

**Airtac International Group
And Subsidiaries**

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2016 and 2015 and
Independent Auditors' Review Report**

Note: The translation version is intended for reference only. If any inconsistency exists between the Chinese and English versions, the Chinese version shall govern.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Airtac International Group

We have reviewed the accompanying consolidated balance sheets of Airtac International Group (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as of September 30, 2016 and 2015 and the related consolidated statements of comprehensive income for the nine months ended September 30, 2016 and 2015, as well as the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2016 and 2015. These consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with Statement of Auditing Standards No. 36 - “Engagements to Review Financial Statements” of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard No. 34 “Interim Financial Reporting” endorsed by the Financial Supervisory Commission of the Republic of China.

November 4, 2016

Notice to Readers

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

For the convenience of readers, the independent auditors’ report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors’ report and consolidated financial statements shall prevail.

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

	September 30, 2016 (Reviewed)		December 31, 2015 (Audited)		September 30, 2015 (Reviewed)	
ASSETS	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Notes 4 and 6)	\$ 2,070,558	9	\$ 2,083,830	10	\$ 1,986,866	9
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 28)	1,692,461	8	1,001,937	5	1,039,324	5
Debt investments with no active market - current (Notes 4, 8 and 30)	8,946	-	6,344	-	6,573	-
Notes receivable (Notes 4, 5 and 9)	1,101,066	5	990,146	5	952,201	5
Trade receivables (Notes 4, 5, and 9)	2,699,318	12	2,046,292	9	2,248,089	11
Other receivables (Notes 4 and 5)	42,604	-	36,273	-	51,615	-
Inventories (Notes 4, 5 and 10)	1,980,517	9	1,964,243	9	1,934,367	9
Other current assets (Notes 14 and 15)	<u>210,059</u>	<u>1</u>	<u>277,775</u>	<u>1</u>	<u>298,674</u>	<u>1</u>
Total current assets	<u>9,805,529</u>	<u>44</u>	<u>8,406,840</u>	<u>39</u>	<u>8,517,709</u>	<u>40</u>
NON-CURRENT ASSETS						
Investments accounted for using equity method (Notes 4, 5 and 12)	56,800	-	109,809	1	110,185	1
Property, plant and equipment (Notes 4, 13 and 30)	11,709,808	52	12,082,831	56	12,089,241	56
Other intangible assets (Note 4)	81,391	-	85,805	-	84,965	-
Goodwill (Note 4)	-	-	21,829	-	22,620	-
Deferred tax assets (Note 4)	198,883	1	188,941	1	144,862	1
Long-term prepayments for lease (Note 14)	116,498	1	126,393	1	131,802	1
Other non-current assets (Note 15)	<u>353,840</u>	<u>2</u>	<u>433,569</u>	<u>2</u>	<u>289,837</u>	<u>1</u>
Total non-current assets	<u>12,517,220</u>	<u>56</u>	<u>13,049,177</u>	<u>61</u>	<u>12,873,512</u>	<u>60</u>
TOTAL	<u>\$ 22,322,749</u>	<u>100</u>	<u>\$ 21,456,017</u>	<u>100</u>	<u>\$ 21,391,221</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term loans (Note 16)	\$ 7,066,444	32	\$ 6,385,542	30	\$ 6,626,515	31
Short-term bills payable (Note 16)	-	-	40,000	-	55,000	-
Notes payable (Note 17)	80,459	-	43,011	-	57,797	-
Trade payables (Note 17)	400,953	2	350,092	2	327,651	2
Other payables (Note 18)	865,035	4	548,613	2	507,138	2
Current tax liabilities (Note 4)	180,106	1	113,343	-	145,057	1
Current portion of long-term loans (Notes 16 and 30)	437,268	2	460,763	2	216,845	1
Other current liabilities (Note 18)	<u>130,937</u>	<u>-</u>	<u>144,413</u>	<u>1</u>	<u>122,302</u>	<u>1</u>
Total current liabilities	<u>9,161,202</u>	<u>41</u>	<u>8,085,777</u>	<u>37</u>	<u>8,058,305</u>	<u>38</u>
NON-CURRENT LIABILITIES						
Long-term loans (Notes 16 and 30)	2,253,100	10	2,636,467	12	2,550,498	12
Deferred tax liabilities (Note 4)	327,406	2	296,552	2	331,377	1
Accrued pension liabilities (Note 4)	<u>-</u>	<u>-</u>	<u>28,369</u>	<u>-</u>	<u>29,973</u>	<u>-</u>
Total non-current liabilities	<u>2,580,506</u>	<u>12</u>	<u>2,961,388</u>	<u>14</u>	<u>2,911,848</u>	<u>13</u>
Total liabilities	<u>11,741,708</u>	<u>53</u>	<u>11,047,165</u>	<u>51</u>	<u>10,970,153</u>	<u>51</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 19)						
Share capital	1,790,250	8	1,790,250	9	1,790,250	8
Capital surplus	3,906,960	18	3,906,960	18	3,906,960	18
Retained earnings	4,964,105	22	4,137,247	19	3,831,009	18
Other equity	<u>(190,439)</u>	<u>(1)</u>	<u>424,139</u>	<u>2</u>	<u>745,853</u>	<u>4</u>
Total equity attributable to owners of the Company	10,470,876	47	10,258,596	48	10,274,072	48
NON-CONTROLLING INTERESTS	<u>110,165</u>	<u>-</u>	<u>150,256</u>	<u>1</u>	<u>146,996</u>	<u>1</u>
Total equity	<u>10,581,041</u>	<u>47</u>	<u>10,408,852</u>	<u>49</u>	<u>10,421,068</u>	<u>49</u>
TOTAL	<u>\$ 22,322,749</u>	<u>100</u>	<u>\$ 21,456,017</u>	<u>100</u>	<u>\$ 21,391,221</u>	<u>100</u>

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

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2016		2015		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE								
Sales (Notes 4 and 29)	\$ 2,772,966	100	\$ 2,324,960	100	\$ 7,968,986	100	\$ 6,632,907	100
OPERATING COSTS								
Cost of goods sold (Notes 10 and 20)	(1,340,603)	(48)	(1,148,352)	(49)	(3,905,012)	(49)	(3,185,556)	(48)
GROSS PROFIT	1,432,363	52	1,176,608	51	4,063,974	51	3,447,351	52
OPERATING EXPENSES								
(Note 20)								
Selling and marketing expenses	(392,584)	(14)	(382,007)	(17)	(1,151,502)	(14)	(1,089,865)	(17)
General and administrative expenses	(215,515)	(8)	(168,163)	(7)	(616,380)	(8)	(518,765)	(8)
Research and development expenses	(88,607)	(3)	(76,402)	(3)	(247,173)	(3)	(223,107)	(3)
Total operating expenses	(696,706)	(25)	(626,572)	(27)	(2,015,055)	(25)	(1,831,737)	(28)
PROFIT FROM OPERATIONS	735,657	27	550,036	24	2,048,919	26	1,615,614	24
NON-OPERATING INCOME AND EXPENSES (Note 20)								
Other income	5,766	-	5,206	-	20,820	-	20,600	-
Other gains and losses	262,030	9	(117,254)	(5)	429,240	5	(82,330)	(1)
Finance costs	(38,808)	(1)	(23,987)	(1)	(102,616)	(1)	(64,286)	(1)
Total non-operating income and expenses	228,988	8	(136,035)	(6)	347,444	4	(126,016)	(2)
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	964,645	35	414,001	18	2,396,363	30	1,489,598	22
INCOME TAX EXPENSE (Notes 4 and 21)	(314,612)	(12)	(155,158)	(7)	(700,896)	(9)	(423,105)	(6)
NET PROFIT FOR THE PERIOD	650,033	23	258,843	11	1,695,467	21	1,066,493	16
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified subsequently to profit or loss:								
Remeasurement of defined benefit plans	(700)	-	-	-	(700)	-	-	-
Exchange differences arising on translation to the presentation currency	(326,185)	(12)	405,605	17	(667,903)	(8)	156,717	2
Items that may be reclassified subsequently to profit or loss:								

(Continued)

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2016		2015		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
Exchange differences on translating foreign operations	<u>20,315</u>	<u>1</u>	<u>(52,472)</u>	<u>(2)</u>	<u>57,647</u>	<u>1</u>	<u>(30,896)</u>	<u>-</u>
Other comprehensive income for the period, net of income tax	<u>(306,570)</u>	<u>(11)</u>	<u>353,133</u>	<u>15</u>	<u>(610,956)</u>	<u>(7)</u>	<u>125,821</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 343,463</u>	<u>12</u>	<u>\$ 611,976</u>	<u>26</u>	<u>\$ 1,084,511</u>	<u>14</u>	<u>\$ 1,192,314</u>	<u>18</u>
NET PROFIT ATTRIBUTABLE TO:								
Owner of the Company	\$ 544,193	19	\$ 259,273	11	\$ 1,587,821	20	\$ 1,061,312	16
Non-controlling interests	<u>105,840</u>	<u>4</u>	<u>(430)</u>	<u>-</u>	<u>107,646</u>	<u>1</u>	<u>5,181</u>	<u>-</u>
	<u>\$ 650,033</u>	<u>23</u>	<u>\$ 258,843</u>	<u>11</u>	<u>\$ 1,695,467</u>	<u>21</u>	<u>\$ 1,066,493</u>	<u>16</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Owner of the Company	\$ 238,946	8	\$ 612,483	26	\$ 977,784	12	\$ 1,187,157	18
Non-controlling interests	<u>104,517</u>	<u>4</u>	<u>(507)</u>	<u>-</u>	<u>106,727</u>	<u>2</u>	<u>5,157</u>	<u>-</u>
	<u>\$ 343,463</u>	<u>12</u>	<u>\$ 611,976</u>	<u>26</u>	<u>\$ 1,084,511</u>	<u>14</u>	<u>\$ 1,192,314</u>	<u>18</u>
EARNINGS PER SHARE (Note 22)								
Basic	<u>\$ 3.04</u>		<u>\$ 1.45</u>		<u>\$ 8.87</u>		<u>\$ 5.93</u>	
Diluted	<u>\$ 3.04</u>		<u>\$ 1.45</u>		<u>\$ 8.86</u>		<u>\$ 5.92</u>	

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

(Concluded)

