information on the subsidiaries:

Balance sheets

	Formosa Advanced Technologies Co., Ltd.	
	Years ended December 31,	
	December 31, 2016	December 31, 2015
Current assets	\$ 8,098,306	\$ 7,648,938
Non-current assets	3,259,061	3,267,306
Current liabilities	(1,009,496)	(1,041,340)
Non-current liabilities	(77,201)	(65,880)
Total net assets	\$ 10,270,670	\$ 9,809,024

Statements of comprehensive income

	Formosa Advanced Technologies Co., Ltd.	
	Years ended December 31,	
	December 31, 2016	December 31, 2015
Revenue	\$ 8,491,396	\$ 8,760,789
Profit before income tax	1,259,504	1,372,824
Income tax expense	(236,948)	(245,743)
Profit for the year	1,022,556	1,127,081
Other comprehensive income (loss), net of tax	323,534	(816)
Total comprehensive income for the year	\$ 1,346,090	\$ 1,126,265
Comprehensive income attributable to non-controlling interest	\$ 461,978	\$ 386,534

Statements of cash flows

	Formosa Advanced Technologies Co., Ltd.	
	Years ended December 31,	
	December 31, 2016	December 31, 2015
Net cash provided by operating activities	\$ 2,642,071	\$ 3,177,633
Net cash used in investing activities	(1,323,691)	(920,801)
Net cash used in financing activities	(884,444)	(615,505)
Increase in cash and cash equivalents	433,936	1,641,327
Cash and cash equivalents, beginning of year	3,520,954	1,879,627
Cash and cash equivalents, end of year	<u>\$ 3,954,890</u>	<u>\$ 3,520,954</u>

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- 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 recognised in profit or loss in the period in which they arise.
- 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 recognised in profit or loss.
- 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 recognised 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 recognised 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. All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are

translated into the presentation currency as follows:

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

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (a) Assets arising from operating activities that are expected to be realised, 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 realised within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - (a) Liabilities that are expected to be paid off within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

(7) 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.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using settlement date accounting.

- C. Financial assets at fair value through profit or loss are initially recognised 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 recognised in profit or loss.

(8) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(9) 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 recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
- (a) Significant financial difficulty of the issuer or debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - (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 Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(a) Financial assets measured at amortised 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 recognised 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 recognised, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised 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 recognised in profit or loss. Impairment loss recognized for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset directly.

(c) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss. Impairment loss is recognized and reversed

by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(11) Derecognition of financial assets

The Group derecognises 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 Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has not retained control of the financial asset.

(12) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in process comprises raw materials, direct labour, 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.

(13) Non-current assets held for sale (shown as 'other current assets')

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(14) Construction contracts

- A. IAS 11, 'Construction Contracts', defines a construction contract as a contract specifically negotiated for the construction of an asset. If the outcome of a construction contract can be estimated reliably and it is probable that this contract would make a profit, contract revenue should be recognised by reference to the stage of completion of the contract activity, using the percentage-of-completion method of accounting, over the contract term. Contract costs are expensed as incurred. The stage of completion of a contract is measured by the proportion of contract costs incurred for work performed to date to the estimated total costs for the contract. An expected loss where total contract costs will exceed total contract revenue on a construction contract should be recognised as an expense as soon as such loss is probable. If the outcome of a construction contract cannot be estimated reliably, contract revenue should be recognized only to the extent of contract costs incurred that it is probable will be recoverable.
- B. Contract revenue should include the revenue arising from variations from the original contract work, claims and incentive payments that are agreed by the customer and can be measured reliably.

(15) Investments accounted for using equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 per cent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity are not recognised in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognises the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest.
- F. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(16) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. 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. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

<u>Items</u>	<u>Estimated useful lives</u>
Land improvements	3 ~ 15 years
Buildings	10 ~ 60 years
Machinery and equipment	2 ~ 15 years
Transportation equipment	3 ~ 15 years
Other equipment	2 ~ 17 years

(17) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised 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 or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(18) Borrowings

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

(19) Notes and accounts payable

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

(20) Financial liabilities at fair value through profit or loss

A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or

financial liabilities designated as at fair value through profit or loss on initial recognition. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.

- B. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(21) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(22) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(23) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract is initially recognised at its fair value adjusted for transaction costs on the trade date. After initial recognition, the financial guarantee is measured at the higher of the initial fair value less accumulated amortisation and the best estimate of the amount required to settle the present obligation at each balance sheet date.

(24) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees 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 recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised 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 with the Company 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, together with adjustments for unrecognized past service costs. 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 government bonds (at the balance sheet date) instead.

- ii. Actuarial gains and losses arising on defined benefit plans are recognized in profit or loss using the 'corridor' method in the period in which they arise.
- iii. Past service costs are recognized immediately in profit or loss.

C. Employees' compensation and directors' and supervisors' remuneration

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

(25) 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 consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group 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 realised 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 utilised. 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 realise 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 realise 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 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 utilised.

(26) Share capital

Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(27) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities.

(28) Revenue recognition

The Group manufactures and sells various fabrics and renders services as an oil distributor. Revenue is measured at the fair value of the consideration received or receivable taking into account business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(29) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the

chief operating decision-maker. The Group's chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

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

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

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

Financial assets—impairment of equity investments

The Group follows the guidance of IAS 39 to determine whether a financial asset—equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If the decline of the fair value of an individual equity investment below cost was considered significant or prolonged, the Group would suffer a loss in its financial statements, being the transfer of the accumulated fair value adjustments recognised in other comprehensive income on the impaired available-for-sale financial assets to profit or loss or being the recognition of the impairment loss on the impaired financial assets measured at cost in profit or loss.

(2) Critical accounting estimates and assumptions

A. Impairment valuation of accounts receivable

In evaluating impairment of accounts receivable, the Group determined future recoverability of accounts receivable based on subjective judgement and estimates, taking into consideration the customer's financial condition, internal credit rating, and historical transaction records. The Group evaluated individually the collectibility of accounts receivable and provided allowance if there was any concern on recoverability. The provision for allowance was reasonable based on conditions existing at the balance sheet date. The Group's accounts receivable amounted to \$3,563,224 as at December 31, 2016.

B. Evaluation of inventories

As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories at balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory

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

As of December 31, 2016, the carrying amount of inventories was \$7,856,427.

C. 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 Group would assess the impairment loss of the investment accordingly. For a financial asset without an active market, the Group 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 after the impairment loss being recognised was \$5,438,697.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cash on hand and petty cash (revolving funds)	\$ 104,010	\$ 64,461
Checking accounts and demand deposits	1,612,801	1,859,812
Time deposits	212,585	253,658
Cash equivalents	<u>3,724,458</u>	<u>3,462,666</u>
	<u>\$ 5,653,854</u>	<u>\$ 5,640,597</u>

A. The Group 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. The rate range of time deposit on December 31, 2016 and 2015 are 0.20%~7.20% and 0.25%~2.53%, respectively.

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

(2) Financial assets at fair value through profit or loss-current

<u>Items</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current items:		
Financial assets held for trading		
Beneficiary certificates	\$ 619,504	\$ 649,854
Forward foreign exchange contracts	66	12
	<u>619,570</u>	<u>649,866</u>
Valuation adjustment of financial assets held for trading	8,051	5,945
	<u>\$ 627,621</u>	<u>\$ 655,811</u>

A. The Group recognized net gain of \$2,160 and \$3,706 on financial assets held for trading for the years ended December 31, 2016 and 2015, respectively.

B. The non-hedging derivative instrument transactions and contract information are as follows:

	<u>December 31, 2016</u>			<u>December 31, 2015</u>		
<u>Derivative Instruments</u>	<u>Contract Amount</u>		<u>Contract Period</u>	<u>Contract Amount</u>		<u>Contract Period</u>
	<u>(Notional Principal)</u>			<u>(Notional Principal)</u>		
Current items:						
Forward foreign exchange contracts						
Chang Hwa Bank	USD 1,000	2016.12~2017.2		USD 2,000	2015.12~2016.2	

C. The forward exchange contracts are buy and sell USD to hedge the change of exchange rate due to import and export transactions, but not adopting hedge accounting.

(3) Available-for-sale financial assets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current items:		
Listed (TSE and OTC) stocks	\$ 1,348,435	\$ 1,412,741
Unlisted (TSE and OTC) stocks	100,000	100,000
Valuation adjustment of available -for-sale financial assets	<u>896,920</u>	<u>311,915</u>
	<u>\$ 2,345,355</u>	<u>\$ 1,824,656</u>
Non-current items:		
Listed (TSE and OTC) stocks	\$ 9,418,266	\$ 8,859,918
Valuation adjustment of available -for-sale financial assets	<u>35,576,113</u>	<u>23,229,293</u>
	44,994,379	32,089,211
Accumulated impairment - available -for-sale financial assets	(<u>2,613,085</u>)	(<u>2,613,085</u>)
	<u>\$ 42,381,294</u>	<u>\$ 29,476,126</u>

A. The Group recognized \$12,929,669 and \$3,168,512 in other comprehensive income for fair value change for the years ended December 31, 2016 and 2015, respectively.

B. On January 8, 2016, the Group participated in the capital increase of Nan Ya Technology Corporation for cash of \$558,348.

C. The Group has no available-for-sale financial assets pledged to others as of December 31, 2016 and 2015.

(4) Notes receivable, net

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Notes receivable	<u>\$ 191,094</u>	<u>\$ 72,028</u>

(5) Accounts receivable, net

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Accounts receivable	\$ 3,656,576	\$ 3,863,238
Less: allowance for bad debts	(<u>93,352</u>)	(<u>99,173</u>)
	<u>\$ 3,563,224</u>	<u>\$ 3,764,065</u>

A. The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Group 1	\$ 2,896,693	\$ 2,789,167
Group 2	304,924	318,743
Group 3	<u>133,863</u>	<u>370,053</u>
	<u>\$ 3,335,480</u>	<u>\$ 3,477,963</u>

Note:

Group 1: Transnational customers, brand customers or credit customers that have applied for

collateralised mortgage.

