

English Translation of Financial Statements and a Report Originally Issued in Chinese

Ticker: 5288

**EUROCHARM HOLDINGS CO., LTD.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH AUDIT REPORT OF INDEPENDENT AUDITORS
AS OF DECEMBER 31, 2016 AND 2015
AND FOR THE YEARS THEN ENDED**

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The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

English Translation of Financial Statements and a Report Originally Issued in Chinese

Consolidated financial statements

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English Translation of a Report Originally Issued in Chinese
REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
of Eurocharm Holdings Co., Ltd.

Opinion

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2016 and 2015, and their consolidated financial performance and cash flows for the years then ended, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

Revenue Recognition

We determine that revenue recognition is one of the key audit matters. The Company's consolidated revenue amounting to NT\$4,164,779 thousand for the year ended December 31, 2016 is significant to the Company's consolidated financial statements. The Company and its subsidiaries have conducted these sale activities through multi-market places. Furthermore, varieties of sale terms and conditions enacted in the main sale contracts or sale orders contributed to the complexity for the Company and its subsidiaries to decide the appropriate timing of transfer the risk of ownership and the return of goods to the buyers. We therefore conclude that there are significant risks with respect to the topic of revenue recognition. Our audit procedures therefore include, but not limit to, evaluating the properness of accounting policy for revenue recognition, assessing and testing the effectiveness of relevant internal controls related to revenue recognition, executing sale cut-off tests, and inspecting the major sale orders or agreements for their terms and conditions. We also evaluated the appropriateness of the related disclosure in Note 6 to the consolidated financial statements.

Impairment against trade receivables

The Company's consolidated gross trade receivables and allowance for doubtful accounts as of December 31, 2016 amounted to NT\$545,425 thousand and NT\$12,273 thousand, respectively. The consolidated net trade receivables represented 16% of the Company's total consolidated assets and were significant to the Company's consolidated financial statements. In considering several factors, including the amount of allowance for doubtful account to be influenced because identifying the overdue accounts may be different due to variety of sale terms, how the Company to evaluate an impairment against individual account to the extent that the provided amount can sufficiently reflect the credit risk, and the appropriateness of adopting the policy actually involving the management's significant judgment, we determine that the issue of impairment against trade receivables is one of the key audit matters.

Our audit procedures therefore include, but not limit to, evaluating the appropriateness of the policy for impairment against doubtful accounts (including inspecting the impairment actually incurred in prior years and industrial characteristics, overall assessing the percentages and underlying assumptions for the management to calculate the impairment amount), testing the effectiveness of relevant internal controls related to managing trade receivables (including evaluation on customers' credit risk and identifying specific customers' credit risk), reviewing subsequent collection for evaluating the recoverability of trade receivables, performing confirmation procedures through sampling techniques, testing the correctness of overdue accounts, investigating the reasonableness of any delinquent trade receivables, and assessing the reasonableness of impairment against individual account. We have also evaluated the appropriateness of the disclosure in Note 5 and Note 6 to the consolidated financial statements regarding trade receivables and related risk.

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

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

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

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



Ernst & Young
March 16, 2017
Taipei, Taiwan,
Republic of China

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations 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 practice to audit such consolidated financial statements are those generally accepted and applied in the Republic of China

English Translation of Consolidated Financial Statements Originally Issued in Chinese

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

As of December 31, 2016 and 2015

(Amounts Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	2016	2015	Liabilities and Equity	Notes	2016	2015
Current assets				Current liabilities			
Cash and cash equivalents	4, 6(1)	\$841,578	\$836,885	Short-term borrowings	6(11), 8	\$48,070	\$67,127
Debt instrument investments for which no active market exists	4, 6(2)	573,872	456,626	Notes payables		5	-
Notes receivables	4, 6(3)	149	11	Trade payables		311,829	326,487
Trade receivables	4, 6(4)	533,152	595,962	Trade payables-related parties	7	12,846	21,971
Trade receivables-related parties	4, 6(4), 7	20,518	24,054	Other payables	6(12)	170,712	167,842
Other receivables		26,183	32,036	Current tax liabilities	4, 6(22)	97,583	78,300
Inventories	4, 6(5), 8	375,011	380,352	Other current liabilities-others		19,172	18,908
Prepayments		125,006	117,477	Total current liabilities		<u>660,217</u>	<u>680,635</u>
Other current assets		850	651	Non-current liabilities			
Total current assets		<u>2,496,319</u>	<u>2,444,054</u>	Deferred tax liabilities	4, 6(22)	17,928	17,919
Non-current assets				Other non-current liabilities	6(13), 6(14)	28,399	40,926
Financial assets carried at cost	4, 6(6)	11,007	11,007	Total non-current liabilities		<u>46,327</u>	<u>58,845</u>
Investment accounted for under the equity method	4, 6(7)	123,664	102,748	Total liabilities		<u>706,544</u>	<u>739,480</u>
Property, plant and equipment	4, 6(8), 8	651,041	670,600	Equity attributable to shareholders of the parent			
Intangible assets	4, 6(9)	5,437	6,978	Capital	6(15)		
Deferred tax assets	4, 6(22)	714	714	Common stock		655,492	649,322
Other non-current assets	6(10)	400	400	Capital collected in advance		2,700	-
Total non-current assets		<u>792,263</u>	<u>792,447</u>	Capital surplus	6(15)	829,726	813,038
Total assets		<u>\$3,288,582</u>	<u>\$3,236,501</u>	Retained earnings	6(15)		
				Special reserve		61,299	61,299
				Accumulated profit or loss		1,067,620	920,747
				Other components of equity		(34,799)	52,615
				Total equity		<u>2,582,038</u>	<u>2,497,021</u>
				Total liabilities and equity		<u>\$3,288,582</u>	<u>\$3,236,501</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2016 and 2015

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

Description	Notes	2016	2015
Operating revenues	4, 6(17), 7	\$4,164,779	\$4,008,187
Operating costs	7	(3,416,393)	(3,215,602)
Gross profit		748,386	792,585
Realized (Unrealized) sales profit	4	(2)	29
Gross profit, net		748,384	792,614
Operating expenses			
Sales and marketing		(46,039)	(67,266)
General and administrative		(146,334)	(158,113)
Research and development		(42,991)	(38,369)
Operating expenses total		(235,364)	(263,748)
Operating income		513,020	528,866
Non-operating incomes and expenses			
Other incomes	6(19), 7	91,748	78,371
Other gains and losses	6(19), 7	(5,129)	19,463
Finance costs	6(19)	(824)	(1,350)
Share of profit or loss of associates and joint ventures	4, 6(7)	42,892	26,099
Non-operating incomes and expenses total		128,687	122,583
Income before income tax		641,707	651,449
Income tax expense	4, 6(22)	(169,914)	(167,329)
Net income		471,793	484,120
Other comprehensive income (loss)	6(21)		
Not to be reclassified to profit or loss in subsequent periods:			
Remeasurements of defined benefit plans		196	14,497
May be reclassified to profit or loss in subsequent periods:			
Exchange differences arising on translation of foreign operations		(86,010)	32,981
Share of other comprehensive income of associates and joint ventures accounted for under the equity method		(1,404)	269
Total other comprehensive income, net of tax		(87,218)	47,747
Total comprehensive income		\$384,575	\$531,867
Earnings per share-basic (in NTD)	6(23)	\$7.25	\$7.50
Earnings per share-diluted (in NTD)	6(23)	\$7.21	\$7.41

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

EUROPHARM HOLDINGS, CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2016 and 2015

(Amounts Expressed in Thousands of New Taiwan Dollar)

Description	Equity Attributable to Shareholders of the Parent							Total	Total Equity
	Share capital			Retained Earnings		Other Components of equity			
	Common Stock	Capital collected in advance	Capital surplus	Special Reserve	Accumulated profit or loss	Exchange Differences on Translation of Foreign Operations			
Balance as of January 1, 2015	\$643,492	\$-	\$794,848	\$61,299	\$647,891	\$19,365	\$2,166,895	\$2,166,895	
Appropriation and distribution of 2014 earnings:									
Cash dividends - common shares					(225,761)		(225,761)	(225,761)	
Net income in 2015					484,120		484,120	484,120	
Other comprehensive income in 2015					14,497	33,250	47,747	47,747	
Total comprehensive income	-	-	-	-	498,617	33,250	531,867	531,867	
Employee stock option certificates	5,830		16,632				22,462	22,462	
Share-based payment transaction			1,558				1,558	1,558	
Balance as of December 31, 2015	649,322	-	813,038	61,299	920,747	52,615	2,497,021	2,497,021	
Appropriation and distribution of 2015 earnings:									
Cash dividends - common shares					(325,116)		(325,116)	(325,116)	
Net income in 2016					471,793		471,793	471,793	
Other comprehensive income in 2016					196	(87,414)	(87,218)	(87,218)	
Total comprehensive income	-	-	-	-	471,989	(87,414)	384,575	384,575	
Employee stock option certificates	6,170	2,700	15,832				24,702	24,702	
Share-based payment transaction			856				856	856	
Balance as of December 31, 2016	\$655,492	\$2,700	\$829,726	\$61,299	\$1,067,620	\$(34,799)	\$2,582,038	\$2,582,038	

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016 and 2015

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	2016	2015	Items	2016	2015
Cash flows from operating activities:			Cash flows from investing activities:		
Net income before tax	\$641,707	\$651,449	Acquisition of debt instrument investments for which no active market exists	(117,246)	135,667
Adjustments to reconcile net income before tax to net cash provided by (used in) operating activities:			Acquisition of property, plant and equipment	(160,239)	(132,427)
Depreciation	154,471	161,753	Acquisition of intangible assets	(1,994)	(6,689)
Amortization	3,342	3,602	Net cash provided by (used in) investing activities	(279,479)	(3,449)
Bad debt expenses	-	12,426	Cash flows from financing activities:		
Interest expense	824	1,350	Increase in (repayment of) short-term borrowings	(19,057)	(23,392)
Interest income	(46,964)	(38,175)	Increase (Decrease) in guarantee deposits	3,205	476
Dividends	(10,927)	(9,070)	Cash dividends	(325,116)	(225,761)
Cost of share-based payment	856	1,558	Exercise of employee stock option	24,702	22,462
Share of profit or loss of associates and joint ventures	(42,892)	(26,099)	Net cash provided by (used in) financing activities	(316,266)	(226,215)
Loss on disposal of property, plant and equipment	828	670	Effect of exchange rate changes	(63,164)	37,867
Unrealized (Realized) sales profit	2	(29)	Net increase (decrease) in cash and cash equivalents	4,693	317,235
Changes in operating assets and liabilities:			Cash and cash equivalents at beginning of period	836,885	519,650
Notes receivables	(138)	553	Cash and cash equivalents at end of period	\$841,578	\$836,885
Trade receivables	63,258	(50,247)			
Trade receivables-related parties	3,536	(1,479)			
Other receivables	14,329	(17,448)			
Inventories	5,341	(48,358)			
Prepayments	(7,529)	(17,684)			
Other current assets	(199)	(497)			
Notes payables	5	(4)			
Trade payables	(14,658)	(19,787)			
Trade payables-related parties	(9,125)	(4,018)			
Other payables	5,844	17,787			
Other current liabilities	264	(24,043)			
Net defined benefit liability	(15,536)	6,568			
Cash generated from operations	746,639	600,778			
Interest received	38,057	37,046			
Dividends received	28,687	14,438			
Interest paid	(850)	(1,379)			
Income tax paid	(148,931)	(141,851)			
Net cash provided by (used in) operating activities	663,602	509,032			

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

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016 and 2015 and for the years then ended

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

1. HISTORY AND ORGANIZATION

Eurocharm Holdings Co., Ltd. (“the Company”) was incorporated in 18 July 2011. The Company’s subsidiaries are engaged in manufacturing and selling motorcycle and auto equipment parts, medical equipment, machine parts, and providing assembling services.