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	Equity Attributable to Owners of the Company										Non-controlling Interests	Total Equity
							Other Equity		Total			
	Share Capital		Organization Reconstruction	Capital Surplus		Retained Earnings		Exchange Differences on Translating Foreign Operations		Remeasurement of Defined Benefits Plans		
Shares (In Thousands)	Ordinary Shares	Additional Paid-in Capital		Donations	Unappropriated Earnings	Special Reserve						
BALANCE AT JANUARY 1, 2015	170,500	\$ 1,705,000	\$ 704,640	\$ 3,160,768	\$ 41,552	\$ 3,640,591	\$ 32,756	\$ 615,843	\$ 4,165	\$ 9,905,315	\$ 152,498	\$ 10,057,813
Appropriation of 2014 earnings												
Special reserve reversed under Rule No. 1010012865 issued by the FSC	-	-	-	-	-	(44,718)	44,718	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(818,400)	-	-	-	(818,400)	-	(818,400)
Share dividends distributed by the Company	8,525	85,250	-	-	-	(85,250)	-	-	-	-	-	-
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(10,659)	(10,659)
Net profit for the nine months ended September 30, 2015	-	-	-	-	-	1,061,312	-	-	-	1,061,312	5,181	1,066,493
Other comprehensive income for the nine months ended September 30, 2015, net of income tax	-	-	-	-	-	-	-	125,845	-	125,845	(24)	125,821
Total comprehensive income for the nine months ended September 30, 2015	-	-	-	-	-	1,061,312	-	125,845	-	1,187,157	5,157	1,192,314
BALANCE AT SEPTEMBER 30, 2015	179,025	\$ 1,790,250	\$ 704,640	\$ 3,160,768	\$ 41,552	\$ 3,753,535	\$ 77,474	\$ 741,688	\$ 4,165	\$ 10,274,072	\$ 146,996	\$ 10,421,068
BALANCE AT JANUARY 1, 2016	179,025	\$ 1,790,250	\$ 704,640	\$ 3,160,768	\$ 41,552	\$ 4,059,773	\$ 77,474	\$ 419,000	\$ 5,139	\$ 10,258,596	\$ 150,256	\$ 10,408,852
Special reserve under Rule No. 1010012865 issued by the FSC	-	-	-	-	-	12,545	(12,545)	-	-	-	-	-
Appropriation of 2015 earnings												
Cash dividends distributed by the Company	-	-	-	-	-	(716,100)	-	-	-	(716,100)	-	(716,100)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(24,605)	(24,605)
Changes in percentage of ownership interest in subsidiaries(Note 24)	-	-	-	-	-	(44,863)	-	(6,052)	1,511	(49,404)	(52,219)	(101,623)
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(69,994)	(69,994)
Net profit for the nine months ended September 30, 2016	-	-	-	-	-	1,587,821	-	-	-	1,587,821	107,646	1,695,467
Other comprehensive income for the nine months ended September 30, 2016, net of income tax	-	-	-	-	-	-	-	(609,551)	(486)	(610,037)	(919)	(610,956)
Total comprehensive income for the nine months ended September 30, 2016	-	-	-	-	-	1,587,821	-	(609,551)	(486)	977,784	106,727	1,084,511
BALANCE AT SEPTEMBER 30, 2016	179,025	\$ 1,790,250	\$ 704,640	\$ 3,160,768	\$ 41,552	\$ 4,899,176	\$ 64,929	\$ (196,603)	\$ 6,164	\$ 10,470,876	\$ 110,165	\$ 10,581,041

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

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 2,396,363	\$ 1,489,598
Adjustments for:		
Depreciation expenses	564,745	461,236
Amortization expenses	12,020	11,936
Impairment loss recognized (reversal of impairment loss) on trade receivables	27,906	44,007
Net gain on financial assets at fair value through profit or loss	(35,017)	(22,049)
Finance costs	102,616	64,286
Interest income	(20,820)	(20,600)
Share of losses of associates	7,795	11,182
Loss on disposal of property, plant and equipment	(538,585)	1,856
Write-down of inventories	26,797	9,502
Impairment loss recognized on investments in associates	45,214	-
Net loss on foreign currency exchange	140,005	188,128
Amortization of prepayments for lease	2,362	2,410
Changes in operating assets and liabilities:		
(Increase) decrease in notes receivable	(179,013)	68,691
Increase in trade receivables	(842,076)	(478,817)
(Increase) decrease in other receivables	(9,483)	84,513
Increase in inventories	(158,756)	(69,636)
(Increase) decrease in other current assets	53,360	(106,466)
Increase in net defined benefit assets	(6,788)	-
Increase in notes payable	41,967	50,773
Increase (Decrease) in trade payables	74,390	(77,328)
Increase in other payables	150,769	2,317
Increase (Decrease) in other current liabilities	(4,972)	24,108
Increase (Decrease) in accrued pension liabilities	(28,369)	634
Cash generated from operations	1,822,430	1,740,281
Interest received	21,287	21,878
Interest paid	(103,717)	(62,407)
Income tax paid	(598,766)	(406,862)
Net cash generated from operating activities	1,141,234	1,292,890
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets designated as at fair value through profit or loss	(5,768,579)	(4,476,770)
Proceeds on sale of financial assets designated as at fair value through profit or loss	5,016,586	4,265,118
Purchase of debt investments with no active market	(5,566)	(68,585)
Proceeds on sale of debt investments with no active market	2,437	125,446

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AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2016	2015
Net cash inflow on disposal of subsidiaries	-	100,000
Payments for property, plant and equipment	(1,075,071)	(1,920,582)
Proceeds from disposal of property, plant and equipment	1,047,273	13,839
Increase in refundable deposits	(15,364)	(14,226)
Decrease in refundable deposits	11,860	7,898
Acquisitions of intangible assets	(11,986)	(15,276)
Net cash outflow on acquisition of subsidiaries (Note 24)	<u>(101,623)</u>	<u>-</u>
Net cash used in investing activities	<u>(900,033)</u>	<u>(1,983,138)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans	849,973	999,332
Repayment of short-term bills payable	(40,000)	(15,000)
Proceeds from long-term loans	-	860,000
Repayments of long-term loans	(408,610)	(17,257)
Dividends paid to owners of the Company	(510,462)	(818,400)
Dividends paid to non-controlling interests	(24,605)	(10,659)
Decrease in non-controlling interests	<u>(69,994)</u>	<u>-</u>
Net cash generated from (used in) financing activities	<u>(203,698)</u>	<u>998,016</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(50,775)</u>	<u>34,377</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(13,272)</u>	<u>342,145</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>2,083,830</u>	<u>1,644,721</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 2,070,558</u>	<u>\$ 1,986,866</u>

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

(Concluded)

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015

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

(Reviewed, Not Audited)

1. GENERAL

Airtac International Group (the “Company,” the Company and its subsidiaries are collectively referred to as the “Group”) was incorporated on September 16, 2009 in British Cayman Islands under reorganization mainly for the purpose of applying for listing on Taiwan Stock Exchange (“TWSE”). Admire Fame International Limited (“Admire Fame”), the Company’s parent company decided on December 23, 2009 with the approval of the shareholders to convert all stocks of Admire Fame to the stocks of the Company at the ratio of 1:1 (referred to as “stock swap” hereunder), and decided to dissolve and liquidate Admire Fame in 2010. Following the stock swap and reorganization, the Company becomes the holding company of a group of enterprises and engages in investment. The main businesses of other companies under the Group are set out in Note 11.

The Company’s stocks were listed on TWSE in December 2010.

The functional currency of the Company is RMB. For greater comparability and consistency of financial reporting, the consolidated financial statements are presented in New Taiwan dollars since the Company’s stocks are listed on the Taiwan Stock Exchange.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and issued on November 4, 2016.

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

- a. International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017

Rule No. 1050026834 issued by the FSC endorsed the following IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) for application starting January 1, 2017.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

Except for the following, the initial application of the above New or amended IFRSs in 2017 would not have any material impact on the Group’s accounting policies:

1) Amendment to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”

In issuing IFRS 13 “Fair Value Measurement”, the IASB made consequential amendment to the disclosure requirements in IAS 36 “Impairment of Assets”, introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amounts is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Group is required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

2) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards including IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments” were amended in this annual improvement.

The amended IFRS 8 requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly

provided to the chief operating decision-maker.

IFRS 13 was amended to clarify that the issuance of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Group is a related party of the Group. Consequently, the Group is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

3) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards including IFRS 3, IFRS 13 and IAS 40 “Investment Property” were amended in this annual improvement.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

An entity should apply the aforementioned amendments prospectively for annual periods beginning on or after the effective date.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments will have on the Group’s financial position and financial performance, and will disclose these other impacts when the assessment is completed.

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs by the IASB but not yet endorsed by the FSC. The FSC accounted that the Group should apply IFRS 15 starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IFRS 15 “Clarifications to IFRS 15”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017

Note: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after the respective effective dates.

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- (a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
- (b) For debt instruments, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required.

The impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has

increased significantly since initial recognition. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

2) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and related interpretations.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- (a) Identify the contract with the customer;
- (b) Identify the performance obligations in the contract;
- (c) Determine the transaction price;
- (d) Allocate the transaction price to the performance obligations in the contracts; and
- (e) Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 is effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

3) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within [operating activities/financing activities].

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

4) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses to deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve this, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continually assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance, and will disclose the relevant impact when the assessment is complete.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, or other regulations (please specify) and IAS 34 “Interim Financial Reporting” as endorsed by the FSC. Disclosure information included in the consolidated financial statements is less than those required in a complete set of annual financial statements.

b. Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value. The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

c. Classification of Current and Non-current Assets and Liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period. 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.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of Consolidation

See Note 11 and Table 2 for the detailed information of subsidiaries (including the main business).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously

held interest in the acquiree, the excess are recognized immediately in profit or loss as a bargain purchase gain.

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

f. Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including of the subsidiaries, associates, joint ventures or branches operations in other countries or currencies used different with the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

g. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of

completion and costs necessary to make the sale. Inventories are recorded at weighted-average.

h. Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the associate's profit or loss and other comprehensive income. The Group also recognizes the changes in the Group's share of equity of associates attributable to the Group.

Any cost of acquisition in excess of the Group's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included in the carrying amount of the investment and is not amortized.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

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

i. Property, Plant and Equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation is recognized using the straight-line method. Each part of a property, plant and equipment item that is significant to the total cost of the item is depreciated separately. The estimated useful lives, residual values and depreciation method are audited at the end of each reporting period, with any changes in estimates accounted for prospectively.

Any gain or loss on the disposal or retirement of a property, plant and equipment item is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

j. Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributable goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

k. Intangible Assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis. The estimated useful life residual value, and amortization method are audited at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Group expects to dispose of the intangible asset before the end of its economic life. When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognizes an intangible asset at fair value upon initial recognition. The intangible asset is subsequently measured at cost less accumulated amortization and any accumulated impairment loss.

2) Derecognition of intangible assets

Gains or losses arising from the derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

l. Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the

cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units in case of the Group can use a reasonable and consistent basis of allocation, otherwise, corporate assets are allocated to the smallest group of cash-generating units.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

m. Financial Instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis/settlement date basis.

a) Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, and loans and receivables.

i. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

- i) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii) The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- iii) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

ii. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, and debt investments with no active market) system using the effective interest method at amortized cost amount after deduction of impairment loss is measured by the extent of the interest of short-term receivables are recognized non-materiality except in the case.

Cash equivalents include self-made within three months from the date of highly liquid investments which are readily convertible to known amounts of cash and very little risk of changes in value of deposits and commercial paper, used to meet short-term cash commitments.

b) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as notes and trade receivables and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables, and other situation.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is 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.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Equity Instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Financial Liabilities

a) Subsequent measurement

Financial liabilities using the effective interest method at amortized cost measured at amortized debt instrument using the effective interest method and means to calculate the cost of allocating interest income over the relevant period. The effective interest rate on the debt instruments means the expected life or appropriate, a shorter period, the amount of the estimated future cash receipts (including all fees paid or received and the points are part of the overall effective interest rate, transaction costs and all other premiums or discounts) after discounting, exactly equal to the net carrying amount of the interest rate initially recognized.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

n. Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale if the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Group; and
- e) The transaction costs incurred or to be incurred can be measured reliably.

2) Dividend and interest income

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

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

o. Leasing

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

1) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents arising under operating leases are recognized as an expense in the period in which they are incurred.

p. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q. Government Subsidies

Government subsidies are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government subsidies that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

r. Retirement Benefit Costs

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost, and net interest on the net defined benefit liability (asset)) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings/other equity and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events

s. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are audited on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the

revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Estimated impairment of notes and trade receivables and other receivables

When there is objective evidence that an impairment indicator, the combined company will consider the estimation of future cash flows. The amount of impairment loss based on the carrying amount of the asset and the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the effective discounted at the original interest rate of the financial asset between the measure. If the actual future cash flows are less than expected, a material impairment loss may arise.

b. Write-down of inventories

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

c. Impairment of investment in the associate

The Group immediately recognizes impairment loss on its net investment in the associate when there is any indication that the investment may be impaired and the carrying amount may not be recoverable. The Group's management evaluates the impairment based on the estimated future cash flow expected to be generated by the associate, including growth rate of sale and capacity of production facilities estimated by the associate's management. The Group also takes into consideration the market conditions and industry development to evaluate the appropriateness of assumptions.

d. Recognition and measurement of defined benefit plans

Net defined benefit liability and the resulting defined benefit costs under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary rate. Changes in economic circumstances and market condition will affect these assumptions and may have a material impact on the amount of the expense and the liability.