Group 2: Non-transnational customers, non-brand customers or credit customers that have not applied for collateralised mortgage with 2 or more years of transaction history with the Group.

Group 3: Non-transnational customers, non-brand customers or credit customers that have not applied for collateralised mortgage with less than 2 years of transaction history with the Group.

B. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	December 31, 2016	December 31, 2015
Up to 30 days	\$ 210,341	\$ 291,503
31 to 90 days	67,013	58,054
91 to 180 days	25,483	16,494
Over 180 days	4,816	5,781
	<u>\$ 307,653</u>	<u>\$ 371,832</u>

The above ageing analysis was based on past due date.

C. Movement analysis of financial assets that were impaired - allowance for bad debts is as follows:

(a) As of December 31, 2016 and 2015, the Group's accounts receivable that were impaired amounted to \$13,443.

(b) Movements on the Group's provision for impairment of accounts receivable are as follows:

	December 31, 2016		
	Individual provision	Group provision	Total
At January 1	\$ 13,443	\$ 85,730	\$ 99,173
Reversal of provision for impairment	- (	3,152) (	3,152)
Effect of exchange rate	- (	2,669) (	2,669)
At December 31	<u>\$ 13,443</u>	<u>\$ 79,909</u>	<u>\$ 93,352</u>
	December 31, 2015		
	Individual provision	Group provision	Total
At January 1	\$ 14,808	\$ 105,324	\$ 120,132
Reversal of provision for impairment	(1,365) (	19,042) (	20,407)
Effect of exchange rate	- (	552) (	552)
At December 31	<u>\$ 13,443</u>	<u>\$ 85,730</u>	<u>\$ 99,173</u>

D. The Group does not hold any collateral as security for accounts receivable.

(6) Inventories

December 31, 2016			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 1,491,973	(\$ 79,463)	\$ 1,412,510
Supplies	190,989	(3,659)	187,330
Work in process	2,275,693	(17,170)	2,258,523
Finished goods	3,443,150	(403,629)	3,039,521
Merchandise inventory	245,550	-	245,550
Materials in transit	488,993	-	488,993
Outsourced processed materials	175,759	-	175,759
Construction in progress	20,866	-	20,866
Land for construction	27,375	-	27,375
	<u>\$ 8,360,348</u>	<u>(\$ 503,921)</u>	<u>\$ 7,856,427</u>
December 31, 2015			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 1,358,667	(\$ 92,182)	\$ 1,266,485
Supplies	210,545	(3,100)	207,445
Work in process	2,228,054	(18,678)	2,209,376
Finished goods	3,758,946	(362,013)	3,396,933
Merchandise inventory	135,844	-	135,844
Materials in transit	392,966	-	392,966
Outsourced processed materials	166,192	-	166,192
Construction in progress	32,909	-	32,909
Land for construction	19,570	-	19,570
	<u>\$ 8,303,693</u>	<u>(\$ 475,973)</u>	<u>\$ 7,827,720</u>

Information about the inventories that were pledged to others as collateral is provided in Note 8.

The cost of inventories recognized as expense for the year:

	Years ended December 31,	
	2016	2015
Cost of goods sold	\$ 34,322,688	\$ 36,724,237
Idle capacity	-	11,993
Inventory valuation loss	27,948	37,413
Others (Note)	4,243	(40,704)
	<u>\$ 34,354,879</u>	<u>\$ 36,732,939</u>

Note: Others consist of inventory overage/shortage and disposal of scrap and defective materials.

(7) Financial assets measured at cost – non-current

<u>Items</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Unlisted stocks	\$ 5,438,697	\$ 5,786,109

- A. Based on the Group's intention, its investment in stocks should be classified as 'available-for-sale financial assets'. However, as stocks are not traded in active market, and no sufficient industry information of companies similar to the investees or no related financial information on the investees can be obtained, the fair value of the investment in stocks cannot be measured reliably. Accordingly, the Group classified those stocks as 'financial assets measured at cost'.
- B. The Group has assessed the impairment of partial investment and recognized impairment loss of \$207,066 and \$0 (shown as 'other gains and losses') for the years ended December 31, 2016 and 2015, respectively, on the abovementioned financial instruments.
- C. As of December 31, 2016 and 2015, no financial assets measured at cost held by the Group were pledged to others.

(8) Investments accounted for using equity method

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Formosa Industries Co., Ltd.	\$ 2,193,337	\$ 2,182,277
Quang Viet Enterprise Co., Ltd.	1,175,070	951,527
Changshu Yu Yuan Development Co., Ltd.	59,856	24,408
	<u>\$ 3,428,263</u>	<u>\$ 3,158,212</u>

A. Associates

(a) The basic information of the associates that are material to the Group is as follows:

<u>Company name</u>	<u>Principal place of business</u>	<u>Shareholding ratio</u>		<u>Nature of relationship</u>	<u>Method of measurement</u>
		<u>December 31, 2016</u>	<u>December 31, 2015</u>		
Formosa Industries Co., Ltd.	Vietnam	10.00%	10.00%	Associate	Equity method
Quang Viet Enterprise Co., Ltd.	Taiwan	17.92%	20.16%	Associate	Equity method
Changshu Yu Yuan Development Co., Ltd.	China	40.78%	40.78%	Associate	Equity method

- B. The summarized financial information of the associates that are material to the Group is as follows:

Balance sheets

Formosa Industries Co., Ltd.		
	December 31, 2016	December 31, 2015
Current assets	\$ 9,902,327	\$ 7,604,525
Non-current assets	22,770,600	23,625,804
Current liabilities	(2,446,476)	(1,945,152)
Non-current liabilities	(9,197,191)	(8,404,130)
Total net assets	<u>\$ 21,029,260</u>	<u>\$ 20,881,047</u>
Share in associate's net assets	\$ 2,102,926	\$ 2,088,105
Difference	<u>90,411</u>	<u>94,172</u>
Carrying amount of the associate	<u>\$ 2,193,337</u>	<u>\$ 2,182,277</u>

Quang Viet Enterprise Co., Ltd.		
	December 31, 2016	December 31, 2015
Current assets	\$ 4,176,812	\$ 3,015,922
Non-current assets	4,067,560	3,890,540
Current liabilities	(1,497,783)	(1,979,919)
Non-current liabilities	(189,930)	(223,173)
Total net assets	<u>\$ 6,556,659</u>	<u>\$ 4,703,370</u>

Share in associate's net assets		
(Carrying amount of the associate)	<u>\$ 1,175,070</u>	<u>\$ 951,527</u>

Changshu Yu Yuan Development Co., Ltd.		
	December 31, 2016	December 31, 2015
Current assets	\$ 318,510	\$ 367,888
Non-current assets	649	7,875
Current liabilities	(172,380)	(315,910)
Total net assets	<u>\$ 146,779</u>	<u>\$ 59,853</u>

Share in associate's net assets		
(Carrying amount of the associate)	<u>\$ 59,856</u>	<u>\$ 24,408</u>

Statements of comprehensive income

Formosa Industries Co., Ltd.		
Years ended December 31,		
	2016	2015
Revenue	\$ 24,353,298	\$ 21,569,600
Profit for the year from continuing operations (Total comprehensive income)	<u>\$ 2,096,286</u>	<u>\$ 1,198,929</u>

	Quang Viet Enterprise Co., Ltd.	
	Years ended December 31,	
	2016	2015
Revenue	\$ 6,631,780	\$ 7,014,824
Profit for the year from continuing operations	699,139	940,495
Other comprehensive loss, net of tax	(142,373)	(40,418)
Total comprehensive income	<u>\$ 556,766</u>	<u>\$ 900,077</u>

	Changshu Yu Yuan Development Co., Ltd.	
	Years ended December 31,	
	2016	2015
Revenue	\$ 743,903	\$ -
Profit (loss) for the year from continuing operations		
(Total comprehensive income (loss))	<u>\$ 96,235</u>	<u>(\$ 3,868)</u>

- B. The investment income of \$385,218 and \$317,782 for the years ended December 31, 2016 and 2015, respectively, were accounted for under the equity method based on the audited financial statements of the investee companies.
- C. The Company is the director of Formosa Industries Co., Ltd. and Quang Viet Enterprise Co., Ltd. and has significant impact to its operations, thus, these associates were accounted for under the equity method.
- D. The Company transferred stock of FORMOSA HA TINH (CAYMAN) LIMITED totaling 171,008,736 shares to the subsidiary-Formosa Taffeta (Cayman) Limited for reorganization.
- E. In order to effectively utilise Formosa Taffeta (Changshu) Co., Ltd.'s residential land of 9,206 square metres, the Group adjusted the investment structure in March 2015 by reducing capital of Formosa Taffeta (Changshu) Co., Ltd. and splitting the above land for establishing Changshu Fushun Enterprise Management Co., Ltd., whose 100% share ownership is held by Formosa Taffeta (Hong Kong) Co., Ltd. The above capital reduction, land division and establishment of a new company were completed in the first quarter of 2015. Furthermore, Changshu Fushun Enterprise Management Co., Ltd. merged with Changshu Yu Yuan Development Co., Ltd. in July 2015, with Changshu Yu Yuan Development Co., Ltd. as the surviving company. Formosa Taffeta (Hong Kong) Co., Ltd. holds 40.78% equity interest in Changshu Yu Yuan Development Co., Ltd.
- F. Quang Viet Enterprise Co., Ltd. issued new shares. However, the Group did not acquire new shares proportionately, which resulted to a change in the Group's ownership percentage of the investee although the Group did not lose significant influence. This ownership change resulted to an increase in capital surplus amounting to \$244,233.

G. The Group's material associate Quang Viet Enterprise Co., Ltd. has quoted market prices since October, 2016. As of December 31, 2016, the fair value was \$2,677,731.