The Company’s common shares were publicly listed on the Taiwan Stock Exchange (TWSE) in 23 September 2014 and started trading in 25 September 2014. The Company’s registered office is at PO Box472, 2nd Floor, Harbour Place, 103 South Church Street, George Town KY1-1106, Grand Cayman, Cayman Islands. The main business locations are Khai Quang Industrial Zone, Vinh Yen City, Vinh Phuc Province, VietNam and No.15, Ln. 315 and Xinshu Rd., Xinzhuang Dist., New Taipei City, Taiwan (R.O.C.)

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The consolidated financial statements of the Company and subsidiaries (“the Group”) for the years ended 31 December 2016 and 2015 were authorized for issue by the Board of Directors on March 16, 2017.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

- (1) Standards or interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission (“FSC”), but not yet adopted by the Group at the date of issuance of the Group’s financial statements are listed below.

- (a) *IAS 36 “Impairment of Assets” (Amendment)*

This amendments relate to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement. The amendments are effective for annual periods beginning on or after January 1, 2014.

(b) *IFRIC 21 “Levies”*

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain). The interpretation is effective for annual periods beginning on or after January 1, 2014.

(c) *IAS 39 “Financial Instruments: Recognition and Measurement” (Amendment)*

Under the amendments, there would be no need to discontinue hedge accounting if a hedging derivative was notated, provided certain criteria are met. The interpretation is effective for annual periods beginning on or after January 1, 2014.

(d) *IAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)*

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective for annual periods beginning on or after July 1, 2014.

(e) *Improvements to International Financial Reporting Standards (2010-2012 cycle):*

IFRS 2 “Share-based Payment”

The annual improvements amend the definitions of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). The amendments prospectively apply to share-based payment transactions for which the grant date is on or after July 1, 2014.

IFRS 3 “Business Combinations”

The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) deleting the reference to "IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or other IFRSs as appropriate", other

contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in profit or loss; (3) amending the classification requirements of IFRS 9 *Financial Instruments* to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after July 1, 2014.

IFRS 8 “Operating Segments”

The amendments require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendments are effective for annual periods beginning on or after July 1, 2014.

IFRS 13 “Fair Value Measurement”

The amendments to the Basis for Conclusions of IFRS 13 clarify that when deleting paragraph B5.4.12 of IFRS 9 *Financial Instruments* and paragraph AG79 of IAS 39 *Financial Instruments: Recognition and Measurement* as consequential amendments from IFRS 13 *Fair Value Measurement*, the IASB did not intend to change the measurement requirements for short-term receivables and payables.

IAS 16 “Property, Plant and Equipment”

The amendments clarify that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendments are effective for annual periods beginning on or after July 1, 2014.

IAS 24 “Related Party Disclosures”

The amendments clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The amendments are effective for annual periods beginning on or after July 1, 2014.

IAS 38 “Intangible Assets”

The amendments clarify that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendments are effective for annual periods beginning on or after July 1, 2014.

(f) *Improvements to International Financial Reporting Standards (2011-2013 cycle):*

IFRS 1 “First-time Adoption of International Financial Reporting Standards”

The amendments clarify that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

IFRS 3 “Business Combinations”

This amendments clarify that paragraph 2(a) of IFRS 3 *Business Combinations* excludes the formation of all types of joint arrangements as defined in IFRS 11 *Joint Arrangements* from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendments are effective for annual periods beginning on or after July 1, 2014.

IFRS 13 “Fair Value Measurement”

The amendments clarify that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of the amendments is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 *Financial Instruments: Presentation*. The amendments are effective for annual periods beginning on or after July 1, 2014.

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

IAS 40 “Investment Property”

The amendments clarify the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 *Business Combinations* and investment property as defined in IAS 40 *Investment Property*, separate application of both standards independently of each other is required. The amendments are effective for annual periods beginning on or after July 1, 2014.

(g) *IFRS 14 “Regulatory Deferral Accounts”*

IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods beginning on or after January 1, 2016.

(h) *IFRS 11 “Joint Arrangements” (Accounting for Acquisitions of Interests in Joint Operations)*

The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments require the entity to apply all of the principles on business combinations accounting in IFRS 3 “Business Combinations”, and other IFRS (that do not conflict with the guidance in IFRS 11), to the extent of its share in a joint operation acquired. The amendments also requires certain disclosure. The amendments are effective for annual periods beginning on or after January 1, 2016.

(i) *IAS 16 “Property, Plant and Equipment and IAS 38 “Intangible Assets” — Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify that the use of revenue-based methods to calculate depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, such as selling activities and change in sales volumes or prices. The amendments also clarify that revenue is generally

presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendments are effective for annual periods beginning on or after January 1, 2016.

(j) *IAS 16 “Property, Plant and Equipment and IAS 41 “Agriculture” — Agriculture: Bearer Plants*

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 *Property, Plant and Equipment*, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, and the produce growing on bearer plants will remain within the scope of IAS 41. The amendments are effective for annual periods beginning on or after January 1, 2016.

(k) *IAS 27 “Separate Financial Statements” — Equity Method in Separate Financial Statements*

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity’s separate financial statements. In 2003, the equity method was removed from the options. This amendments removes the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions. The amendments are effective for annual periods beginning on or after January 1, 2016.

(l) *Improvements to International Financial Reporting Standards (2012-2014 cycle):*

IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”

The amendments clarify that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendments also requires identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendments are effective for annual periods beginning on or after January 1, 2016.

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IFRS 7 “Financial Instruments: Disclosures”

The amendments clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety under IFRS 7 *Financial Instruments: Disclosures* is required. The amendments also clarify that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities are required to be included in the condensed interim financial report would depend on the requirements under IAS 34 *Interim Financial Reporting*. The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 19 “Employee Benefits”

The amendments clarify the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 34 “Interim Financial Reporting”

The amendments clarify what is meant by “elsewhere in the interim financial report” under IAS 34; the amendments states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendments are effective for annual periods beginning on or after January 1, 2016.

(m) *Disclosure Initiative — Amendment to IAS 1 “Presentation of Financial Statements”:*

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, (2)

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clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2016.

- (n) *IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities”, and IAS 28 “Investments in Associates and Joint Ventures” — Investment Entities: Applying the Consolidation Exception*

The amendments contain (1) clarifying that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity when the investment entity measures all of its subsidiary at fair value, (2) clarifying that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated when all other subsidiaries of an investment entity are measured at fair value, and (3) allowing the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2016.

The abovementioned standards and interpretations issued by IASB and recognized by FSC are applicable for annual periods beginning on or after January 1, 2017. The Group assesses that there will be no significant impact on the Group’s financial statements then.

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- (2) Standards or interpretations issued, revised or amended, by IASB but not yet recognized by FSC at the date of issuance of the Group's financial statements are listed below.

(a) *IFRS 15 "Revenue from Contracts with Customers"*

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

The new Standard includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Standard is effective for annual periods beginning on or after January 1, 2018.

(b) *IFRS 9 "Financial Instruments"*

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9 *Financial Instruments* (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that 'own credit risk' adjustments are not recognized in profit or loss.

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Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

The new standard is effective for annual periods beginning on or after January 1, 2018.

- (c) *IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture.

The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

- (d) *IFRS 16 “Leases”*

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease. The Standard is effective for annual periods beginning on or after January 1, 2019.

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(e) *IAS 12 “Income Taxes” — Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify how to account for deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017.

(f) *Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”:*

The amendments relate to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period. The amendments are effective for annual periods beginning on or January 1, 2017.

(g) *IFRS 15 “Revenue from Contracts with Customers” — Clarifications to IFRS 15*

The amendments clarify how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time. The amendment are effective for annual periods beginning on or after January 1, 2018.

(h) *IFRS 2 “Shared-Based Payment” — Amendments to IFRS 2*

The amendments contains (1) clarifying that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, (2) clarifying if tax laws or regulations require the employer to withhold a certain amount in order to meet the employee’s tax obligation associated with the share-based payment, such transacitons will be classified in their entirety as equity-settled share-based payment transacitons if they would have been so classified in the absence of the net share settlement feature, and (3) clarifying that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognised in equity, on the

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modification date, to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date. Any difference between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2018.

(i) *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts — Amendments to IFRS 4*

The amendments help to resolve issues arising from the different effective dates for IFRS 9 “Financial Instruments” (January 1, 2018) and the new insurance contracts standard about to be issued by the IASB (still to be decided, but not before January 1, 2020). The amendments allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 “Financial Instruments” before the IASB’s new insurance contracts standard becomes effective. The amendments introduce two approaches: an overlay approach and a temporary exemption. The overlay approach allows an entity applying IFRS 9 to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before the new insurance contracts standard is applied. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until 2021 (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

(j) *Transfers of Investment Property — Amendments to IAS 40*

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after January 1, 2018.

(k) *Improvements to International Financial Reporting Standards (2014-2016 cycle):*

IFRS 1 “First-time Adoption of International Financial Reporting Standards”

The amendments revise and amend transition requirements relating to certain standards and delete short-term exemptions under Appendix E for first-time adopter. The amendments are effective for annual periods beginning on or after January 1, 2018.

