Annual Report 2016

EUROCHARM

Stock ID 5288

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Taiwan Stock Exchange Market Observation System http://mops.twse.com.tw

This annual report is available at http://www.eurocharm.com.tw

Introduction

Spokesperson & Deputy Spokesperson

James Chan

| Spokesperson |

Vice President, Administration and Finance

+886-2-2908-3863

IR@eurocharm.com.tw

Hung-Yi Kao

| Deputy Spokesperson |

Financial Manager

+886-2-2908-3863

IR@eurocharm.com.tw

Headquarters & Subsidiaries

Eurocharm Holdings Co., Ltd.

| Corporate Headquarters |

5th Floor No.708-2 Zhongzheng Rd. Xinzhuang Dist.

New Taipei, Taiwan 242

+886-2-2908-3863

Eurocharm Innovation Co., Ltd.

| Subsidiary |

No.15 Lane 315 Xinshu Rd. Xinzhuang District

New Taipei, Taiwan 242

+886-2-2202-8393

Vietnam Precision Industrial No.1 Co., Ltd.

| Subsidiary |

Khai Quang Industrial Zone

Vinh Yen, Vinh Phuc, Vietnam

+84-211-3842-897

Stock Transfer Agent

Yuanta Securities

| Share Transfer Agency |

B1 No.210 Sec.3 Chengde Rd.

Taipei, Taiwan 103

+886-2-2586-5859

Accountant Constacts for the Latest Annual Financial Report

Mars Hong & Steven Chang

| Ernst & Young L.L.P. |

No. 333, Section 1, Keelung Rd, Xinyi District, Taipei, Taiwan 110

www.ey.com/home

+886-2-2757-8888

Overseas Securities Exchange Name and Query Method

Not Applicable

Corporate Website

www.eurocharm.com.tw

Board of Directors

Steven Yu

| Chairman |

Nationality: Republic of China

EMBA - National Taiwan University

Mechanical Engineering - Lunghwa University of Sciencve and Technology

Michael Yu

| Director |

Nationality: Republic of China

Business Management - National Chung Hsing University

Business Management - National Taipei University of Business

Antonio Yu

| Director |

Nationality: Republic of China

Industrial Engineering - University of Wisconsin-Madison

Bioengineering - National Taiwan University

Steven Chang

| Director |

Nationality: Republic of China

PhD in Business and Management - Shanghai Jiao Tong University

MBA - National University of Governance

Business Management - National Chung Hsing University

Wei-Min Lin

| Independent Director |

Nationality: Republic of China

PhD in Finance and Economics - Jinan University

Lin Wei Min CPA Firm

Bryan Peng

| Independent Director |

Nationality: Republic of China

EMBA - Jiao Tong University

Accounting and International Trade - Fu Jen Catholic University

VP-Finance, EZconn Corp.

Gen-Yu Fong

| Independent Director |

Nationality: Republic of China

PhD in Law, Cornell University

Professor of Law, National University of Governance

Table of

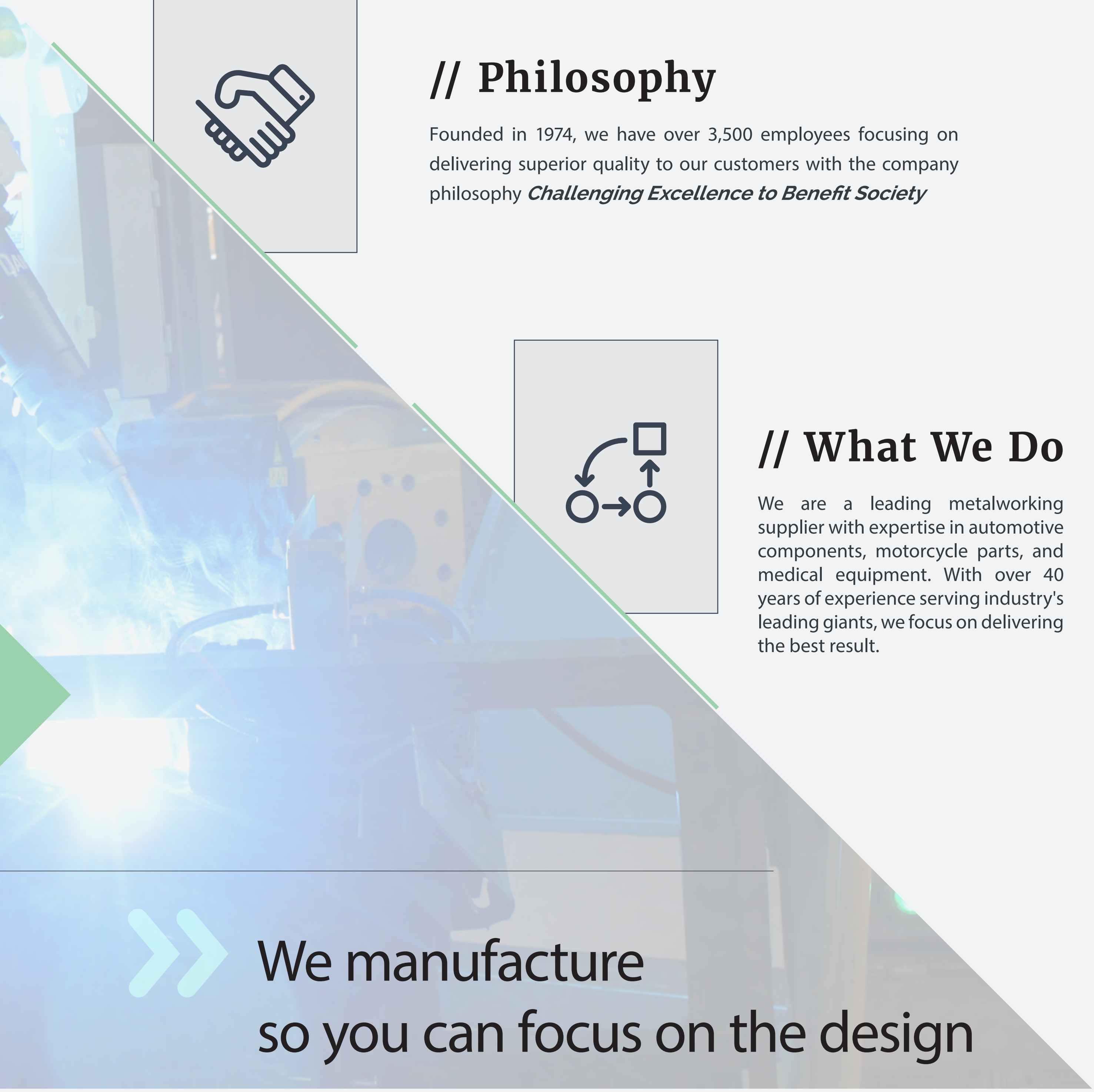
Content

// Philosophy

Founded in 1974, we have over 3,500 employees focusing on delivering superior quality to our customers with the company philosophy ***Challenging Excellence to Benefit Society***

// What We Do

We are a leading metalworking supplier with expertise in automotive components, motorcycle parts, and medical equipment. With over 40 years of experience serving industry's leading giants, we focus on delivering the best result.



We manufacture so you can focus on the design

I. Letter to Shareholders

Award

—

Polaris Delivery Performance Award

2016

At Polaris' Supplier Meeting in 2016, Vietnam Precision Industrial No.1, Eurocharm Group's subsidiary in Vietnam, received the Delivery Performance Award.

In 2017, Eurocharm Group will continue to invest in better equipment and carry out new orders.

Chairman Speach

A year of significant progress

Allow me to take this opportunity to welcome you to our 2017 Annual Shareholders Meeting and express my deepest gratitude for your continued support. The following is the outcome of our operations in 2016 and the objectives for the upcoming years.

Operating Results

The total consolidated revenue for 2016 was NT$ 4,164,779 thousand, and the consolidated operating margin was NT$ 748,386 thousand. The total net profit after tax was NT$ 471,793 thousand, in which vested consolidated net profit after tax to the shareholders of the parent company was NT$ 471,793 thousand. The basic earnings per share after-tax merger were NT$ 7.25.

Net Assets and Liabilities

For the year ended December 31, 2016, the consolidated total assets amounted NT$3,288,582 thousand. The total liabilities was NT$706,544 thousand which accounted for the merger consolidated total assets of 21.48%. The total consolidated shareholders' equity was NT$2,582,038 thousand which marked 78.52% of the consolidated total assets.

Profitability Analysis

The basic earnings per share after tax was NT$ 7.25. The net profit was 11.33%. The rate of return on assets was 14.48%, and the return on equity was 18.58%.

Future Development and Strategies

1. Expansion of Capacity

In the upcoming year, Eurocharm Group will continue to invest and purchase new iron and aluminum forging equipment to carry out new orders. This will allow us to move forward into the new area of development in metal machining processing. Also, the Company will proceed with the expansion of tooling factory by acquiring new processing equipment, upgrading the production of tooling, inspection, and fixture and accelerating the time for product development.

Also, the 5th plant in Vietnam is scheduled to be completed this year. This will expand the scale of productions and allow the Company to carry out orders from both existing and new customers.

2. Growth in Medical Products

Eurocharm continues to broaden its cooperation with manufacturers of medical care in Europe, America, Japan and other parts of the world. Furthermore, the Company wishes to gradually transfer to ODM operating model from the traditional OEM business model. Shortly, the Company expects a larger medical care customer base to increase our revenues steadily.

3. Development of Electric Scooters and Recreational Vehicles

With the sound basis of motorcycle chassis production, Eurocharm continues to development the customer base in electric scooters. Regarding the aspect of recreational vehicles, the Company has been actively seeking and acquiring business opportunities with companies in the North America and Europe. Based on the steady increase in order volume, the Company expects the production will multiply in the upcoming years.

4. Development of Automobile Parts

In response to the tariff reduction towards auto parts by the Association of Southeast Asian Nations (ASEAN), the Company is actively engaged in developing new customers; as well as, strengthening the relationship with the existing automobile customers. The Company expects the result to reflect on the profit growth in 2018.

Looking back, Vietnam's overall economy in 2016 has gradually recovered. Consumers' willingness to purchase has significantly risen compared to the previous period which contributed substantially to the overall revenue in 2016. As for the result of operations at large, there is a slight decline in the 2016 annual gross margin and profitability compared with 2015. This is mainly due to the Company has gradually transformed into an export-oriented manufacturer, and a single customer's new project could impact substantially.

Entering 2017, Eurocharm will continue to refine our management and technology of production process to reduce customer risk. Along with the mission of providing the highest quality and manufacturing capacity, our teams determine to obtain more purchase orders for another record-breaking year. The Company would like to take this opportunity to thank you for your long-term support and belief in us. The Company upholds the business philosophy of challenging for continuous improvement and cherishing every working opportunity. One step at a time, Eurocharm will raise the profits and competitiveness to achieve beyond the public's expectations.

Sincerely yours,

Chairman

Steven Yu

General Manager

Steven Yu

Chief Accountant

James Zhan

Total Consolidated Revenue

NT$ 4,164,779 thousand

Consolidated Operating Margin

NT$ 748,386 thousand

Total Net Profit After Tax

NT$ 471,793 thousand

Basic Earings Per Share After Tax

NT$ 7.25

Net Profit

11.33%

Rate of Return on Assets

14.48%

Return on Equity

18.58%

This is the English translation. In case of discrepancies between the Chinese Text and the English translation, the Chinese text shall prevail.

II Company Profile

2.1 Company and Group

Eurocharm Innovation

was originally founded in Taiwan in 1974, and was one of the leading manufacturers in the motorcycle industry during the fast-growing years. Eurocharm Innovation now serves as a subsidiary in Taiwan, principally engaged in the manufacturing of medical equipment and motorcycle parts.

In 2001, Vietnam Precision Industrial No.1 Co., Ltd., or **VPIC1** for short, was established near Hanoi, Vietnam to supply metal fabrication parts to several reputable companies.

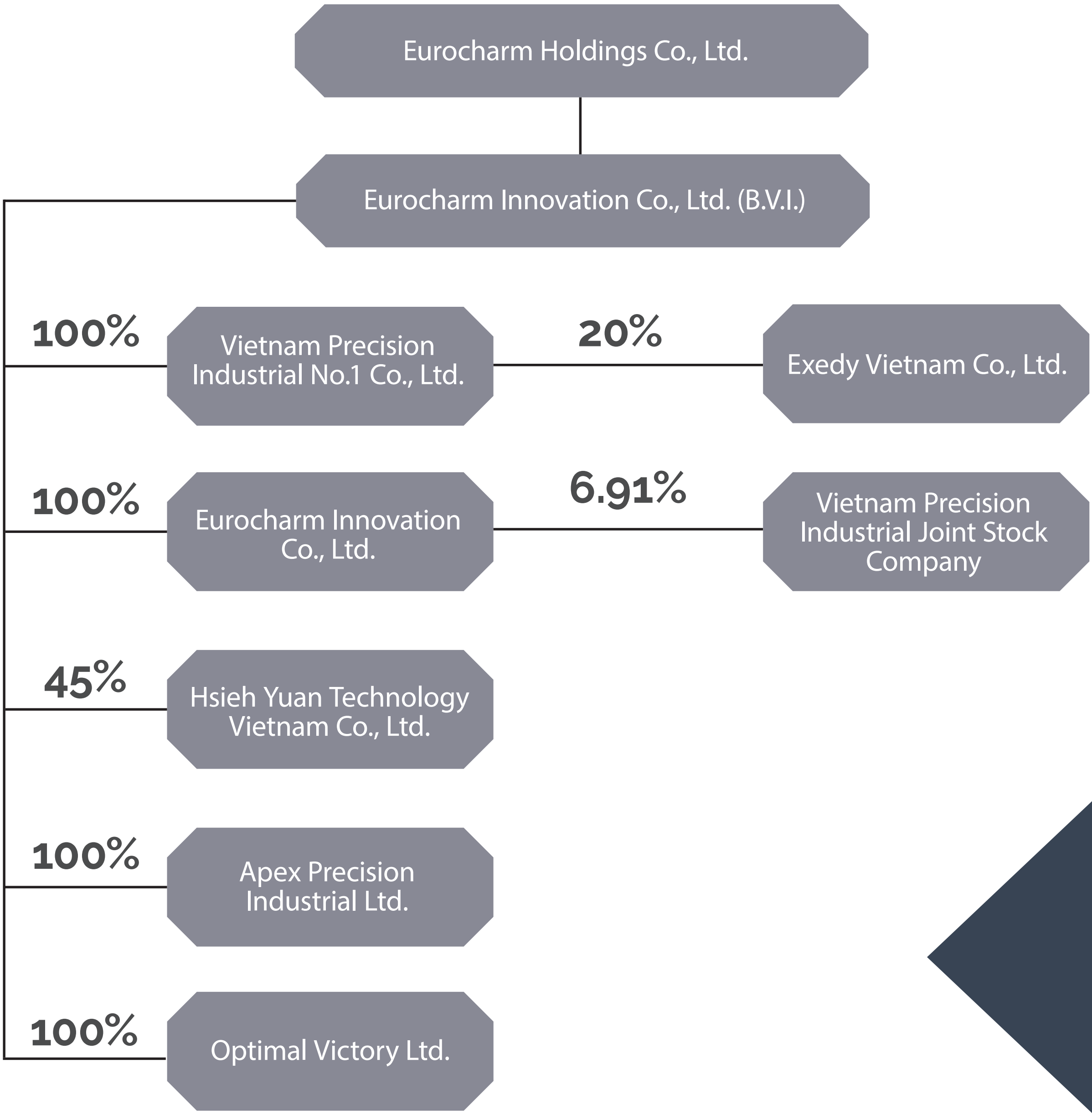
VPIC1 has since obtained several ISO certificates over the years, and employees approximately 3,500 staffs and managers at the moment.