(9) Property, plant and equipment

<u>January 1, 2016</u>	<u>Land and land improvements</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Transportation equipment and other equipment</u>	<u>Construction in process and equipment to be inspected</u>	<u>Total</u>
Cost	\$ 2,542,709	\$ 10,474,572	\$ 41,309,167	\$ 9,317,556	\$ 1,633,090	\$ 65,277,094
Accumulated depreciation	(15,518)	(5,296,419)	(34,061,171)	(8,436,136)	-	(47,809,244)
Accumulated impairment	(155,738)	-	(271)	-	-	(156,009)
	<u>\$ 2,371,453</u>	<u>\$ 5,178,153</u>	<u>\$ 7,247,725</u>	<u>\$ 881,420</u>	<u>\$ 1,633,090</u>	<u>\$ 17,311,841</u>

Year ended December 31, 2016

Opening net book amount	\$ 2,371,453	\$ 5,178,153	\$ 7,247,725	\$ 881,420	\$ 1,633,090	\$ 17,311,841
Additions	-	-	-	83	2,380,051	2,380,134
Disposals	-	(438)	(23,196)	(2,536)	-	(26,170)
Transfers (Note)	4,758	449,304	1,835,761	154,551	(2,495,926)	(51,552)
Depreciation charge	(313)	(345,518)	(2,064,327)	(230,883)	-	(2,641,041)
Net exchange differences	(222)	(134,039)	(138,154)	(15,142)	(41,442)	(328,999)
Closing net book amount	<u>\$ 2,375,676</u>	<u>\$ 5,147,462</u>	<u>\$ 6,857,809</u>	<u>\$ 787,493</u>	<u>\$ 1,475,773</u>	<u>\$ 16,644,213</u>

December 31, 2016

Cost	\$ 2,545,968	\$ 10,676,232	\$ 41,715,725	\$ 9,183,608	\$ 1,475,773	\$ 65,597,306
Accumulated depreciation	(14,554)	(5,528,770)	(34,857,645)	(8,396,115)	-	(48,797,084)
Accumulated impairment	(155,738)	-	(271)	-	-	(156,009)
	<u>\$ 2,375,676</u>	<u>\$ 5,147,462</u>	<u>\$ 6,857,809</u>	<u>\$ 787,493</u>	<u>\$ 1,475,773</u>	<u>\$ 16,644,213</u>

Note: Transferred to non-current assets held for sale and discontinued operations.

	Land and land improvements	Buildings	Machinery	Transportation equipment and other equipment	Construction in process and equipment to be inspected	Total
<u>January 1, 2015</u>						
Cost	\$ 2,552,585	\$ 10,448,063	\$ 42,049,912	\$ 9,508,253	\$ 926,644	\$ 65,485,457
Accumulated depreciation	(15,448)	(4,980,080)	(34,035,448)	(8,450,604)	-	(47,481,580)
Accumulated impairment	(155,738)	-	(1,991)	-	-	(157,729)
	<u>\$ 2,381,399</u>	<u>\$ 5,467,983</u>	<u>\$ 8,012,473</u>	<u>\$ 1,057,649</u>	<u>\$ 926,644</u>	<u>\$ 17,846,148</u>

Year ended December 31, 2015

Opening net book amount	\$ 2,381,399	\$ 5,467,983	\$ 8,012,473	\$ 1,057,649	\$ 926,644	\$ 17,846,148
Additions	13,252	-	-	302	2,713,959	2,727,513
Disposals	(23,082)	(3,098)	(286,527)	(5,942)	-	(318,649)
Transfers (Note)	268	61,610	1,839,168	80,628	(2,009,830)	(28,156)
Depreciation charge	(330)	(320,464)	(2,289,008)	(247,817)	-	(2,857,619)
Net exchange differences	(54)	(27,878)	(28,381)	(3,400)	2,317	(57,396)
Closing net book amount	<u>\$ 2,371,453</u>	<u>\$ 5,178,153</u>	<u>\$ 7,247,725</u>	<u>\$ 881,420</u>	<u>\$ 1,633,090</u>	<u>\$ 17,311,841</u>

December 31, 2015

Cost	\$ 2,542,709	\$ 10,474,572	\$ 41,309,167	\$ 9,317,556	\$ 1,633,090	\$ 65,277,094
Accumulated depreciation	(15,518)	(5,296,419)	(34,061,171)	(8,436,136)	-	(47,809,244)
Accumulated impairment	(155,738)	-	(271)	-	-	(156,009)
	<u>\$ 2,371,453</u>	<u>\$ 5,178,153</u>	<u>\$ 7,247,725</u>	<u>\$ 881,420</u>	<u>\$ 1,633,090</u>	<u>\$ 17,311,841</u>

Note: Transferred to maintenance charge.

- A. Amount of borrowing costs capitalised as part of property, plant and equipment and the range of the interest rates for such capitalisation are as follows:

	December 31, 2016	December 31, 2015
Amount capitalised	\$ 16,777	\$ 8,293
Interest rate	1.02%~2.62%	1.17%~2.00%

- B. The components and useful lives of property, plant and equipment are as follows:

Items	Significant components	Estimated useful lives
Land improvements	Pipelines	3 ~ 15 years
Buildings	Factory and gasoline stations	10 ~ 60 years
Machinery and equipment	Impregnating machine, dyeing machine and other machinery equipment	2 ~ 15 years
Transportation equipment	Pallet trucks and fork lift trucks	3 ~ 15 years
Other equipment	Cogeneration power generation equipment	2 ~ 17 years

- C. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

- D. Certain regulations restrict ownership of land to individuals. Accordingly, the titles of land which the Company has acquired for future plant expansion is under the name of third parties. Such land titles were transferred and mortgaged to the Company. As of December 31, 2016 and 2015, the land mortgaged to the Company was \$808,300 and \$586,700, respectively.

(10) Non-current assets held for sale and discontinued operations (shown as 'Other current assets')

	December 31, 2016
Property, plant and equipment	\$ 64,509

The assets related to machinery have been reclassified as disposal group held for sale following the approval of the company during the year ended December 31, 2016 to sell the machinery. The expected completion date of the transaction is June, 2017.

(11) Long-term prepaid rent (shown as 'Other non-current assets')

	December 31, 2016	December 31, 2015
Land use right - Formosa Taffeta Co., Ltd.	\$ 439	\$ 801
Land use right - Formosa Taffeta (Zhong Shan) Co., Ltd.	32,080	36,458
Land use right - Formosa Taffeta (Dong Nai) Co., Ltd.	139,616	149,204
Land use right - Formosa Taffeta (Changshu) Co., Ltd.	119,319	133,831
	<u>\$ 291,454</u>	<u>\$ 320,294</u>

- A. Land use right of Formosa Taffeta Co., Ltd. pertains to the payment for the right to establish a petrol station and title transfer of land leasing right and is amortised over the land lease period under the contract. The Group recognized rental expense for the years ended December 31, 2016

- and 2015 amounting to \$362 thousand and \$1,080 thousand, respectively.
- B. Formosa Taffeta (Zhong Shan) Co., Ltd. has leased land of Xijiangbian Dingxi Village, Shenwan Town, Zhengshan, Guangdong amounting to 508 acres from Shenwan Town People's Government of Zhongshan City in Guangdong Province, Mainland China and paid land use right of HK 12,599 thousand. The effective period is 50 years from the date of issuance of certificate of land use right, and the lease period is from November 20, 1991 to November 20, 2041. The Group recognised rental expense for the years ended December 31, 2016 and 2015 amounting to RMB 266 thousand.
- C. Formosa Taffeta (Dong Nai) Co., Ltd. has paid land use right of VND75,655,550 thousand and VND48,134,338 thousand for the leased land of 273,661.1 square meters and 65,086 square meters in Nhon Trach 3 Industrial Zone in Nhon Trach District, Dong Nai Province, Vietnam from Formosa Industries Corporation in September 2004 and December 2013, respectively. The lease period started from September 1, 2004 and December 1, 2012, respectively, and the effective periods are both 140 years from the date of issuance of certificate of land use right. The Group recognized rental expense of VND 1,710,462 thousand and VND 1,671,946 thousand for the years ended December 31, 2016 and 2015, respectively.
- D. Formosa Taffeta (Changshu) Co., Ltd. has leased 3 parcels of land amounting to 277,172 square meters in Economic Development Zone from Changshu City Land and Resources Bureau in Jiangsu Province, Mainland China. The effective period of land use right started from the date of issuance of certificate of land use right and the lease period ends in December 2056 to December 2076. Furthermore, partial land was not used until November 18, 2011, so the government has taken back the land. Proceeds of land amounted to RMB 12,738 thousand in February 2012 and impairment loss in 2011 was RMB 4,726 thousand. Otherwise, Economic Development Zone refunded a part of money and reissue land use right for resumption of 794 square meters land. In March 2015, Formosa Taffeta (Changshu) Co., Ltd. divided some part of housing land and established a new company, Changshu Fushun Enterprise Management Co., Ltd. (details are provided in Note 6(11)E). As of December 31, 2016, the area of the Company's 2 leased parcels of land was 166,509 square meters, and the effective period of land use right ends in December 2056. The Group recognized rental expense for the years ended December 31, 2016 and 2015 amounting to RMB 640 thousand and RMB 662 thousand, respectively.
- E. In order to effectively utilise Formosa Taffeta (Changshu) Co., Ltd.'s partial residential land, the company has reduced capital and split land of 9,206 square meters in development zone to Changshu Fushun Enterprise Management Co., Ltd. The acquisition cost is RMB 6,400 thousand and the effective period starts from the approval of certificate of land use right and ends in December 2076. However, Changshu Fushun Enterprise Management Co., Ltd. merged with Changshu Yu Yuan Development Co., Ltd. and was deconsolidated in July 2015. Details are provided in Note 6(8)E.