6. CASH AND CASH EQUIVALENTS

	September 30, 2016	December 31, 2015	September 30, 2015
Cash on hand	\$ 2,619	\$ 2,075	\$ 1,950
Checking accounts and demand deposits	1,236,016	1,336,102	1,298,051
Cash equivalent			
Time deposits with original maturities less than three months	831,923	745,653	686,865
	<u>\$ 2,070,558</u>	<u>\$ 2,083,830</u>	<u>\$ 1,986,866</u>

The market rate intervals of cash in bank and bank overdrafts at the end of the reporting period were as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
Bank balance	0.01%~0.35%	0.01%~0.35%	0.01%~0.35%
Time deposits	1.10%~5.00%	1.48%~5.60%	1.48%~4.30%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Financial assets at FVTPL- current</u>			
Financial assets designated as at FVTPL			
Structured deposits	<u>\$ 1,692,461</u>	<u>\$ 1,001,937</u>	<u>\$ 1,039,324</u>

The Group signed a contract of structural time deposits. The structured time deposits contract contains an embedded derivative not closely related to the host contract. The Group designated the entire contract as a financial assets at fair value through profit or loss.

At the end of the reporting period, outstanding structured deposits were as follow:

September 30, 2016

Nature of financial instrument	Contract period	Amount of the contract	Fair value
Structured deposits	2016.07.19~2016.10.19	\$ 46,930	\$ 47,240
Structured deposits	2016.08.04~2016.10.08	93,860	94,326
Structured deposits	2016.08.16~2016.10.17	140,790	141,342
Structured deposits	2016.09.06~2016.12.06	93,860	94,062
Structured deposits	2016.09.07~2016.12.07	140,790	141,081
Structured deposits	2016.09.07~2016.12.07	117,325	117,567
Structured deposits	2016.09.09~2016.12.09	140,790	141,056
Structured deposits	2016.09.13~2016.11.14	93,860	93,999
Structured deposits	2016.09.19~2016.12.19	258,115	258,368
Structured deposits	2016.09.20~2016.12.20	140,790	140,915
Structured deposits	2016.09.20~2016.12.20	70,395	70,459
Structured deposits	2016.09.26~2016.12.26	93,860	93,893
Structured deposits	2016.09.28~2016.10.09	117,325	117,338
Structured deposits	2016.09.28~2017.01.04	93,860	93,877

Nature of financial instrument	Contract period	Amount of the contract	Fair value
Structured deposits	2016.09.28~2017.01.04	<u>46,930</u>	<u>46,938</u>
		<u>\$ 1,689,480</u>	<u>\$ 1,692,461</u>

December 31, 2015

Nature of financial instrument	Contract period	Amount of the contract	Fair value
Structured deposits	2015.11.04~2016.01.04	\$ 49,950	\$ 50,239
Structured deposits	2015.11.12~2016.01.12	99,900	100,396
Structured deposits	2015.11.17~2016.01.18	99,900	100,346
Structured deposits	2015.11.25~2016.01.25	174,825	175,463
Structured deposits	2015.12.04~2016.03.04	99,900	100,173
Structured deposits	2015.12.07~2016.03.07	49,950	50,072
Structured deposits	2015.12.09~2016.03.09	149,850	150,184
Structured deposits	2015.12.09~2016.03.09	74,925	75,092
Structured deposits	2015.12.25~2016.02.15	99,900	100,062
Structured deposits	2015.12.31~2016.03.01	<u>99,000</u>	<u>99,910</u>
		<u>\$ 999,000</u>	<u>\$ 1,001,937</u>

September 30, 2015

Nature of financial instrument	Contract period	Amount of the contract	Fair value
Structured deposits	2015.07.29~2015.10.08	\$ 51,760	\$ 52,108
Structured deposits	2015.08.04~2015.10.08	103,520	104,142
Structured deposits	2015.08.04~2015.10.08	103,520	104,142
Structured deposits	2015.08.05~2015.10.08	103,520	104,116
Structured deposits	2015.08.12~2015.10.12	103,520	104,041
Structured deposits	2015.08.12~2015.10.13	129,400	130,051
Structured deposits	2015.08.28~2015.10.28	51,760	51,936
Structured deposits	2015.09.02~2015.11.02	103,520	103,818
Structured deposits	2015.09.15~2015.11.17	103,520	103,680

<u>Nature of financial instrument</u>	<u>Contract period</u>	<u>Amount of the contract</u>	<u>Fair value</u>
Structured deposits	2015.09.23~2015.11.24	<u>181,160</u>	<u>181,290</u>
		<u>\$ 1,035,200</u>	<u>\$ 1,039,324</u>

8. DEBT INVESTMENTS WITH NO ACTIVE MARKET -CURRENT

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Time deposits with original maturities more than three months	<u>\$ 8,946</u>	<u>\$ 6,344</u>	<u>\$ 6,573</u>

The market interest rates of the time deposits with original maturity more than 3 months were 1.50-3.25%, 3.25%, and 3.25% per annum as of September 30, 2016, December 31, 2015, and September 30, 2015.

Refer to Note 30 for information relating to debt investments with no active market pledged as security.

9. NOTES RECEIVABLE AND TRADE RECEIVABLES

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
<u>Notes receivable</u>			
Notes receivable	\$ 1,101,517	\$ 990,578	\$ 952,785
Less: Allowance for impairment loss	(<u>451</u>)	(<u>432</u>)	(<u>584</u>)
	<u>\$ 1,101,066</u>	<u>\$ 990,146</u>	<u>\$ 952,201</u>
<u>Trade receivables</u>			
Trade receivables	\$ 2,816,472	\$ 2,150,109	\$ 2,357,138
Less: Allowance for impairment loss	(<u>117,154</u>)	(<u>103,817</u>)	(<u>109,049</u>)
	<u>\$ 2,699,318</u>	<u>\$ 2,046,292</u>	<u>\$ 2,248,089</u>

The average credit period on sales of goods was from 30 to 90 days. The Group recognized an allowance for impairment loss of 100% against all receivables over 730 days because historical experience had been that receivables that are past due beyond 730 days were not recoverable. Allowance for impairment loss were recognized against trade receivables between 30 days and 730 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

Before accepting any new customer, the Group will assess the potential customer's credit quality and set the credit line of the customer. Inspect credit line and rating of customers regularly.

The Group serves a large consumer base; therefore, the concentration of credit risk is limited.

There is no trade receivables balances that were past due at the end of the reporting period.

Trade receivables that are assessed not to be impaired individually are further assessed for impairment on a collective basis.

Age of individually impaired trade receivables was as follow:

	September 30, 2016	December 31, 2015	September 30, 2015
0 ~90 days	\$ 2,154,985	\$ 1,535,320	\$ 1,731,251
91~180 days	472,166	397,669	410,687
Over than 180 days	<u>189,321</u>	<u>217,120</u>	<u>215,200</u>
	<u>\$ 2,816,472</u>	<u>\$ 2,150,109</u>	<u>\$ 2,357,138</u>

The above aging of trade receivables was presented based on the invoice date.

Movements in the allowance for impairment loss recognized on the notes receivable and trade receivables were as follows:

	For the Nine Months Ended September 30	
	2016	2015
Balance at January 1	\$ 104,249	\$ 66,811
Add: Allowance for impairment losses recognized on receivables	27,906	44,007
Less: Amounts written off as uncollectible	(7,522)	(4,672)
Effect of exchange rate changes	(<u>7,028</u>)	<u>3,457</u>
Balance at September 30	<u>\$ 117,605</u>	<u>\$ 109,633</u>

10. INVENTORIES

	September 30, 2016	December 31, 2015	September 30, 2015
Raw materials	\$ 559,198	\$ 526,914	\$ 545,371
Finished goods	897,409	868,376	785,587
Work in progress	<u>523,910</u>	<u>568,953</u>	<u>603,409</u>
	<u>\$1,980,517</u>	<u>\$1,964,243</u>	<u>\$1,934,367</u>

As of September 30, 2016, December 31, 2015, and September 30, 2015, the allowance for inventory devaluation was \$51,602 thousand, \$36,402 thousand and \$32,208 thousand, respectively.

The cost of goods sold included inventory write-downs for the three Months ended September 30, 2016 and 2015 and for the nine months ended September 30, 2016 and 2015 were \$3,388 thousand, \$7,390 thousand, \$26,797 thousand and \$9,502 thousand, respectively.

11. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

The consolidated entities were as follows:

Name of investing company	Name of subsidiary	% of Ownership		
		September 30, 2016	December 31, 2015	September 30, 2015
Airtac International Group	Airtac Trading (Hong Kong) Limited	100	100	100
	Airtac Industrial (Hong Kong) Limited	100	100	100
	Instant Reach International Limited	100	100	100
	Airtac Holding (Singapore) Pte. Ltd.	100	100	100
Airtac Trading (Hong Kong) Limited	Jianliang (Shanghai) Trading Co., Ltd.	-	100	100
Airtac Industrial (Hong Kong) Limited	Ningbo Airtac Automatic Industrial Co., Ltd.	100	100	100
	Guangdong Airtac Automatic Industrial Co., Ltd.	100	100	100
	Airtac (China) Co., Ltd.	100	100	100
	Airtac (Jiangsu) Automatic Co., Ltd.	100	100	-
Instant Reach International Limited	ATC (Italia) S.R.L.	100	100	100
	Airtac Industrial Co., Ltd.	69.44	53.66	53.66
Airtac Holding (Singapore) Pte. Ltd.	Airtac International (Singapore) Pte. Ltd.	100	100	100
	Airtac Co., Ltd.	100	100	100
Airtac International (Singapore) Pte. Ltd.	Airtac Industrial (Malaysia) Sdn. Bhd.	100	100	100
	Airtac Industrial (Thailand) Co., Ltd.	100	100	100

- 1) Airtac Trading (Hong Kong) Limited, Airtac Industrial (Hong Kong) Limited, Instant Reach International Limited and Airtac Holding (Singapore) Pte. Ltd. are primarily holding companies.
- 2) Jianliang (Shanghai) Trading Co., Ltd. was established on September 11, 2006 with an operation period of 30 years and engages primarily in the wholesale and agency of industrial control components, pneumatic components, hydraulic components, pneumatic whole set equipment, wind power tools, electric tools, low-voltage electric appliances, and hand tools, import and export of the aforementioned products and support services.
Jianliang (Shanghai) Trading Co., Ltd. completed the liquidation procedure on August 31, 2016.
- 3) Ningbo Airtac Automatic Industrial Co., Ltd. was established on August 16, 2001 with an operation period of 50 years, and engages primarily in the production of pneumatic and hydraulic components, Actuator components, air preparation components, and

pneumatic accessories. Guangdong Airtac Automatic Industrial Co., Ltd. (previously Guangzhou Airtac Automatic Industrial Co., Ltd.) was established on December 31, 2006 with an operation period of 50 years, and engages primarily in the production of pneumatic and hydraulic control components, Actuator components, air preparation components, and pneumatic accessories. Airtac (China) Co., Ltd. was established on May 6, 2011 with an operation period of 50 years, and engages primarily in the production, R&D, distribution, storage of industrial control components, pneumatic components, hydraulic components, pneumatic whole set equipment, wind power tools, electric tools, low-voltage electric appliances, and hand tools, import and export of the aforementioned products and support services. Airtac (Jiangsu) Automatic Co., Ltd. was established on July 2, 2015 with an operation period of 50 years, and engages primarily in the production, R&D, distribution, storage of industrial control components, pneumatic components, hydraulic components, pneumatic whole set equipment, wind power tools, electric tools, low-voltage electric appliances, and hand tools, import and export of the aforementioned products and support services.