IFRS 12 “Disclosure of Interests in Other Entities”

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity’s interests that are classified as held for sale or discontinued operations. The amendments are effective for annual periods beginning on or after January 1, 2017.

IAS 28 “Investments in Associates and Joint Ventures”

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 “Financial Instruments” on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after January 1, 2018.

(l) *IFRIC 22 “Foreign Currency Transactions and Advance Consideration”*

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 “The Effects of Changes in Foreign Exchange Rates”, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance

consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after January 1, 2018.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group's financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Group is still currently determining the potential impact of the standards and interpretations listed under (a) and (g), it is not practicable to estimate their impact on the Group at this point in time. All other standards and interpretations have no material impact on the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The consolidated financial statements for the years ended December 31, 2016 and 2015 have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by the FSC.

(2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are presented in thousands of New Taiwan Dollars ("NT\$") unless otherwise specified.

(3) Basis of consolidation

Preparation principle of consolidated financial statements

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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- (a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- (b) exposure, or rights, to variable returns from its involvement with the investee, and
- (c) the ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee
- (b) rights arising from other contractual arrangements
- (c) the Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the NCIs even if this results in a deficit balance of the NCIs.

If the Group loses control of a subsidiary, it:

- (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- (b) derecognizes the carrying amount of any non-controlling interest;
- (c) recognizes the fair value of the consideration received;
- (d) recognizes the fair value of any investment retained;
- (e) recognizes any surplus or deficit in profit or loss; and
- (f) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

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The consolidated entities are listed as follows:

Investor	Subsidiary	Main businesses	Percentage of ownership (%)	
			As of December 31,	
			2016	2015
The Company	Eurocharm Innovation Co., Ltd. (B.V.I.)	Investment activities	100.00%	100.00%
Eurocharm Innovation Co., Ltd. (B.V.I.)	Eurocharm Innovation Co., Ltd.	Manufacturing and sales of motor parts and medical equipment	100.00%	100.00%
Eurocharm Innovation Co., Ltd. (B.V.I.)	Vietnam Precision Industrial No.1 Co., Ltd.	Manufacturing and sales of motor parts and medical equipment	100.00%	100.00%
Eurocharm Innovation Co., Ltd. (B.V.I.)	Apex Precision Industrial Ltd.	Trading activities	100.00%	100.00%
Eurocharm Innovation Co., Ltd. (B.V.I.)	Optimal Victory Ltd. (Note)	Trading activities	100.00%	100.00%

Note: Eurocharm Innovation Co., Ltd. (B.V.I.) has set up Optimal Victory Ltd. during 2016.

(4) Foreign currency transactions

The Group's consolidated financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

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All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- (a) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- (b) Foreign currency items within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are accounted for based on the accounting policy for financial instruments.
- (c) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

The following partial disposals are accounted for as disposals:

- (a) when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and
- (b) when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

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On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Current and non-current distinction

An asset is classified as current when:

- (a) The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
- (b) The Group holds the asset primarily for the purpose of trading
- (c) The Group expects to realize the asset within twelve months after the reporting period
- (d) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- (a) The Group expects to settle the liability in its normal operating cycle
- (b) The Group holds the liability primarily for the purpose of trading
- (c) The liability is due to be settled within twelve months after the reporting period
- (d) The Group does not have an unconditional right to defer settlement of the liability 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.

All other liabilities are classified as non-current.

(7) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within 3 months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Financial instruments

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

Financial assets and financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

(a) Financial assets

The Group accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Group are classified as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. A financial asset is classified as held for trading if:

- i. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- ii. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- iii. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- i. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- ii. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment). If financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity, other than those that are designated as available-for-sale, classified as financial assets at fair value through profit or loss, or meet the definition of loans and receivables.

After initial measurement held-to-maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

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A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

- i. significant financial difficulty of the issuer or obligor; or
- ii. a breach of contract, such as a default or delinquency in interest or principal payments; or
- iii. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- iv. the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost

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and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

Derecognition of financial assets

A financial asset is derecognized when:

- i. The rights to receive cash flows from the asset have expired
- ii. The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- iii. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(b) Financial liabilities and equity

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. A financial liability is classified as held for trading if:

- i. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- ii. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- iii. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- i. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- ii. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

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Gains or losses on the subsequent measurement of liabilities at fair value through profit or losses including interest paid are recognized in profit or loss.

If the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(9) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (a) In the principal market for the asset or liability, or
- (b) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(10) Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials – Purchase cost on a first in, first out basis

Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(11) Investments accounted for using the equity method

The Group's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Group has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Group's percentage of ownership interests in the associate or joint venture, the Group recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a prorata basis.

When the associate or joint venture issues new stock, and the Group's interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional Paid in Capital and Investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Group disposes the associate or joint venture.

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The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 *Impairment of Assets*. In determining the value in use of the investment, the Group estimates:

- (a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
- (b) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*.

Upon loss of significant influence over the associate or joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

(12) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property,

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plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	5~50 years
Machinery and equipment	3~15 years
Mold equipment	1~6 years
Transportation equipment	3~15 years
Office equipment	3~7 years
Other equipment	3~8 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(13) Leases

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(14) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be

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supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (1 to 6 years).

A summary of the policies applied to the Group's intangible assets is as follows:

	<u>Computer software</u>	<u>Patents</u>
Useful lives	Limited	Limited
Amortization method used	Amortized on a straight-line basis over the estimated useful life	Amortized on a straight-line basis over the estimated useful life
Internally generated or acquired	Acquired	Acquired

(15) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the

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carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(16) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(17) Revenue recognition

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

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

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- (a) the significant risks and rewards of ownership of the goods have passed to the buyer;
- (b) neither continuing managerial involvement nor effective control over the goods sold have been retained;
- (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 entity; and
- (e) the costs incurred in respect of the transaction can be measured reliably.

Interest income

For all financial assets measured at amortized cost (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets, interest income is recorded using the effective interest rate method and recognized in profit or loss.

Dividends

Revenue is recognized when the Group's right to receive the payment is established.

(18) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(19) Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore fund assets are not included in the Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to

the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- (a) the date of the plan amendment or curtailment, and
- (b) the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

(20) Share-based payment transactions

The cost of equity-settled transactions between the Group and its subsidiaries is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(21) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The 10% surtax on undistributed retained earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- i. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ii. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- i. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ii. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

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

(a) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the income approach (for example the discounted cash flow model) or market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

(b) Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and future salary increases. Please refer to Note 6 for more details.

(c) Estimated impairment of trade receivable

The Group considers the estimated future cash flows if there is objective evidence that an impairment loss has been incurred. The loss of impairment is measured as the difference

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between the assets carrying amount and the present value of estimated future cash flows, which dose not include credit loss that has not occurde. The present value of the estimated future cash flow is discounted at the financial assets original effective interest rate. There would be material loss of impairment, when future cash flows are less than the Group expected.

(d) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 6.

(e) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

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6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	As of December 31,	
	2016	2015
Cash on hand	\$607	\$623
Checking and savings	458,580	343,936
Time deposits	382,391	492,326
Total	<u>\$841,578</u>	<u>\$836,885</u>

(2) Debt instrument investments for which no active market exists

	As of December 31,	
	2016	2015
Time deposits	<u>\$573,872</u>	<u>\$456,626</u>

	As of December 31,	
	2016	2015
Current	\$573,872	\$456,626
Non-current	-	-
Total	<u>\$573,872</u>	<u>\$456,626</u>

Debt instrument investments for which no active market exists were not pledged.

(3) Notes receivables

	As of December 31,	
	2016	2015
Notes receivables arising from operating activities	\$206	\$68
Less: allowance for doubtful debts	(57)	(57)
Total	<u>\$149</u>	<u>\$11</u>

Notes receivables were not pledged.

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(4) Trade receivables and Trade receivables-related parties

	As of December 31,	
	2016	2015
Trade receivables	\$545,425	\$608,683
Less: allowance for doubtful debts	(12,273)	(12,721)
Subtotal	533,152	595,962
Trade receivables from related parties	20,518	24,054
Less: allowance for doubtful debts	-	-
Subtotal	20,518	24,054
Total	\$553,670	\$620,016

Trade receivables are generally on 15-90 days terms. The movements schedule for the provision of impairment against trade receivables and trade receivables-related parties is as follow :

	Individually impaired	Collectively impaired	Total
As of January 1, 2016	\$-	\$12,721	\$12,721
Charge/(reversal) for the current period	-	-	-
Write off	-	-	-
Effect of exchange rate changes	-	(448)	(448)
As of December 31, 2016	\$-	\$12,273	\$12,273
As of January 1, 2015	\$-	\$634	\$634
Charge/(reversal) for the current period	-	12,426	12,426
Write off	-	(648)	(648)
Effect of exchange rate changes	-	309	309
As of December 31, 2015	\$-	\$12,721	\$12,721

Aging analysis of trade receivables and trade receivables-related parties that are past due at the end of the reporting period but not impaired is as follows:

	Neither past due nor impaired	Past due but not impaired			Total
		Less than 30 days	31~90 days	91~270 days	
Dec. 31, 2016	\$498,068	\$40,783	\$14,819	\$-	\$553,670
Dec. 31, 2015	613,351	1,163	5,502	-	620,016

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(5) Inventories

(a) Details of inventories are as below :

	As of December 31,	
	2016	2015
Raw materials and Supplies	\$143,816	\$152,458
Work in progress	118,543	149,557
Finished goods	106,976	72,761
Merchandises	5,676	5,576
Total	\$375,011	\$380,352

(b) The cost of inventories recognized in expenses amounted to NT\$3,416,393 thousand and NT\$3,215,602 thousand for the years ended December 31, 2016 and 2015, respectively.

The following losses (gains) were included in cost of sale :

	For the year ended December 31,	
	2016	2015
Loss from (Gains on recovery of) inventory market decline	\$1,989	\$(5,562)
Loss in inventory write-off obsolescence	9,935	11,000
Loss (gain) from physical	(27)	(68)
Total	\$11,897	\$5,370

The Group recognized gains on recovery of inventory market decline because some of the inventories previously provided with market loss or obsolescence were disposed.

(c) Inventories were not pledged.

(6) Financial assets carried at cost

	As of December 31,	
	2016	2015
Stock	\$11,007	\$11,007

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

	As of December 31,	
	2016	2015
Current	\$-	\$-
Non-current	11,007	11,007
Total	<u>\$11,007</u>	<u>\$11,007</u>

(a) The above investments in equity instruments of unlisted entities are measured at cost. The fair value of these investments are not reliably measurable due to the fact that the variability in the range of reasonable fair value measurements is significant for that investment and that the probabilities of the various estimates within the range cannot be reasonably assessed and used.