Eurocharm Holdings

was established in the Cayman Islands on July 18th, 2011. The Company went on to acquire Eurocharm Innovation Co., Ltd (B.V.I.) and its subsidiaries Eurocharm Innovation and VPIC1.

After the reconstruction of equity, Eurocharm Group is then utilising three operating bases in the British Virgin Islands, Taiwan and Vietnam.

Thus far, the revenue of the core business has been from manufacturing auto and motorcycle parts, medical equipment and hardware machine components.

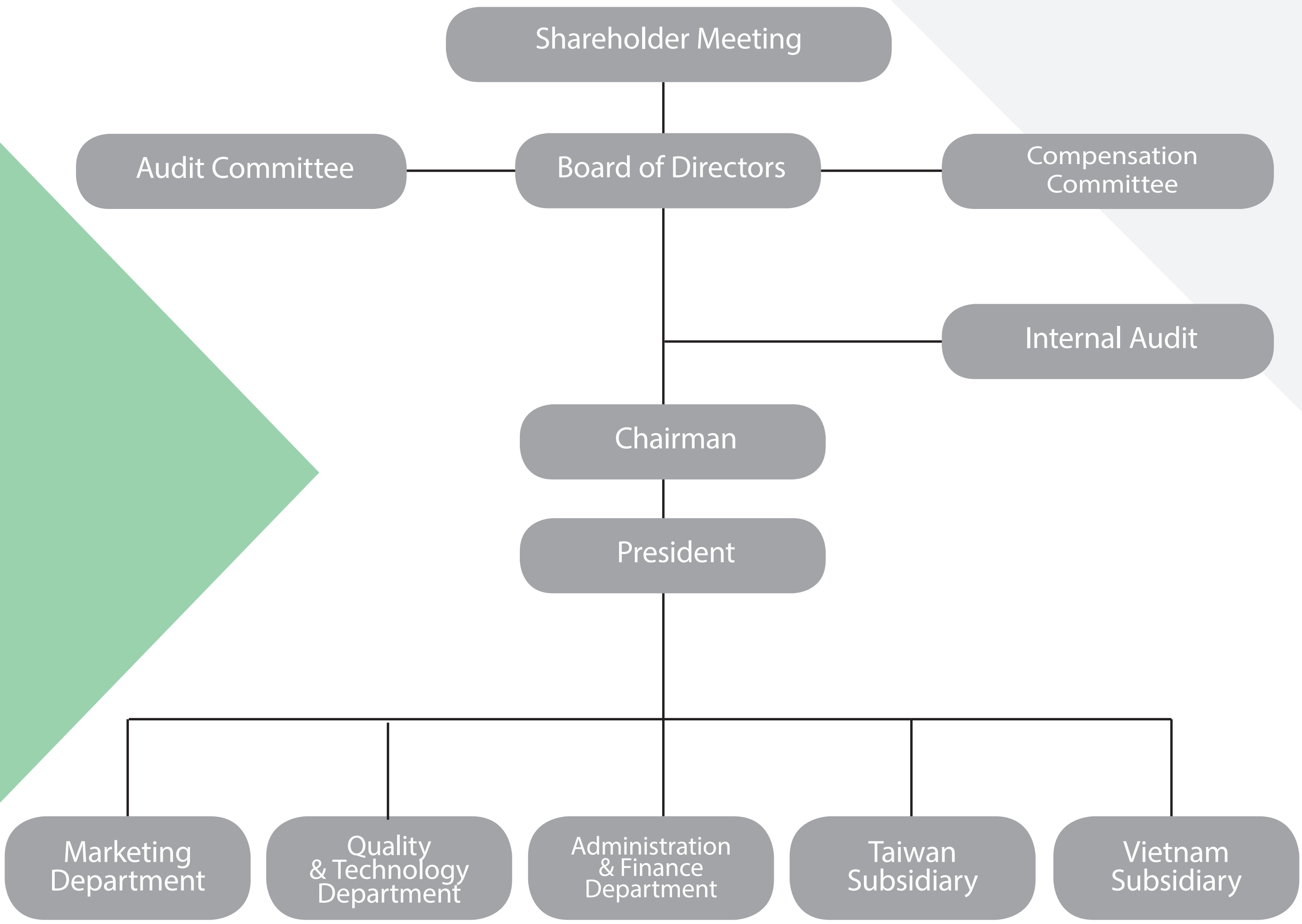


2.2 COMPANY HISTORY

Year	Milestone
2016	Established Optimal Victory Ltd.
2015	Installed TRUMPF TruLaser Tube
	Passed the OHSAS18001 certification
	Established Apex Precision Industrial Ltd.
2014	Installed a Mitsubishi 3D laser cutting machine
	Awarded with Ford Q1 Preferred Quality Award
	Publicly listed in Taiwan Stock Exchange (TWSE) on September 25
2013	Introduced liquid painting production line
	Re-elected the 7 directors including 3 independent directors. Set up the Audit and Remuneration Committees. The share capital of Eurocharm Holdings Co., Ltd. was converted from US$17,473,537 with the ratio of 1: 3.2548746 into denomination of NT shares per share on October 25, 2013 at the provisional shareholders' meeting. After the conversion, the Company's capital was NT$568,741,530, each denomination was NT$10, 56,874,153 in total
2012	After a capital increase of US$473,537, the Company's share capital was US$17,473,537, US$1 per share, 17,473,537 shares in total
2011	Restructured the organization of the group to establish Eurocharm Holdings Co., Ltd. Eurocharm Holdings Co., Ltd. issued a US$17,000,000 stake in acquiring the shares of Eurocharm Innovation Co., Ltd. 100% owned by New General Ltd. and Seashore Group Ltd.
2010	Jointed venture to establish Hsieh Yuan Technology Vietnam Co, Ltd. which specializes in zinc, nickel, chromium and hard chrome plating
	Passed the ISO13485 certification
2009	Introduced hydraulic stamping production line up to 1,200 tons
2007	Passed the ISO/TS16949 and ISO14001 certification
2006	Jointed venture with EXEDY Japan to establish EXEDY Vietnam, main products are motorcycle clutches
2004	Stationed epoxy-based e-coating production line
2003	Launched aluminum die-casting, CNC machining and passed the ISO9001 certification
2002	Installed stamping, tube bending, robotic welding, as well as, liquid and powder coating production lines
2001	Established Vietnam Precision Industrial No.1 Co., Ltd. (VPIC1)
1994	Began the production of walkers and rollators
1988	Initiated the production of healthcare equipment parts and products
1983	Introduced and utilized an automated welding robot production line
1974	Established Eurocharm Taiwan as a professional manufacturer of motorcycle parts

III Corporate Governance Report

3.1 Organization



3.1.1 Departments

[Chairman]

Provides leadership and develops an business plan for Company's effectiveness

[Audit Committee]

Oversees the financial reporting and the implementation of the business

[Compensation Committee]

Conducts reviews of the directors and managers' performance and evaluates the Company's overall compensation structure

[President]

Executes the organization's vision and oversees the management

[Internal Audit]

Assesses the business' regulations and compliance then provides guidance to managers and staffs

[Administration & Finance Department]

Manages the overall human resource-related administrative work, accounting, budgets and maintenance of the work environment

[Marketing Department]

Drives sales of the products globally and collects market and consumer analysis

[Quality&Technology Department]

Develops new designs and reviews quality control of the products

3.2 Directors, Supervisors and Management Team

3.2.1 Chairman, Directors and Supervisors

04/17/2017
Unit: Thousand Shares

Title	Nationality/ Country of Origin	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two agrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director (Corporate Shareholder)	Samoa	New General Limited		06/23/2016	3	07/18/2011	13,833	21.30	13,833	21.04	0	0.00	0	0.00	N/A	N/A	-	-	-
Chairman (Legal Representative)	R.O.C.	Steven Yu	Male	06/23/2016	3	07/18/2011	0	0.00	0	0.00	0	0.00	0	0.00	EMBA-National Taiwan University Mechanical Engineering-Lunghwa University of Science and Technology	Chairman, Eurocharm Group Co., Ltd. Chairman, Eurocharm Innovation Co., Ltd. Chairman, Shen Yuan Metal Co., Ltd. Supervisor, Song Fong Development Co., Ltd. Director, Taiwan Techno State Co., Ltd. Chairman, Eurocharm Holdings Co., Ltd. Chairman, Eurocharm Innovation Co., Ltd. (B.V.I.) Director, Exedy Vietnam Co., Ltd. Chairman, Vietnam Precision Industrial No.1 Co., Ltd. Director, New General Ltd. Director, Seashore Group Ltd. Director, Optimal Victory Ltd. Director, New Outlook Ltd. Director, Partner Plus Director, Apex Precision Industrial Ltd.	Director Director	Michael Yu Antonio Yu	Brother Brother
Director (Corporate Shareholder)	Samoa	Seashore Group Limited		06/23/2016	3	07/18/2011	24,769	38.15	24.769	37.67	0	0.00	0	0.00	N/A	N/A	-	-	-
Director (Legal Representative)	R.O.C.	Michael Yu	Male	06/23/2016	3	07/18/2011	70	0.11	117	0.18	0	0.00	0	0.00	Business Management-National Chung Hsing University Business Management-National Taipei University of Business	Chairman, Eurocharm Innovation Co., Ltd. Chairman, Shen Yuan Metal Co., Ltd. Supervisor, Song Fong Development Co., Ltd. Director, Taiwan Techno State Co., Ltd. Chairman, Eurocharm Innovation Co., Ltd. (B.V.I.) Chairman, Vietnam Precision Industrial No.1 Co., Ltd. Director, New General Ltd. Director, Seashore Group Ltd.	Director Director	Steven Yu Antonio Yu	Brother Brother

															Director, New Outlook Ltd. Director, Hsieh Yuan Technology Vietnam Co., Ltd. Director, Partner Plus			
Director (Legal Representative)	R.O.C.	Antonio Yu	Male	06/23/2016	3	07/18/2011	35	0.05	70	0.11	0	0.00	0	0.00	Industrial Engineering-Universityy of Wisconsin-Madison Bioengineering-National Taiwan Univeristy	Director, Eurocharm Innovation Co., Ltd. Director, Song Fong Development Co., Ltd. Chairman, Taiwan Techno State Co., Ltd. Director, Eurocharm Innovation Co., Ltd. (B.V.I.) Director, Vietnam Precision Industrial No.1 Co., Ltd. Director, New General Ltd. Director, Seashore Group Ltd. Director, New Outlook Ltd. Director, Partner Plus	Director Director	Steven Yu Michael Yu	Brother Brother
Director (Natural Person)	R.O.C.	Steven Chang	Male	06/23/2016	3	06/19/2013	0	0.00	0	0.00	0	0.00	0	0.00	PhD in Business and Management-Shanghai Jiao Tong University MBA-National University of Governance Business Management-National Chung Hsing University	Chairman, The CID Group Director, Taiwan Venture Capital Association Director, Taiflex Scientific Co., Ltd. Supervisor, Quanta Storage Inc. Supervisor, Epoch Foundation	-	-	-
Independent Director (Natural Person)	R.O.C.	Wei-Min Lin	Male	06/23/2016	3	06/19/2013	0	0.00	0	0.00	0	0.00	0	0.00	PhD in Finance and Economics-Jinan University Lin Wei Min CPA Firm	Certified Accountant, Lin Wei Min CPA Firm Director, Surplus Technology Co., Ltd.	-	-	-
Independent Director (Natural Person)	R.O.C.	Bryan Peng	Male	06/23/2016	3	06/19/2013	0	0.00	0	0.00	1	0.00	0	0.00	EMBA-Jiao Tong University Accounting and International Trade-Fu Jen Catholic University VP-Finance, EZconn Corp. Financial Assistant Manager/ Spokesman, Megic Corporation Accounting Deputy Manager/ Project Manager, TI-Acer Inc.	CFO,Entire Investment Holdings Co., Ltd. Supervisor, Chongqing Ying Yang New Materials Co., Ltd. Director, Cheng Zhen Co. Ltd.	-	-	-
Independent Director (Natural Person)	R.O.C.	Gen-Yu Fong	Male	06/23/2016	3	06/19/2013	0	0.00	0	0.00	0	0.00	0	0.00	PhD in Law, Cornell University Professor of Law, National University of Governance	Independent Director, Elitegroup Computer System Co., Ltd. Independent Director, OBI Pharma Inc. Independent Director, Golden Bridge Electech Inc.	-	-	-