(12) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2016</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Secured borrowings	\$ 2,969,221	1.40%~2.33%	Property, plant and equipment and Inventories
Purchase loans	20,162	0.32%~1.95%	–
	<u>\$ 2,989,383</u>		

<u>Type of borrowings</u>	<u>December 31, 2015</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Secured borrowings	\$ 3,201,165	1.39% ~ 2.24%	Property, plant and equipment and Inventories
Credit borrowings	300,000	0.93%	–
Purchase loans	6,791	1.20% ~ 1.45%	–
	<u>\$ 3,507,956</u>		

(13) Short-term notes and bills payable

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Commercial paper payable	\$ 1,000,000	\$ 1,700,000
Less: Commercial paper payable discount	(173)	(475)
	<u>\$ 999,827</u>	<u>\$ 1,699,525</u>
Interest rate	<u>0.86%</u>	<u>0.84%-0.87%</u>

The abovementioned commercial paper payable is issued by International Bills Finance Corp. etc.

(14) Financial liabilities at fair value through profit or loss-current

<u>Items</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current items:		
Financial liabilities held for trading		
Forward foreign exchange contracts	<u>\$ 1,381</u>	<u>\$ 818</u>

A. The Group recognised net (loss) gain of (\$563) and \$2,632 on financial liabilities held for trading for the years ended December 31, 2016 and 2015, respectively.

B. The non-hedging derivative instrument transactions and contract information are as follows:

Derivative Financial Liabilities	December 31, 2016		December 31, 2015	
	Contract Amount (Notional Principal)	Contract Period	Contract Amount (Notional Principal)	Contract Period
Current items:				
Forward foreign exchange contracts				
Chang Hwa Bank	USD 5,000	2016.11~2017.02	USD 5,000	2015.11~2016.02
Taipei Fubon Bank	JPY -	-	JPY 270,180	2015.12~2016.03

C. The Group entered into forward foreign exchange contracts to hedge exchange rate risk of assets and liabilities denominated in foreign currencies. However, these forward foreign exchange contracts do not meet all conditions of hedge accounting and are not accounted for under hedge accounting.

(15) Other payables

	December 31, 2016	December 31, 2015
Dividends payable	\$ 9,948	\$ 14,642
Salaries and year-end bonus payable	816,104	781,152
Accrued utilities expenses	130,732	117,157
Commission payable	62,312	81,578
Others	545,615	818,901
	<u>\$ 1,564,711</u>	<u>\$ 1,813,430</u>

(16) Long-term borrowings

	December 31, 2016	December 31, 2015
Bank borrowings		
Secured borrowings	\$ 533,597	\$ 483,364
Credit borrowings	11,100,000	10,000,000
	11,633,597	10,483,364
Less: current portion (Shown as other current liabilities)	(201,320)	(120,955)
	<u>\$ 11,432,277</u>	<u>\$ 10,362,409</u>
Interest rate	<u>0.99%~3.08%</u>	<u>1.12%~1.34%</u>

(17) Pensions

A.(a) The Company and its domestic subsidiaries 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 and its domestic subsidiaries contribute monthly an amount equal to 12% 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. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned employees pension reserve account by December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contribution for the deficit by next March.

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Present value of defined benefit obligations	\$ 2,790,471	\$ 3,105,115
Fair value of plan assets	(1,963,103)	(258,894)
Net defined benefit liability	<u>\$ 827,368</u>	<u>\$ 2,846,221</u>

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2016</u>			
Balance at January 1	\$ 3,105,115	(\$ 258,894)	\$ 2,846,221
Current service cost	41,998	-	41,998
Interest (expense) income	44,987	(3,304)	41,683
	<u>3,192,100</u>	<u>(262,198)</u>	<u>2,929,902</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	631	631
Change in financial assumptions	45,185	-	45,185
Experience adjustments	(191,117)	-	(191,117)
	<u>(145,932)</u>	<u>631</u>	<u>(145,301)</u>
Pension fund contribution	-	(1,957,166)	(1,957,166)
Paid Pension	(255,697)	255,630	(67)
Balance at December 31	<u>\$ 2,790,471</u>	<u>(\$ 1,963,103)</u>	<u>\$ 827,368</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2015</u>			
Balance at January 1	\$ 3,010,031	(\$ 271,047)	\$ 2,738,984
Current service cost	44,804	-	44,804
Interest (expense) income	58,901	(4,321)	54,580
	<u>3,113,736</u>	<u>(275,368)</u>	<u>2,838,368</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(3,460)	(3,460)
Change in financial assumptions	107,560	-	107,560
Experience adjustments	103,078	-	103,078
	<u>210,638</u>	<u>(3,460)</u>	<u>207,178</u>
Pension fund contribution	-	(194,815)	(194,815)
Paid Pension	(219,259)	214,749	(4,510)
Balance at December 31	<u>\$ 3,105,115</u>	<u>(\$ 258,894)</u>	<u>\$ 2,846,221</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' 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 the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company and domestic subsidiaries have no right to participate in managing and operating that fund and hence the Company and domestic subsidiaries are unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2016 and 2015 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

	<u>Year ended December 31, 2016</u>	<u>Year ended December 31, 2015</u>
Discount rate	<u>1.25%</u>	<u>1.50%</u>
Future salary increases	<u>1.00%</u>	<u>1.00%</u>

Assumptions regarding future mortality experience are set based on the Taiwan Standard Ordinary Experience Mortality Table for the years ended December 31, 2016 and 2015, respectively.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	<u>Discount rate</u>		<u>Future salary increases</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>	<u>Increase 1%</u>	<u>Decrease 1%</u>
<u>December 31, 2016</u>				
Effect on present value of defined benefit obligation	(\$ <u>45,185</u>)	\$ <u>47,128</u>	\$ <u>202,293</u>	(\$ <u>174,322</u>)
<u>December 31, 2015</u>				
Effect on present value of defined benefit obligation	(\$ <u>54,927</u>)	\$ <u>57,352</u>	\$ <u>249,590</u>	(\$ <u>214,057</u>)

The sensitivity analysis above was based on one assumption which changed while other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- (f) Expected contributions to the defined benefit pension plans of the Company and its domestic subsidiaries for the year ending December 31, 2017 are \$112,816.
 - (g) As of December 31, 2016, the Company's and its domestic subsidiaries' weighted average duration of that retirement plan is 9 years and 22 years, respectively.
- B.(a) Effective July 1, 2005, the Company and its domestic subsidiaries have established defined contribution pension plans (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 Company's Mainland China subsidiaries, Formosa Taffeta (Zhong Shan) Co., Ltd., Formosa Taffeta (Changshu) Co., Ltd., and Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd, have defined contribution plans. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on a certain percentage of the employees' monthly salaries and wages. The contribution percentage was between 10% and 20%. Other than the monthly contributions, the Group has no further obligations.
- (c) The Company's subsidiaries, Formosa Taffeta Vietnam Co., Ltd. and Formosa Taffeta (Dong Nai) Co., Ltd, have defined contribution plans. Contributions of social security to an independent fund administered by the government in accordance with the pension regulations of local governments are based on certain percentage of employees' salaries and wages. Other than the monthly contributions, the Group has no further obligations.
- (d) Formosa Taffeta (Hong Kong) Co., Ltd. and Schoeller FTC (Hong Kong) Co., Ltd. have defined contribution plans whereby contributions are made to the mandatory provident fund based on a percentage of the employees' salaries and wages as full-time employees' pension benefit.
- (e) Formosa Taffeta (Cayman) Co., Ltd. does not have a pension plan, and is not required to have one under local regulation.
- (f) The pension costs under the defined contribution pension plans of the Group for the years ended December 31, 2016 and 2015 were \$169,140 and \$135,640, respectively.

(18) Share capital

- A. As of December 31, 2016, the Company's issued capital was \$16,846,646, consisting of 1,684,665,000 shares of common stock, with a par value of \$10 per share.
- B. For the years ended December 31, 2016 and 2015, changes in the number of treasury stocks are as follows (in thousands of shares):

		Year ended December 31, 2016			
<u>Reason for reacquisition</u>	<u>Investee company</u>	<u>Beginning shares</u>	<u>Additions</u>	<u>Disposal</u>	<u>Ending shares</u>
Long-term equity investment transferred to treasury stock for parent company's shares held by subsidiaries	Formosa Development Co., Ltd.	2,563	-	(90)	2,473

		Year ended December 31, 2015			
<u>Reason for reacquisition</u>	<u>Investee company</u>	<u>Beginning shares</u>	<u>Additions</u>	<u>Disposal (Note)</u>	<u>Ending shares</u>
Long-term equity investment transferred to treasury stock for parent company's shares held by subsidiaries	Formosa Development Co., Ltd.	2,613	-	(50)	2,563

Note: The capital surplus amounting to \$1,434 and \$1,058 resulted from the subsidiary, Formosa Development Co., Ltd.'s disposal of 90,000 and 50,000 shares of the parent company during the years ended December 31, 2016 and 2015, respectively.

C. The abovementioned treasury stocks were acquired by the subsidiary, Formosa Development Co., Ltd., for investment purposes.

D. As of December 31, 2016 and 2015, the market price per share was \$29.5 and \$30.00 (in dollars), respectively.

(19) Capital surplus

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 capitalised 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.

(20) Retained earnings

A. According to the R.O.C. Securities Exchange Law No. 41, a company should reserve the amount equal to any valuation or contra-account in the stockholders' equity in the fiscal year from the net income and prior unappropriated earnings as special reserve. If the valuation or contra-account in stockholders' equity belongs to prior periods, the same amount from prior period earnings should be considered special reserve and cannot be distributed. The special reserve includes: i) reserve for special purposes, ii) investment income recognised under the equity

method, iii) net proceeds from the recognition of financial asset transactions; only when the accumulated value decreases should the special reserve be adjusted by the same amount, subject to the provisions in this section; and iv) other special reserves set out by legal provisions.