(b) Financial assets measured at cost were not pledged.

(7) Investments accounted for under the equity method

(a) Details of investments accounted for under the equity method are as below :

Investee companies	As of December 31,			
	2016		2015	
	Carrying amount	Percentage of Ownership	Carrying amount	Percentage of Ownership
Investments in associates:				
Exedy Vietnam Co., Ltd.	\$89,430	20.00%	\$70,370	20.00%
Hsieh Yuan Technology Vietnam Co., Ltd.	34,234	45.00%	32,378	45.00%
Total	<u>\$123,664</u>		<u>\$102,748</u>	

(b) Investments in associates

The Group's investments in Exedy Vietnam Co., Ltd. and Hsieh Yuan Technology Vietnam Co., Ltd. are not individually material. The aggregate carrying amounts of the Group's interests in Exedy Vietnam Co., Ltd. and Hsieh Yuan Technology Vietnam Co., Ltd. were NT\$123,664 thousand and NT\$102,748 thousand for the years ended December 31, 2016 and 2015, respectively. The aggregate financial information based on the Group's share of Exedy Vietnam Co., Ltd. and Hsieh Yuan Technology Vietnam Co., Ltd. is as follows:

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

	For the year ended December 31,	
	2016	2015
Profit or loss from continuing operations	\$42,892	\$26,099
Other comprehensive income (post-tax)	-	-
Total comprehensive income	\$42,892	\$26,099

The aforementioned associates had no contingent liabilities or capital commitments and were not under pledge as of December 31, 2016 and 2015.

As of December 31, 2016 and 2015, the balances of investments accounted for under the equity method were NT\$123,664 thousand and NT\$102,748 thousand, respectively. For the years ended December 31, 2016 and 2015, shares of investment income from these associates and joint ventures amounted to NT\$42,892 thousand and NT\$26,099 thousand, respectively. For the years ended December 31, 2016 and 2015, share of other comprehensive income from these associates and joint ventures amounted to NT\$(1,404) thousand and NT\$269 thousand.

(c) Investments accounted for under the equity method were not pledged.

(d) For the years ended December 31, 2016 and 2015, Vietnam Precision Industrial No.1 Co., Ltd. received distribution from Exedy Vietnam Co., Ltd. in amount of NT\$9,120 thousand and NT\$5,368 thousand, respectively, which were accounted for as a reduction to the carrying amount of the investment.

(e) For the year ended December 31, 2016, Eurocharm Innovation Co., Ltd. (B.V.I.) received distribution from Hsieh Yuan Technology Vietnam Co., Ltd. in amount of NT\$8,640 thousand, which was accounted for as a reduction to the carrying amount of the investment.

(8) Property, plant and equipment

	Land	Buildings	Machinery and equipment	Transportation equipment	Office Equipment	Other Equipment	Construction in	Total
							progress and equipment awaiting examination	
Cost:								
As of Jan. 1, 2016	\$52,420	\$183,599	\$1,335,992	\$74,518	\$10,984	\$103,417	\$8,825	\$1,769,755
Additions	-	1,375	49,087	4,860	2,189	14,361	85,419	157,291

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Disposals	-	-	(11,500)	(992)	(1,186)	(1,810)	-	(15,488)
Transfers	-	2,703	39,681	1,060	-	-	(43,444)	-
Exchange differences	-	(6,313)	(49,284)	(2,639)	(313)	(4,194)	(314)	(63,057)
As of Dec. 31, 2016	<u>\$52,420</u>	<u>\$181,364</u>	<u>\$1,363,976</u>	<u>\$76,807</u>	<u>\$11,674</u>	<u>\$111,774</u>	<u>\$50,486</u>	<u>\$1,848,501</u>

As of Jan. 1, 2015	\$52,420	\$182,565	\$1,204,408	\$72,763	\$9,207	\$91,613	\$17,669	\$1,630,645
Additions	-	255	110,212	1,943	2,610	13,336	5,787	134,143
Disposals	-	(1,339)	(8,244)	(1,057)	(910)	(2,576)	-	(14,126)
Transfers	-	-	14,843	-	-	-	(14,843)	-
Exchange differences	-	2,118	14,773	869	77	1,044	212	19,093
As of Dec. 31, 2015	<u>\$52,420</u>	<u>\$183,599</u>	<u>\$1,335,992</u>	<u>\$74,518</u>	<u>\$10,984</u>	<u>\$103,417</u>	<u>\$8,825</u>	<u>\$1,769,755</u>

Depreciation and impairment:

As of Jan. 1, 2016	\$-	\$88,247	\$862,398	\$58,928	\$6,733	\$82,849	\$-	\$1,099,155
Depreciation	-	10,548	118,141	5,238	2,400	18,144	-	154,471
Disposals	-	-	(10,742)	(927)	(1,186)	(2,450)	-	(15,305)
Transfers	-	-	-	-	-	-	-	-
Exchange differences	-	(3,022)	(32,443)	(2,137)	(212)	(3,047)	-	(40,861)
As of Dec. 31, 2016	<u>\$-</u>	<u>\$95,773</u>	<u>\$937,354</u>	<u>\$61,102</u>	<u>\$7,735</u>	<u>\$95,496</u>	<u>\$-</u>	<u>\$1,197,460</u>

As of Jan. 1, 2015	\$-	\$77,993	\$740,929	\$53,327	\$5,567	\$57,570	\$-	\$935,386
Depreciation	-	10,462	116,949	5,801	1,991	26,550	-	161,753
Disposals	-	(1,339)	(7,629)	(984)	(910)	(2,576)	-	(13,438)
Transfers	-	-	-	-	-	-	-	-
Exchange differences	-	1,131	12,149	784	85	1,305	-	15,454
As of Dec. 31, 2015	<u>\$-</u>	<u>\$88,247</u>	<u>\$862,398</u>	<u>\$58,928</u>	<u>\$6,733</u>	<u>\$82,849</u>	<u>\$-</u>	<u>\$1,099,155</u>

Net carrying amount as of:

Dec. 31, 2016	<u>\$52,420</u>	<u>\$85,591</u>	<u>\$426,622</u>	<u>\$15,705</u>	<u>\$3,939</u>	<u>\$16,278</u>	<u>\$50,486</u>	<u>\$651,041</u>
Dec. 31, 2015	<u>\$52,420</u>	<u>\$95,352</u>	<u>\$473,594</u>	<u>\$15,590</u>	<u>\$4,251</u>	<u>\$20,568</u>	<u>\$8,825</u>	<u>\$670,600</u>

Significant components of buildings primarily comprised the main buildings and the facilities, which are depreciated based on their respective useful economic life of 50 years and 5 to 20 years.

Please refer to Note 8 for more details on property, plant and equipment under pledge.

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

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(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(9) Intangible assets

	Computer software	Patents	Total
Cost:			
As of Jan. 1, 2016	\$23,465	\$228	\$23,693
Additions	1,994	-	1,994
Deduction-derecognition	(620)	-	(620)
Exchange differences	(753)	-	(753)
As of Dec. 31, 2016	<u>\$24,086</u>	<u>\$228</u>	<u>\$24,314</u>
As of Jan. 1, 2015	\$17,422	\$64	\$17,486
Additions	6,525	164	6,689
Deduction-derecognition	(660)	-	(660)
Exchange differences	178	-	178
As of Dec. 31, 2015	<u>\$23,465</u>	<u>\$228</u>	<u>\$23,693</u>
Amortization:			
As of Jan. 1, 2016	\$16,681	\$34	\$16,715
Amortization	3,148	194	3,342
Deduction-derecognition	(620)	-	(620)
Exchange differences	(560)	-	(560)
As of Dec. 31, 2016	<u>\$18,649</u>	<u>\$228</u>	<u>\$18,877</u>
As of Jan. 1, 2015	\$13,552	\$-	\$13,552
Amortization	3,568	34	3,602
Deduction-derecognition	(660)	-	(660)
Exchange differences	221	-	221
As of Dec. 31, 2015	<u>\$16,681</u>	<u>\$34</u>	<u>\$16,715</u>
Net carrying amount as of:			
Dec. 31, 2016	<u>\$5,437</u>	<u>\$-</u>	<u>\$5,437</u>
Dec. 31, 2015	<u>\$6,784</u>	<u>\$194</u>	<u>\$6,978</u>

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Amortization of intangible assets is as follows:

	For the year ended December 31,	
	2016	2015
Operating costs	\$2	\$9
Sales and marketing expenses	\$1	\$3
General and administrative expenses	\$3,039	\$3,318
Research and development expenses	\$300	\$272

(10) Other non-current assets

	As of December 31,	
	2016	2015
Refundable deposits	\$400	\$400

(11) Short-term borrowings

	Interest Rates (%)	As of December 31,	
		2016	2015
Secured bank loans	0.9502%~1.420%	\$40,000	\$20,000
Unsecured bank loans	1.50%~2.00%	8,070	47,127
Total		\$48,070	\$67,127

The Group's unused short-term lines of credits amount to NT\$470,011 thousand and NT\$296,316 thousand as of December 31, 2016 and 2015, respectively.

Please refer to Note 8 for more details on trade receivables, property, plant and equipment pledged as security for short-term borrowings.

(12) Other payables

	As of December 31,	
	2016	2015
Accrued expense	\$170,286	\$164,442
Payables on equipment	417	3,365
Accrued interest	9	35
Total	\$170,712	\$167,842

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(13) Other non-current liabilities

	As of December 31,	
	2016	2015
Net defined benefit liability	\$15,594	\$31,326
Guarantee deposits received	7,805	4,600
Other non-current liabilities	5,000	5,000
Total	\$28,399	\$40,926

(14) Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plan for the years ended December 31, 2016 and 2015 were NT\$2,025 thousand and NT\$2,073 thousand, respectively.

Defined benefits plan

The Group's Taiwan domestic subsidiaries adopt a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Group's Taiwan domestic subsidiaries contribute an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Group's Taiwan domestic subsidiaries assess the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Group's Taiwan domestic subsidiaries will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization

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of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Group's Taiwan domestic subsidiaries does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Group's Taiwan domestic subsidiaries expects to contribute NT\$918 thousand to its defined benefit plan during the 12 months beginning after December 31, 2016.

As of December 31, 2016 and 2015, the maturities of the Group's Taiwan domestic subsidiaries defined benefit plan were expected in 2046 and 2045.