Note 1: Cases of directors or supervisors practice shareholding by nominee arrangement: None
Note 2: Cases of employed directors or supervisors worked in an accounting firm or its affiliates: None

3.2.2 Major Shareholders of the Institutional Shareholders

04/17/2017

Name of Institutional Shareholders	Major Shareholders
New General Limited	Steven Yu (6.53%), Bi-Yue Yang (6.53%), Michael Yu (6.53%), Shun-Wei Yeh (6.53%), Antonio Yu (6.53%), Yun-Ru Chen (6.53%), Crystal Innovation Ltd. (18.08%), Po-Kai Yu (10.98%), Ya-Han Yu (10.98%), Ya-Ting Yu (9.98%), Ya-Chu Yu (9.98%)
Seashore Group Limited	Steven Yu (9.56%), Bi-Yue Yang (9.56%), Michael Yu (9.56%), Shun-Wei Yeh (9.56%), Antonio Yu (9.70%), Yun-Ru Chen (9.70%), Crystal Innovation Ltd. (11.12%), Po-Kai Yu (7.94%), Ya-Han Yu (7.94%), Ya-Ting Yu (6.94%), Ya-Chu Yu (6.94%)

3.2.3 Major Shareholders of the Company's Major Institutional Shareholders

04/17/2017

Name of Institutional Shareholders	Major Shareholders
Crystal Innovation Ltd.	Antonio Yu (4.18%), Yun-Ru Chen (4.18%), Tzu Hsien Yu (31.98%), Ya Yuan Yu (29.83%), Fu Chen Yu (29.83%)

3.2.4 Professional Qualifications and Independence Analysis of Directors and Supervisor

	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria(Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
New General Limited Representative: Steven Yu			v						v	v		v		0
Seashore Group Limited Representative: Michael Yu			v						v	v		v		0
Seashore Group Limited Representative: Antonio Yu			v						v	v		v		0
Steven Chang			v	v	v	v	v	v	v	v	v	v	v	0
Wei-Min Lin		v	v	v	v	v	v	v	v	v	v	v	v	0
Bryan Peng			v	v	v	v	v	v	v	v	v	v	v	0
Gen-Yu Fong	v		v	v	v	v	v	v	v	v	v	v	v	3

Note: Please tick the corresponding boxes that apply to the directors or supervisors during the two years before being elected or during the term of office.

1.Not an employee of the Company or any of its affiliates.

2.Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed by the Act or with the laws of the country of the parent or subsidiary.

3.Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.

4.Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.

5.Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.

6.Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.

7.Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, Company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers under Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEx."

8.Not having a marital relationship or a relative within the second degree of kinship to any other director of the Company.

9.Not being a person of any conditions defined in Article 30 of the Company Law.

10.Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

MANAGEMENT TEAM 3.2.5

Title	Nationality/ Country of Origin	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
General Manager	R.O.C.	Steven Yu	Male	12/20/2016	0	0.00	0	0.00	0	0.00	EMBA-National Taiwan University Mechanical Engineering-Lunghwa University of Science and Technology	Chairman, Eurocharm Group Co., Ltd. Chairman, Eurocharm Innovation Co., Ltd. Chairman, Shen Yuan Metal Co., Ltd. Supervisor, Song Fong Development Co., Ltd. Director, Taiwan Techno State Co., Ltd. Chairman, Eurocharm Holdings Co., Ltd. Chairman, Eurocharm Innovation Co., Ltd. (B.V.I.) Director, Exedy Vietnam Co., Ltd. Chairman, Vietnam Precision Industrial No.1 Co., Ltd. Director, New General Ltd. Director, Seashore Group Ltd. Director, Optimal Victory Ltd. Director, New Outlook Ltd. Director, Partner Plus Director, Apex Precision Industrial Ltd.	-	-	-
Deputy General Manager-Taiwan Office	R.O.C.	Robert Lin	Male	11/10/2014	0	0.00	0	0.00	0	0.00	National Kaohsiung University Associate Manager, Production, Eurocharm Innovation Co., Ltd.	Deputy General Manager, Eurocharm Innovation Co., Ltd.	-	-	-
Deputy General Manager -Vietnam Office	R.O.C.	Andy Wu	Male	12/20/2016	115,225	0.18	0	0.00	0	0.00	Lee-Ming Institute of Technology Automation Management, Tatting Company	General Manager, Vietnam Precision Industrial No.1 Co., Ltd.	-	-	-
Deputy General Manager	R.O.C.	James Zhan	Male	09/23/2013	71,000	0.11	0	0.00	0	0.00	Business Management-National Taipei University of Business Associate Manager, Eurocharm Innovation Co., Ltd.	Manager, Administration, Vietnam Precision Industrial No.1 Co., Ltd.	-	-	-
Deputy General Manager	R.O.C.	Cina-Jin Zhan	Male	09/23/2013	148,298	0.23	0	0.00	0	0.00	KaiMing Technical and Commercial Vocational School Manager, Bank SinoPac Shanghai	Manager, Quality & Technology, Vietnam Precision Industrial No.1 Co., Ltd.	-	-	-
Deupty General Manager	R.O.C.	Cheng-Wen Wang	Male	12/20/2016	28,015	0.04	0	0.00	0	0.00	Deputy General Manager, Production Line, Vietnam Precision Industrial No.1 Co., Ltd.	-	-	-	-

Note 1: Cases of employed managers worked in an accounting firm or its affiliates: None

3.3 Remuneration of the Chairman, Directors, Managers and Associate Managers

3.3.1 Remuneration of Directors (Including Independent Directors)

Unit: NT$ thousands

Title	Name	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A)		Severance Pay (B)		Bonus to Directors (C)		Allowances (D)				Salary, Bonuses, and Allowances (E)		Severance Pay (F)		Profit Sharing- Employee Bonus (G)						
		The Company	All companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company		Companies in the consolidated financial statements		The Company	Companies in the consolidated financial statements	
																Cash	Stock	Cash	Stock			
Chairman (Legal Representative)	Steven Yu	2,288	2,288	-	-	3,300	3,300	-	-	1.18	1.18	-	1,150	-	-	-	-	-	-	1.18	1.42	N/A
Director (Legal Representative)	Michael Yu	-	-	-	-	1,500	1,500	-	-	0.32	0.32	1,478	2,579	-	-	980	-	980	-	0.84	1.07	N/A
Director (Legal Representative)	Antonio Yu	-	-	-	-	1,500	1,500	-	-	0.32	0.32	1,478	2,243	-	-	849	-	849	-	0.81	0.97	N/A
Director	Steven Chang	-	-	-	-	1,000	1,000	120	120	0.24	0.24	-	-	-	-	-	-	-	-	0.24	0.24	N/A
Independent Director	Wei-Min Lin	-	-	-	-	1,000	1,000	120	120	0.24	0.24	-	-	-	-	-	-	-	-	0.24	0.24	N/A
Independent Director	Bryan Peng	-	-	-	-	1,000	1,000	120	120	0.24	0.24	-	-	-	-	-	-	-	-	0.24	0.24	N/A
Independent Director	Gen-Yu Fong	-	-	-	-	1,000	1,000	120	120	0.24	0.24	-	-	-	-	-	-	-	-	0.24	0.24	N/A
Total		2,288	2,288	-	-	10,300	10,300	480	480	2.78	2.78	2,956	5,972	-	-	1,829	-	1,829	-	3.79	4.42	N/A

Note 1: Steven Yu is the legal representative of New General Limited; Michael Yu and Antonio Yu are the legal representatives of Seashore Group Limited.

Range of Remuneration

Range of Remuneration	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements
Under NT$ 2,000,000	Michael Yu, Antonio Yu, Steven Chang, Wei-Min Lin, Bryan Peng, Gen-Yu Fong	Michael Yu, Antonio Yu, Steven Chang, Wei-Min Lin, Bryan Peng, Gen-Yu Fong	Steven Chang, Wei-Min Lin, Bryan Peng, Gen-Yu Fong	Steven Chang, Wei-Min Lin, Bryan Peng, Gen-Yu Fong
NT$2,000,001 ~ NT$5,000,000	-	-	Michael Yu, Antonio Yu	Antonio Yu
NT$5,000,001 ~ NT$10,000,000	Steven Yu	Steven Yu	Steven Yu	Steven Yu, Michael Yu
Total	7	7	7	7

3.3.2 Remuneration of Supervisors

N/A, no supervisors at the Company.

3.3.3 Remuneration of the General Manager and the Deputy General Managers

Unit: NT$ thousands

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="2">Salary(A)</th><th colspan="2">Severance Pay (B)</th><th colspan="2">Bonuses and Allowances (C)</th><th colspan="4">Profit Sharing- Employee Bonus (D)</th><th colspan="2">Ratio of total compensation (A+B+C+D) to net income (%)</th><th rowspan="3">Compensation paid to the President and Vice President from an Invested Company Other Than the Company's Subsidiary</th></tr>
<tr><th rowspan="2">The Company</th><th rowspan="2">Companies in the consolidated financial statements</th><th rowspan="2">The Company</th><th rowspan="2">Companies in the consolidated financial statements</th><th rowspan="2">The Company</th><th rowspan="2">Companies in the consolidated financial statements</th><th colspan="2">The Company</th><th colspan="2">Companies in the consolidated financial statements</th><th rowspan="2">The Company</th><th rowspan="2">Companies in the consolidated financial statements</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>General Manager[1]</td><td>Jack Zhao</td><td rowspan="6">-</td><td rowspan="6">11,262</td><td rowspan="6">-</td><td rowspan="6">380</td><td rowspan="6">-</td><td rowspan="6">908</td><td rowspan="6">4,742</td><td rowspan="6">-</td><td rowspan="6">5,420</td><td rowspan="6">-</td><td rowspan="6">1.01</td><td rowspan="6">3.81</td><td rowspan="6">N/A</td></tr>
<tr><td>Deputy General Manager</td><td>Robert Lin</td></tr>
<tr><td>Deputy General Manager</td><td>James Zhan</td></tr>
<tr><td>Deputy General Manager</td><td>Andy Wu</td></tr>
<tr><td>Deputy General Manager</td><td>Cina-Jin Zhan</td></tr>
<tr><td>Deputy General Manager</td><td>Cheng-Wen Wang</td></tr>
</table>

Note 1: General Manager Jack Zhao resigned on December 20th, 2016 and the position is filled by Chairman Steven Yu.

Range of Remuneration	Name of President and Vice President	
	The Company	Companies in the consolidated financial statements
Under NT$ 2,000,000	Jack Zhao, James Zhan, Andy Wu, Cina-Jin Zhan, Cheng-Wen Wang, Robert Lin	Robert Lin
NT$2,000,001 ~ NT$5,000,000		Jack Zhao, James Zhan, Andy Wu, Cina-Jin Zhan, Cheng-Wen Wang
Total	6	6

3.3.4 REMUNERATION OF THE EXECUTIVE OFFICERS

Unit: NT$ thousands

	Title	Name	Employee Bonus - in Stock (Fair Market Value)	Employee Bonus - in Cash	Total	Ratio of Total Amount to Net Income (%)
Executive Officers	Executive Assistant	Michael Yu	0	7,370	7,370	1.56
	Executive Assistant	Antonio Yu				
	General Manager	Jack Zhao[1]				
	Deputy General Manager	Robert Lin				
	Deputy General Manager	James Zhan				
	Deputy General Manager	Andy Wu				
	Deputy General Manager	Cina-Jin Zhan				
	Deputy General Manager	Cheng-Wen Wang				
	Associate General Manager	Shang-Chong Ren[2]				

Note 1: General Manager Jack Zhao resigned on December 20th, 2016 and the position is filled by Chairman Steven Yu

Note 2: Associate General Manager Shang-Chong Ren resigned on July 6th, 2016.

3.3.5 Comparison of Remuneration for Directors, Supervisors, Presidents and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, Presidents and Vice Presidents

A. The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, supervisors, presidents and vice presidents of the Company, to the net income.

Title	2015				2016			
	Total remuneration paid to directors, supervisors, presidents and vice presidents (thousands)		Ratio of total remuneration paid to directors, supervisors, presidents and vice presidents to net profit (%)		Total remuneration paid to directors, supervisors, presidents and vice presidents (thousands)		Ratio of total remuneration paid to directors, supervisors, presidents and vice presidents to net profit (%)	
	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements
Directors General Manager, Deputy General Managers	17,238	31,745	3.56	6.56	22,965	39,011	4.87	8.27

Note 1: The net profits in 2016 and 2015 referred to the after-tax net profits in the financial reports.

B. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with business performance.

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

The compensation is measured based on the employee's personal achievements, the contribution made to the business operation, and the market averages. It has a positive correlation with the performance of the Company's business.

3.4 Implementation of Corporate Governance

3.4.1 BOARD OF DIRECTOR'S

A total of 7 (A) meetings of the Board of Directors were held in the previous period. The attendance of director and supervisor were as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) [B/A]	Remarks
Chairman	New General Limited Representative: Steven Yu	7	0	100	Elected on 06/23/2016
Director	Seashore Group Ltd. Representative: Michael Yu	7	0	100	Elected on 06/23/2016
Director	Seashore Group Ltd. Representative: Antonio Yu	7	0	100	Elected on 06/23/2016
Director	Steven Chang	6	1	86	Elected on 06/23/2016
Independent director	Bryan Peng	7	0	100	Elected on 06/23/2016
Independent director	Wei-Min Lin	7	0	100	Elected on 06/23/2016
Independent director	Gen-Yu Fong	6	1	86	Elected on 06/23/2016

Other mentionable items:

1. If any of the following circumstances occur, the dates of the meetings, sessions, contents of motion, all independent directors' opinions and the company's response should be specified:

(1) Matters referred to in Article 14-3 of the Securities and Exchange Act.

(2) Other matters involving objections or expressed reservations by independent directors that were recorded or stated in writing that requires a resolution by the board of directors.