B. The Company's dividend policy is summarized below:

As the Company operates in a volatile business environment and is in the stable growth stage, the dividend policy includes cash dividends, stock dividends and capital increase by earnings recapitalization. At least 50% of the Company's distributable earnings shall be appropriated as dividends after deducting the legal reserve and special reserves. The Company would prefer distributing cash dividends. However, if significant investment measures are taken or the Company's financial structure needs to be improved, part of the dividends would be in the form of stock dividends but not to exceed 50% of the total dividends.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. The appropriations of 2015 and 2014 earnings had been resolved at the stockholders' meeting on June 24, 2016 and June 26, 2015, respectively. Details are summarized below:

	2015 earnings		2014 earnings	
	Amount	Dividends	Amount	Dividends
	(in thousands)	per share	(in thousands)	per share
		(in dollars)		(in dollars)
Legal reserve	\$ 282,868		\$ 351,837	
Special reserve	326,718		737,562	
Cash dividends	2,021,598	\$ 1.20	2,358,530	\$ 1.40
	<u>\$ 2,631,184</u>		<u>\$ 3,447,929</u>	

E. As of December 31, 2016 and 2015, unpaid stock dividends amounted to \$9,948 and \$14,642, respectively.

F. The appropriations of 2016 earnings had been resolved by the Board of Directors on March 17, 2017. Details are summarized below:

	2016	
	Amount	Dividends per share
	(in thousands)	(in dollars)
Legal reserve	\$ 348,129	
Special reserve	506,036	
Cash dividends	2,526,997	\$1.50
	<u>\$ 3,381,162</u>	

As of March 17, 2017, the above appropriations of 2016 earnings has not been resolved by the

shareholders.

G. For information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(26).

(21) Other equity items

	Available-for-sale investments	Currency translation	Non-controlling interest
January 1, 2016	\$ 23,497,434	\$ 646,176	\$ 3,369,595
Change in unrealised gain or loss on available-for- sale financial assets			
— Parent company	12,596,040	-	-
— Associates	219,566	-	-
— Non-controlling interest	-	-	115,241
Difference of long-term equity investment from cumulative translation differences of foreign operations			
— Parent company	- (437,363)	-	-
— Associates	- (195,426)	-	-
— Non-controlling interest	-	- (560)	
Net income of non-controlling interest	-	-	359,215
Cash dividends paid by consolidated subsidiaries	-	-	(311,741)
December 31, 2016	<u>\$ 36,313,040</u>	<u>\$ 13,387</u>	<u>\$ 3,531,750</u>

	Available-for-sale investments	Currency translation	Non-controlling interest
January 1, 2015	\$ 20,331,798	\$ 385,721	\$ 3,209,154
Change in unrealised gain or loss on available-for- sale financial assets			
— Parent company	3,165,894	-	-
— Subsidiaries	5,096	-	-
— Associates	(5,354)	-	-
— Non-controlling interest	-	-	(2,478)
Difference of long-term equity investment from cumulative translation differences of foreign operations			
— Parent company	-	274,489	-
— Associates	-	(14,034)	-
— Non-controlling interest	-	-	(3,556)
Net income of non-controlling interest	-	-	395,273
Cash dividends paid by consolidated subsidiaries	-	-	(228,798)
December 31, 2015	<u>\$ 23,497,434</u>	<u>\$ 646,176</u>	<u>\$ 3,369,595</u>

(22) Operating revenue

	Years ended December 31,	
	2016	2015
Sales revenue	\$ 39,531,730	\$ 42,516,503
Service revenue	317,256	356,067
	<u>\$ 39,848,986</u>	<u>\$ 42,872,570</u>

(23) Other income

	Years ended December 31,	
	2016	2015
Interest income from bank deposits	\$ 25,583	\$ 27,750
Dividend income	1,637,777	386,084
Other income	277,734	239,730
	<u>\$ 1,941,094</u>	<u>\$ 653,564</u>

(24) Other gains and losses

	Years ended December 31,	
	2016	2015
Forward foreign exchange contracts		
Net gain on financial assets		
at fair value through profit or loss	\$ 2,160	\$ 3,706
Net (loss) gain on financial liabilities		
at fair value through profit or loss	(563)	2,632
Net currency exchange loss	(140,134)	(55,949)
Gain (loss) on disposal of property, plant and equipment	23,058	(199,113)
Bank charges	(34,231)	(31,303)
Impairment loss	(207,066)	-
Loss on Disposal of Investments	(7,294)	-
Other losses	(81,913)	(72,170)
	<u>(\$ 445,983)</u>	<u>(\$ 352,197)</u>

(25) Expenses by nature

	Years ended December 31,	
	2016	2015
Employee benefit expense	\$ 4,953,288	\$ 4,879,558
Depreciation charges on property, plant and equipment	2,641,041	2,857,619
	<u>\$ 7,594,329</u>	<u>\$ 7,737,177</u>

(26) Employee benefit expense

	Years ended December 31,	
	2016	2015
Wages and salaries	\$ 4,136,280	\$ 4,101,947
Labor and health insurance fees	399,236	409,404
Pension costs	252,821	235,030
Other personnel expenses	164,951	133,177
	<u>\$ 4,953,288</u>	<u>\$ 4,879,558</u>

A. According to the amended articles as resolved by the stockholders during their meeting on June 24, 2016, a ratio of profit of the current year distributable, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall be between 0.05%-0.5% for employees' compensation and shall not be higher than 0.5% for directors' and supervisors' remuneration.

B. For the years ended December 31, 2016 and 2015, employees' compensation was accrued at \$7,559 and \$6,096, respectively; while directors' and supervisors' remuneration was accrued at \$3,779 and \$3,048, respectively. The aforementioned amounts were recognised in salary expenses. The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on the Company's Articles of Incorporation of profit of current year distributable for the year ended December 31, 2016. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were \$11,388, and the employees' compensation will be distributed in the form of cash.

The employees' bonus and directors' and supervisors' remuneration for 2015 approved by shareholders were the same as the amounts shown in the 2015 financial statements. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were both \$6,096 in the form of cash.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(27) Finance costs

	Years ended December 31,	
	2016	2015
Interest expense:		
Bank borrowings	\$ 194,539	\$ 198,646
Less: capitalisation of qualifying assets	(16,777)	(8,294)
Finance costs	<u>\$ 177,762</u>	<u>\$ 190,352</u>

(28) Income tax

A. Income tax expense

	Years ended December 31,	
	2016	2015
Current tax:		
Current tax on profits for the year	\$ 51,479	\$ 299,366
Tax on undistributed surplus earnings	44,861	83,712
Adjustments in respect of prior period	66,282	8,719
Prepayment of taxes	239,477	55,394
Impact of change in tax rate	<u>1,769</u>	<u>(716)</u>
Total current tax	403,868	446,475
Deferred tax:		
Origination and reversal of temporary differences	<u>230,431</u>	<u>90,870</u>
Income tax expense	<u>\$ 634,299</u>	<u>\$ 537,345</u>

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2016	2015
Tax calculated based on profit before tax and statutory tax rate	\$954,424	\$821,211
Effect from permanent differences of income tax	(341,132)	(229,494)
Effect from temporary differences of income tax	(414,507)	(39,941)
Effect from investment tax credits	(24,998)	(197,732)
Prior year income tax underestimate	66,282	8,719
Net change in deferred tax assets and liabilities	230,431	90,870
Effect of income tax from loss carryforward	118,938	-
Tax on undistributed earnings	44,861	83,712
Tax expenses	<u>\$ 634,299</u>	<u>\$ 537,345</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences, loss carryforward and investment tax credits are as follows:

	Year ended December 31, 2016				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31
Deferred tax assets:					
Temporary differences					
Provision for inventory obsolescence	\$ 22,448	\$ 4,199	\$ -	\$ -	\$ 26,647
Allowance for bad debts in excess of tax deductible limit	2,663	(579)	-	-	2,084
Unrealised gains on disposal of equipment	-	17,507	-	-	17,507
Accrued pension liabilities	417,534	(319,912)	-	-	97,622
Unrealized foreign exchange loss	7,928	(7,928)	-	-	-
Loss on valuation of financial assets	-	4	-	-	4
Loss carryforward	-	118,938	-	-	118,938
	<u>450,573</u>	<u>(187,771)</u>	<u>-</u>	<u>-</u>	<u>262,802</u>
Deferred tax liabilities:					
Temporary differences					
Gain on valuation of financial assets	(583)	583	-	-	-
Unrealized foreign exchange gain	-	(7,031)	-	-	(7,031)
Investment income accounted for under equity method	(120,389)	(36,212)	-	-	(156,601)
	<u>(120,972)</u>	<u>(42,660)</u>	<u>-</u>	<u>-</u>	<u>(163,632)</u>
	<u>\$ 329,601</u>	<u>(\$ 230,431)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,170</u>

Year ended December 31, 2015					
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31
Deferred tax assets:					
Temporary differences					
Provision for inventory obsolescence	\$ 19,693	\$ 2,755	\$ -	\$ -	\$ 22,448
Allowance for bad debts in excess of tax deductible limit	6,416	(3,753)	-	-	2,663
Estimated sales allowance	2,070	(2,070)	-	-	-
Accrued pension liabilities	436,139	(18,605)	-	-	417,534
Unrealized foreign exchange loss	-	7,928	-	-	7,928
Others	993	(993)	-	-	-
Investment tax credits	50,890	(50,890)	-	-	-
	<u>516,201</u>	<u>(65,628)</u>	<u>-</u>	<u>-</u>	<u>450,573</u>
Deferred tax liabilities:					
Temporary differences					
Gain on valuation of financial assets	(790)	207	-	-	(583)
Unrealized foreign exchange gain	(11,758)	11,758	-	-	-
Investment income accounted for under equity method	(83,182)	(37,207)	-	-	(120,389)
	<u>(95,730)</u>	<u>(25,242)</u>	<u>-</u>	<u>-</u>	<u>(120,972)</u>
	<u>\$ 420,471</u>	<u>(\$ 90,870)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 329,601</u>

D. Expiration dates of unused tax losses and amounts of unrecognised deferred tax assets are as follows:

Year ended December 31, 2016				
Year incurred	Amount filed/ assessed	Unused amount	unrecognized deferred tax assets	Expiry year
2016	Estimated	\$ 699,634	\$ -	2026

E. The income tax returns of the Company, Formosa Advanced Technologies Co., Ltd. and Formosa Development Co., Ltd. through 2014, 2013 and 2014 have been assessed and approved by the Tax Authority, respectively.