- 4) Airtac Industrial Co., Ltd. was established on May 9, 1989 and engages primarily in the processing and sales of machinery and automated machines, manufacturing, processing and sales of hydraulic/pneumatic parts and components, and import and export trade of the aforementioned products. ATC (Italia) S.R.L. was established on June 10, 2008 and engages primarily in the production and sales of pneumatic and hydraulic control components.

To centralize the stock right, the board of directors passed a proposal in its meeting on March 25, 2016 to acquire 15.78% of shares of Airtac Industrial Co., Ltd. The transaction price is \$101,623 thousand in cash and has been paid in April 2016. The ownership of Airtac Industrial Co., Ltd. held by the Group is increased from 53.66% to 69.44%.

To adjust the organization structure of the Company, the shareholders' meeting of Airtac Industrial Co., Ltd. approved to reduce capital on September 12, 2016. The capital reduction plan involve the cancellation of \$10 per share or 97.57% of paid-in capital. The company received \$159,006 thousand in cash of capital reduction.

- 5) Airtac International (Singapore) Pte. Ltd. was established on August 11, 2011 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components. Airtac Co., Ltd. was established on April 18, 2013 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components. Airtac Industrial (Malaysia) Sdn. Bhd. was established on April 21, 2015 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components. Airtac Industrial (Thailand) Co., Ltd. was established on April 21, 2015 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in associates

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Unlisted company</u>			
AMA Tech Corp.	\$ 56,800	\$ 109,809	\$ 110,185

As the end of the reporting period, the proportion of ownership and voting rights in associates held by the Group were as follows:

Name of Associate	Nature of Activities	Main Operating Place	September 30, 2016	December 31, 2015	September 30, 2015
AMA Tech Corp.	Research and develop of key-components for automatic equipment	Tucheng District, New Taipei City	20%	20%	20%

At January 28, 2015, AMA Tech Corp, investee of the Group, implement cash capital reduction through \$10 per share to shareholders. The capital reduction ratio was 50%, and the Group received \$100,000 thousand with capital reduction by returning cash.

At September 30, 2016, the carrying amounts of the Group's interests in listed investments were higher than their respective recoverable amount. The management of the Group carried out impairment review by comparing their respective recoverable amount with the carrying amount. The recoverable amount of an investment in an associate is assessed for each associate. Based on the assessments, the recoverable amounts of the Group's interests in AMA Tech Corp. was less than their carrying amounts. Hence, impairment losses of \$45,214 thousand was recognized in profit or loss for the nine months ended September 30, 2016.

Investments accounted for by the equity method during the period of the nine months ended September 30, 2016 and 2015 was calculated based on the financial statements that have not been reviewed. Management believes there is no material impact on the equity method accounting from the financial statements of AMA Tech Corp. that have not been reviewed.

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Office facilities and other equipment	Property in construction	Total
Cost							
Balance at January 1, 2015	\$ 1,049,016	\$ 4,760,010	\$ 3,230,219	\$ 257,454	\$ 957,029	\$ 2,358,705	\$12,612,433
Additions	-	8,089	721,190	65,234	108,186	1,116,257	2,018,956
Disposals	-	-	(20,144)	(9,152)	(28,815)	(933)	(59,044)
Reclassification	-	59,997	6,510	943	(37,290)	(30,951)	(791)
Effect of foreign currency exchange differences	-	64,279	39,886	5,538	20,166	13,230	143,099
Balance at September 30, 2015	<u>\$ 1,049,016</u>	<u>\$ 4,892,375</u>	<u>\$ 3,977,661</u>	<u>\$ 320,017</u>	<u>\$ 1,019,276</u>	<u>\$ 3,456,308</u>	<u>\$14,714,653</u>
Accumulated depreciation							
Balance at January 1, 2015	\$ -	\$ 566,192	\$ 1,039,610	\$ 124,342	\$ 452,548	\$ -	\$ 2,182,692
Depreciation expenses	-	97,106	213,682	42,718	107,730	-	461,236
Disposals	-	-	(13,088)	(5,794)	(24,467)	-	(43,349)
Reclassification	-	3,390	-	121	(3,511)	-	-
Effect of foreign currency exchange differences	-	(272)	3,212	2,900	18,993	-	24,833
Balance at September 30, 2015	<u>\$ -</u>	<u>\$ 666,416</u>	<u>\$ 1,243,416</u>	<u>\$ 164,287</u>	<u>\$ 551,293</u>	<u>\$ -</u>	<u>\$ 2,625,412</u>
Carrying amount at September 30, 2015	<u>\$ 1,049,016</u>	<u>\$ 4,225,959</u>	<u>\$ 2,734,245</u>	<u>\$ 155,730</u>	<u>\$ 467,983</u>	<u>\$ 3,456,308</u>	<u>\$12,089,241</u>

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Office facilities and other equipment	Property in construction	Total
Cost							
Balance at January 1, 2016	\$ 1,049,016	\$ 5,143,998	\$ 3,908,762	\$ 304,858	\$ 1,082,116	\$ 3,262,850	\$14,751,600
Additions	1,301	64,892	738,298	14,171	82,243	244,612	1,145,517
Disposals	(159,958)	(432,584)	(95,738)	(27,045)	(80,131)	-	(795,456)
Reclassification	-	3,137,175	57,309	23,228	35,199	(3,252,911)	-
Effect of foreign currency exchange differences	-	(274,816)	(236,687)	(22,156)	(64,339)	(21,189)	(619,187)
Balance at September 30, 2016	<u>\$ 890,359</u>	<u>\$ 7,638,665</u>	<u>\$ 4,371,944</u>	<u>\$ 293,056</u>	<u>\$ 1,055,088</u>	<u>\$ 233,362</u>	<u>\$14,482,474</u>
Accumulated depreciation							
Balance at January 1, 2016	\$ -	\$ 679,109	\$ 1,257,211	\$ 164,556	\$ 567,893	\$ -	\$ 2,668,769
Depreciation expenses	-	137,961	258,860	41,610	126,314	-	564,745
Disposals	-	(115,758)	(81,107)	(22,343)	(67,560)	-	(286,768)
Effect of foreign currency exchange differences	-	(33,923)	(85,690)	(14,881)	(39,586)	-	(174,080)
Balance at September 30, 2016	<u>\$ -</u>	<u>\$ 667,389</u>	<u>\$ 1,349,274</u>	<u>\$ 168,942</u>	<u>\$ 587,061</u>	<u>\$ -</u>	<u>\$ 2,772,666</u>
Carrying amount at September 30, 2016	<u>\$ 890,359</u>	<u>\$ 6,971,276</u>	<u>\$ 3,022,670</u>	<u>\$ 124,114</u>	<u>\$ 468,027</u>	<u>\$ 233,362</u>	<u>\$11,709,808</u>

The Group disposed the plant located in Baiyun district in Guangzhou city in June 2016. The carrying amount of the plant was \$50,318 thousand and the Group recognized \$175,190 thousand of gain in profit or loss when disposed the plant.

The Group disposed the plant located in Tucheng district in New Taipei city in September 2016. The carrying amount of the plant was \$441,449 thousand and the Group recognized \$358,551 thousand of gain in profit or loss when disposed the plant.

There was no impairment indication for property, plant and equipment. The Group did not recognize any impairment loss for the nine months ended September 30, 2016 and 2015.

The above items of property, plant and equipment were depreciated on a straight-line basis over the estimated useful life of the asset:

Buildings and structures	
Main Buildings	40-50 years
Engineering systems	10-20 years
Machinery and equipment	4-20 years
Transportation equipment	2- 5 years
Office equipment and other equipment	2-15 years

Refer to Note 30 for the carrying amount of property, plant and equipment pledged by the Group to secure bank loans.

14. PREPAYMENTS FOR LEASE

	September 30, 2016	December 31, 2015	September 30, 2015
Current asset	<u>\$ 3,005</u>	<u>\$ 3,198</u>	<u>\$ 3,314</u>
Non-current asset	<u>\$ 116,498</u>	<u>\$ 126,393</u>	<u>\$ 131,802</u>

The prepayments for leases is applicable to the land use right located in Mainland China.

15. OTHER ASSETS

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Current</u>			

	September 30, 2016	December 31, 2015	September 30, 2015
Excess VAT paid	\$ 77,916	\$ 185,614	\$ 164,227
Prepayments	39,681	29,885	68,789
Prepaid tax expenses	27,115	11,686	1,010
Prepaid expenses	62,274	45,589	59,887
Prepayments for lease	3,005	3,198	3,314
Others	68	1,803	1,447
	<u>\$ 210,059</u>	<u>\$ 277,775</u>	<u>\$ 298,674</u>
<u>Non-current</u>			
Prepayments for equipment	\$ 318,570	\$ 408,107	\$ 266,239
Refundable deposits	28,482	25,462	23,598
Net defined benefit assets	6,788	-	-
	<u>\$ 353,840</u>	<u>\$ 433,569</u>	<u>\$ 289,837</u>

16. LOANS

(1) Short-term loans

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Unsecured loans</u>			
Line of credit loans	<u>\$ 7,066,444</u>	<u>\$ 6,385,542</u>	<u>\$ 6,626,515</u>

The range of interest rate on bank loans was 0.90%-1.95%, 0.95%-1.63%, and 0.95%-1.62% per annum as of September 30, 2016, December 31, 2015, and September 30, 2015, respectively.

(2) Short-term bills payable

	September 30, 2016	December 31, 2015	September 30, 2015
Commercial paper	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 55,000</u>

Outstanding short-term bills payable were as follows:
December 31, 2015

<u>Promissory Institutions</u>	<u>Nominal amount</u>	<u>Discount amount</u>	<u>Carrying amount</u>	<u>Interest rate</u>
Taiwan Finance	\$ 25,000	\$ -	\$ 25,000	0.90%
Grand Bills	15,000	-	15,000	0.82%
	<u>\$ 40,000</u>	<u>\$ -</u>	<u>\$ 40,000</u>	

September 30, 2015

<u>Promissory Institutions</u>	<u>Nominal amount</u>	<u>Discount amount</u>	<u>Carrying amount</u>	<u>Interest rate</u>
Taiwan Finance	\$ 25,000	\$ -	\$ 25,000	0.90%
Grand Bills	20,000	-	20,000	0.82%
International Bills	10,000	-	10,000	0.70%
	<u>\$ 55,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	

The payables of the commercial paper have not been discounted, because the effect was not material.

(3) Long-term loans

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Secured loans</u>			
Repay principal between November, 2008 and August, 2023 based on annuity method and pay interest on a monthly basis. (1.44%)	\$ -	189,976	\$ 195,792
Between May, 2014 and May 2019 (with interest rate of 1.79%)	<u>2,696,486</u>	<u>2,915,120</u>	<u>2,580,000</u>
Total	2,696,486	3,105,096	2,775,792
Deduct: Current portion	(437,268)	(460,763)	(216,845)
Deduct: Syndication loan charge fee	(<u>6,118</u>)	(<u>7,866</u>)	(<u>8,449</u>)
Long-term loans	<u>\$ 2,253,100</u>	<u>\$ 2,636,467</u>	<u>\$ 2,550,498</u>

In April, 2014, the Group signed a \$2,950,000 thousand syndicated loan (the Loan) with Mega International Commercial Bank and 7 other participating banks. The Loan is effective in 18 months after the first draw and the undrawn facilities will be automatically cancelled as the effective term terminated. The principal will be payable after two years from the first draw, May 15, 2014, in 7 semiannually installments. The first to the sixth installment will be calculated at a repayable amount equal to 7.5% of the outstanding principal prior to the day before the first installment and the 55% remainder principal will be repaid in full on the maturity date. Pursuant to the loan agreement, financial ratios must comply with predetermined financial covenants on December 31, 2014.