2. If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified: None

3. Measures taken to strengthen the functionality of the board: The Board of Directors has established an Audit Committee and a Remuneration Committee to assist the board in carrying out its various duties.

A total of 6 (A) Audit Committee meetings were held in the previous period. The attendance of the independent directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) [B/A]	Remarks
Convener	Wei-Min Lin	6	0	100	Elected on 06/29/2016
Committee Member	Gen-Yu Fong	5	1	83	Elected on 06/29/2016
Committee Member	Bryan Peng	6	0	100	Elected on 06/29/2016

Other mentionable items:

1. If any of the following circumstances occur, the dates of meetings, sessions, contents of motion, resolutions of the Audit Committee and the Company's response to the Audit Committee's opinion should be specified:

(1) Matters referred to in Article 14-5 of the Securities and Exchange Act.

(2) Other matters which were not approved by the Audit Committee but were approved by two-thirds or more of all directors.

2. If there are independent directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified: None

3. Communications between the independent directors, the Company's chief internal auditor and CPAs (e.g. the material items, methods and results of audits of corporate finance or operations, etc.)

(1)The internal auditors have communicated the result of the audit reports to the members of the Audit Committee periodically, and have presented the findings of all audit reports in the quarterly meetings of the Audit Committee. Should the urgency of the matter require it, the Company's chief internal auditor will inform the members of the Audit Committee outside of the regular reporting. The communication channel between the Audit Committee and the internal auditor has been functioning well.

3.4.2 AUDIT COMMITTEE

3.4.3 Corporate Governance Implementation Status and Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
1. Does the Company establish and disclose the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"?	v		The Company has established the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies." The information has been disclosed on the Company's website.	None
2. Shareholding structure & shareholders' rights (1) Does the Company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes, and litigations, and implement based on the procedure? (2) Does the Company possess the list of its principal shareholders as well as the ultimate owners of those shares? (3) Does the Company establish and execute the risk management and firewall system within its conglomerate structure? (4) Does the Company establish internal rules against insiders trading with undisclosed information?	v		(1) In addition to the existing hotline and email channels, the Company has established an internal operating procedure and has designated appropriate departments, such as Investor Relations, Public Relations, Legal Department, to handle shareholders' suggestions, doubts, disputes, and litigation. (2) The Finance & Shared Services Division is responsible for collecting the updated information of major shareholders and the list of ultimate owners of those shares. (3) Rules are made to strictly regulate the activities of trading, endorsement, and loans between the Company and its affiliates. Also, the "Criteria of Internal Control Mechanism for a Public Company," outlined by the Financial Supervisory Commission when drafting the guidelines for the "Supervision and Governance of Subsidiaries," was followed to implement total risk control on subsidiaries. (4) To protect shareholders' rights and fairly treat shareholders, the Company has established the internal rules to forbid insiders trading on the undisclosed information. The Company has also strongly advocated these rules to prevent any violations.	None

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/ TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
3. Composition and Responsibilities of the Board of Directors (1) Does the Board develop and implement a diversified policy for the composition of its members? (2) Does the Company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee? (3) Does the Company establish a standard to measure the performance of the Board, and implement it annually? (4) Does the company regularly evaluate the independence of CPAs?	v		(1) Member diversification is considered by the Board members. Factors taken into account include, but are not limited to gender, age, cultures, educational background, race, professional experience, skills, knowledge, and terms of service. The Board objectively chooses candidates to meet the goal of member diversification. (2)In order for the sound supervision and reinforcement of management, the Company established the Nomination and Risk Management Committee in addition to the Remuneration Committee and the Audit Committee. These working committees shall be responsibilities for the Board of Directors. (3) The Company has formulated rules and procedures for evaluating the Board's performance and conducts it annually. The Company uses two methods to evaluate the performance of the Board. 1. Self-assessment of Board members Board members fill in the" Self-Assessment Questionnaire for Board Members" at the end of each year. To evaluate the performance of each member effectively, the questionnaire contains the following factors: A. Their grasp of the Company's goals and missions; B. Their recognition of director's duties; C. Their degree of participation in the Company's operations; D. Their management of internal relationships and communications; E. Their professionalism and continuing professional education; F. Internal controls. 2. Assessment of the Board: The Secretary Office of the Board conducts the evaluation of the Board's performance. The following aspects are taken into consideration: A. The degree of participation in the Company's operations; B. Improvement in the quality of decision making by the Board of Directors; C. The composition and structure of the Board of Directors; D. The election of the directors and their continuing professional education. E. Internal controls. (4) The Company evaluates the independence of CPAs annually, ensuring that they are not stakeholders such as a Board member, supervisor, shareholder or person paid by the Company.	None

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/ TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
4. Does the company set up a corporate governance unit or appoint personnel responsible for corporate governance matters (including but not limited to providing information for directors and supervisors to perform their functions, handling work related to meetings of the board of directors and the shareholders' meetings, filing company registration and changes to company registration, and producing minutes of board meetings and shareholders' meetings)?	v		The company provides the Administration & Finance Department and Secretary of Board of Director responsible for corporate governance matters and describes the role/ function of the unit or personnel and material matters that have been taken care of in the most recent year.	None
5. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers, and suppliers), as well as handle all the issues they care for regarding corporate social responsibilities?	v		The Company provides detailed contact information, including telephone numbers and email addresses in the "Stakeholder Area" section of the corporate website. Also, personnel is in place to exclusively deal with issues of social responsibility, ensuring that various interested parties have channels to communicate with the Company.	None
6. Does the Company appoint a professional shareholder service agency to deal with shareholder affairs?	v		The Company designates Yuanta Securities Co., Ltd. to deal with shareholder affairs.	None
7. Information Disclosure (1) Does the Company have a corporate website to disclose both financial standings and the status of corporate governance? (2) Does the Company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	v		The Company has set up a Chinese/English website (www.eurocharm.com.tw) to disclose information regarding the Company's financials, business, and corporate governance status. The Company has assigned an appropriate person to handle information collection and disclosure. The Company has established a spokesman system. Investor conference information is disclosed on the corporate website.	None
8. Is there any other important information to facilitate a better understanding of the Company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	v		(1) Directors' and supervisors' training records: Chairman Steven Yu 6H "How to review financial reports without an accounting background?" and "The 2nd Corporate Governance Evaluation Ceremony & Keynote Speech." Director Michael Yu 6H "105 Corporate Governance Forum Series - Insider Trading & Corporate Social Responsibility Seminar" and "The 2nd Corporate Governance Evaluation Ceremony & Keynote Speech." Director Antonio Yu 6H "Cross-Strait Anti-Avoidance Law" and "Corporate Responsibility for Mergers & Acquisitions."	None

This is the English translation. In case of discrepancies between the Chinese Text and the English translation, the Chinese text shall prevail.

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from “the Corporate Governance Best-Practice Principles for TWSE/ TPEx Listed Companies” and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Abstract Illustration</th></tr>
<tr><td></td><td></td><td></td><td>Director Steven Chang 6H “105 Corporate Governance Forum Series - Insider Trading & Corporate Social Responsibility Seminar” and " Corporate Governance and the Responsibilities of the Board of Supervisors."

Independent Director Bryan Peng 6H “Legal Responsibility and Case Analysis of Phytosanitary Act in Economic Crimes” and “Legal Responsibility & Case Analysis of Executives Trading Their Company Stocks.”

Independent Director Wei-Min Lin 6H “An Analysis of the Points and Doubts of the Annual Tax Tax Report.”

Independent Director Gen-Yu Fong 6H “Corporate Directors' Responsibilities under M & A Transactions” and "Management of Confidential Business Information & Non-Compete Agreement from the Corporate Governance Perspective "

(2) Board Meetings: The Company has established regulations towards board meetings including the specific procedures, directors’ attendances, and the voting rights.

(3) Investor Relations: The Company has a spokesperson system, a litigation representative and a non-litigation representative in the territory of the Republic of China for immediate assistance of the investors, customers, suppliers and other interested parties. News regarding the company’s finances is announced on “MOPS” to provide timely information that may affect the decisions of investors.

(4) Rights of Interested Parties: The Company maintains positive communication channels with banks, employees, customers, suppliers and stakeholders.

(5) Implementation of Risk Management and Evaluation: The Company has established internal regulations and related management practices.

(6) The Company has purchased liability insurance for its directors and managers since the year 2016.

(7) For more information and disclosures, please visit: http://www.eurocharm.com.tw</td><td>None</td></tr>
<tr><td>Please explain the improvements which have been made in accordance with the results of the Corporate Governance Evaluation System released by the Corporate Governance Center, Taiwan Stock Exchange, and provide the priority enhancement measures.</td><td>v</td><td></td><td>The Company has reported the result of last year's corporate governance evaluation to the Board of Directors. For significant improvement in the future, the Company had assigned dedicated staff to establish improvement plans targeting the non-scoring items.</td><td>None</td></tr>
</table>

3.4.4 Composition, Responsibilities and Operations of the Remuneration Committee

The Remuneration Committee assists the Board in discharging its responsibilities relating to the Company's compensation and benefits policies, plans and programs, and the evaluation of the directors' and executives' compensation.

A. Professional Qualifications and Independence Analysis of Remuneration Committee Members

Title	Name	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Independence Criteria (Note)								Number of Other Public Companies in Which the Individual is Concurrently Serving as an Remuneration Committee Member	Remarks
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Wei-Min Lin		v	v	v	v	v	v	v	v	v	v	0	-
Independent Director	Bryan Peng			v	v	v	v	v	v	v	v	v	0	-
Independent Director	Gen-Yu Fong	v		v	v	v	v	v	v	v	v	v	3	-

Note: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office.

1. Not an employee of the Company or any of its affiliates.

2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company or any subsidiary as appointed by the Act or with the laws of the country of the parent or subsidiary.

3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in holdings.

4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.

5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranking in the top five holdings.

6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified Company or institution which has a financial or business relationship with the Company.

7. Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, Company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or any affiliate of the Company, or a spouse thereof.

8. Not a person of any conditions defined in Article 30 of the Company Law.

B. Attendance of Members at Remuneration Committee Meetings

There are 3 members in the Remuneration Committee. A total of 4 (A) Remuneration Committee meetings were held in the term from June 29, 2016 to June 23, 2019. The attendance record of the Remuneration Committee members was as follows:

Title	Name	Attendance in Person(B)	By Proxy	Attendance Rate (%) [B/A]	Remarks
Convener	Wei-Min Lin	4	0	100	Elected on 06/29/2016
Committee Member	Gen-Yu Fong	3	1	75	Elected on 06/29/2016
Committee Member	Bryan Peng	4	0	100	Elected on 06/29/2016

Other mentionable items:

1. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the remuneration committee's opinion (eg., the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified): None.

2. Resolutions of the remuneration committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, a content of the motion, all members' opinions and the response to members' opinion should be specified: None.

3.4.5 CORPORATE SOCIAL RESPONSIBILITY

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
1. Exercising corporate governance (a) Has the Company formulated CSR policies or established a CSR system and does it review the implementation results? (b) Does the Company organize CSR-related educational training on a regular basis? (c) Has the Company established exclusively (or concurrently) dedicated units to be in charge of proposing and enforcing CSR policies and has the board authorized the top management level to handle CSR-related matters and report the progress to the board? (d) Has the Company formulated reasonable remuneration and compensation policies? Is the employee performance evaluation system linked to CSR policies? Is a clear and effective reward and penalty system in place?	V		(a) The Company has formulated CSR Best Practice Principles and handles CSR related matters in accordance with these principles. (b) The Company organizes CSR-related training courses and education on a scheduled and non-scheduled basis. (c) Management departments of the Company concurrently serve as dedicated CSR units during the current stage and are in charge of promoting CSR-related operations. (d) The Company has established an employee performance evaluation system and provides relevant education during meetings or staff training on a non-scheduled basis. The Company also actively schedules advanced training courses for board directors to reinforce their understanding of corporate governance. However, the employee performance evaluation system has not yet been linked to CSR policies.	None
2. Fostering a sustainable environment (a) Does the Company endeavor to utilize all resources more efficiently and use renewable materials which have a low impact on the environment? (b) Has the Company established a proper environmental management system based on the characteristics of its industry? (c) Does the Company monitor the impact of climate change on business activities? Does it carry out greenhouse gas inventories and has it formulated energy conservation, carbon reduction, and greenhouse gas reduction strategies?	V		(a) The Company is committed to a more efficient utilization of resources and promotes low-carbon offices and inculcates water and power conservation habits among its employees. (b) The Company has always placed great emphasis on eco-friendliness and energy conservation to fulfill its responsibility in the field of environmental protection. Pollution prevention facilities have been installed in accordance with relevant laws, and all production affiliates have passed the ISO14001 certification. Environmental protection is implemented in the fields of environmental management, pollution prevention, and garbage reduction in the hope of making a contribution to global environmental protection efforts. Also, the general affairs units are responsible for designating dedicated personnel in charge of the management of environmental protection operations in the fields of air pollution, wastewater, and solid waste and relevant legal requirements. (c) The Company has already implemented energy conservation and carbon reduction activities. In addition to the reduced use of light tubes in public areas, the turning off of unnecessary lights, as well as the use of AC temperature controllers and highly effective energy conservation equipment, are promoted in office areas.	None

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
3. Preserving public welfare (a) Has the Company formulated relevant management policies and procedures under corresponding laws and regulations and the International Covenant on Human Rights? (b) Has the Company established mechanisms and channels for employee grievances and are they handled in a proper manner? (c) Does the Company provide a safe and healthy work environment for its employees and does it organize safety and health related training for its employees on a regular basis? (d) Is a mechanism in place for regular communication with employees and are employees notified in a reasonable manner of operational changes that may have a significant impact? (e) Has the Company established an effective career skill development program for its employees? (f) Has the Company formulated relevant policies and grievance procedures for the protection of consumer rights and interests regarding its R&D, procurement, production, operation, and services processes? (g) Does the Company comply with relevant laws and international standards in the marketing and labeling of its products and services? (h) Does the company evaluate past records of suppliers about environmental and social impacts before initiating dealings with them? (i) Do contracts between the Company and its main suppliers stipulate that agreements may be terminated or rescinded at any time if suppliers violate CSR policies or generate significant environmental and social impacts?	V		(a) The Company safeguards the legal rights and interests of its employees through various management systems and norms including the formulation of HR management regulations and staff work rules in accordance with relevant labor laws. The company also contributes to employee medical insurance, basic old-age insurance, unemployment insurance, occupational injury insurance, and maternity insurance. (b) The Company has established mechanisms and channels for employee grievances and is handles them in a proper manner. (c) The Company is committed to providing a comfortable, safe, and healthy work environment for its employees in accordance with laws and regulations governing public building safety and fire safety. It also organizes educational training and annual health checks for its employees on a regular basis and provides complete life and entertainment facilities including staff dorms and recreation centers. (d) The Company organizes labor-management conferences on a regular basis and enables positive communication between both sides. In addition, employees are notified of operational changes that may have a significant impact on them through different methods such as public notices to give both sides a full understanding of labor and management related information. (e) The Company has established an effective career skill development program for its employees. (f) The Company doesn't sell its products to end consumers. (g) The Company fully complies with relevant laws and regulations in Mainland China and international standards in the marketing and labeling of its products. (h) The Company conducts assessments of different supplier conditions including environmental and social impacts before initiating dealings with them. (i) The contracts between the Company and its main suppliers do currently not include provisions stipulating that agreements may be terminated or rescinded at any time if suppliers violate CSR policies or generate a significant environmental and social impacts with its main suppliers: Relevant provisions will be added or removed in accordance with actual needs.	None
4. Enhancing information disclosure (a) Does the Company disclose relevant and reliable CSR-related information on its corporate website and the Market Observation Post System?	V		(a) The Company has already set up a corporate website and will establish a link to the Market Observation Post System in accordance with relevant Taiwanese laws to disclose relevant and reliable CSR-related information.	None
5. If the Company has established the corporate social responsibility principles based on "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies," please describe any discrepancy between the Principles and their implementation: No major discrepancies exist as far as compliance with the CSR Best Practice Principles of the Company is concerned.				