- F. Starting from January 1, 2007, the enterprise income tax of Formosa Taffeta (Zhong Shan) Co., Ltd., Formosa Taffeta (Changshu) Co., Ltd. and Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd. are based on 25% of income generated within and outside Mainland China.
- G. The income tax rate of the Company's subsidiary, Formosa Taffeta Vietnam Co., Ltd., was approved by Vietnam government to be 10% for 15 years from the year of official establishment (December 1993). The Company was granted income tax exemption for 4 years from the first profit – making year and 20% income tax exemption for the next 4 years.
- H. The income tax rate of Formosa Taffeta (Dong Nai) Co., Ltd. was approved by Vietnam government to be 15% for 12 years from the year of official establishment (October 2006); 20% after 12 years. The Company was granted income tax exemption for 3 years from the first profit – making year and income tax reduction of 15% or 20% for the next 4 to 10 years.
- I. In accordance with local tax regulations, the applicable income tax rate of the Company's subsidiary, Schoeller F.T.C. (Hong Kong) Co., Ltd., and indirectly owned subsidiary, Formosa Taffeta (Hong Kong) Co., Ltd., was 16.5%.
- J. Unappropriated retained earnings:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Earnings generated in and after 1998	<u>\$ 4,830,100</u>	<u>\$ 3,819,939</u>

- K. Shareholders' creditable tax:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Creditable account balance	<u>\$ 171,621</u>	<u>\$ 95,159</u>

	<u>Years ended December 31,</u>	<u>Years ended December 31,</u>
	<u>2016 (Estimated)</u>	<u>2015 (Actual)</u>
Creditable tax ratio	<u>3.39%</u>	<u>9.83%</u>

(29) Earnings per share

- A. Basic earnings per share

The calculation of basic earnings per share is profit or loss attributable to the common stockholders of the Company's parent company divided by the weighted average number of outstanding common stocks for the period.

Year ended December 31, 2016					
	Amount		Weighted-average common shares outstanding (in thousands)	Earnings per share (in dollars)	
	Before tax	After tax		Before tax	After tax
Net income	\$ 4,474,799	\$ 3,840,500	<u>1,682,143</u>	\$ 2.66	\$ 2.28
Profit attributable to the non-controlling interest	(706,814)	(359,215)		(0.42)	(0.21)
Profit attributable to the parent	<u>\$ 3,767,985</u>	<u>\$ 3,481,285</u>		<u>\$ 2.24</u>	<u>\$ 2.07</u>
Year ended December 31, 2015					
	Amount		Weighted-average common shares outstanding (in thousands)	Earnings per share (in dollars)	
	Before tax	After tax		Before tax	After tax
Net income	\$ 3,761,297	\$ 3,223,952	<u>1,682,069</u>	\$ 2.24	\$ 1.92
Profit attributable to the non-controlling interest	(722,330)	(395,273)		(0.43)	(0.24)
Profit attributable to the parent	<u>\$ 3,038,967</u>	<u>\$ 2,828,679</u>		<u>\$ 1.81</u>	<u>\$ 1.68</u>

The following is the earnings per share assuming the shares of the Company held by its subsidiary, Formosa Development Co., Ltd., are not deemed as treasury stock:

Year ended December 31, 2016					
	Amount		Common shares outstanding (in thousands)	Earnings per share (in dollars)	
	Before tax	After tax		Before tax	After tax
Net income	\$ 4,474,799	\$ 3,840,500	<u>1,684,665</u>	\$ 2.66	\$ 2.28
Profit attributable to the non-controlling interest	(706,814)	(359,215)		(0.42)	(0.21)
Profit attributable to the parent	<u>\$ 3,767,985</u>	<u>\$ 3,481,285</u>		<u>\$ 2.24</u>	<u>\$ 2.07</u>

	Year ended December 31, 2015				
	Amount		Common shares	Earnings per share	
	Before tax	After tax	outstanding (in thousands)	(in dollars) Before tax	After tax
Net income	\$ 3,761,297	\$ 3,223,952	<u>1,684,665</u>	\$ 2.23	\$ 1.91
Profit attributable to the non-controlling interest	(722,330)	(395,273)		(0.43)	(0.23)
Profit attributable to the parent	<u>\$ 3,038,967</u>	<u>\$ 2,828,679</u>		<u>\$ 1.80</u>	<u>\$ 1.68</u>

B. Employees' bonuses could be distributed in the form of stock. It does not have significant effect on the financial statements and earnings per share for the years ended December 31, 2016 and 2015.

(30) Supplemental cash flow information

Investing activities with partial cash payments:

	Years ended December 31	
	2016	2015
Purchase of property, plant and equipment	\$ 2,380,134	\$ 2,727,513
Add: opening balance of payable on equipment	41,230	89,748
Less: ending balance of payable on equipment	(43,229)	(41,230)
Cash paid during the year	<u>\$ 2,378,135</u>	<u>\$ 2,776,031</u>

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

The Company is controlled by FORMOSA CHEMICALS & FIBRE CORPORATION (incorporated in R.O.C), which owns 37.4% of the Company's shares. The ultimate controlling party of the Company is FORMOSA CHEMICALS & FIBRE CORPORATION.

(2) Significant related party transactions and balances

A. Operating revenue

	Years ended December 31,	
	2016	2015
Sales of goods:		
— Ultimate parent	\$ 66,729	\$ 108,171
— Associates	<u>6,755,437</u>	<u>7,500,528</u>
	<u>\$ 6,822,166</u>	<u>\$ 7,608,699</u>

Goods are sold based on the price lists in force and terms that would be available to third parties.

B. Purchases of goods

	Years ended December 31,	
	2016	2015
Purchases of goods:		
— Ultimate parent	\$ 2,091,907	\$ 2,696,503
— Associates	11,578,915	12,683,960
	<u>\$ 13,670,822</u>	<u>\$ 15,380,463</u>

Goods and services are purchased from associates and an entity controlled by key management personnel on normal commercial terms and conditions.

C. Receivables from related parties

	December 31, 2016	December 31, 2015
Notes and accounts receivable:		
— Ultimate parent	\$ 25,746	\$ 3,024
— Associates	1,179,066	1,279,544
	<u>\$ 1,204,812</u>	<u>\$ 1,282,568</u>

The receivables from related parties arise mainly from sale transactions. The receivables are due 45~120 days after the date of sale. There are no provisions held against receivables from related parties.

D. Notes and accounts payable

	December 31, 2016	December 31, 2015
Notes and accounts payable:		
— Ultimate parent	\$ 568,316	\$ 462,104
— Associates	689,156	660,001
	<u>\$ 1,257,472</u>	<u>\$ 1,122,105</u>

The payables to related parties arise mainly from purchase transactions and are due 15~60 days after the date of purchase. The payables bear no interest.

E. Acquisition of financial assets:

	Accounts	No. of shares	Object	Period ended December 31, 2016
				Consideration
Associates	Non-current available-for-sale financial assets	15,297,204	Nan Ya Technology Corporation	<u>\$ 558,348</u>

F. Others

Formosa Taffeta (Dong Nai) Co., Ltd. was engaged by the related party, Formosa Industry, to provide management services to Nhon Trach 3 Industrial Zone. In accordance with the service consignment contract signed by Formosa Taffeta (Dong Nai) Co., Ltd. and Nhon Trach 3 Industrial Zone each year, Formosa Taffeta (Dong Nai) Co., Ltd. is engaged in managing land that is available

for rent, meter reading and payment collection of water, electricity, steam and other public service sold to lessees in investment district, repairing and performing service on various public facilities of power plant. In accordance with the contract, Formosa Taffeta (Dong Nai) Co., Ltd.'s collectible service expense is as follows:

- i. Land lease expense: 3% of Formosa Industry's land rent revenue
- ii. Public service expense: 3% of Formosa Industry's monthly sale of electricity to lessees in investment district
- iii. Management expense: the full amount of management expense collected from lessees in investment district to Formosa Industry is to be paid to the Company and its subsidiaries

For the years ended December 31, 2016 and 2015, Formosa Taffeta (Dong Nai) Co., Ltd. has recognized lease service in investment district of \$30,507 and \$29,220, respectively, for rendering the abovementioned consigned services. As of December 31, 2016 and 2015, the uncollected amount of \$289, \$2,973, respectively, was recognized under 'other receivables'. For the above land leasing, as of December 31, 2016 and 2015, the amount of management expense and utility expense which Formosa Taffeta (Dong Nai) Co., Ltd. is due to collect from the related party, Formosa Industry, were \$321,590 and \$248,971, respectively, and was recognized under 'other payables'.