Refer to Note 30 for the information relating to the Group's assets pledged as collateral bank loans.

17. NOTES PAYABLE AND TRADE PAYABLES

The Group's average credit terms of purchasing goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within pre-agreed credit terms.

18. OTHER LIABILITIES

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Other payables</u>			
Dividend payable	\$ 205,638	\$ -	\$ -
Payables for purchase of equipment	109,128	113,636	77,233
Salaries and bonus	493,283	382,782	384,496
Others	<u>56,986</u>	<u>52,195</u>	<u>45,409</u>
	<u>\$ 865,035</u>	<u>\$ 548,613</u>	<u>\$ 507,138</u>
<u>Other current liabilities</u>			
Other taxes	\$ 70,990	\$ 67,446	\$ 77,356
Account collected in advance	52,277	70,296	34,697
Others	<u>7,670</u>	<u>6,671</u>	<u>10,249</u>
	<u>\$ 130,937</u>	<u>\$ 144,413</u>	<u>\$ 122,302</u>

19. EQUITY

a. Share capital

Ordinary shares

	September 30, 2016	December 31, 2015	September 30, 2015
Numbers of shares authorized (in thousands)	200,000	200,000	200,000
Shares authorized	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Number of shares issued and fully paid (in thousands)	179,025	179,025	179,025
Shares issued	\$ 1,790,250	\$ 1,790,250	\$ 1,790,250

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right to dividends. Originally the Group's registered capital and paid-in capital was both US\$20 million. Starting on April 17, 2010, the Group's paid-in capital of US\$20 million was converted into NT\$ 647,000 thousand (in 64,700,000 shares with a par value of NT\$ 10 per share) at the exchange rate of 1:32.35. The Group held a general shareholders' meeting on June 29, 2010, in which, the shareholders approved a proposal to capitalize NT\$ 683,000 thousand of capital surplus passed by the board of directors in its meeting on May 27, 2010. The capitalization resulted in the issue of 68,300,000 shares with a par value of NT\$ 10 per share. The board of directors also passed a proposal in its meeting on October 20, 2010 to make cash offering of 17,000,000 shares with a par value of NT\$ 10 per share. The shareholders approved a proposal to capitalize 10,500,000 new shares of capital surplus with a par value of NT\$ 10 per share passed by the board of directors in its meeting on May 22, 2013. The board of directors passed a proposal of cash increase by issuing 10,000,000 new shares with a par value of NT\$ 196 at premium in its meeting on August 12, 2013 and the paid-in capital was NT\$ 1,705,000 thousand. The Company's shareholders also resolved to issue share dividends from retained earnings of \$85,250 thousand in the shareholders' meeting on May 28, 2015, which increase the share capital issued and fully paid to \$1,790,250 thousand.

b. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on May 18, 2016 and had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

According to the new retained earnings distribution policy in the revised Article of Incorporation of the Company, if the Company has earning upon settlement for a fiscal year, after taxes are paid by law and accumulated deficits are set off, ten percent shall be appropriated as legal earning reserves; however, if the amount of the legal earning reserves has attained the amount of paid-in capital of the Company, no further appropriation shall be made. The remainder shall be appropriated or reversed as special earning reserves. If there still has balance, considering together with accumulated undistributed earnings, the board of directors shall prepare the proposal for earning distribution, which shall be submitted to the shareholders' meeting for a resolution of distribution of dividends and bonuses to shareholders. At least 50% of the balance of net income less accumulated deficit, legal reserve and special reserve should be appropriated as dividends. The cash dividends should be at least 10% of total dividends declared. For the revised policy of employees' compensation and remuneration to directors, please refer to Note 20 f. Employee Benefits Expense.

The Company appropriates or reverses a special reserve in accordance with Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC on April 6, 2012 and the directive entitled “Questions and Answers on Special Reserves Appropriated Following the Adoption of IFRSs”. Distributions can be made out of any subsequent reversal of the debit to other equity items.

The appropriations of earnings for 2015 and 2014 approved in the shareholders’ meetings on May 18, 2016 and May 28, 2015 were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2015	For Year 2014	For Year 2015	For Year 2014
Special reserve provided	\$ -	\$ 44,718	\$ -	\$ -
Special reserve reversed	12,545	-	-	-
Cash dividends	716,100	818,400	4	4.8
Stock dividends	-	85,250	-	0.5

c. Other equity items

Exchange differences on translating foreign operations

	For the Nine months Ended September 30	
	2016	2015
Balance at January 1	\$ 419,000	\$ 615,843
Exchange differences on translating foreign operations	(609,551)	125,466
Changes in percentage of ownership interest in subsidiaries	(6,052)	-
Share of exchange difference of associates accounted for using the equity method	-	379
Balance at September 30	<u>(\$ 196,603)</u>	<u>\$ 741,688</u>

The relating exchange differences arising from the net assets of the Group’s foreign operations which are translated from the functional currency to expression currency (i.e. NTD) are recognized in exchange differences on translating foreign operations of other comprehensive income.

20. NET PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS) FROM CONTINUING OPERATIONS

Net income from continuing operations includes:

a. Other income

For the Three Months Ended September 30	For the Nine months Ended September 30
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	2016	2015	2016	2015
Interest income	<u>\$ 5,766</u>	<u>\$ 5,206</u>	<u>\$ 20,820</u>	<u>\$ 20,600</u>

b. Other gains and losses

	For the Three Months Ended September 30		For the Nine months Ended September 30	
	2016	2015	2016	2015
Net foreign exchange gains (losses)	(\$ 67,988)	(\$ 201,094)	(\$ 164,547)	(\$ 195,508)
Net gain arising on financial assets designated as at FVTPL	12,166	9,015	35,017	22,049
Government subsidies	5,365	73,658	74,262	105,371
Loss on disposal of property, plant and equipment	362,446	75	538,585	(1,856)
Share of the profit or loss of associates (Note 12)	(2,552)	(3,459)	(7,795)	(11,182)
Impairment loss recognized on investments in associates (Note 12)	(45,214)	-	(45,214)	-
Others	(2,193)	4,551	(1,068)	(1,204)
	<u>\$ 262,030</u>	<u>(\$ 117,254)</u>	<u>\$ 429,240</u>	<u>(\$ 82,330)</u>

c. Financial costs

	For the Three Months Ended September 30		For the Nine months Ended September 30	
	2016	2015	2016	2015
Interest on bank loans	<u>\$ 38,808</u>	<u>\$ 23,987</u>	<u>\$ 102,616</u>	<u>\$ 64,286</u>

Information about capitalized interest was as follows:

	For the Three Months Ended September 30		For the Nine months Ended September 30	
	2016	2015	2016	2015
Capitalized interest	\$ -	\$ 10,501	\$ 12,031	\$ 28,682
Capitalization rate	-	1.79%	1.79%	1.79%

d. Depreciation and amortization

	For the Three Months Ended September 30		For the Nine months Ended September 30	
	2016	2015	2016	2015
Property, plant and equipment	\$ 190,362	\$ 163,130	\$ 564,745	\$ 461,236
Intangible assets	4,219	3,585	12,020	11,936
	<u>\$ 194,581</u>	<u>\$ 166,715</u>	<u>\$ 576,765</u>	<u>\$ 473,172</u>

	For the Three Months Ended September 30		For the Nine months Ended September 30	
	2016	2015	2016	2015
An analysis of depreciation by function				
Operating costs	\$ 115,912	\$ 97,946	\$ 338,314	\$ 268,669
Selling and marketing expenses	26,926	27,740	89,678	80,372
General and administration expenses	38,580	29,986	111,991	85,705
Research and development expenses	8,944	7,458	24,762	26,490
	<u>\$ 190,362</u>	<u>\$ 163,130</u>	<u>\$ 564,745</u>	<u>\$ 461,236</u>
An analysis of amortization by function				
Operating costs	\$ 368	\$ 212	\$ 797	\$ 663
Selling and marketing expenses	263	323	816	927
General and administration expenses	2,479	2,011	7,173	7,305
Research and development expenses	1,109	1,039	3,234	3,041
	<u>\$ 4,219</u>	<u>\$ 3,585</u>	<u>\$ 12,020</u>	<u>\$ 11,936</u>

e. Employee benefits expense

	For the Three Months Ended September 30		For the Nine months Ended September 30	
	2016	2015	2016	2015
Post-employment benefits				
Defined contribution plans	\$ 31,061	\$ 34,380	\$ 103,587	\$ 96,840
Defined benefit plans	(26,904)	350	(26,267)	1,049
	<u>4,157</u>	<u>34,730</u>	<u>77,320</u>	<u>97,889</u>
Other employee benefits	<u>742,381</u>	<u>556,640</u>	<u>2,026,446</u>	<u>1,723,003</u>
Total employee benefits expense	<u>\$ 746,538</u>	<u>\$ 591,370</u>	<u>\$2,103,766</u>	<u>\$1,820,892</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 344,367	\$ 248,248	\$ 932,300	\$ 762,644
Operating expenses	<u>402,171</u>	<u>343,122</u>	<u>1,171,466</u>	<u>1,058,248</u>
	<u>\$ 746,538</u>	<u>\$ 591,370</u>	<u>\$2,103,766</u>	<u>\$1,820,892</u>

Prior to the amendments, the Articles of Incorporation of the Company stipulate to distribute bonus to employees and remuneration to directors and supervisors at the rates no less than 2% and no higher than 5%, respectively, of net income (net of the bonus and remuneration). For the three months and nine months ended September 30 2016, the bonus to employees was \$9,656 thousand and \$34,041 thousand respectively, representing 3.2% of the base net income.

To be in compliance with the Company Act as amended in May 2015, the proposed amended Articles of Incorporation of the Company stipulate to distribute employees' compensation and remuneration to directors and supervisors at the rates no less than 2% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. For the three months and nine months ended September 30, 2016, the employees' compensation was \$20,593 thousand and \$71,208 thousand respectively, representing 3.5% of the base net profit.

Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date the annual consolidated financial statements are authorized for issue are adjusted in the year the bonus and remuneration were recognized. If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

The appropriations of bonus to employees for 2015 and 2014 having been approved in the shareholders' meetings on May 18, 2016 and May 28, 2015, were stated as below.

	For the Year Ended 2015		For the Year Ended 2014	
	Cash	Stock	Cash	Stock
Bonus to employees	\$ 47,087	\$ -	\$ 62,871	\$ -

There was no difference between the amounts of the employees' compensation and the remuneration to directors and supervisors resolved by the board of directors on February 25, 2016 and the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the shareholders' meetings on May 28, 2015, and the respective amounts recognized in the consolidated financial statements for the years ended December 31, 2015 and 2014.

Information on the bonus to employees, directors and supervisors approved in shareholders' meetings is available on the Market Observation Post System website of the Taiwan Stock Exchange.

f. Gain or loss on foreign currency exchange

	For the Three Months Ended September 30		For the Nine months Ended September 30	
	2016	2015	2016	2015
Foreign exchange gains	\$ 74,770	\$ 45,493	\$ 182,618	\$ 93,836
Foreign exchange losses	(142,758)	(246,587)	(347,165)	(289,344)
	(\$ 67,988)	(\$ 201,094)	(\$ 164,547)	(\$ 195,508)

21. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follow:

	For the Three Months Ended September 30		For the Nine months Ended September 30	
	2016	2015	2016	2015
Current tax				
In respect of the current period	\$ 222,448	\$ 141,101	\$ 605,363	\$ 402,479
Adjustments for prior periods	<u>-</u>	<u>89</u>	<u>(687)</u>	<u>(524)</u>
Income tax expense recognized in profit or loss	<u>222,448</u>	<u>141,190</u>	<u>604,676</u>	<u>401,955</u>
Deferred tax				
In respect of the current period	<u>92,164</u>	<u>13,968</u>	<u>96,220</u>	<u>21,150</u>
Income tax expense recognized in profit or loss	<u>\$ 314,612</u>	<u>\$ 155,158</u>	<u>\$ 700,896</u>	<u>\$ 423,105</u>

b. Income tax assessments

The income tax returns of the Company and subsidiaries, except Instant Reach International Limited are exempted from income tax, Airtac International Group Taiwan Branch, and Airtac Industrial Co., Ltd have been respectively examined and cleared by the ROC tax authority through 2014. The other subsidiaries have also filed business income tax returns by the deadlines set by the local governments.