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
6. Other important information to facilitate better understanding of the Company's corporate social responsibility practices: Environmental Protection: The Company implements and reinforces environmental management in accordance with relevant environmental laws. Social Contributions and Charitable Donations: The Company has been participating in various educational, culture and public welfare events. Donations to local community groups have also been made to serve the Company's social responsibility. Customer's Rights: Customer satisfaction is the Company's highest priority. By providing customers with the most efficient service and best products quality, the Company, in turn, raises its competitiveness. Equal Opportunity: The Company strictly prohibits discrimination against any employee or applicant for employment because of the individual's race, color, religion, gender, sexual orientation, gender identity or expression, national origin, age, disability, veteran's status or any other characteristic protected by law. Any actions that may be considered harassment or discrimination will be facing lawful authorities to ensure a free working environment. Health and Safety: The Company follows the Labour Safety and Health Act and practices the appropriate code of conducts.				
7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions: N/A				

3.4.6 Ethical Corporate Management

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
1. Establishment of ethical corporate management policies and programs (1) Does the Company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies? (2) Does the Company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies? (3) Does the Company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies?	V		(1) The Company has already formulated Ethical Corporate Management Best Practice Principles and Supplier Code of Conduct. Ethical management policies have been disclosed in internal regulations, on the corporate website, in annual reports, or other promotional materials. (2) The Company has included clearly formulated prevention schemes and relevant handling procedures in its "Ethical Corporate Management Operating Procedures and Code of Conduct" covering the prohibition of bribery, illegal political contributions, improper charity donations or sponsorships, improper gifts, entertainment, or other benefits. (3) The Company has included clearly formulated provisions prohibiting the offering and acceptance of improper benefits and the offering of illegal political contributions with clearly stated handling procedures in its "Ethical Corporate Management Operating Procedures and Code of Conduct."	None

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
2. Fulfill operations integrity policy (1) Does the Company evaluate business partners' ethical records and include ethics-related clauses in business contracts? (2) Does the Company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity? (3) Does the Company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it? (4) Has the Company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis? (5) Does the Company regularly hold internal and external educational training on operational integrity?	V		(1) Before the Company establishes commercial relations with third parties, it carries out assessments of the legality, ethical corporate management policies, and past records of unethical behaviour of suppliers, customers, or other trading counterparties to ensure the fairness and transparency of their business operations and guarantee that they will not request, offer, or accept bribes. (2) The Company has designated the audit office as its dedicated unit in charge of amendment, implementation, interpretation, and counselling services with regard to the "Ethical Corporate Management Operating Procedures and Code of Conduct" in addition to the recording and archiving of reported contents as well as supervision of implementation and submission of regular reports to the board of directors. (3) The board directors uphold a high standard of self-discipline. When a proposal at a given board of directors meeting concerns the personal interest or the interest of the juristic person represented by any director, that director may state his/her opinions and respond to inquiries, but may not participate in the discussion or vote on that proposal and shall recuse himself or herself from any discussion and voting, where there is a likelihood that the interests of the Company would be prejudiced. In addition, said director may not exercise voting rights as the proxy on behalf of another director. The directors shall exercise discipline among themselves, and may not support each other in an inappropriate manner. (4) If in the course of conducting company business, any personnel of the Company discovers that a conflict of interest exists involving themselves or the juristic person that they represent, or that they or their spouse, parents, children, or a person with whom they have a relationship of interest is likely to obtain improper benefits, the personnel shall report the relevant matters to both his or her immediate supervisor and the responsible unit, and the immediate supervisor shall provide the personnel with proper instructions. (5) The Company has established an accounting education for directors, executives, employees, and appointees to provide them with a full understanding of the commitment, policies, and prevention schemes of the Company in the area of ethical corporate management and ward off unethical behavior.	None
3. Operation of the integrity channel (1) Does the Company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up? (2) Does the company establish standard operating procedures for confidential reporting on investigating accusation cases? (3) Does the company provide proper whistleblower protection?	V		(1) The company has set up reporting mailboxes to encourage employees to submit reports on detected misconduct that prejudices the interests of the company. The audit office is in charge of processing such reports. (2) The audit office carries out investigations of reported contents and reports the final results to the Chairman in accordance with confidentiality principles. (3) The company is responsible for the confidentiality of the identity of the whistle-blower to prevent inappropriate dismissal or retaliation at the workplace against the whistle-blower.	None
4. Strengthening information disclosure (1) Does the Company disclose its ethical corporate management policies and the results of its implementation on the Company's website and MOPS?	V		(1) The Company's Ethical Corporate Management Best-Practice Principles and the results of our implementation have been posted on the Company's Chinese / English website (http://www.eurocharm.com.tw) and MOPS.	None

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
5. If the Company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies, please describe any discrepancy between the policies and their implementation. There have been no differences.				
6. Other important information to facilitate a better understanding of the Company's ethical corporate management policies (e.g., review and amend its policies). (a) To implement the basics of ethical corporate management policies, the Company operates under the Company Act, Securities, and Exchange Act, Businesses Entity Accounting Act, related regulations for TWSE/TPEx-Listed Companies, and other laws and decrees concerning business transactions. (b) The Company has set up the "Management Procedures for Preventing Insider Trading," which specifies that directors, supervisors, managers, and employees are not allowed to reveal inside information to others or to inquire non-public information that is irrelevant to his/her business scope. (c) For more detailed information, please refer to the Company's official website: http://www.eurocharm.com.tw.				

3.4.7 Corporate Governance Guideline and Regulations

Please refer to the MOPS (http://mops.tse.com.tw/ > Corporate Governance)

3.4.8 Other Important Information Regarding Corporate Governance

The Company continues to add more resources to enhance corporate governance guidelines and regulations for download on the Company website

3.4.9 Implementation of the Internal Control System

Declaration regarding the internal control system

Eurocharm Group Co., Ltd.

Declaration regarding the internal control system

Date: March 16, 2017

Based on the results of a self-inspection, the Company hereby makes the following declaration regarding the internal control system in 2016:

I. The Company is fully aware of the fact that directors and managers of this Company shall be fully responsible for the establishment, implementation, and maintenance of an internal control system. It has already established such a system in order to guarantee achievement of a wide range of goals including effectiveness and efficiency of Company operations (e.g., profitability, performance, and asset security), reliability, timeliness, and transparency of reporting, and compliance with relevant laws, rules, and regulation.

II. The internal control system faces inherent constraints. No matter how perfect the design of the system is, an effective internal control system may only provide reasonable guarantees regarding the achievement of the aforementioned three goals. Furthermore, the effectiveness of the internal control system is affected by changes in the environment and external conditions. However, the internal control system of the Company is equipped with a self-monitoring mechanism. Once shortcomings are identified, the Company adopts corrective measures in a prompt manner.

III. The Company judges the effectiveness of the design and implementation of the internal control system based on the judgment criteria prescribed in the Regulations Governing Establishment of Internal Control Systems by Public Companies (hereinafter referred to as "these Regulations"). The judgment criteria for the internal control system adopted in these Regulations divide the internal control system into five main constituents based on the management and control process: 1. Control environment 2. Risk assessment 3. Control activities 4. Information and communication and 5. Monitoring. Each constituent includes several items. For more details on the aforementioned items, please refer to the provisions set forth in these Regulations.

IV. The Company inspects the effectiveness of the design and implementation of the internal control system based on the aforementioned judgment criteria.

V. Based on the results of the aforementioned inspections, the Company believes that the design and implementation of the internal control system on December 31, 2016 (including the supervision and management of subsidiaries) was efficient as far as goal achievement in the field of results and efficiency of operations, reliability of financial reports, and legal compliance are concerned and may provide reasonable guarantees regarding the achievement of the aforementioned goals.

VI. This declaration will be included as a main component of the annual report and prospectus of the Company and will be made public. If the aforementioned published contents involve illegal activity such as fraud or concealment, the Company shall assume legal liability pursuant to Article 20, 32, 171, 174 of the Securities and Exchange Act.

VII. This declaration was approved unanimously by the board of directors with an attendance of 7 directors on March 16, 2017. All 7 directors consented to the contents of this declaration as stated herein.

Eurocharm Holdings Co., Ltd. Chairman: Steven Yu General Manager: Steven Yu

This is the English translation. In case of discrepancies between the Chinese Text and the English translation, the Chinese text shall prevail.

Internal Control System Review Report

The declaration of Eurocharm Group Co., Ltd. issued on March 16, 2017 stating the effectiveness of the design and implementation of the internal control system on December 31, 2016 based on an assessment of the financial reporting and asset safety related internal control system has been reviewed by this accountant. The maintenance of an effective internal control system and the assessment of its effectiveness are the responsibility of the management level of the Company.

This accountant has been commissioned to express an opinion on the efficiency of the internal control system and the declaration regarding the internal control system of the aforementioned Company based on the results of a review.

This accountant carried out a review in accordance with the Regulations Governing Establishment of Internal Control Systems by Public Companies and generally accepted auditing standards to reasonably determine the effectiveness of the internal control system of the aforementioned Company in all major areas. This review process covered an understanding of the internal control system, an assessment of the validity of evaluations of the internal control system conducted by the management level, testing and assessment of the effectiveness of the design and implementation of the internal control system, and other review procedures as deemed necessary by this accountant.This accountant believes that this review process may serve as a reasonable basis for the expressed opinion.

Any internal control system faces inherent constraints. It can therefore not be ruled out that the internal control system of Eurocharm Group Co., Ltd. fails to prevent or detect committed mistakes or misconduct. In addition, the level of compliance with the internal control system may decrease due to future environmental changes. The fact that the internal control system is currently effective therefore does not ensure that it will also be effective in the future.

This accountant hereby affirms based on the judgment criteria for the effectiveness of control system prescribed in the Regulations Governing Establishment of Internal Control Systems by Public Companies that the design and implementation of the financial reporting and asset safety related internal control system of Eurocharm Group Co., Ltd. was effective in all major areas on December 31, 2016. The declaration issued by Eurocharm Group Co., Ltd. on March 16, 2017 stating the effectiveness of the design and implementation of the financial reporting and asset safety related internal control system on December 31, 2016 based on assessments is confirmed in all major areas.

Name of Accounting Firm: Ernst & Young

Accountant Mars Hong
Steven Chang

March 16, 2017

This is the English translation. In case of discrepancies between the Chinese Text and the English translation, the Chinese text shall prevail.

3.4.10 Penalties imposed in accordance with the law upon the Company or its internal personnel and any penalties imposed by the Company upon its internal personnel for violations of internal control system provisions as well as principal deficiencies and improvements efforts for the most recent fiscal year up to the printing date of the annual report None

3.4.11 Major Resolutions of Shareholders' Meeting and Board Meetings

Major resolutions of shareholders meetings in 2016 and implementation status:

Major Resolution	Resolution Result	Implementation
1. Revision of the Company's Articles of Association	Voting Result: Approved Total Number of rights held by attending shareholders : 45,390,270 rights In favour: 44,497,128 rights; 98.03%; Against: 6 rights; Abstained / not voted on the number of 893,136 rights, case passed	Revision Implemented
2. Recognize the 2015 annual business report and consolidated financial statements	Voting Result: Approved Total Number of rights held by attending shareholders : 45,390,270 rights In favour: 44,498,128 rights; 98.03%; Against: 6 rights; Abstained / not voted: 892,136 rights, case passed	Implemented in accordance with the resolution result of the shareholders' meeting
3. Recognition of the 2015 annual surplus distribution case	Voting Result: Approved Total Number of rights held by attending shareholders : 45,390,270 rights In favour: 44,498,128 rights; 98.03%; Against: 6 rights; Abstained / not voted: 892,136 rights, case passed	In accordance with the resolution result from the shareholders' meeting, the cash dividend record date was on 08/19/2016 and the payable date was on 09/14/2016
4. The 3rd Election of Directors	List of directors elected: New General Limited Representative: Steven Yu Seashore Group Limited Representative: Michael Yu Seashore Group Limited Representative: Antonio Yu Steven Chang We-Min Lin (Independent director) Bryan Peng (Independent director) Gen-Yu Fong (Independent director)	Implemented in accordance with the resolution of the shareholders' meeting
5. The lifting of the prohibition of competition towards new directors and their representative	Voting Result: Approved Total Number of rights held by attending shareholders : 45,390,270 rights In favour: 42,631,091 rights; 93.92%; Against: 1,548,043 rights; Abstained / not voted: 1,211,136 rights, case passed	Implemented in accordance with the resolution of the shareholders' meeting

Implementation of the resolution results: Resolutions of the Shareholders' Regular Meeting 2016 include Revision of the Company's Articles of Association, Recognize the 2015 annual business report and consolidated financial statements, Recognition of the 2015 annual surplus distribution case, the 3rd Election of Directors. The prohibition of competition towards new directors and their representative has been lifted. The Company has completed all the necessary implementations.