Pension costs recognized in profit or loss for the years ended December 31, 2016 and 2015:

	For the year ended December 31,	
	2016	2015
Current period service costs	\$669	\$1,671
Net interest of defined benefit	406	1,024
Total	\$1,075	\$2,695

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	As of December 31,		
	Dec.31, 2016	Dec.31, 2015	Jan.1, 2015
Defined benefit obligation	\$37,882	\$39,415	\$55,694
Plan assets at fair value	(21,370)	(6,907)	(10,202)
Subtotal	16,512	32,508	45,492
Net defined benefit expected to contribute during the 12 months	(918)	(1,182)	(1,237)
Other non-current liabilities – net defined benefit liability on the consolidated balance sheets	\$15,594	\$31,326	\$44,255

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(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
As of Jan. 1, 2015	\$55,694	\$(10,202)	\$45,492
Current period service costs	1,671	-	1,671
Net interest expense (revenue)	1,253	(229)	1,024
Past service cost, gains and losses arising from settlements	-	-	-
Subtotal	58,618	(10,431)	48,187
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	(106)	-	(106)
Actuarial gains and losses arising from changes in financial assumptions	2,095	(40)	2,055
Experience adjustments	(16,446)	-	(16,446)
Re-measurement on defined benefit assets	-	-	-
Subtotal	(14,457)	(40)	(14,497)
Payments from the plan	(4,746)	4,746	-
Contributions by employer	-	(1,182)	(1,182)
Effect of exchange rates	-	-	-
As of Dec. 31, 2015	39,415	(6,907)	32,508
Current period service costs	669	-	669
Net interest expense (revenue)	492	(86)	406
Past service cost, gains and losses arising from settlements	-	-	-
Subtotal	40,576	(6,993)	33,583
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	108	-	108
Actuarial gains and losses arising from changes in financial assumptions	114	(5)	109
Experience adjustments	(413)	-	(413)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Re-measurement on defined benefit assets	-	-	-
Subtotal	(191)	(5)	(196)
Payments from the plan	(2,503)	2,503	-
Contributions by employer	-	(16,875)	(16,875)
Effect of exchange rates	-	-	-
As of Dec. 31, 2016	\$37,882	\$(21,370)	\$16,512

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	As of December 31,	
	2016	2015
Discount rate	1.20%	1.25%
Expected rate of salary increases	1.00%	1.00%

Sensitivity analysis:

	Effect on the defined benefit obligation			
	2016		2015	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	\$-	\$1,093	\$-	\$1,095
Discount rate decrease by 0.5%	1,218	-	1,225	-
Future salary increase by 0.5%	1,215	-	1,222	-
Future salary decrease by 0.5%	-	1,100	-	1,103

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

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(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(15)Equities

(a)Common stock

The Company's authorized capital was both NT\$900,000 thousand as of December 31, 2016 and 2015, divided into 65,549 thousand shares and 64,932 thousand shares, each at a par value of NT\$1, respectively. Total issued stock capital were NT\$655,492 thousand and NT\$649,322 thousand, respectively. Each share has one voting right and a right to receive dividends.

For the years ended December 31, 2016 and 2015, the Company's employees exercised stock options for 617 thousand shares and 583 thousand shares in amount of NT\$22,002 thousand and NT\$22,462 thousand, respectively.

The Company issued employee stock option on September 15, 2012. During the 2016 employees exercised 75 thousand shares in amount of NT\$2,700 thousand, which have not been issued for new shares as of December 31, 2016 and were recorded under the caption of capital collected in advance.

(b)Capital surplus

	As of December 31,	
	2016	2015
Additional paid-in capital	\$827,743	\$808,887
Employee stock option	1,263	3,640
Other	720	511
Total	\$829,726	\$813,038

According to the Company Act, capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

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(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(c) Retained earnings and dividend policies

(1) Retained earnings and dividend policies

According to the Company's old Articles of Incorporation, unless otherwise required by the Statute and the Applicable Public Company Rules, the Company may distribute profits in accordance with a proposal for distribution of profits prepared by the Directors and approved by the Members by an Ordinary Resolution at any general meeting. The directors shall prepare such proposal as follows:

- i. the proposal shall begin with the Company's annual net income and offset its losses in previous years that have not been previously offset, if any;
- ii. set aside a special capital reserve or reversal, if one is required, in accordance with the Applicable Public Company Rules or as requested by the authorities in charge;
- iii. set aside no more than 2% of the balance as bonus to Directors and no less than 2% of the balance as bonus to employees of the Company, which may be distributed under an incentive programme approved pursuant to Article above. The Directors shall specify the exact percentages or amounts to be distributed as bonuses to Directors and employees in preparing the proposal for distribution of profits, and the Members may amend such proposal prior to its approval. A Director who also serves as an executive officer of the Company may receive a bonus in his capacity as a Director and a bonus in his capacity as an employee; and
- iv. Any balance left over may be distributed as dividends in accordance with the Statute and the Applicable Public Company Rules and after taking into consideration profits of the current year and capital structure of the Company, unless otherwise specifically resolved by the board of directors and the general meetings, the amount of profits distributed to Members shall not be lower than 20% of profits (after tax) of the current year and the amount of cash dividends distributed thereupon shall not be less than 50% of the profits proposed to be distributed of the current year; in the event that the Dividends per share distributed in the current year is less than NT\$1, the Company may determine the Dividends to be distributed partially or entirely by stock dividends or cash dividends.

The Company's shareholders' meeting held on June 23, 2016 approved the resolution of amending the Articles of Incorporation. According to the revised Articles of

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Incorporations, unless otherwise required by the statute and the applicable public company rules, the Company may distribute profits in accordance with a proposal for distribution of profits prepared by the directors and approved by an Ordinary Resolution at a general shareholders' meeting. The directors shall prepare such proposal as follows:

- i. If there is any profit (after tax) of the current fiscal year after final account, it shall first be used to offset its losses in previous years which have not been previously offset (include the adjusted amount of undistributed earnings);
- ii. Set aside a special capital reserve or reversal, if one is required, in accordance with the applicable public company rules or as requested by the authorities in charge;
- iii. If there is any profit, it shall be set aside no more than 2% of the balance as compensation to directors and no less than 2% of the balance as compensation to employees of the Company, which may be distributed under an incentive programme approved pursuant to Article 11.1 above. The board of directors shall adopt the exact percentages to be distributed as compensation to directors and the compensation to employees, and such resolution shall be reported in the shareholders meeting. A director who also serves as an executive officer of the Company may receive a compensation in his capacity as a director and the compensation in his capacity as an employee;
- iiii. Any balance left over may be distributed as dividends in accordance with the statute and the applicable public company rules and after taking into consideration profits of the current year and capital structure of the Company, unless otherwise specifically resolved by the board of directors and the shareholders' meetings, the amount of profits distributed to shareholders shall not be lower than 20% of profits (after tax) of the current year and the amount of cash dividends distributed thereupon shall not be less than 50% of the profits proposed to be distributed of the current year; in the event that the dividends per share distributed in the current year is less than NT\$1, the Company may determine the dividends to be distributed partially or entirely by stock dividends or cash dividends.

As the Company is in the growing stage, the dividend distribution may take the form of a cash dividend and/or stock dividends and shall take into consideration the Company's capital expenditures, future expansion plans, and financial structure and funds requirement for sustainable development needs etc.

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(2) Special reserve

Following the adoption of TIFRS, the FSC on 6 April 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve, from the profit/loss of the current period and the undistributed earnings from the previous period, an amount equal to "other net deductions from shareholders' equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements in the preceding point, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

(3) The appropriations of earnings for the Year 2016 and 2015 were approved through the Board of Directors' meeting and Shareholders' meeting held on March 16, 2017 and June 23, 2016, respectively. The details of the distributions are as follows:

	<u>Appropriation of earnings</u>		<u>Dividend per share (in NT\$)</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Common stock- cash dividend	<u>\$263,013</u>	<u>\$325,116</u>	\$4	\$5

Please refer to Note 6(18) for further details on employees' compensation and remuneration to directors and supervisors.

(16) Share-based payment plans

Certain employees of the Group are entitled to share-based payment as part of their remunerations; services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.

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Share-based payment plan for employees of the parent entity

On September 15, 2012, the Company was authorized to issue employee share options with a total number of 2,000,000 units. Each unit entitles an optionee to subscribe for one share of the Company's common shares. The exercise price of the option was NT\$40. The optionee may exercise the options in accordance with certain schedules as prescribed by the plan starting 2 years from the grant date. Settlement upon the exercise of the options will be made through the issuance of new shares by the Company.

The fair value of share options is estimated at the grant date using a binomial option pricing-model, taking into account the terms and conditions upon which the share options were granted.

The contractual term of each option granted is six years. There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these employee share options.

The relevant details of the aforementioned share-based payment plan are as follows:

Date of grant	Total number of share options granted	Exercise price of share options (NT\$)
2012.09.15	2,000,000	\$36

(a)The following table lists the inputs to the model used for the plan granted during the year ended December 31, 2012:

	For the year ended Dec. 31, 2012
Dividend yield (%)	5%
Expected volatility (%)	39.63%
Risk-free interest rate (%)	0.8987%
Expected option life (Years)	6 years
Weighted average share price (\$)	\$40
Option pricing model	Black-scholes

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

(b)The following table contains further details on the aforementioned share-based payment plan:

	For the year ended December 31,			
	2016		2015	
	Number of share options outstanding	Weighted average exercise price of share options (NT\$)	Number of share options outstanding	Weighted average exercise price of share options (NT\$)
Outstanding at beginning of period	894,000	\$38	1,523,000	\$40
Granted	-	-	-	-
Exercised	(692,000)	36 (Note1)	(583,000)	38.53 (Note2)
Forfeited	-	-	(46,000)	38
Expired	-	-	-	-
Outstanding at end of period	<u>202,000</u>	\$36	<u>894,000</u>	\$38
Exercisable at end of period	202,000		154,000	

Note 1 : The weighted average share price at the date of exercise of these option was \$98.06.

Note 2 : The weighted average share price at the date of exercise of these option was \$69.14.