22. EARNINGS PER SHARE

The weighted average number of shares outstanding used for the earnings per share computation were as follows:

Net profit for the period

	For the Three Months Ended September 30		For the Nine months Ended September 30	
	2016	2015	2016	2015
Profit for the period attributable to owners of the Company	<u>\$ 544,193</u>	<u>\$ 259,273</u>	<u>\$1,587,821</u>	<u>\$1,061,312</u>
Earnings used in the computation of basic earnings per share	544,193	259,273	1,587,821	1,061,312
Effect of dilutive potential ordinary shares	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Earnings used in the computation of diluted	<u>\$ 544,193</u>	<u>\$ 259,273</u>	<u>\$1,587,821</u>	<u>\$1,061,312</u>

earnings per share

Weighted average number of ordinary shares outstanding (in thousand shares)

	For the Three Months Ended September 30		For the Nine months Ended September 30	
	2016	2015	2016	2015
Weighted average number of ordinary shares in computation of basic earnings per share	179,025	179,025	179,025	179,025
Effect of dilutive potential ordinary shares:				
Employee dividends	<u>251</u>	<u>205</u>	<u>251</u>	<u>205</u>
Weighted average number of ordinary shares used in computation of dilutive earnings per share	<u>179,276</u>	<u>179,230</u>	<u>179,276</u>	<u>179,230</u>

If the Company offered to settle bonuses paid to employees in cash or shares, the Company assumed the entire amount of the bonus would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

23. GOVERNMENT SUBSIDIES

The government subsidies indicate the governmental subsidies received by subsidiaries in Mainland China from the local finance bureau.

24. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On April 18, 2016, the Group subscribed for additional new shares of Airtac Industrial Co., Ltd. at a percentage different from its existing ownership percentage, increasing its continuing interest from 53.66% to 69.44%.

The above transactions were accounted for as equity transactions, since the Group did not cease to have control over these subsidiaries.

	Airtac Industrial Co., Ltd.
Cash consideration paid	\$ 101,623
The proportionate share of the carrying amount of the net assets of the subsidiary transferred from non-controlling interests	(52,219)
Reattribution of other equity from non-controlling interests	

— Exchange differences arising on the translation of the financial statements of foreign operations	(6,052)
— Remeasurement on defined benefit plans	<u>1,511</u>
Differences arising from equity transaction	<u>\$ 44,863</u>

25. NON-CASH TRANSACTIONS

The Group entered into the following non-cash investing and financing activities which were not reflected in the consolidated statement of cash flows during the period of the nine months ended September 30, 2016 and 2015.

- a. The Group acquired property, plant and equipment with an aggregate fair value of \$1,145,517 thousand during the period of the nine months ended September 30, 2016. Other non-current assets decrease \$67,970 thousand in total and other trade payables increase \$2,476 thousand in total. The cash paid of the Group for acquisition of property, plant and equipment was \$1,075,071 thousand (see the Note 13).
- b. The Group acquired property, plant and equipment with an aggregate fair value of \$2,018,956 thousand during the period of the nine months ended September 30, 2015. Other non-current assets decrease \$180,733 thousand in total and other trade payables decrease \$82,359 thousand in total. The cash paid of the Group for acquisition of property, plant and equipment was \$1,920,582 thousand (see the Note 13).
- c. The cash dividends approved in the shareholders' meetings were not yet distributed as of September 30, 2016 (refer to Notes 18 and 19).

26. OPERATING LEASE AGREEMENTS

The Group as lessee

Operating leases relate to purpose of office leasing with lease terms between 1 and 10 years. The Group does not have a bargain purchase option to acquire the purpose of office leasing at the expiration of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
Not later than one year	\$ 40,428	\$ 44,265	\$ 41,687
Later than one year and not later than five years	41,962	44,545	44,193
Later than five years	<u>1,460</u>	<u>2,162</u>	<u>2,450</u>
	<u>\$ 83,850</u>	<u>\$ 90,972</u>	<u>\$ 88,330</u>

27. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2010.

The capital structure of the Group consists of net debt borrowings offset by cash and cash equivalents and equity of the Group comprising issued capital, reserves, retained earnings, other equity and non-controlling interests.

The Group is not subject to any externally imposed capital requirements.

Key management personnel of the Group review the capital structure on a semi-annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and/or the amount of new debt issued or existing debt redeemed.

28. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The management of the Group considers that the carrying amounts of financial assets and liabilities not measured at fair value are close to the fair value.

b. Fair value of financial instruments

1) Fair value hierarchy

September 30, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Structured deposits	\$ -	\$1,692,461	\$ -	\$1,692,461

December 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Structured deposits	\$ -	\$1,001,937	\$ -	\$1,001,937

September 30, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Structured deposits	\$ -	\$1,039,324	\$ -	\$1,039,324

There were no transfers between the level 1 and level 2 during the period of the nine months ended September 30, 2016 and 2015.

2) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Structured deposits	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates discounted at a rate that reflect the credit risk of various counterparties.

c. Categories of financial instruments

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Financial assets</u>			
Financial assets at FVTPL			
Designated as at FVTPL	\$ 1,692,461	\$ 1,001,937	\$ 1,039,324
Loans and receivables (Note 1)	5,922,492	5,162,885	5,245,344
<u>Financial liabilities</u>			
Measured at amortized cost (Note 2)	10,609,976	10,081,706	9,956,948

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, notes receivable, trade receivables, and other receivables.

Note 2: The balances included financial liabilities measured at amortization cost, which comprise short-term loans, short-term bills payables, notes payable, trade payables, other payables, and long-term loans (including current portion).

d. Financial risk management objectives and policies

The Group's main financial instruments include cash and cash equivalents, notes and trade receivables, other receivables, short-term bills payable, notes and trade payables, other payables and loans. The finance department of the Group provides service to business departments, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1. Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see Note (1) below) and interest rates (see Note (2) below).

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

(1) Foreign currency risk

Several subsidiaries of the Company had foreign currency sales and purchases, which exposed the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and

of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Note 32.

Sensitivity analysis

The Group was mainly exposed to the currency USD.

The following table details the Group's sensitivity to a 1% increase and decrease in the functional currency against the USD. 1% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and other equity associated with the functional currency strengthen 1% against the USD. For a 1% weakening of the functional currency against the USD, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

	USD Impact	
	For the Nine months Ended September 30	
	2016	2015
Profit and losses	\$ 46,998	\$ 52,703

This was mainly attributable to the exposure outstanding on USD receivables and payables, which were not hedged at the end of the reporting period.

(2) Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow loans at both fixed and floating interest rates. To manage this risk, the Group maintains an appropriate mix of fixed and floating rate borrowings. The Group periodically evaluates hedging activities, view it with interest and consistent with the established risk appetite, using hedging strategies to ensure the most cost-effective.

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
Fair value risk			
-Financial assets	\$ 840,869	\$ 751,997	\$ 693,438
-Financial liabilities	9,756,812	9,332,796	9,253,066
Cash flow risk			
-Financial assets	1,236,016	1,336,102	1,298,051
-Financial liabilities	-	189,976	195,792

Sensitiveness analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher or lower and all other variables were held constant, the Group's pre-tax profit for the nine months ended September 30, 2016 and 2015 would increase or decrease by \$9,270 thousand and \$8,267 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits and borrowings.

2. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation and financial guarantees provided by the Group could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are audited and approved by the risk management committee annually.

The Group did transactions with a large number of unrelated customers and, thus, no concentration of credit risk was observed.

The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk to any other counterparty did not exceed 1% of gross monetary assets at any time during the nine months ended September 30, 2016 and 2015.

The Group's concentration of credit risk by geographical locations was mainly in Mainland China, which accounted for 83.97%, 86.48%, and 86.77% of the total trade receivables as of September 30, 2016, December 31, 2015, and September 30, 2015, respectively.

3. Liquidity

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank loans as a significant source of liquidity. As of September 30, 2016, December 31, 2015, and September 30, 2015, the Group had available unutilized short-term bank loan facilities set out in (2) below.

(1) Liquidity and interest rate risk tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

To the extent that interest flows are floating rate, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

September 30, 2016

	1 to 3 months	3 months to 1 year	1 to 5 years	Longer than 5 years
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$1,237,319	\$ 109,128	\$ -	\$ -
Variable interest rate liabilities	-	-	-	-
Fixed interest rate liabilities	-	7,526,890	2,253,100	-
	<u>\$1,237,319</u>	<u>\$7,636,018</u>	<u>\$2,253,100</u>	<u>\$ -</u>

December 31, 2015

	1 to 3 months	3 months to 1 year	1 to 5 years	Longer than 5 years
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 828,080	\$ 113,636	\$ -	\$ -
Variable interest rate liabilities	-	23,495	166,481	-
Fixed interest rate liabilities	40,000	6,822,810	2,469,986	-
	<u>\$ 868,080</u>	<u>\$6,959,941</u>	<u>\$2,636,467</u>	<u>\$ -</u>

September 30, 2015

	1 to 3 months	3 months to 1 year	1 to 5 years	Longer than 5 years
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 815,353	\$ 77,233	\$ -	\$ -
Variable interest rate liabilities	-	-	195,792	-
Fixed interest rate liabilities	55,000	6,843,360	2,354,706	-
	<u>\$ 870,353</u>	<u>\$6,920,593</u>	<u>\$2,550,498</u>	<u>\$ -</u>

(2) Financing facilities

September 30, 2016	December 31, 2015	September 30, 2015
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	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Unsecured bank loans (re-examined annually)			
-Amounts used	\$ 7,066,444	\$ 6,425,542	\$ 6,681,515
-Amounts unused	<u>2,697,968</u>	<u>2,263,344</u>	<u>1,835,048</u>
	<u>\$ 9,764,412</u>	<u>\$ 8,688,886</u>	<u>\$ 8,516,563</u>
Secured bank loans			
-Amounts used	\$ 2,696,486	\$ 3,105,096	\$ 2,775,792
-Amounts unused	<u>-</u>	<u>-</u>	<u>370,000</u>
	<u>\$ 2,696,486</u>	<u>\$ 3,105,096</u>	<u>\$ 3,145,792</u>

29. TRANSACTIONS WITH RELATED PARTIES

Balances, transactions, revenue and expenses between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(1) Operating transaction

	<u>For the Three Months Ended September 30</u>		<u>For the Nine months Ended September 30</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<u>Sales of goods</u>				
Other related parties (the responsible person of the party is the director of the Group)	\$ <u>6</u>	\$ <u>-</u>	\$ <u>63</u>	\$ <u>1,098</u>

The sales prices and payment terms to related parties were not significantly different from those of sales to third parties.

(2) Compensation of key management personnel

The compensation to directors and other key management personnel were as follows:

	<u>For the Three months ended September 30</u>		<u>For the Nine months Ended September 30</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Short-term employee benefits	\$ <u>36,181</u>	\$ <u>28,321</u>	\$ <u>118,204</u>	\$ <u>83,376</u>

The compensation to directors and other key management personnel were determined by the Remuneration Committee of Airtac in accordance with the individual performance and the market trends.