Major resolutions of board meetings in 2016 up to the printing date of the annual report:

A total number of 6 board meetings, as follows,

ITEM	DATE	MAJOR RESOLUTIONS
Board Meeting	06/29/2016	1. Election of the Chairman 2. Appointment of the Remuneration Committee members 3. Appointment of the Audit Committee members 4. Approval of the Company's plan to expand the overseas market and revise investment structure.
Board Meeting	08/12/2016	1. Approval of the 2016 Q2 consolidated financial statement 2. Approval of the Company's subsidiaries' intention to enter short-term credit lines with banks 3. Approval of the endorsement/guarantee for the Company's subsidiary VPIC1 4. Review on the Company's chairman's remuneration case 5. Review of traveling expenses for the Company's Board of Directors, the Audit Committee and the Remuneration Committee 6. Review on the distribution of Company's directors' remuneration in 2015 7. Review on the distribution of Company's employee compensations in 2015
Board Meeting	11/02/2016	1. Approval of the 2016 Q3 consolidated financial statement 2. Approval of the extended contract regarding bank's short-term line of credit case 3. Approval of the revision towards the Company's ethical corporate management best practice principles and ethical corporate management operating procedures and code of conduct
Board Meeting	12/20/2016	1. Approval of the 2017 annual business plan & budget 2. Review on the distribution of the 2016 year end bonus for the Chairman and the managers 3. Appointment of Ernst & Young Certified Public Accountants to carry out the review on 2016 annual internal control system 4. Appointment of Ernst & Young Certified Public Accountants to prepare the Company's 2017 Annual Report 5. Review on the Company's internal audit plan for the year 2017 6. Appointment of the Company's general manager 7. Appointment of the Company's manager 8. Appointment of the Company's subsidiary VPIC1's general manager 9. Appointment of the Company's subsidiary VPIC1's manager 10. The lifting of the prohibition of competition towards managers 11. Establishment of the managers' remunerations in the Company and its subsidiaries 12. Approval of the extended contract regarding bank's short-term line of credit case 13. Approval of the endorsement/guarantee for the Company's subsidiary Eurocharm Innovation

ITEM	DATE	MAJOR RESOLUTIONS
Board Meeting	03/16/2017	1. Approval of the distribution of the 2016 year end bonus for the Chairman and the employees 2. Approval of the Company's 2016 annual business report and consolidated financial statements 3. Approval of the 2016 surplus distribution case 4. Review of the 2016 annual internal control system self-inspection report and internal control system statement 5. Revision of the Company's Articles of Association 6. Revision of the Company's Acquisition/Disposal of Asset Procedures 7. Contact between the Company and the Far East International Commercial Bank 8. Approval of the extended contract regarding bank's short-term line of credit case 9. Approval of the endorsement/guarantee for the Company's subsidiaries 10. Approval of the fixed asset acquisition for the Company's subsidiaries VPIC1 11. Approval of the shareholders' right to ask questions at the Annual Shareholders' Meeting and relevant matters 12. Discussion on the date, time and location of the 2017 Annual Shareholders' Meeting
Board Meeting	05/11/2017	1. Approval of the Ernst & Young Accounting Firm internal accountant transfer 2. Approval of the Company's 2017 Q1 consolidated financial statements 3. Approval of the Company's Travel Management Policy Independent Director Opinion: None The Company's handling of the opinions of independent directors: None The results of the resolution: All attendees agreed to pass

3.4.12

Major Issues of Record or Written Statements Made by Any Director or Independent Director Dissenting to Important Resolutions Passed by the Board of Directors

None

3.4.13

Resignation or Dismissal of the Company's Key Individuals, Including the Chairman, CEO, and Heads of Accounting, Finance, Internal Audit and R&D

None

3.5 Information Regarding the Company's Audit Fee and Independence

3.5.1 Information Regarding the CPA Fee

Accounting Firm	Name of CPA		Period Covered by CPA's Audit	Remarks
Ernst and Young	Mars Hung	Steven Chang	2016	-

Unit: NT$ thousands

		Audit Fee	Non-Audit Fee	Total
Fee Range	Under NT$ 2,000		V	
	NT$2,000 ~ NT$4,000			
	NT$4,001 ~ NT$6,000	V		V

Non-audit fees paid to CPAs, their accounting firms, and related businesses make up over 25% of the audit fees

Unit: NT$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resource	Others	Subtotal		
Ernst and Young	Mars Hung Steven Chung	4,500	-	-	-	800	800	2016	-

Reduction of audit fees after replacement of the accounting firm compared to the year preceding replacement

None

Reduction of audit fees by more than 15% compared to the previous year

None

3.5.2

Replacement of CPA

None

3.5.3

Recent Employment of the Chairman, General Managers or Financial Managers who were Employed in an Accounting Firm or its Affiliates

None

3.5.4 Evaluation of the CPA's Independence

The Audit Committee regularly monitors the independence of Eurocharm Group's external auditor by conducting the below evaluations and reports the same to the Board of Directors:

A//

The auditor's independence declaration

B//

The Audit Committee pre-approves all audit and non-audit services conducted by the auditor to ensure that the non-audit services do not influence the results of the audit

C//

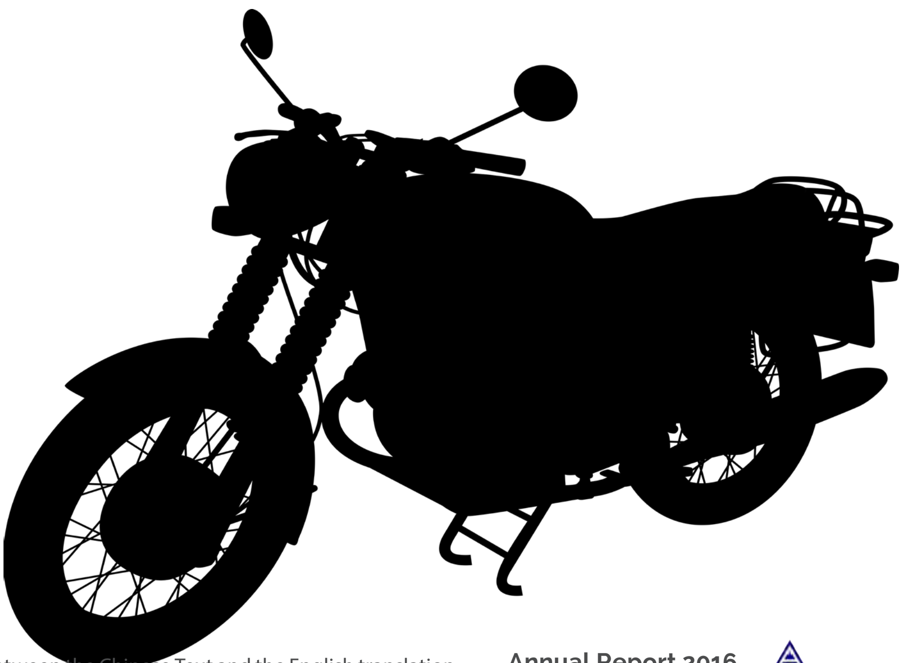
Ensure the audit partner rotates every seven years

D//

Annually evaluate the independence of the external auditor based on the results of the auditor survey

3.6 Operational Procedures for Handling Material Inside Information

Eurocharm Group has established relevant procedures for managing and disclosing material information. The responsible departments regularly remind all officers and employees about the need to comply with these proceedings and other applicable regulations when they become aware of any potential material information and the possible need to publicly disclose such information. To ensure that our employees, managers, and board directors are aware of and comply with these relevant regulations, the Company has also established our "Insider Trading Policy." To reduce the risk of insider trading, on-line training programs and live seminars are conducted periodically. Also, employees can familiarize themselves with relevant internal policies and training articles.



3.7 Recent Changes in Equity and Pledged Shares of Directors, Supervisors, Managers and Shareholders Holding Over 10% of the Total Shares

Unit: Share

Title	Name	2016		As of April 17, 2017	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman	New General Limited	0	0	0	0
	Representative: Steven Yu	0	0	0	0
Director	Seashore Group Limited	0	0	0	0
	Representative: Michael Yu	0	0	47,000	0
Director	Seashore Group Limited	0	0	0	0
	Representative: Antonio Yu	35,000	0	0	0
Director	Steven Chang	0	0	0	0
Independent Director	Wei-Min Lin	0	0	0	0
Independent Director	Bryan Peng	0	0	0	0
Independent Director	Gen-Yu Fong	0	0	0	0
General Manager[1]	Jack Zhao	(115,000)	0	0	0
Deputy General Manager	James Zhan	18,820	0	32,000	0
Deputy General Manager	Andy Wu	19,000	0	32,000	0
Deputy General Manager	Cina-Jin Zhan	56,000	0	0	0
Deputy General Manager[2]	Cheng-Wen Wang	28,000	0	0	0
Deputy General Manager	Robert Lin	0	0	0	0
Associate General Manager[3]	Shang-Chong Ren	0	0	0	0

Note 1: General Manager Jack Zhao resigned on December 20, 2016.

Note 2: Cheng-Wen Wang was assigned Deputy General Manager on December 20, 2016.

Note 3: Shang-Chong Ren resigned on July 6, 2016.

3.7.1

Shares Trading with Related Parties

None

3.7.2

Shares Pledged with Related Parties

None

3.8 Relationship among the Top Ten Shareholders and their Spousal or Kinship Relationships within the Second Degree

04/17/2017 (Book closure date) Unit: thousand shares

Name	Current Shareholding		Spouse's/ minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Seashore Group Limited	24,769	37.67%	-	-	-	-	-	-	-
New General Limited	13,833	21.04%	-	-	-	-	-	-	-
New General Limited Representative: Steven Yu	-	-	-	-	-	-	Seashore Group Limited Representative: Michael Yu Seashore Group Limited Representative: Antonio Yu	Brother Brother	-
Seashore Group Limited Representative: Michael Yu	117	0.18%	-	-	-	-	Seashore Group Limited Representative: Steven Yu Seashore Group Limited Representative: Antonio Yu	Brother Brother	-
Seashore Group Limited Representative: Antonio Yu	70	0.11%	-	-	-	-	New General Limited Representative: Steven Yu New General Limited Representative: Michael Yu	Brother Brother	-
Cathay Life Insurance Company, Ltd.	4,812	7.32%	-	-	-	-	-	-	-
Yuanta Venture Capital Co., Ltd.	1,101	1.67%	-	-	-	-	-	-	-
Han Sen Hsieh	1,007	1.53%	-	-	-	-	-	-	-
Yuanta Securities Co., Ltd. Mutual Fund Account	625	0.95%	-	-	-	-	-	-	-
AmTrust Capital Corp.	600	0.91%	-	-	-	-	-	-	-
Taiwan Life Insurance Company, Ltd.	430	0.65%	-	-	-	-	-	-	-
YueLong Investment Co., Ltd.	226	0.34%	-	-	-	-	-	-	-
Zhuang-Gong Lin	209	0.32%	-	-	-	-	-	-	-

3.9 Consolidated Shareholding Ratio and the Number of Shares Held by the Company, Directors, Supervisors, Managers and Businesses Directly or Indirectly Controlled by the Company in the Same Joint Venture Business

12/31/2016 (Unit: Share)

Affiliated Enterprises	Ownership by the Company		Direct or Indirect Ownership by Directors, Supervisors, Managers		Total Ownership	
	Shares	%	Shares	%	Shares	%
Eurocharm Innovation Co., Ltd. (B.V.I.)	19,000,000	100.00	0	0.00	19,000,000	100.00

Note: The Company adopts the investment of equity method

IV. CAPITAL OVERVIEW

4.1 Capital and Shares

4.1.1 Source of Capital

As of 04/17/2017 (Unit: thousand shares; NT$ thousands)

Month/ Year	Par Value (NT$)	Authorized Capital		Paid-in Capital		Remark		
		Shares (thousand shares)	Amount (NT$ thousands)	Shares (thousand shares)	Amount (NT$ thousands)	Sources of Capital	Capital Increased by Assets Other than Cash	Other
07/2011	USD1	17,000	USD$17,000	17,000	USD$17,000	Evaluation	-	-
04/2012	USD1	30,000	USD$30,000	17,000	USD$17,000	Authorized Stock Increase	-	-
07/2012	USD1	30,000	USD$30,000	17,474	USD$17,474	Cash Capital Increase	-	Note 1
09/2013	-	90,000	NTD$900,000	56,874	NTD$568,742	Equity Currency Conversion	-	Note 2
09/2014	58	90,000	NTD$900,000	63,984	NTD$639,842	Cash Capital Increase	-	-
09/2014	40	90,000	NTD$900,000	64,340	NTD$643,402	Employee Stock Option Implementation	-	-
10/2014	40	90,000	NTD$900,000	64,349	NTD$643,492	Employee Stock Option Implementation	-	-

Month/ Year	Par Value (NT$)	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount (NT$ thousands)	Shares	Amount (NT$ thousands)	Sources of Capital	Capital Increased by Assets Other than Cash	Other
02/2015	40	90,000	NTD$900,000	64,370	NTD$643,702	Employee Stock Option Implementation	-	-
04/2015	40	90,000	NTD$900,000	64,488	NTD$644,882	Employee Stock Option Implementation	-	-
05/2015	40	90,000	NTD$900,000	64,503	NTD$645,032	Employee Stock Option Implementation	-	-
09/2015	38	90,000	NTD$900,000	64,583	NTD$645,832	Employee Stock Option Implementation	-	-
10/2015	38	90,000	NTD$900,000	64,932	NTD$649,322	Employee Stock Option Implementation	-	-
08/2016	36	90,000	NTD$900,000	64,956	NTD$649,562	Employee Stock Option Implementation	-	-
09/2016	36	90,000	NTD$900,000	65,196	NTD$651,962	Employee Stock Option Implementation	-	-
10/2016	36	90,000	NTD$900,000	65,399	NTD$653,992	Employee Stock Option Implementation	-	-
11/2016	36	90,000	NTD$900,000	65,456	NTD$654,562	Employee Stock Option Implementation	-	-
12/2016	36	90,000	NTD$900,000	65,549	NTD$655,492	Employee Stock Option Implementation	-	-

Note 1: The Company issued new shares totalled 473,537 due to cash capital increase.
Note 2: The Company modified face value of shares from USD$1 to NTD$10.