(c)The information on the outstanding share options as of December 31, 2016 and 2015 is as follows:

	Range of exercise price	Weighted average remaining contractual life (Years)
As of Dec. 31, 2016 share options outstanding at the end of the period	\$36	1.75 years
As of Dec. 31, 2015 share options outstanding at the end of the period	\$38	2.75 years

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(d) The expense recognized for employee services received during the years ended December 31, 2016 and 2015, is shown in the following table:

	For the year ended December 31,	
	2016	2015
Total expense arising from equity-settled share-based payment transactions	\$856	\$1,558

(17) Operating revenue

	For the year ended December 31,	
	2016	2015
Sale of goods	\$4,183,097	\$4,015,625
Less: Sales returns, discounts and allowances	(19,751)	(8,791)
Subtotal	4,163,346	4,006,834
Revenue arising from rendering of services	1,433	1,353
Total	\$4,164,779	\$4,008,187

(18) Summary statement of employee benefits, depreciation and amortization expenses by function during the years ended December 31, 2016 and 2015:

	For the year ended December 31,					
	2016			2015		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	\$660,301	\$89,860	\$750,161	\$582,046	\$98,473	\$680,519
Labor and health insurance	1,737	3,286	5,023	1,858	3,528	5,386
Pension	929	2,171	3,100	1,403	3,365	4,768
Other employee benefits expense	10,425	4,993	15,418	9,469	4,967	14,436
Depreciation	149,482	4,989	154,471	156,829	4,924	161,753
Amortization	2	3,340	3,342	9	3,593	3,602

The Company recorded the compensations to employees and to directors and supervisors for the year ended December 31, 2016 in amount of NT\$18,100 thousand and NT\$10,300 thousand, respectively. Employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2015 in amount of NT\$18,100 thousand and

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NT\$10,343 thousand, respectively. The aforementioned employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2016 were estimated based on post-tax net income of the period and recognized as salary expenses. The number of stocks distributed as employees' compensation, if any, shall be calculated based on the closing price one day earlier than the date of shareholders' meeting and considered the impacts of ex-right/ex-dividend.

The Company's shareholder's meeting has determined the employees' compensation and directors' remuneration, all in cash, to be NT\$18,100 thousand and NT\$10,343 thousand, respectively, in a meeting held on June 23, 2016. No material differences existed between the estimated amount and the actual distribution for the year ended December 31, 2015.

(19) Non-operating income and expenses

(a) Other income

	For the year ended December 31,	
	2016	2015
Interest income	\$46,964	\$38,175
Rental income	19,138	19,151
Dividends income	10,927	9,070
Others	14,719	11,975
Total	\$91,748	\$78,371

(b) Other gains and losses

	For the year ended December 31,	
	2016	2015
Gains (losses) on disposal of property, plant and equipment	\$(828)	\$(670)
Foreign exchange gains (losses), net	(1,677)	32,083
Others	(2,624)	(11,950)
Total	\$(5,129)	\$19,463

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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(c) Finance costs

	For the year ended December 31,	
	2016	2015
Interest on borrowings from bank	\$824	\$1,350

(20) Operating leases

(a) Operating lease commitments – Group as lessee

The Group has entered into commercial leases on certain plant. These leases have average lives between one and two years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under operating leases as of December 31, 2016 and 2015, are as follows:

	As of December 31,	
	2016	2015
Not later than one year	\$2,291	\$2,311
More than one year but less than five years	191	-
Total	\$2,482	\$2,311

Operating lease expenses recognized are as follows:

	For the year ended December 31,	
	2016	2015
Minimum lease payment	\$2,324	\$2,923

(b) Operating lease commitments – Group as lessor

The Group has entered into commercial property leases with remaining terms of between one and two years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

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Future minimum rentals receivable under operating leases as of December 31, 2016 and 2015, are as follows:

	For the year ended December 31,	
	2016	2015
Not later than one year	\$6,797	\$10,222

The Group recognized rent income in amount of NT\$19,138 thousand and NT\$19,151 thousand for the years ended December 31, 2016 and 2015, respectively.

(21) Components of other comprehensive income

	For the year ended December 31, 2016				
	Arising during the period	Reclassification adjustments during the period	Subtotal	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$196	\$-	\$196	\$-	\$196
May be reclassified to profit or loss in subsequent periods:					
Exchange differences arising on translation of foreign operations	(86,010)	-	(86,010)	-	(86,010)
Share of other comprehensive income of associates and joint ventures accounted for under the equity method	(1,404)	-	(1,404)	-	(1,404)
Total of other comprehensive income	\$(87,218)	\$-	\$(87,218)	\$-	\$(87,218)

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(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

	For the year ended December 31, 2015				
	Arising during the period	Reclassification adjustments during the period	Subtotal	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$14,497	\$-	\$14,497	\$-	\$14,497
May be reclassified to profit or loss in subsequent periods:					
Exchange differences arising on translation of foreign operations	32,981	-	32,981	-	32,981
Share of other comprehensive income of associates and joint ventures accounted for under the equity method	269	-	269	-	269
Total of other comprehensive income	\$47,747	\$-	\$47,747	\$-	\$47,747

(22)Income tax

(a)The major components of income tax expense (income) are as follows:

Income tax expense (income) recognized in profit or loss

	For the year ended December 31,	
	2016	2015
Current income tax expense (income):		
Current income tax charge	\$168,033	\$165,033
Adjustments in respect of current income tax of prior periods	1,872	2,247
Deferred tax expense (income):		
Deferred tax expense relating to origination and reversal of temporary differences	9	49

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(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Deferred tax expense relating to origination and reversal of tax loss and tax credit	-	-
Total income tax expense (income)	<u>\$169,914</u>	<u>\$167,329</u>

(b) Income tax relating to components of other comprehensive income:

	For the year ended December 31,	
	2016	2015
Deferred tax expense (income):		
Remeasurements of defined benefit plans	<u>\$-</u>	<u>\$-</u>

(c) Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the year ended December 31,	
	2016	2015
Accounting profit (loss) before tax from continuing operations	<u>\$641,707</u>	<u>\$651,449</u>
Tax payable at the enacted tax rates	\$170,338	\$181,778
10 % surtax on undistributed retained earnings	3,669	1,904
Tax effect of expenses not deductible for tax purposes	(5,965)	(18,600)
Tax effect of deferred tax assets/liabilities	-	-
Adjustments in respect of current income tax of prior periods	1,872	2,247
Total income tax expense (income) recognized in profit or loss	<u>\$169,914</u>	<u>\$167,329</u>

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(d)Deferred tax assets (liabilities) relate to the following:

	For the year ended December 31, 2016						Ending balance as of Dec. 31, 2016
	Deferred tax income (expense) recognized in profit or loss Jan. 1, 2016	Deferred tax income (expense) recognized in other comprehensive income	Deferred tax income (expense) charged directly to equity	Deferred tax assets (liabilities) acquired in business combinations	Exchange differences		
Temporary differences							
Unrealized loss on inventory valuation	\$538	\$-	\$-	\$-	\$-	\$-	\$538
Unrealized exchange loss (gain)	(1,509)	(9)	-	-	-	-	(1,518)
Bonus for unused vacation	176	-	-	-	-	-	176
Revaluation surplus of land	(16,410)	-	-	-	-	-	(16,410)
Deferred tax income/(expense)		<u>\$ (9)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	
Net deferred tax assets/(liabilities)	<u>\$ (17,205)</u>						<u>\$ (17,214)</u>
Reflected in balance sheet as follows:							
Deferred tax assets	<u>\$714</u>						<u>\$714</u>
Deferred tax liabilities	<u>\$ (17,919)</u>						<u>\$ (17,928)</u>

	For the year ended December 31, 2015						Ending balance as at Dec. 31, 2015
	Deferred tax income (expense) recognized in profit or loss Jan. 1, 2015	Deferred tax income (expense) recognized in other comprehensive income	Deferred tax income (expense) charged directly to equity	Deferred tax assets (liabilities) acquired in business combinations	Exchange differences		
Temporary differences							
Unrealized loss on inventory valuation	\$538	\$-	\$-	\$-	\$-	\$-	\$538
Unrealized exchange loss (gain)	(1,460)	(49)	-	-	-	-	(1,509)
Bonus for unused vacation	176	-	-	-	-	-	176
Revaluation surplus of land	(16,410)	-	-	-	-	-	(16,410)
Deferred tax income/(expense)		<u>\$ (49)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	
Net deferred tax assets/(liabilities)	<u>\$ (17,156)</u>						<u>\$ (17,205)</u>
Reflected in balance sheet as follows:							
Deferred tax assets	<u>\$714</u>						<u>\$714</u>
Deferred tax liabilities	<u>\$ (17,870)</u>						<u>\$ (17,919)</u>

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(e) Imputation credit information – for the subsidiary, Eurocharm Innovation Co., Ltd.

	As of December 31,	
	2016	2015
Balances of imputation credit amounts	\$26,197	\$15,798

The expected creditable ratio for 2016 and actual creditable ratio for 2015 were 29.77% and 26.32%, respectively.

Earnings of Eurocharm Innovation Co., Ltd. generated in the years ended December 31, 1997 or before have been fully appropriated.

(f) The assessment of income tax returns

As of December 31, 2016, the assessment of the income tax returns of the Company's subsidiaries is as follows:

	<u>The assessment of income tax returns</u>
Subsidiary- Eurocharm Innovation Co., Ltd.	Assessed and approved up to 2014
Subsidiary- Vietnam Precision Industrial No.1 Co., Ltd.	Assessed and approved up to 2014

(23) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity after dilution by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

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	For the year ended December 31,	
	2016	2015
(a)Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	\$471,793	\$484,120
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	65,069	64,580
Basic earnings per share (NT\$)	\$7.25	\$7.50
(b)Diluted earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	\$471,793	\$484,120
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	65,069	64,580
Effect of dilution:		
Employee bonus—stock (in thousands)	263	180
Employee stock options (in thousands)	111	539
Weighted average number of ordinary shares outstanding after dilution (in thousands)	65,443	65,299
Diluted earnings per share (NT\$)	\$7.21	\$7.41

No other transactions that would significantly change the outstanding common shares or potential common shares incurred during the period subsequent to reporting date and up to the approval date of financial statements.

7. RELATED PARTY TRANSACTIONS

(1)Significant transactions with related parties

(a)Sales

	For the year ended December 31,	
	2016	2015
Associates	\$190,252	\$201,781

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The sales prices for related parties were not comparable. Terms of collection for related parties shall be the same for those applied to general clients. Receivables shall be finalized on a monthly basis and shall be collected within 15 to 90 days after accounts have been finalized.

(b) Purchases

	For the year ended December 31,	
	2016	2015
Associates	\$69,807	\$58,014
Other related parties	7,522	7,626
Total	\$77,329	\$65,640

The purchasing prices to related parties were not comparable. Terms of payment to related parties shall be the same for those applied to general suppliers. Payables shall be finalized on a monthly basis and shall be paid within 30 to 90 days after monthly closing.