(3) Key management compensation

	Years ended December 31,	
	2016	2015
Salaries and other short-term employee benefits	\$ 38,600	\$ 33,983

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

Item	Book Value		Purpose
	December 31, 2016	December 31, 2015	
Property, plant and equipment	\$ 139,362	\$ 140,062	Security for short-term borrowings
Inventories (Held-to-maturity land)	21,264	26,798	Security for short-term borrowings
	<u>\$ 160,626</u>	<u>\$ 166,860</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Formosa Advanced Technologies Co., Ltd. is engaged in the processing of various integrated circuits packaging test and is responsible for custody for which the subsidiary needs to compensate if lost. As of December 31, 2016, the items in custody are as follows:

December 31, 2016							
	Quantity (Unit : PC)	Market value (per PC)	Quantity (Unit : piece)	Market value (per piece)	Quantity (Unit : bar)	Market value (per bar)	Quantity (Unit : stick)
A. Work in process							
LED	24,591,603	NTD 0.02~1.07	-	-	-	-	-
FBGA	43,480,827	USD 0.7~10	-	-	-	-	-
TSOP	8,113,023	USD 0.37~1	-	-	-	-	-
LED assembly	3,549,621	NTD 0.47~14.65	-	-	-	-	-
Module	2,094,682	USD 0.37~16.833	-	-	111,977	USD 16.41~39.5	-
MICRO-SD	105,480	USD 2.031~16.833	-	-	-	-	-
Other	11,364	NTD 2.3~16.4	1,239	USD 1,500	-	-	-
	<u>81,946,600</u>		<u>1,239</u>		<u>111,977</u>		<u>-</u>
B. Finished goods							
LED	17,096,586	NTD 0.02~1.07	-	-	-	-	-
FBGA	86,815,874	USD 0.7~10	-	-	-	-	-
TSOP	11,923,423	USD 0.37~1	-	-	-	-	-
LED assembly	5,453,723	NTD 0.47~14.65	-	-	-	-	-
Module	-	-	-	-	67,702	USD 16.41~39.5	-
MICRO-SD	7,228	USD 2.031~16.833	-	-	-	-	-
Other	966	NTD 2.3~16.4	-	-	-	-	-
	<u>121,297,800</u>		<u>-</u>		<u>67,702</u>		<u>-</u>

- (2) As of December 31, 2016, the significant commitments and contingent liabilities are the outstanding letters of credit for materials and equipment purchases with various companies listed as follows:

<u>Currency</u>	<u>Amount</u>
USD	\$ 2,139
JPY	30,584
EUR	195
CHF	458

- (3) Endorsements and guarantees

As of December 31, 2016, in order to assist the subsidiaries is obtaining credit line, the Company has guaranteed the following amounts for subsidiaries:

<u>Name of company</u>	<u>December 31, 2016</u>
FORMOSA TAFFETA (ZHONG SHAN) CO., LTD.	\$ 1,451,250
FORMOSA TAFFETA VIETNAM CO., LTD.	1,612,500
FORMOSA TAFFETA (CHANGSHU) CO., LTD.	2,096,250
FORMOSA TAFFETA (DONG NAI) CO., LTD.	4,344,075
FORMOSA HA TINH (CAYMAN) LIMITED	4,193,422

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Please refer to Note 6(20) F for the distribution of 2016 earnings which is proposed by the Board of Directors on March 17, 2017.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

During the year ended December 31, 2016, the Group's strategy, which was unchanged from 2015, was to maintain the gearing ratio at 15%. The gearing ratios at December 31, 2016 and 2015 were as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Total borrowings	\$ 15,622,807	\$ 15,690,845
Less: cash and cash equivalents	(5,653,854)	(5,640,597)
Net debt	9,968,953	10,050,248
Total equity	70,279,900	56,068,730
Total capital	<u>\$ 80,248,853</u>	<u>\$ 66,118,978</u>
Gearing ratio	<u>12%</u>	<u>15%</u>

(2) Financial instruments

A. Fair value information of financial instruments

Except those listed in the table below, the carrying amounts of the Group's financial instruments not measured at fair value including cash and cash equivalents, notes receivable (related parties included), accounts receivable (related parties included), other receivables, short-term borrowings, short-terms bills payable, notes payable (related parties included), accounts payable (related parties included), other payables and long-term borrowings (current portion included) approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

B. Financial risk management policies

(a) The Group's management considers economic environment, competition and market value risk to achieve the best position of investment risk, maximize the investment of excess liquidity and control the overall market risk. The Group adopts the following strategies to control financial risk:

- i. Foreign exchange risk: The Group engages in a number of foreign currency transactions. Therefore, the Group hedges risk naturally, and observes the exchange rates on a continuous and timely basis to mitigate foreign exchange risks.
- ii. Interest rate risk: The expected domestic interest rate will not change drastically. However, the Group continues to observe the movement of interest rate to prevent incurring costs due to changes in interest rate.
- iii. Cash flow risk: The Group sets up short and long-term funding schedule on a regular and timely basis to ensure that all the obligations are met.
- iv. Credit risk: The Group has a stringent credit policy in place. Transactions are conducted only with counterparties with good credit conditions. Appropriate measures are also undertaken where necessary to protect the Group's credit rights and thereby mitigate credit risk.

(b)The Board of Directors is responsible for supervising normal business operations, and authorizing management to perform daily operations under acceptable risk. The internal auditor shall review reports prepared by management on a timely basis to evaluate the effectiveness of management. If the internal auditor discovers any irregular circumstances, he or she should inform the Board of Directors immediately and perform necessary preventive measures.

C. Significant financial risks and degrees of financial risks

(a)Market risk

a. Foreign exchange risk

Some of the Group's transactions are conducted in foreign currencies, which are subject to exchange rate fluctuation. The information on foreign currency denominated assets and liabilities are as follows:

	December 31, 2016		
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 91,481	32.28	\$ 2,953,007
JPY:NTD	573,485	0.28	160,576
USD:RMB	6,523	6.94	210,562
<u>Non-monetary items</u>			
VND:NTD	4,423,107,975	0.0014	6,192,351
HKD:NTD	251,226	4.16	1,045,100
RMB:NTD	543,796	4.65	2,528,651
USD:NTD	160,450	32.28	5,179,326
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	5,713	32.28	184,416
USD:RMB	30,386	6.94	980,860

	December 31, 2015		
	Foreign Currency		Book Value (NTD)
	Amount	Exchange Rate	
	(In Thousands)		
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 96,569	33.07	\$ 3,193,537
USD:RMB	6,848	6.49	226,463
<u>Non-monetary items</u>			
VND:NTD	4,236,760,190	0.0015	6,355,140
HKD:NTD	246,109	4.25	1,045,963
RMB:NTD	527,631	5.09	2,685,642
USD:NTD	167,516	33.07	5,539,754
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	3,332	33.07	110,189
USD:RMB	45,071	6.49	1,490,498

The total exchange loss, including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2016 and 2015, amounted to (\$140,134) and (\$55,949), respectively.

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

Year ended December 31, 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:NTD	1%	\$ 29,530	\$ -
JPY:NTD	1%	1,606	-
USD:RMB	1%	2,106	-
<u>Non-monetary items</u>			
VND:NTD	1%	-	61,924
HKD:NTD	1%	-	10,451
RMB:NTD	1%	-	25,287
USD:NTD	1%	-	51,793
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	1,844	-
USD:RMB	1%	9,808	-

Year ended December 31, 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:NTD	1%	\$ 31,935	\$ -
USD:RMB	1%	2,265	-
<u>Non-monetary items</u>			
VND:NTD	1%	-	63,551
HKD:NTD	1%	-	10,460
RMB:NTD	1%	-	26,856
USD:NTD	1%	-	55,398
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	1,102	-
USD:RMB	1%	14,905	-

b. Price risk

- i The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.
- ii. The Group's investments in equity securities comprise domestic listed and unlisted stocks and beneficiary certificates. 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 \$5,209 and \$5,443, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$447,266 and \$313,008, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

c. Interest rate risk

- i. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to fair value interest rate risk and cash flow interest rate risk. During the years ended December 31, 2016 and 2015, the Group's borrowings at variable rate were denominated in the NTD and USD.
- ii. At December 31, 2016 and 2015, if interest rates on NTD-denominated borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2016 and 2015 would have been \$92,130 and \$83,000 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.
- iii. At December 31, 2016 and 2015, if interest rates on USD-denominated borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2016 and 2015 would have been \$1,804 and \$2,718 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

- a. The equity financial instruments have active markets and are transacted through a stock exchange market or over-the counter market, or with financial institutions which are all in good credit standing. Therefore, the credit risk is low. Besides, the Company's policy requires that transactions for financial assets carried at cost be conducted with counterparties that meet the specified credit rating requirement; thus, the possibility that credit risk will arise is remote.

- b. The Company's policy requires that wholesale sales of products are made to clients with an appropriate credit review procedures. Therefore, the maximum loss arising from credit risk is equal to the book value of accounts receivable.
 - c. Loan guarantees provided by the Company are in compliance with the Company's "Procedures for Provision of Endorsements and Guarantees" and are only provided to affiliated companies of which the Company owns directly or indirectly more than 50% ownership. As the Company is fully aware of the credit conditions of these related parties, it has not asked for collateral for the loan guarantees provided. In the event that these related parties fail to comply with loan agreements with banks, the maximum loss to the Company is the total amount of loan guarantees.
 - d. No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
 - e. The individual analysis of financial assets that had been impaired is provided in the statement for each type of financial assets in Note 6.
- (c) Liquidity risk
- a. The Group's investments in equity financial instruments which have active markets are expected to be sold easily and quickly in the market at the price close to fair value. The Group's investments in equity financial instruments without active markets are exposed to liquidity risk.
 - b. Due to well-managed operations, the Company has an excellent credit in financial institutions and the money market, and has adequate working capital to meet commitments associated with receivables and payables. Therefore, no liquidity risk is expected to arise.
 - c. The table below analyses the Group'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, the amounts disclosed in the table are the contractual undiscounted cash flows.