As of 04/17/2017 (Unit: Share)

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common	65,753,153	24,246,847	90,000,000	-

Note 1: Approved by the general declaration system to raise the issuance of securities: None

4.1.2 Status of Shareholders

As of 04/17/2017 (Unit: Person: Share)

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	1	3	36	28	3,028	3,096
Shareholding (shares)	66,000	5,326,000	3,926,050	39,639,276	16,795,827	65,753,153
Percentage	0.10	8.10	5.97	60.27	25.56	100.00

4.1.3 Shareholding Distribution Status

As of 04/17/2017 (Unit: Person: Share)

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	150	11,554	0.02
1,000 ~ 5,000	2,372	4,496,520	6.84
5,001 ~ 10,000	264	2,104,555	3.20
10,001 ~ 15,000	77	997,133	1.52
15,001 ~ 20,000	54	988,367	1.50
20,001 ~ 30,000	52	1,309,257	1.99
30,001 ~ 40,000	28	1,037,228	1.58
40,001 ~ 50,000	19	869,246	1.32
50,001 ~ 100,000	49	3,530,713	5.37
100,001 ~ 200,000	21	2,796,345	4.25
200,001 ~ 400,000	2	434,959	0.66
400,001 ~ 600,000	2	1,030,000	1.57
600,001 ~ 800,000	1	625,000	0.95
800,001 ~ 1,000,000	0	0	0.00
1,000,001 or over	5	45,522,276	69.23
Total	3,096	65,753,153	100.00

4.1.4 List of Major Shareholders

As of 04/17/2017 (Unit: Share)

Shareholder's Name	Shareholding	
	Shares	Percentage
New General Limited	13,833,217	21.04%
Seashore Group Limited	24,769,059	37.67%
Cathay Life Insurance Co., Ltd	4,812,000	7.32%

4.1.5 Market Price, Net Worth, Earnings and Dividends per Share in the previous two fiscal years

(Unit: NT$: thousand shares)

Items	2015	2016	As of March 31, 2017
Market Price per Share			
Highest Market Price	141.5	124.5	87.2
Lowest Market Price	48.5	72.3	75.7
Average Market Price	76.64	98.38	82.30
Net Worth per Share			
Before Distribution	38.45	39.39	38.44
After Distribution	33.45	See Note	-
Earnings per Share			
Weighted Average Shares (thousand shares)	64,580 thousand shares	65,069 thousand shares	65,716 thousand shares
Diluted Earnings Per Share	7.5	7.25	1.52
Adjusted Diluted Earnings Per Share	-	-	-
Dividends per Share			
Cash Dividends	5	4 (See Note)	-
Stock Dividends			
Dividends from Retained Earnings	-	-	-
Dividends from Capital Surplus	-	-	-
Accumulated Undistributed Dividends	-	-	-
Return on Investment			
Price / Earnings Ratio (Note 1)	14.59	11.10	11.61
Price / Dividend Ratio (Note 2)	28.71	See Note	-
Cash Dividend Yield	3.48	6.28	4.79

Note: The 2016 annual surplus distribution was approved by the board of directors but not yet approved by the shareholders' meeting

4.1.6 Dividend Policy and Implementation Status

A. Dividend Policy

As the Company is in the growing stage, the dividend distribution may take the form of a cash dividend and 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.

Unless otherwise required by the Statute and the Applicable Public Company Rules, the Company may distribute profits in agreement 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. 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 a bonus to Directors and no less than 2% of the balance as compensation to employees of the Company, which may be distributed under an incentive program approved pursuant to Article 11.1 above. The board of directors shall adopt the exact percentages to be distributed as bonuses to Directors and the compensation to employees, and such resolution shall be reported at the shareholders meeting. A Director who also serves as an executive officer of the Company may receive a bonus in his capacity as a Director and the compensation 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 the Directors and the general meetings, the amount of profits distributed to Members shall not be lower than 20% of profits (after tax) of the then 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 then 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.

B. Proposed Distribution of Dividend

The proposal for the distribution of 2016 profits was passed at the meeting of the Board of Directors. It is approved that a total amount of NT$263,012,612 cash dividend will be distributed to the shareholders; hence, a cash dividend of NT$ 4 per share.

4.1.7 Impact on the Company's performance and EPS of stock dividends proposed by this shareholders' meeting

The board of directors approved the 2016 earnings distribution proposal on March 16, 2017, with a planned distribution of cash dividends amounting to NT$ 4 per share. The proposal will be submitted to the shareholders' meeting on June 15, 2017, for ratification. Since only cash dividends are distributed, the overall business performance of the Company will not be affected.

4.1.8 Employee Bonus and Directors' and Supervisors' Remuneration

1. Quotas or range of employee bonuses and compensations of directors and supervisors as specified in the Articles of Incorporation:

Please refer to 4.1.6 Dividend Policy and Implementation Status Section A.

2. Estimation basis for employee compensations of directors and supervisors for this quarter, calculation basis for some shares allocated as the stock bonus, and accounting procedures in case of discrepancies between actually distributed amounts and estimated figures:

The proportional foundation for the distribution of payable employee and director compensations in 2016 shall be determined based on the profits (employee bond of not less than 2%; directors and supervisors' remuneration of not more than 2%). In the case of significant changes of distribution amounts determined by the board of directors after year end, the initially allocated annual expenses shall be adjusted. Further changes on the date of the shareholders' meeting resolution shall be handled as accounting estimate changes. Annual adjustments shall be entered into accounts by resolution of the shareholders' meeting. If the shareholders' meeting resolves to pay out employee bonuses as stock, the number of shares allocated as stock dividends shall be determined based on payable bonus amounts divided by fair stock value. The term fair stock value shall refer to the closing price on the day before the shareholders' meeting resolution date (upon consideration of ex-right/ex-dividend impacts).

3. Proposed distribution of employee bonuses approved by the board of directors:

A. The Company charter prescribes the following for the employee bonus and compensation for directors and supervisors:

- Employee cash bonus of NT$ 18,100,169
- Employee stock bonus of NT$ 0
- Directors' Remuneration of NT$10,300,000

4. Proposed employee stock bonus and proportion of stock bonus to net income after tax as indicated in individual financial statements for this quarter and the total amount of employee bonuses: None

5. Profit Distribution for Employees' Directors' and Supervisors' Remuneration for 2017 Approved in Board of Directors Meeting

In the 2015 financial statement, it was stated that the employee bonus was NT$ 18,100 thousand dollars and the directors' remuneration was NT$ 10,343 thousand dollars. In 2016, the employee bonus distributed was NT$ 18,100 thousand dollars, and the directors' remuneration allocated was NT$ 10,343 thousand dollars. No discrepancy was found.

4.1.9 Buyback of Treasury Stock: None

4.2 Bonds

4.2.1 Current Status of Company Bonds:

I. Corporate Bonds: None

II. Convertible and Exchangeable Bonds, Shelf Registration for Issuing Bonds or Corporate Bonds with Warrants: None

4.3 Preferred Shares: None

4.4 Global Depository Receipts: None

4.5 Employee Stock Options

4.5.1 Issuance of Employee Stock Options

12/31/2016

Type of Stock Option	1st Tranche
Approval date	08/06/2014
Issue date	09/15/2012
Units issued (shares)	2,000,000
Shares of stock options to be issued as a percentage of outstanding shares (%)	3.13%
Duration	09/14/2014 - 09/14/2018
Conversion measures	Issue of new shares
Conditional conversion periods and percentages	2nd Year: up to 30% 3rd Year: up to 60% 4th year: up to 100%
Converted shares (shares)	1,565,000 shares
Exercised amount (NT$ dollars)	NT$ 61,974,000 dollars
Number of shares yet to be converted (shares)	202,000 shares
Adjusted exercise price for those who have yet to exercise their rights (NT$ dollars)	36
Unexercised shares as a percentage of total issued shares (%)	0.31%
Impact on possible dilution of shareholdings	Dilution to Shareholders' Equity is limited

4.5.2 List of Executives Receiving Employee Stock Options and the Top Ten Employees with Stock Options

12/31/2016 (Unit: NT$ thousands: thousand shares)

	Title	Name	No. of Stock Options	Stock Options as a Percentage of Shares Issued	Exercised				Unexercised			
					No. of Shares Converted	Strike Price (NT$)	Amount (NT$ thousands)	Converted Shares as a Percentage of Shares Issued	No. of Shares Converted	Strike Price (NT$)	Amount (NT$ thousands)	Converted Shares as a Percentage of Shares Issued
	Assistant Chairman	Michael Yu										
	Assistant Chairman	Antonio Yu										
	General Manager	Jack Zhao[1]										
Executives	Deputy General Manager	James Zhan	633	0.96	401	36-40	15,260	0.61	232	36	8,352	0.35
	Deputy General Manager	Andy Wu										
	Deputy General Manager	Cina-Jin Zhan										
	Deputy General Manager	Cheng-Wen Wang[2]										
	Associate General Manager	Ko-Ming Tu										
	Manager	Shih-Sheng Chang										
	Manager	Chun-Hsing Liao										
	Manager	Chi-Ming Yu										
Employees	Manager	Shen-Po Hsu	555	0.85	555	36-40	20,936	0.84	-	36	-	-
	Manager	Yun-Lung Wu										
	Manager	Hung-Chung Chen										
	Manager	Teng-Mao Yu										
	Manager	Jen-Cheng Liao										
	Manager	Chao-Kai Yeh										

Note 1: General Manager Jack Zhao resigned on December 20, 2016.

Note 2: Cheng-Wen Wang was assigned Deputy General Manager on December 20, 2016.

4.6 Restricted Employee Stock Options: None

4.7 Status of New Shares Issuance in Connection with Mergers and Acquisitions: None

4.8 Financing Plans and Implementation

As of today, the Company does not have unfinished projects of private equity or securities issuance nor completed projects with low performance in the previous 3 years.

V. Operational Highlights

5.1 Business Activities

5.1.1 Business Scope

A. Main areas of business operations

The Company's operations primary focus on the manufacturing, process, assembling and trading of auto and motor parts and medical equipment.

B. Revenue Distribution

Unit: NT$ thousands

Major Divisions	2014		2015		2016	
	Total Sales	(%) of Total Sales	Total Sales	(%) of Total Sales	Total Sales	(%) of Total Sales
Motor Parts	3,056,561	80.46%	3,119,102	77.82%	3,251,747	78.08%
Medical Equipment	521,988	13.74%	448,548	11.19%	440,640	10.58%
Recreational Vehicle Parts	154,098	4.10%	351,843	8.78%	370,188	8.89%
Others	65,975	1.70%	88,694	2.21%	102,204	2.45%
Total	3,798,622	100.00%	4,008,187	100.00%	4,164,779	100.00%

C. Main Products

- Auto and Motor Parts: chassis, bodyworks, shields, luggage and other metal related parts
- Medical Equipment: medical beds, patient lifters, and shower chairs
- Recreational Vehicle Parts: motorcycle, snowmobile, jet skies and other recreational vehicle parts

D. New Product (Service) Development

In Taiwan, the Company utilizes the advantage of Taiwan's advanced processing technology to manufacture and export medical equipment. At the factory plant in Vietnam, it is the competitive cost of producing metal parts that provide the leverage for the Company to acquire new orders continuously. Moving forward, we will further build and expand the territory of metal processing on top of the foundation that has been established. With the positive referrals from customer to customer, the quality of our products will soon be widely known to the international markets.