(c) For the years ended December 31, 2016 and 2015, the Group were charged by associates for processing and therefore recognized processing expense in amount of NT\$49,487 thousand and NT\$44,223 thousand, respectively.

(d) For the years ended December 31, 2016 and 2015, the Group charged associates for processing and therefore recognized processing income in amount of NT\$168 thousand and NT\$142 thousand, respectively, which were recorded under the caption of operating revenues.

(e) For the years ended December 31, 2016 and 2015, the Group dealt with sales services on behalf of other related parties and therefore recognized commissions income in amount of NT\$1,265 thousand and NT\$1,661 thousand, respectively, which were recorded under the caption of operating revenues.

(f) For the years ended December 31, 2016 and 2015, the Group were charged by associates due to product defect and therefore recognized compensation in amount of NT\$733 thousand and NT\$0, respectively, which were recorded under the caption of other gains and losses.

(g) For the years ended December 31, 2016 and 2015, the Group charged associates for processing product defect and therefore recognized compensation income in amount of

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NT\$3,310 thousand and NT\$0, respectively, which were recorded under the caption of other incomes.

(h) Trade receivables from related parties

	As of December 31,	
	2016	2015
Associates	\$20,518	\$24,054

(i) Trade payables to related parties

	As of December 31,	
	2016	2015
Associates	\$12,180	\$10,992
Other related parties	666	10,979
Total	\$12,846	\$21,971

(j) Lease transactions with related parties

<u>Lessor</u>	<u>Lease</u>	<u>Duration</u>	<u>Rental expense</u>	<u>Payments</u>
<u>For the year ended Dec. 31, 2016</u>				
Other related party	No.10, Ln. 315, Xinshu Rd., Xinzhuang Dist.	Jan. 16, 2016~ Jan. 15, 2018	\$1,920	monthly paid by cash
<u>For the year ended Dec. 31, 2015</u>				
Other related party	No.10, Ln. 315, Xinshu Rd., Xinzhuang Dist.	Jan. 16, 2014~ Jan. 15, 2016	\$1,920	monthly paid by cash

The Group recognized above amounts under manufacturing expense and operating expenses.

<u>Lessee</u>	<u>Lease</u>	<u>Duration</u>	<u>Rental income</u>
<u>For the year ended Dec. 31, 2016</u>			
Associate	Property and plant	Jan. 1, 2015~ Dec. 31, 2016	\$11,058
Associate	Property and plant	Jan. 1, 2015~ Dec. 31, 2017	8,080
Total			\$19,138

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For the year ended Dec. 31, 2015

Associate	Property and plant	Jan. 1, 2015~ Dec. 31, 2016	\$11,078
Associate	Property and plant	Jan. 1, 2014~ Dec. 31, 2015	8,073
Total			<u>\$19,151</u>

(k)Salaries and rewards to key management of the Group

	<u>For the year ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Short-term employee benefits	\$26,562	\$25,342
Post-employment benefits	413	518
Share-based payment	14,470	11,500
Total	<u>\$41,445</u>	<u>\$37,360</u>

8. PLEDGED ASSETS

The following table lists assets of the Group pledged as collaterals:

<u>Assets pledged for security</u>	<u>Carrying amount</u>		<u>Secured liabilities</u>
	<u>As of December 31,</u>		
	<u>2016</u>	<u>2015</u>	
Property, plant and equipment - land	\$52,420	52,420	Short-term borrowings
Property, plant and equipment - buildings	671	481	Short-term borrowings
Total	<u>\$53,091</u>	<u>\$52,901</u>	

9.SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

None.

10.SIGNIFICANT DISASTER LOSS

None.

11.SIGNIFICANT SUBSEQUENT EVENTS

None.

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12. OTHERS

(1) Financial instruments

Categories of financial instruments

Financial assets

	As of December 31,	
	2016	2015
Available-for-sale financial assets:		
Financial assets measured at cost	\$11,007	\$11,007
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	840,971	836,262
Debt instrument investments for which no active market exists	573,872	456,626
Notes receivables	149	11
Trade receivables	533,152	595,962
Trade receivables from related parties	20,518	24,054
Other receivables	26,183	32,036
Subtotal	1,994,845	1,944,951
Total	\$2,005,852	\$1,955,958

Financial liabilities

	As of December 31,	
	2016	2015
Financial liabilities at amortized cost:		
Short-term borrowings	\$48,070	\$67,127
Trade payables	495,392	516,300
Total	\$543,462	\$583,427

(2) Financial risk management objectives and policies

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies measures and manages the aforementioned risks based on the Group's policy and risk appetite.

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The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

(3)Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity instruments).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable; there are usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for foreign currency USD. The information of the sensitivity analyses is as follows:

When NTD is strengthened/weakened against foreign currency USD by 1%, the profit for the years ended December 31, 2016 and 2015 decreased/increased by NT\$6,211 thousand and NT\$6,146 thousand, respectively.

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans and receivables at variable interest rates, bank borrowings with fixed interest rates and variable interest rates.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as at the end of the reporting period, including investments and borrowings with variable interest rates. At the reporting date, a change of 10 basis points of interest rate in a reporting period could cause the profit for the years ended 31 December 2016 and 2015 to increase/decrease by NT\$411 thousand and NT\$277 thousand, respectively.

Equity price risk

As of December 31, 2016 and 2015, the Group did not have equity securities that are measured at fair value and therefore did not have equity price risk.

(4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc.

As of December 31, 2016 and 2015, accounts receivable from top ten customers represent 90.77% and 90.38% of the total accounts receivable of the Group, respectively. The credit concentration risk of other accounts receivable are relatively not significant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures,

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counter parties.

(5) Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, bank borrowings, etc. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as at the end of the reporting period.

Non-derivative financial instruments

	<u>Less than 1 year</u>
<u>As of December 31, 2016</u>	
Short term borrowings	\$48,137
Trade and other payables	495,392
<u>As of December 31, 2015</u>	
Short term borrowings	\$67,278
Trade and other payables	516,300

(6) Fair values of financial instruments

(a) The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

- i. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

- ii. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.
- iii. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).
- iv. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.).
- v. The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using on the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

(b) Fair value of financial instruments measured at amortized cost

The carrying amount of the Group's financial assets and liabilities measure at amortized cost approximates their fair value.

(c) Fair value measurement hierarchy for financial instruments

Please refer to Note 12(7) for fair value measurement hierarchy for financial instruments of the Group.

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(7) Fair value measurement hierarchy

(a) Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(b) Fair value measurement hierarchy of the Group's assets and liabilities

As of December 31, 2016 and 2015, the Group did not have financial assets and liabilities that are measured at fair value.

(8) Significant assets and liabilities denominated in foreign currencies (in thousand dollars)

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	As of December 31,					
	2016			2015		
	Foreign currencies	Exchange rate	NTD	Foreign currencies	Exchange rate	NTD
<u>Financial assets</u>						
Monetary items:						
USD	\$20,146	32.73	\$659,339	\$19,297	33.33	\$643,131
VND	\$852,616,655	0.001457	\$1,242,262	\$776,043,788	0.00151	\$1,172,602

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Investments accounted for using the equity method

VND	<u>\$84,920,640</u>	0.001457	<u>\$123,729</u>	<u>\$68,043,635</u>	0.00151	<u>\$102,748</u>
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Financial liabilities

Monetary items:

USD	<u>\$970</u>	33.01	<u>\$32,024</u>	<u>\$659</u>	34.04	<u>\$22,430</u>
VND	<u>\$229,083,154</u>	0.001469	<u>\$336,591</u>	<u>\$272,749,253</u>	0.00151	<u>\$412,124</u>

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

The Group's entities functional currency are various, and hence is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant assets and liabilities denominated in foreign currencies. The foreign exchange gains (losses) were NT\$(1,677) thousand and NT\$32,083 thousand for the years 2016 and 2015, respectively.

(9)Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. OTHER DISCLOSURES

(1)Information at significant transactions:

(a)Financing provided to others: None.

(b)Endorsement/Guarantee provided to others: Please refer to Attachment 1.

(c)Marketable securities held as of December 31, 2016 (excluding investments in subsidiaries, associates and joint ventures): None.

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

- (d) Individual securities acquired or disposed of with accumulated amount of at least NT\$ 300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.
- (e) Acquisition of individual real estate with amount of at least NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.
- (f) Disposal of individual real estate with amount of at least NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.
- (g) Related party transactions with purchase or sales amount of at least NT\$100 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.
- (h) Receivables from related parties of at least NT\$100 million or 20 percent of the paid-in capital as of December 31, 2016: None.
- (i) Derivative instrument transactions: None.
- (j) Intercompany relationships and significant intercompany transactions for the year ended December 31, 2016: Please refer to Attachment 5.
- (2) Information on investees:
- (a) Investees over whom the Company exercises significant influence or control (excluding investees in Mainland China): Please refer to attachment 2.
- (b) Investees over which the Company exercises control shall be disclosed of information under Note 13(1):
- i. Financing provided to others: None.
 - ii. Endorsement/Guarantee provided to others: None.
 - iii. Marketable securities held as of December 31, 2016 (excluding investments in subsidiaries, associates and joint ventures): Please refer to Attachment 3.
 - iv. Individual securities acquired or disposed of with accumulated amount of at least NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

- v. Acquisition of individual real estate with amount of at least NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.
- vi. Disposal of individual real estate with amount of at least NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.
- vii. Related party transactions with purchase or sales amount of at least NT\$100 million or 20 percent of the paid-in capital for the year ended December 31, 2016: Please refer to attachment 4.
- viii. Receivables from related parties of at least NT\$100 million or 20 percent of the paid-in capital as of December 31, 2016: None.
- ix. Derivative instrument transactions: None.

(3) Information on investments in Mainland China: None.

14. OPERATING SEGMENT

(1) The major operating revenues of the Group come from manufacturing and sales of motorcycle and auto equipment parts, medical equipment and machine parts. The chief operating decision maker reviewed the overall operating results to make decision about resources to be allocated to and evaluated the overall performance. Therefore, the Group was aggregated into a single segment.