30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank loans and the electricity tariff guarantee:

	September 30, 2016	December 31, 2015	September 30, 2015
Pledge deposits (classified as debt investment with no active market)	\$ 6,130	\$ 6,344	\$ 6,573
Land	890,359	1,049,016	1,049,016
Buildings, net	2,738,056	252,293	254,619
	<u>\$ 3,634,545</u>	<u>\$ 1,307,653</u>	<u>\$ 1,310,208</u>

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group were as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
Acquisition of property, plant and equipment	<u>\$ 336,237</u>	<u>\$ 482,218</u>	<u>\$ 275,361</u>

32. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The significant financial assets and liabilities denominated in foreign currencies were as follows:

September 30, 2016

	Foreign currency	Exchange rate	Carrying amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 147	31.34(USD: NTD)	\$ 4,592
USD	24,267	6.68(USD: RMB)	760,489
RMB	83,705	4.69(RMB: NTD)	392,826
			<u>\$ 1,157,907</u>
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 129	31.34(USD: NTD)	\$ 4,049
USD	175,476	6.68(USD: RMB)	5,460,843
RMB	4,773	4.69(RMB: NTD)	22,398
			<u>\$ 5,487,290</u>

December 31, 2015

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>Carrying amount</u>
<u>Financial assets</u>			
Monetary items			
USD	\$ 192	32.44(USD: NTD)	\$ 6,220
USD	30,040	6.49(USD: RMB)	974,349
RMB	29,880	5.00(RMB: NTD)	149,251
			<u>\$ 1,129,820</u>

Financial liabilities
Monetary items

USD	\$ 183,840	6.49(USD: RMB)	\$ 5,962,963
RMB	2,316	5.00(RMB: NTD)	11,568
			<u>\$ 5,974,531</u>

September 30, 2015

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>Carrying amount</u>
<u>Financial assets</u>			
Monetary items			
USD	\$ 1	32.93(USD: NTD)	\$ 24
USD	39,086	6.36(USD: RMB)	1,286,933
			<u>\$ 1,286,957</u>

Financial liabilities
Monetary items

USD	\$ 199,150	6.36(USD: RMB)	<u>\$ 6,557,239</u>
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For the three months and nine months ended September 30, 2016 and 2015, realized and unrealized net foreign exchange gains (losses) were (\$67,988) thousand, (\$201,094) thousand, (\$164,547) thousand and (\$195,508) thousand respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

33. DISCLOSED ITEMS

(1) Information about significant transactions and (2) investees:

1. Loans provided to other parties (Table 1)
2. Endorsements/guarantees given to other parties (None)
3. Marketable securities held (excluding investments in subsidiaries, associates and joint controlled entities) (None)
4. Purchases or sales of the same marketable securities amounting to at least NT\$300 million or 20% of the paid-in capital. (None)

5. Acquisition of real estate at costs of at least NT \$300 million or 20% of the paid-in capital (Table 3)
 6. Disposal of real estate at prices of at least NT\$300 million or 20% of the paid-in capital (Table 4)
 7. Purchases or sales with related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 5)
 8. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 6)
 9. Derivative transactions (Note 7)
 10. Intercompany relationships and significant intercompany transactions (Table 8)
 11. Information for investees (Table 2)
- (3) Information for investments in Mainland China
1. Information for any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 7)
 2. Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (Tables 1 and 8)
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - c) The amount of property transactions and the amount of the resultant gains or losses.
 - d) The balance of negotiable instrument endorsements/guarantees or pledges of collateral at the end of the period and the purposes.
 - e) The highest balance, the ending balance, the interest rate range, and the total of current interest with respect to loans provided.
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

35. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource

allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" were as follows:

Pneumatic components- direct sales
- distributors

a. Segment revenues and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Revenues		Profit Before Tax	
	For the Nine months Ended September 30		For the Nine months Ended September 30	
	2016	2015	2016	2015
Pneumatic components				
-Direct sales	\$ 6,296,116	\$ 5,208,488	\$ 2,105,804	\$ 1,676,024
-Distributors	<u>1,672,870</u>	<u>1,424,419</u>	<u>559,495</u>	<u>458,355</u>
Total amounts of continuing operations	<u>\$ 7,968,986</u>	<u>\$ 6,632,907</u>	2,665,299	2,134,379
Share of profits of associates accounted for using the equity method			(7,795)	(11,182)
Interest income			20,820	20,600
Gain (Loss) on disposal of property, plant and equipment			535,585	(1,856)
Net exchange gains (losses)			(164,547)	(195,508)
Net gain arising on financial assets designated as at FVTPL			35,017	22,049
HQ admin. cost and directors' salaries			(543,186)	(414,598)
Finance costs			(102,616)	(64,286)
Impairment loss recognized on investments in associates			(<u>45,212</u>)	<u>-</u>
Profit before income tax from continuing operations			<u>\$2,396,363</u>	<u>\$ 1,489,598</u>

The segment revenues were accounted for the transactions with external customers. No inter-segment sales occurred for the nine months ended September 30, 2016 and 2015.

Segment profit represented the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, share of profits of associates, gain recognized on the disposal of interest in former associates, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, gain

or loss on disposal of financial instruments, exchange gain or loss, valuation gain or loss on financial instruments, finance costs and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Segment assets</u>			
Pneumatic components			
-Direct sales	\$ 17,414,968	\$ 16,558,863	\$ 16,587,851
-Distributors	<u>4,626,760</u>	<u>4,598,405</u>	<u>4,536,024</u>
Total segment total assets	22,041,728	21,157,267	21,123,875
Unallocated assets	<u>281,021</u>	<u>298,750</u>	<u>267,346</u>
Consolidated total assets	<u>\$ 22,322,749</u>	<u>\$ 21,456,017</u>	<u>\$ 21,391,221</u>

For the purpose of monitoring segment performance and allocating resources between segments:

All assets were allocated to reportable segments other than interests in associates accounted for using the equity method, other financial assets, and current and deferred tax assets. Goodwill was allocated to reportable segments. Assets used jointly by reportable segments were allocated on the basis of the revenues earned by individual reportable segments.

TABLE 1

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

**LOANS PROVIDED TO OTHER PARTIES
FOR NINE MONTHS ENDED SEPTEMBER 30, 2016
(In Thousands of New Taiwan Dollars and Foreign Currencies, Unless Specified Otherwise)**

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Period (Note1)	Ending Balance (Note1)	Actual Borrowing Amount	Interest Rate	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limits	Note
													Item	Value			
0	Airtac International Group	ATC (Italia) S.R.L	Other receivables	Yes	EUR 4,000 (NTD 140,321)	EUR 4,000 (NTD 140,321)	EUR 1,500 (NTD 52,620)	-	Short-term financing needs	\$ -	Revolving fund	\$ -	-	-	\$ 4,188,350	\$ 4,188,350	Note 2
0	Airtac International Group	Ningbo Airtac Automatic Industrial Co., Ltd	Other receivables	Yes	USD 35,000 (NTD1,096,862)	USD 15,000 (NTD 470,084)	USD 9,400 (NTD 294,586)	2.55 %	Short-term financing needs	-	Revolving fund	-	-	-	4,188,350	4,188,350	Note 2
0	Airtac International Group	Airtac International (Singapore) Pte. Ltd.	Other receivables	Yes	USD 11,000 (NTD 344,728)	USD 11,000 (NTD 344,728)	USD 5,000 (NTD 156,695)	-	Short-term financing needs	-	Revolving fund	-	-	-	4,188,350	4,188,350	Note 2
0	Airtac International Group	Airtac Co., Ltd	Other receivables	Yes	USD 10,000 (NTD 313,389)	USD 5,000 (NTD 156,695)	USD 7,000 JPY 102,365 (NTD 64,656)	-	Short-term financing needs	-	Revolving fund	-	-	-	4,188,350	4,188,350	Note 2
0	Airtac International Group	Airtac Industrial (Malaysia) Sdn. Bhd.	Other receivables	Yes	USD 2,000 (NTD 62,678)	USD 2,000 (NTD 62,678)	USD 620 (NTD 19,430)	-	Short-term financing needs	-	Revolving fund	-	-	-	4,188,350	4,188,350	Note 2
1	Airtac Industrial Co. Ltd.	Airtac International Group Taiwan Branch	Other receivables	Yes	NTD 127,000	NTD 127,000	NTD 127,000	0.33 %	Short-term financing needs	-	Revolving fund	-	-	-	146,298	146,298	Note 3

Note 1: Conversion to NTD used the spot exchange rate on September 30, 2016, that is, 1USD=31.3389, 1EUR=35.0802, 1RMB=4.6930, 1JPY=0.3107NTD.

Note 2: According to Company’s Loans to Others Procedure, the limits on loans provided to other parties is 40% of the Group’s net worth at the end of the period.

Note 3: According to Company’s Loans to Others Procedure, the limits on loans provided to other parties is 40% of Airtac Industrial Co. Ltd.’s net worth at the end of the period.

TABLE 2

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

INFORMATION FOR INVESTEEES

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

(In Thousands of New Taiwan Dollars and Foreign Currencies, Unless Specified Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		September 30, 2016			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				September 30, 2016 (Note1)	December 31, 2015 (Note1)	Shares	%	Carrying Amount			
Airtac International Group	Airtac Industrial (Hong Kong) Limited	Hong Kong	General investment	USD 87,500 RMB 87,000 (NTD 3,150,445)	USD 82,500 RMB 64,000 (NTD 2,885,811)	101,000,000	100	\$ 13,453,841	\$ 2,050,122	\$ 2,050,122	2
	Airtac Trading (Hong Kong) Limited	Hong Kong	General investment	USD - (NTD -)	USD 7,000 (NTD 219,312)	7,000,000	100	3,280	(12,296)	(12,296)	2
	Instant Reach International Limited	British Virgin Island	General investment	USD 2,283 EUR 1,000 RMB 17,500 (NTD 188,755)	USD 8,840 EUR 1,000 (NTD 312,116)	1	100	383,830	170,453	170,453	2
	Airtac Holding (Singapore) Pte. Ltd.	Singapore	General investment	USD 14,000 (NTD 438,745)	USD 14,000 (NTD 438,745)	14,000,000	100	248,818	(2,167)	(2,167)	2
	AMA Tech Corp.	Tucheng District, New Taipei City	Metal manufacturing	NTD 186,400	NTD 186,400	10,000,000	20	56,800	(38,975)	(7,795)	
Instant Reach International Limited	Airtac Industrial Co., Ltd	Tucheng District, New Taipei City	Processing, sales and import/export of machines and components	NTD 82,120	NTD 139,503	69,435	69.44	254,656	350,893	-	
	ATC (Italia) S.R.L	Via Mauro Macchi n.27, 20124 Milano (MI)	Production and sales of pneumatic and hydraulic control components	EUR 4,000 (NTD 140,321)	EUR 4,000 (NTD 140,321)	4,000,000	100	57,531	9,029	-	
Airtac Holding (Singapore) Pte. Ltd.	Airtac International (Singapore) Pte. Ltd.	Singapore	Production and sales of pneumatic control components and accessories	USD 12,500 (NTD 391,736)	USD 12,500 (NTD 391,736)	12,500,000	100	295,973	3,478	-	
	Airtac CO., Ltd.	Japan	Production and sales of pneumatic control components and accessories	JPY 98,000 (NTD 30,449)	JPY 98,000 (NTD 30,449)	2,000	100	(20,593)	(5,154)	-	
Airtac International (Singapore) Pte. Ltd.	Airtac Industrial (Malaysia) Sdn. Bhd.	Malaysia	Production and sales of pneumatic control components and accessories	MYR 1,000 (NTD 7,240)	MYR 1,000 (NTD 7,240)	1,000,000	100	(6,744)	(1,875)	-	
	Airtac Industrial Co., Ltd.	Thailand	Production and sales of pneumatic control components and accessories	THB 100,000 (NTD 90,960)	THB 100,000 (NTD 90,960)	1,000,000	100	81,475	(4,741)	-	

Note1 : Conversion to NTD used the spot exchange rate on September 30, 2016, that is, 1 USD=31.3389NTD, 1 EUR=35.0802NTD, 1 JPY=0.3107NTD, 1 RMB= 4.6930NTD, 1 MYR=7.2401NTD, 1THB=0.9096NTD.