<u>December 31, 2016</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>
Non-derivative financial liabilities:			
Short-term borrowings	\$ 3,054,750	\$ -	\$ -
Short-term bills payable	1,000,000	-	-
Notes payable (including related parties)	326,576	-	-
Accounts payable (including related parties)	2,889,276	-	-
Other payables	1,564,711	-	-
Long-term borrowings (including current portion)	207,521	11,332,483	228,798
Financial guarantee contracts	13,697,497	-	-
Derivative financial liabilities:			
Forward foreign exchange contracts	\$ 1,381	\$ -	\$ -
<u>December 31, 2015</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>
Non-derivative financial liabilities:			
Short-term borrowings	\$ 3,578,543	\$ -	\$ -
Short-term bills payable	1,700,000	-	-
Notes payable (including related parties)	340,510	-	-
Accounts payable (including related parties)	2,583,752	-	-
Other payables	1,813,430	-	-
Long-term borrowings (including current portion)	240,864	7,683,355	2,762,769
Financial guarantee contracts	10,986,528	-	-
Derivative financial liabilities:			
Forward foreign exchange contracts	\$ 818	\$ -	\$ -

- (d) The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value estimation

A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A.

B. The table below analyses financial instruments measured at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks and beneficiary certificates with quoted market prices is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in most derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability.

C. The following table presents the Group's financial assets and liabilities that are measured at fair value at December 31, 2016 and 2015:

<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Forward exchange contracts	\$ -	\$ 66	\$ -	\$ 66
Beneficiary certificates	627,555	-	-	627,555
Available-for-sale financial assets				
Equity securities	44,229,549	497,100	-	44,726,649
	<u>\$ 44,857,104</u>	<u>\$ 497,166</u>	<u>\$ -</u>	<u>\$ 45,354,270</u>
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	\$ -	\$ 1,381	\$ -	\$ 1,381

<u>December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Forward exchange contracts	\$ -	\$ 12	\$ -	\$ 12
Beneficiary certificates	655,799	-	-	655,799
Available-for-sale financial assets				
Equity securities	30,951,482	349,300	-	31,300,782
	<u>\$ 31,607,281</u>	<u>\$ 349,312</u>	<u>\$ -</u>	<u>\$ 31,956,593</u>
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	\$ -	\$ 818	\$ -	\$ 818

D. The methods and assumptions the Group used to measure fair value are as follows:

(a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed shares</u>	<u>Open-end fund</u>
Market quoted price	Closing price	Net asset value

(b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques such as current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including applying a model using market information available at the consolidated balance sheet date.

(c) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate.

(d) The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

E. For the years ended December 31, 2016 and 2015, there was no transfer between Level 1 and Level 2.

F. For the years ended December 31, 2016 and 2015, there was no transfer into or out from Level 3.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

In accordance with “Rules Governing the Preparation of Financial Statements by Securities Issuers”, significant transactions for the year ended December 31, 2016 are stated as follows. Furthermore, the inter-company transactions were eliminated when preparing financial statements of investees which were reviewed by other independent accountants. The following disclosures are for reference only.

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: Please refer to table 1.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 2.

D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company’s paid-in capital: Please refer to table 3.

E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 4.

H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2), 6(14) and 12(2).

J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 7.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 9.

14. SEGMENT INFORMATION

(1) General information

A. The Group operates and sets policies from product and service perspective; thus, management also identifies reportable segments using the same method.

B. The Group has four reportable segments: First business group, Second business group consisting of Cord fabric department, Gasoline department and FORMOSA ADVANCED TECHNOLOGIES CO., LTD. (FATC) department. Details are as follows:

- (a) First business group: Mainly produces and sells woven, dyeing and finishing products and manages plants of overseas subsidiaries –FORMOSA TAFFETA (ZHONG SHAN) CO., LTD., FORMOSA TAFFETA VIETNAM CO., LTD. and FORMOSA TAFFETA (HONG KONG) CO., LTD.
- (b) Cord fabric department: Mainly produces and provides tire cords.
- (c) Gasoline department: Mainly operates gasoline stations, sells gasoline and provides car washing.
- (d) FATC department: The subsidiary - FORMOSA ADVANCED TECHNOLOGIES CO., LTD. mainly provides installation and testing of various integrated circuit and engages in processing and research and development of modules.

(2) Measurement of segment information

The measurement based on each operating segment's profit before tax excludes the effects of non-recurring expenditure, i.e. from the unrealised gain or loss on financial instruments. Furthermore, interest income and expense are not allocated to operating segments.

(3) Information about segment profit or loss and assets

	Year ended December 31, 2016						
		Second business group					
	First business group	Cord fabric department	Gasoline department	Other segment	FATC department	Adjustment and write-off	Total
<u>Segment revenue</u>							
Revenue from							
external customers	\$ 12,186,782	\$ 7,188,958	\$ 10,296,989	\$ 1,684,861	\$ 8,491,396	\$ -	\$ 39,848,986
Inter-segment revenue	<u>1,398,228</u>	<u>191,834</u>	<u>-</u>	<u>149,687</u>	<u>-</u>	<u>(1,739,749)</u>	<u>-</u>
Total segment							
revenue	<u>\$ 13,585,010</u>	<u>\$ 7,380,792</u>	<u>\$ 10,296,989</u>	<u>\$ 1,834,548</u>	<u>\$ 8,491,396</u>	<u>(\$ 1,739,749)</u>	<u>\$ 39,848,986</u>
Segment income	<u>\$ 3,295,461</u>	<u>\$ 382,772</u>	<u>\$ 508,761</u>	<u>\$ 122,097</u>	<u>\$ 1,259,504</u>	<u>(\$ 1,093,796)</u>	<u>\$ 4,474,799</u>
<u>Segment assets</u>							
Identifiable assets	<u>\$ 13,488,276</u>	<u>\$ 5,829,897</u>	<u>\$ 1,363,801</u>	<u>\$ 4,065,267</u>	<u>\$ 5,097,056</u>	<u>(\$ 384,527)</u>	\$ 29,459,770
Investments accounted for using equity method							3,428,263
General assets							<u>59,142,063</u>
Total assets							\$ 92,030,096

Year ended December 31, 2015

	Second business group						
	First business group	Cord fabric department	Gasoline department	Other segment	FATC department	Adjustment and write-off	Total
<u>Segment revenue</u>							
Revenue from							
external customers	\$ 13,630,215	\$ 7,659,906	\$ 11,013,204	\$ 1,808,456	\$ 8,760,789	\$ -	\$ 42,872,570
Inter-segment revenue	<u>1,538,445</u>	<u>188,072</u>	<u>-</u>	<u>141,153</u>	<u>-</u>	<u>(1,867,670)</u>	<u>-</u>
Total segment							
revenue	<u>\$ 15,168,660</u>	<u>\$ 7,847,978</u>	<u>\$ 11,013,204</u>	<u>\$ 1,949,609</u>	<u>\$ 8,760,789</u>	<u>(\$ 1,867,670)</u>	<u>\$ 42,872,570</u>
Segment income	<u>\$ 2,636,674</u>	<u>\$ 419,656</u>	<u>\$ 185,938</u>	<u>\$ 151,154</u>	<u>\$ 1,372,824</u>	<u>(\$ 1,004,949)</u>	<u>\$ 3,761,297</u>
<u>Segment assets</u>							
Identifiable assets	<u>\$ 13,999,899</u>	<u>\$ 5,133,913</u>	<u>\$ 1,293,844</u>	<u>\$ 4,493,724</u>	<u>\$ 5,719,684</u>	<u>(\$ 382,842)</u>	\$ 30,258,222
Investments accounted for using equity							3,158,212
General assets							<u>46,638,621</u>
Total assets							<u>\$ 80,055,055</u>

(4) Reconciliation for segment income (loss)

- A. Sales between segments are carried out at arm's length. The revenue from external customers reported to the chief operating decision-maker is measured in a manner consistent with that in the statement of comprehensive income.
- B. The total consolidated profit (loss) after adjustment and reconciliation information for profit after tax of reportable segments are provided in Note 14(3).

(5) Information on product and service

	Years ended December 31,	
	2016	2015
Sales revenue	\$ 39,531,730	\$ 42,516,503
Service revenue	317,256	356,067
	<u>\$ 39,848,986</u>	<u>\$ 42,872,570</u>

(6) Geographical information

	Year ended December 31, 2016			
	Internal	Asia	Adjustment and write-off	Consolidated
Revenue from customers other than parent company and consolidated subsidiaries	\$ 34,118,194	\$ 5,730,792	\$	\$ 39,848,986
Revenue from parent company and consolidated subsidiaries	500,948	1,238,801	(1,739,749)	-
Total revenue	<u>\$ 34,619,142</u>	<u>\$ 6,969,593</u>	<u>(\$ 1,739,749)</u>	<u>\$ 39,848,986</u>
Segment income (loss)	<u>\$ 5,075,511</u>	<u>\$ 493,084</u>	<u>(\$ 1,093,796)</u>	<u>\$ 4,474,799</u>
Identifiable assets	<u>\$ 22,401,034</u>	<u>\$ 7,443,263</u>	<u>(\$ 384,527)</u>	\$ 29,459,770
Investments accounted for using equity method				3,428,263
General assets				59,142,063
				<u>\$ 92,030,096</u>

	Year ended December 31, 2015			
	Internal	Asia	Adjustment and write-off	Consolidated
Revenue from customers other than parent company and consolidated subsidiaries	\$ 37,212,699	\$ 5,659,871	\$ -	\$ 42,872,570
Revenue from parent company and consolidated subsidiaries	636,061	1,231,609	(1,867,670)	-
Total revenue	<u>\$ 37,848,760</u>	<u>\$ 6,891,480</u>	<u>(\$ 1,867,670)</u>	<u>\$ 42,872,570</u>
Segment income (loss)	<u>\$ 4,414,985</u>	<u>\$ 351,261</u>	<u>(\$ 1,004,949)</u>	<u>\$ 3,761,297</u>
Identifiable assets	<u>\$ 22,621,451</u>	<u>\$ 8,019,613</u>	<u>(\$ 382,842)</u>	<u>\$ 30,258,222</u>
Investments accounted for using equity method				3,158,212
General assets				<u>46,638,621</u>
				<u>\$ 80,055,055</u>