(2) Geographical information

(a) Revenues from external customers

	For the year ended December 31,	
	2016	2015
Vietnam	\$3,084,643	\$2,973,521
Other	1,080,136	1,034,666
Total	\$4,164,779	\$4,008,187

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(b) Non-current assets

	As of December 31,	
	2016	2015
Vietnam	\$718,828	\$720,709
Taiwan	61,714	60,017
Total	\$780,542	\$780,726

(3) Information about major customers: sales from individual customers represent over 10% of the Group's operating revenues is as below:

	For the year ended December 31,	
	2016	2015
Customer A	\$2,082,372	\$2,040,986
Customer B	Note	359,348

Note: No additional disclosures for the year ended December 31, 2016 due to this customer's revenue being accounted for less than 10% of net sales.

ATTACHMENT 1(Endorsement/Guarantee provided to others for the year ended December 31, 2016)

(All the currencies are denominated in Thousands of New Taiwan Dollars unless otherwise specified)

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

No. (Note 1)	Endorser/Guarantor	Receiving party		Limit of guarantee/endorsement amount for receiving party	Maximum balance for the		Actual amount provided	Amount of collateral for guarantee/ endorsement	Percentage of accumulated guarantee amount to net assets value from the latest financial statement	Limit of total guarantee/endorsement amount	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China
		Company name	Relationship		period	Ending balance							
0	Eurocharm Holdings Co., Ltd.	Apex Precision Industrial Ltd.	Sub-subsiidary	The aggregate amount of guarantees/endorsements that the Company as a whole is permitted to make shall not exceed 40% of the Company's net assets.	\$33,650 (USD 1,000)	\$32,279 (USD 1,000) (Note 2)	\$-	\$-	1.25%	Limit of total guaranteed/endorsed amount shall not exceed 50% net assets value as of Dec. 31, 2016 \$1,291,019.	Y	N	N
0	Eurocharm Holdings Co., Ltd.	Eurocharm Innovation Co., Ltd.	Sub-subsiidary	The aggregate amount of guarantees/endorsements that the Company as a whole is permitted to make shall not exceed 40% of the Company's net assets.	\$90,000	\$90,000	\$-	\$-	3.48%	Limit of total guaranteed/endorsed amount shall not exceed 50% net assets value as of Dec. 31, 2016 \$1,291,019.	Y	N	N
0	Eurocharm Holdings Co., Ltd.	Vietnam Precision Industrial No.1 Co., Ltd.	Sub-subsiidary	The aggregate amount of guarantees/endorsements that the Company as a whole is permitted to make shall not exceed 40% of the Company's net assets.	\$189,254 (USD 5,800)	\$187,218 (USD 5,800) (Note 2)	\$-	\$-	7.23%	Limit of total guaranteed/endorsed amount shall not exceed 50% net assets value as of Dec. 31, 2016 \$1,291,019.	Y	N	N

Note 1: Eurocharm Holdings Co., Ltd. is coded "0".

Note 2: Foreign currency were exchanged by exchange rate as at balance sheet date.

ATTACHMENT 2 (If an investor has the ability to exercise significant influence on investee or has material controlling power on investee) (Excluding investment in Mainland China)

(All the currencies are denominated in Thousands of New Taiwan Dollars, foreign currency)

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

Investor Company	Investee Company	Address	Main businesses and products	Original Investment Amount		Investments as of December 31, 2016			Net income (loss) of investee company	Investment income (loss) recognized	Note
				As of Dec. 31, 2016	As of Dec. 31, 2015	Number of shares	Percentage of ownership (%)	Book Value			
Eurocharm Holdings Co., Ltd.	Eurocharm Innovation Co., Ltd. (B.V.I.)	British Virgin Islands	Investment holding	\$615,652	\$615,652	19,000,000	100.00%	\$2,606,913 (Note 3)	\$553,875	\$553,875 (Note 3)	Subsidiary
Eurocharm Innovation Co., Ltd. (B.V.I.)	Eurocharm Innovation Co., Ltd.	Taiwan	Manufacturing and sales of motor parts and medical equipment	61,425	61,425	5,850,000	100.00%	102,568 (Note 3)	17,037	20,787 (Note 1) (Note 3)	Sub-subsidiary
Eurocharm Innovation Co., Ltd. (B.V.I.)	Vietnam Precision Industrial No.1 Co., Ltd.	Vietnam	Manufacturing and sales of motor parts and medical equipment	USD 8,700	USD 8,700	-	100.00%	2,367,938 (Note 3)	522,370	522,370 (Note 3)	Sub-subsidiary
Eurocharm Innovation Co., Ltd. (B.V.I.)	Apex Precision Industrial Ltd.	Samoa	Trading activities	USD 2,000	USD 2,000	2,000,000	100.00%	72,967 (Note 3)	12,763	2,964 (Note 2) (Note 3)	Sub-subsidiary
Eurocharm Innovation Co., Ltd. (B.V.I.)	Optimal Victory Ltd.	Samoa	Trading activities	USD 900	-	900,000	100.00%	28,981 (Note 3)	743	743 (Note 3)	Sub-subsidiary
Eurocharm Innovation Co., Ltd. (B.V.I.)	Hsien Yuan Technology Vietnam Co., Ltd.	Vietnam	Manufacturing and sales of motor parts and surface plating	USD 562	USD 562	-	45.00%	34,234	26,445	11,900	Investment accounted for using the equity method
Vietnam Precision Industrial No.1 Co., Ltd.	Exedy Vietnam Co., Ltd.	Vietnam	Manufacturing and sales of motor parts	VND 13,212,264	VND 13,212,264	-	20.00%	89,430	154,959	30,992	Investment accounted for using the equity method

Note 1: Including investment gain recognized under equity method amounted to NT\$17,073 thousand, realized profit on transaction between subsidiaries amounted to NT\$23,855 thousand and unrealized profit on transaction between subsidiaries amounted to NT\$20,105 thousand.

Note 2: Including investment gain recognized under equity method amounted to NT\$12,763 thousand, realized profit on transaction between subsidiaries amounted to NT\$15,788 thousand and unrealized profit on transaction between subsidiaries amounted to NT\$25,587 thousand.

Note 3: Transactions between consolidated entities are eliminated in the consolidated financial statements.

ATTACHMENT 3 (Securities held as of December 31, 2016) (Excluding subsidiaries, associates and joint ventures)

(All the currencies are denominated in Thousands of New Taiwan Dollars unless otherwise specified)

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

Company	Investee Company	Relationship	Financial statement account	Investments as of December 31, 2016				Note	Shares as collateral
				Number of shares	Book Value	Percentage of ownership (%)	Fair Value		
Eurocharm Innovation Co., Ltd.	Vietnam Precision Industrial Joint Stock Company	-	Financial assets carried at cost	-	\$11,007	6.91%	-	Note 1	None

Note1: No active market and the fair value is not reliably measurable.

ATTACHMENT 4 (Related party transactions with purchase or sales amount of at least NT\$100 million or 20 percent of the paid-in capital for the year ended December 31, 2016)

(All the currencies are denominated in Thousands of New Taiwan Dollars unless otherwise specified)

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

Purchase (sales) company	Related party	Relationship	Purchases (Sales)	Transactions			Details of non-arm's length transaction		Notes and accounts receivables (payable)		
				Amount	Percentage of total purchases (sales) (%)	Term	Unit Price	Term	Balance	Percentage of total balances (%)	Note
Eurocharm Innovation Co., Ltd.	Vietnam Precision Industrial No.1 Co., Ltd.	Also a subsidiary under the company's control	Sales	\$229,266	50.29%	60~90 days after monthly closing	By product type, cost, market price and other trading terms.	Non related parties are 60~90 days after monthly closing	Trade receivables \$21,579	29.66%	1

Note 1: Transactions between consolidated entities are eliminated in the consolidated financial statements.

ATTACHMENT 5(Intercompany relationships and significant intercompany transactiontime)

(All the currencies are denominated in Thousands of New Taiwan Dollars unless otherwise specified)

EUROCHARM HOLDINGS CO., LTD. AND SUBSIDIARIES

No (Note1)	Company name	Counter party	Nature of relationship (Note 2)	Intercompany transactions			
				Financial Statement Account	Amount	Terms	Percentage of consolidated total gross sales or total assets (Note3)
<u>Year 2016</u>							
1	Eurocharm Innovation Co., Ltd.	Vietnam Precision Industrial No.1 Co., Ltd.	3	Sales	\$229,266	60~90 days after monthly closing	5.50%
1	Eurocharm Innovation Co., Ltd.	Vietnam Precision Industrial No.1 Co., Ltd.	3	Trade receivables	21,579	60~90 days after monthly closing	0.66%
1	Eurocharm Innovation Co., Ltd.	Vietnam Precision Industrial No.1 Co., Ltd.	3	Other revenue	113	-	-%
2	Apex Precision Industrial Ltd.	Vietnam Precision Industrial No.1 Co., Ltd.	3	Sales	79,377	60~90 days after monthly closing	1.91%
2	Apex Precision Industrial Ltd.	Vietnam Precision Industrial No.1 Co., Ltd.	3	Trade receivables	2,700	60~90 days after monthly closing	0.08%
<u>Year 2015</u>							
1	Eurocharm Innovation Co., Ltd.	Vietnam Precision Industrial No.1 Co., Ltd.	3	Sales	\$339,031	60~90 days after monthly closing	8.46%
1	Eurocharm Innovation Co., Ltd.	Vietnam Precision Industrial No.1 Co., Ltd.	3	Trade receivables	24,401	60~90 days after monthly closing	0.75%
1	Eurocharm Innovation Co., Ltd.	Eurocharm Innovation Co., Ltd. (B.V.I.)	2	Interest income	6	-	-%
1	Eurocharm Innovation Co., Ltd.	Vietnam Precision Industrial No.1 Co., Ltd.	3	Other revenue	252	-	0.01%
1	Eurocharm Innovation Co., Ltd.	Vietnam Precision Industrial No.1 Co., Ltd.	3	Other loss	26	-	-%
2	Apex Precision Industrial Ltd.	Vietnam Precision Industrial No.1 Co., Ltd.	3	Sales	67,056	60~90 days after monthly closing	1.67%
2	Apex Precision Industrial Ltd.	Vietnam Precision Industrial No.1 Co., Ltd.	3	Trade receivables	11,713	60~90 days after monthly closing	0.36%

Note 1: Eurocharm Holdings Co., Ltd. and subsidiaries are coded as follows:

1. Eurocharm Holdings Co., Ltd. is coded "0".
2. The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: Transactions are categorized as follows :

1. Investor to investee
2. Investee to investor.
3. Investee to investee.

Note 3: The percentage base with respect to the total consolidated revenue-weighted average (about income statement accounts) or total assets (about balance sheet accounts).

Note 4: Foreign currencies were converted into New Taiwan dollars based on exchanged rate of balance sheet date.