Note2 : The amount was eliminated upon consolidation.

Note3 : Please refer to Table 7 for information on investment in mainland China.

TABLE 3

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

ACQUISITION OF REAL ESTATE AT COSTS OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Acquiring company	Title of property	Transaction date or occurrence date	Transaction amount	Payment	Counterparty	Relationship	Where the counterparty is a related party, the previous transfer information				Pricing reference and basis	Purpose of acquisition and use	Other agreements
							Owner	Relationship with issuer	Date of transfer	Amount			
Airtac International Group	Plant	2013.11.04-2016.06.06	\$2,748,041	On progress of completion	Self-building	-	-	-	-	\$ -	N/A	Manufacturing, research and development purpose	
Ningbo Airtac Automatic Industrial Co., Ltd	Plant	2013.10.22-2016.01.20	\$ 383,507	On progress of completion	Self-building	-	-	-	-	\$ -	N/A	Manufacturing and development purpose	

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

TABLE 4

DISPOSAL OF INDIVIDUAL REAL ESTATE AT PRICES OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Seller	Property	Event Date	Original Acquisition Date	Carrying Amount	Transaction Amount	Collection	Gain (Loss) on Disposal	Counterparty	Relationship	Purpose of Disposal	Price Reference	Other Terms
Airtac Industrial Co., Ltd.	Land and Building	2016.09.20	2008.11~2012.04	\$ 441,449	\$ 800,000	100% collected	\$ 358,551	Jun Yong Enterprises Ltd.	-	Operation Adjustment	Appraisal Report	-

TABLE 5

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

**PURCHASES OR SALES WITH RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Purchaser (Seller)	Counterparty	Relationship	Transaction				Non-arm's Length Transaction and Reasons		Notes/Trade Payables/ Receivable		Note
			Purchase (Sale)	Amount	% of Total	Payment Term	Unit Price (Note)	Payment Terms (Note)	Balance	% to Total	
Ningbo Airtac Automatic Industrial Co., Ltd	Airtac (China) Co., Ltd.	The same parent company	Sales	\$ 3,551,518	86	T/T 120 days	-	-	\$ 971,736	83	
	Guangdong Airtac Automatic Industrial Co., Ltd	The same parent company	Sales	190,274	5	T/T 120 days	-	-	23,266	2	
	Airtac Industrial Co., Ltd.	The same parent company	Sales	105,333	3	T/T 120 days	-	-	43,256	4	
	Airtac International (Singapore) Pte. Ltd.	The same parent company	Sales	140,041	3	T/T 120 days	-	-	62,987	5	
Guangdong Airtac Automatic Industrial Co., Ltd	Airtac (China) Co., Ltd.	The same parent company	Sales	1,119,571	88	T/T 120 days	-	-	321,951	83	
Airtac International Group	Ningbo Airtac Automatic Industrial Co., Ltd	Subsidiary	Sales	269,633	62	T/T 120 days	-	-	53,588	50	
Airtac (China) Co., Ltd.	Airtac (Jiangsu) Automatic Co., Ltd.	The same parent company	Sales	1,201,062	17	T/T 120 days	-	-	486,846	20	

Note: The sales prices and payment terms to related parties were not significantly different from those of sales to the third parties.

TABLE 6

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SEPTEMBER 30, 2016
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Name	Related Party	Relationship	Ending Balance	Turnover rate (%)	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Ningbo Airtac Automatic Industrial Co., Ltd	Airtac (China) Co., Ltd.	The same parent company	\$ 971,736	5	\$ -	-	\$ 496,665	\$ -
Guangdong Airtac Automatic Industrial Co., Ltd	Airtac (China) Co., Ltd.	The same parent company	321,951	5	-	-	160,196	-
Airtac (China) Co., Ltd.	Airtac (Jiangsu) Automatic Co., Ltd.	The same parent company	486,846	4	-	-	194,525	-

TABLE 7

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

INFORMATION FOR INVESTMENTS IN MAINLAND CHINA

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

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

Investee Company Name	Main Businesses and Products	Paid-in Capital (Note 3)	Method of Investment	Accumulated Investment Outflow from Taiwan as of January 1, 2016	Investment Flow for the Period		Accumulated Investment Outflow from Taiwan as of September 30, 2016	Net income of Investee Company	% of Ownership – Direct or Indirect investment	Investment Gain (Loss) Recognized for the Period (Note 2)	Carrying Amount as of September 30, 2016	Accumulated Inward Remittance of Earnings as of September 30, 2016	Note
					Outflow	Inflow							
Ningbo Airtac Automatic Industrial Co., Ltd	Production of pneumatic control components and auxiliary components	USD 52,000 (NTD 1,629,623)	N/A	N/A	\$ -	\$ -	N/A	\$ 933,372	100	\$ 907,020	\$ 6,735,598	N/A	
Guangdong Airtac Automatic Industrial Co., Ltd	Production of pneumatic control components and auxiliary components	USD 6,000 (NTD 188,033)	N/A	N/A	-	-	N/A	398,437	100	390,624	2,060,199	N/A	
Airtac (China) Co., Ltd.	Wholesale and agency of pneumatic components, tools and equipment, and related support services	USD 18,000 RMB 126,000 (NTD 1,155,418)	N/A	N/A	-	-	N/A	655,138	100	660,194	3,781,479	N/A	
Airtac (Jiangsu) Automatic Co., Ltd.	Production of pneumatic control components and auxiliary components	USD 1,500 RMB 23,000 (NTD 154,947)	N/A	N/A	-	-	N/A	139,979	100	139,979	316,158	N/A	
Jianliang (Shanghai) Trading Co., Ltd.	Wholesale and agency of pneumatic components, tools and equipment, and related support services	USD - (NTD -)	N/A	N/A	-	-	N/A	1,940	100	1,940	-	N/A	

Accumulated Outward Remittance for Investment in Mainland China as of September 30, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
N/A	N/A	N/A

Note 1: The ways to invest in companies in Mainland China are classified into three types below. Mark the type of investment:

1. Direct investment in China.
2. Investment in China through a company registered in the third region.
3. Other ways.

Note 2: The amount was calculated based on financial statements audited by a multinational accounting firm having a cooperative relationship with an accounting firm in Taiwan.

Note 3: Conversion to NTD used the spot exchange rate on September 30, 2016, that is, 1 USD=31.3389 NTD, 1RMB=4.6930NTD.

TABLE 8

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 (Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

No.	Company Name	Counter Party	Nature of Relationship (Note)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Sales or Assets
0	Airtac International Group	Ningbo Airtac Automatic Industrial Co., Ltd	1	Other receivable	\$ 294,586	General terms and conditions	1%
		Ningbo Airtac Automatic Industrial Co., Ltd	1	Trade receivables	53,588	General terms and conditions	-
		Ningbo Airtac Automatic Industrial Co., Ltd	1	Sales revenue	269,633	General terms and conditions	3%
		Ningbo Airtac Automatic Industrial Co., Ltd	1	Sell property, plant and equipment	13,811	General terms and conditions	-
		Airtac Industrial Co., Ltd	1	Sales revenue	11,902	General terms and conditions	-
		ATC (Italia) S.R.L	1	Other receivable	52,620	General terms and conditions	-
		Airtac Industrial (Malaysia) Sdn. Bhd.	1	Other receivable	19,430	General terms and conditions	-
		Airtac (China) Co., Ltd	1	Sales revenue	95,121	General terms and conditions	1%
		Airtac (China) Co., Ltd	1	Trade receivables	29,932	General terms and conditions	-
		Guangdong Airtac Automatic Industrial Co., Ltd	1	Sales revenue	41,430	General terms and conditions	1%
		Airtac Co., Ltd.	1	Other receivable	64,630	General terms and conditions	-
		Airtac International (Singapore) Pte. Ltd.	1	Other receivable	156,695	General terms and conditions	1%
1	Ningbo Airtac Automatic Industrial Co.,Ltd	Airtac (China) Co., Ltd	3	Trade receivables	971,736	General terms and conditions	4%
		Airtac (China) Co., Ltd	3	Sales revenue	3,551,518	General terms and conditions	45%
		Guangdong Airtac Automatic Industrial Co., Ltd	3	Sales revenue	190,274	General terms and conditions	2%
		Guangdong Airtac Automatic Industrial Co., Ltd	3	Trade receivables	23,266	General terms and conditions	-
		Airtac Industrial Co., Ltd	3	Sales revenue	105,333	General terms and conditions	1%
		Airtac Industrial Co., Ltd	3	Trade receivables	43,256	General terms and conditions	-
		ATC (Italia) S.R.L	3	Sales revenue	87,567	General terms and conditions	1%
		ATC (Italia) S.R.L	3	Trade receivables	44,929	General terms and conditions	-
		Airtac International (Singapore) Pte. Ltd.	3	Trade receivables	62,987	General terms and conditions	-
		Airtac International (Singapore) Pte. Ltd.	3	Sales revenue	140,041	General terms and conditions	2%
		Airtac International Group	2	Sell property, plant and equipment	13,473	General terms and conditions	-
		Airtac International Group	2	Sales revenue	24,319	General terms and conditions	-
		Airtac International Group	2	Trade receivables	12,993	General terms and conditions	-

No.	Company Name	Counter Party	Nature of Relationship (Note)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Sales or Assets
1	Ningbo Airtac Automatic Industrial Co.,Ltd	Airtac Co., Ltd.	3	Sales revenue	\$ 15,042	General terms and conditions	-
2	Guangdong Airtac Automatic Industrial Co., Ltd	Ningbo Airtac Automatic Industrial Co., Ltd	3	Sales revenue	21,592	General terms and conditions	-
		Ningbo Airtac Automatic Industrial Co., Ltd	3	Sell property, plant and equipment	25,983	General terms and conditions	-
		Airtac (China) Co., Ltd	3	Trade receivables	321,951	General terms and conditions	1%
		Airtac (China) Co., Ltd	3	Sales revenue	1,119,571	General terms and conditions	14%
		Airtac Industrial Co., Ltd	3	Sales revenue	39,353	General terms and conditions	-
		Airtac Industrial Co., Ltd	3	Trade receivables	14,085	General terms and conditions	-
		ATC (Italia) S.R.L	3	Sales revenue	22,992	General terms and conditions	-
		ATC (Italia) S.R.L	3	Trade receivables	13,685	General terms and conditions	-
		Airtac International (Singapore) Pte.Ltd.	3	Trade receivables	24,821	General terms and conditions	-
		Airtac International (Singapore) Pte.Ltd.	3	Sales revenue	58,426	General terms and conditions	1%
		Airtac (China) Co., Ltd	3	Trade receivables	486,846	General terms and conditions	2%
		Airtac (Jiangsu) Automatic Co., Ltd.	3	Sales revenue	1,201,062	General terms and conditions	15%
4	Airtac International Group (Singapore) Pte.Ltd.	Airtac Industrial (Malaysia) Sdn. Bhd.	3	Trade receivables	21,533	General terms and conditions	-
		Airtac Industrial (Malaysia) Sdn. Bhd.	3	Sales revenue	22,325	General terms and conditions	-
		Airtac Industrial Co., Ltd	3	Sales revenue	12,778	General terms and conditions	-
5	Airtac Co., Ltd.	Ningbo Airtac Automatic Industrial Co., Ltd	3	Sales revenue	21,264	General terms and conditions	-
6	Airtac Industrial Co., Ltd	Airtac International Group	2	Trade receivables	79,876	General terms and conditions	-
		Airtac International Group	2	Sales revenue	72,787	General terms and conditions	-

Note : No 1. Represents the transactions from parent company to subsidiary.

No 2. Represents the transactions from subsidiary to parent company.

No 3. Represents the transactions from subsidiary to subsidiary.