5.2 Market and Sales Overview

5.2.1 Current Status and Future Development

A. Motorcycle Market

I. Development and Structure of Motorcycles

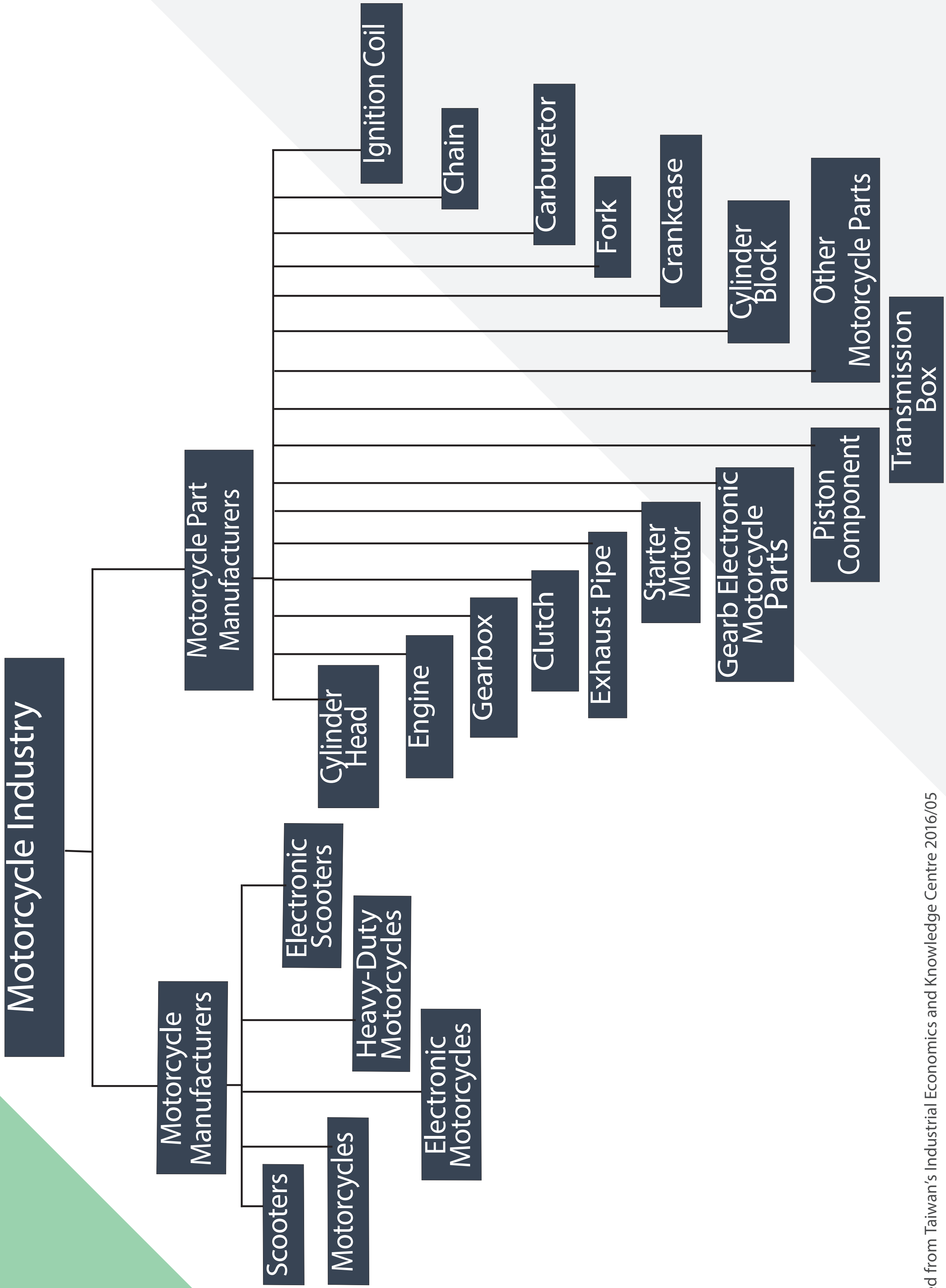
Throughout the history of vehicle development, it started from the first bicycle to the first motorcycle then came the first automobile. When the first motorcycle came out in 1769, it was powered by a steam engine. It was not until 1860 that a gasoline engine was considered practical. During the fast developing 19th century, this type of internal combustion engine was also used in assembling bicycles which served as a motorcycle prototype. In 1883, Gottlieb Daimler, a German engineer, decided to experiment and utilize a four-stroke gasoline engine on a bicycle. Following Daimler's footsteps, Karl Benz, an automobile engineer, invented and patented his idea of adding electric ignition system.

The real breakthrough of the motorcycle evolution; however, did not happen until 1895. Count Albert de Dion and Georges Bouton, pioneers of the automobile industry, designed a new engine and together became the de Dion-Bouton, the world's largest automobile manufacturer for a time in France. During the period of the 1950s, England had the biggest market share of manufacturing motorcycles including BSA, Triumph, Royal Enfield, Norton and the iconic manufacturers such as Matchless and Albert John Steven. However, the English motorcycle industry quickly fell in the 1970s after the people in Japan mastered the efficiency of machinery. By the time, Honda had dominated the market.

In the 21st century, customers were no longer content with motorcycles simply being functional. The vehicles had matured into being both practical and entertaining as riders enjoy the speed and the thrills. This was when sports bikes became largely popular. Manufacturers such as KTM (also known as Kraftfahrzeuge Trunkenpolz Mattighofen), Suzuki Hayabusa and Harley-Davidson were three of the leading businesses. Recently, two-stroke engines have gradually been replaced to help preserve the environment.

Depending on the structural design, body, and purpose, motorcycles are classified into various categories. For example, engines are grouped into either single-cylinder engine or multi-cylinder engine and four-stroke versus two-stroke. Regarding the operations, motorcycles can be divided into automatic or manual transmission vehicle. Based on the volume of engine displacements, they can also be identified as scooters (below 50cc), motorcycles (below 250cc) or heavy-duty motorcycles (above 250cc). Finally, depending on the purposes, motorcycles could be categorized as the following.

Type of Motorcycle	Primary Purpose
Sport Bike	Modeled race car's streamlined exterior, sports bikes are built lightweight for high-speed performance. They are equipped with multi-cylinders and the characteristics of a sports car. Long distance riding could cause severe back pain.
Crusier	Cruisers are assembled with small to medium displacements as these motorcycles aren't built for frequent shifts of acceleration. The riding positions are designed to feed forward and hands up high for the comfort of riding. Typically, there are extra storage space
Standard	Standards are versatile, practical street motorcycles. One of the easily identified characteristics of these vehicles is the upright riding position. For example Honda's CB series.
Scooter	Scooters emphasize their ability to be easily maneuvered with a flat floorboard as a comfortable footrest. They are a more affordable alternative to cars and some of the designs specifically market to female riders.
Commercial Motorcycle	Aside from providing person transport, commercial motorcycles are widely used for shipping in Asia. These types of vehicles are durable and gas-saving.
Choppers	Harley Davidson produced one of the most iconic choppers. They are, typically, designed with high handlebars and raked-out forks. Popularized in the 1960s, they also symbolize a sense of carefreeness. Recently, many Japanese manufacturers launched similar styles to recreate the retro concept.
Electric Motorcycle	Powered by electricity instead of an engine, electric motorcycles are equipped with lead-acid batteries for storage. Shortly, this type of battery could be replaced by the fuel cell for better endurance and higher performance.
Off-Road	Also known as dirt bikes, off-road motorcycles are designed to adapt rough, unpaved surface. The body is typically built lighter and provides a high ground clearance. The tires have knobs to offer more traction. They are also modeled after the designs of MX and Trail.
Personal Water Craft	Commonly referred to a water scooter, the watercraft could be ridden standing or sitting. It's designed with a unique mechanism where if the rider fell off the craft, the string wrapped around the wrist would stop the engine from operating. Inspired by the design of a motorcycle, these scooters initial run on a two-stroke cycle engine.



Sourced from Taiwan's Industrial Economics and Knowledge Centre 2016/05

Manufacturing a motorcycle consists of a wide variety of components. The commonly known parts include the chassis, engine, exhaust system, transmission, steering, suspension and the vehicle body. Motorcycles are primary powered by the engine system while the car chassis supports the engine and links the rest of the components. The exhaust system is closely related to the engine performance. Through the transmission, the power generated by the engine is then delivered to the axle triggering the tiers. This results in a mobile vehicle with the capability of steering. The suspension system, on the other hand, functions as control and stopping on the road. Finally, the motorcycle body is what covers all these parts and beautifies the appearance of the vehicle.

Aside from the body, the designs of the position lamps and the speedometer cables have also been the dominating factor of purchase for the customers. After the motorcycle's been assembled with individual parts, a wire harness has to be installed to serve as the nervous system for transmitting electricity and messages. This is to ensure the rider's safety and a smooth operation.

Operating its factories in both Vietnam and Taiwan, Eurocharm develops tooling and manufactures metal-based motorcycle parts (chassis, brake system components, clutch parts, shock absorbers, engine components, fuel tanks, etc.). Over the past 40 years, the Company has established its significance of being the leading automotive parts manufacturer in Vietnam. The promising quality and the timely delivery have earned Eurocharm the customers' trust and a steady sales growth.

II. Global Industry of Motorcycles

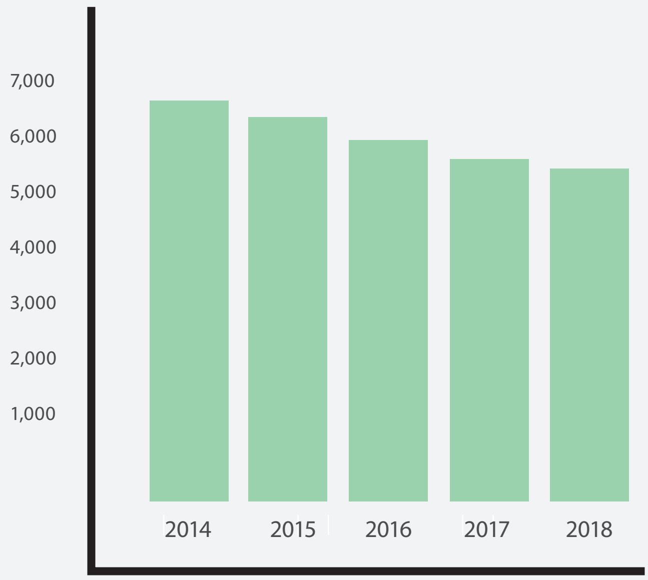
In recent years, Asia has been the world's largest motorcycle consumer. The sales in Asia took up to 79.1% of the global motorcycle sales in 2015. In addition to India, China and Indonesia claiming the first, second and the third place in motorcycle consumption, South-east Asian countries such as Vietnam and Thailand follow close behind. Due to their geographic advantage, Japanese manufacturers have gradually dominated the motorcycle market. These Japanese manufacturers include Honda, Yamaha, Kawasaki, and Suzuki. In Taiwan, San Yang Motor and Kymco are the two major original brand manufacturers (OBM). The rest of the motorcycle manufacturers have entered either original equipment manufacturing (OEM) and partnered with the Japanese manufacturers mentioned above. For those that have not yet joined the supply chain, there is still a possibility of collaboration.

As to the market in China, its conventional fuel motorcycle industry had dropped significantly under the implementation of the national emission standards. This had led to India being the world's largest motorcycle market. Meanwhile, the rapid climate change has raised the world's awareness and concerns for greenhouse gas emissions. One of the solutions of saving this planet we live on is to replace the regular vehicles with ones powered by electricity or ones that meet the emission standard. As a result, the growth of the parts manufacturing industry should maintain the previous rising slope as the primary components will continue to be the same. Countries in North America and Europe may hold potential growth in this electric motorcycle industry with a matured market and steady economy. On the other hand, the demand for motorcycles is gradually rising in Africa and South America as the economy develops along with its transport infrastructure. It is estimated that these two continents will be one of the leading motorcycle markets in the future.

As a whole, motorcycles are widely operated in developing countries due to that they are relatively affordable and easier to maneuver compared to an automobile. The storage compartment also provides the ease of shipping while the convenience to park nearly anywhere makes it an everyday personal transport. Asia, in particular, heavily depends on motorcycles due to its high population density and the lack of public infrastructure. According to Taiwan's Industrial Economics and Knowledge Centre, the estimated 2017 worldwide fuel motorcycle sales will reach 58 million.

However, based on the analysis from Global Motorcycle Market Development, the increasing standard of living will lead to motorcycle buyers converting into automobile buyers. As a result, it is expected that the motorcycle market will begin to show a downward trend. In 2015, the global market sales fell 4.5% in the scale of 61 million motorcycles market.

Sourced from Taiwan's Industrial Economics and Knowledge Centre 2015/05



WORLDWIDE FUEL MOTORCYCLE SALES

III. Motorcycle Trends in Vietnam

Motorcycles have been the primary means of transportation in Vietnam. This is due in large part to the poor public transit system and the lack of highway infrastructure. In Hanoi and Ho Chi Ming City, the two most populated cities in Vietnam, motorcycles have undertaken more than 80% of the urban transport needs.

The development of motorcycle industry in Vietnam can be divided into 5 periods chronologically, as follows:

Before 1995: Motorcycles are rarely seen, and the people rely on bicycles as their means of transportation. There were approximately 2 to 3 million registered imported motorcycles.

1995 - 1999: Manufacturers such as San Yang Motor and Honda realized the potential of the motorcycle market in Vietnam and began setting up factories for manufacturing and assembling. However, the general public still can't afford to purchase a motorcycle due to the relatively low average income.

2000 - 2002: Motorcycles became a lot more common as China started to import their affordable motorcycles into the market. The industry has seen a rapid growth regarding sales performance During the peak seasons, the motorcycle sales could reach 2 million motorcycles per year.

2003 - 2005: As the new policy from the Vietnamese government in effect to limit the motorcycle registration, the sales performance has seen a substantial decline. In addition, the inferior quality of the Chinese motorcycles have started to show, and the consumers have better and more options. Towards the end of 2015, foreign manufacturers with factories in Vietnam had raised their market share had to 53.6% altogether.

Since 2006: Along with the growth of the economy and the lift of limited motorcycle registration, motorcycle market is gradually recovering. The annual sales in Vietnam are approximately 2 million.

As the average standard of living escalated in Vietnam, the government had made an estimation in 2007 that by 2020, the number of registered motorcycles will increase to 33 million.

B. Medical Equipment Market

Eurocharm manufactures and exports various medical equipment including patient lifts, shower chairs, commode chairs and medical beds to Europe, North American and Japan. According to 2015 BMI's statistics, they predicted the size of medical equipment market worldwide in 2018 would reach US$382 billion based on that it was US$324 billion in 2015.

North America was the largest market for medical equipment consumption in 2015, accounting for 48.8% of the market worldwide. Then, it was Western Europe making up to 23.8%. Asia and the Pacific, ranked the 3rd on the chart, accounting for 20.2% of the global market. Accounted for a 4.3% and a 2.9% are Central & Eastern Europe and the Middle East & Africa. However, due to the slower economic growth and the impact of deflation in recent years, the European markets have been declining significantly. On the other hand, based on the 9% increase in Asia-Pacific (APAC) region compound annual growth rate from 2013 to 2016, it is estimated that the market growth rate of the emerging countries such as China, India, and South Korea would raise at least 15% in the next following 3 years.

In 2015, the North American market appeared to be growing at a faster pace compared to its performance in 2014. Further analysis pointed this to the non-dollar area being affected by the dollar exchange rate distortion. The strong dollar performance had directly compressed the medical equipment market shares of other countries.

In the long run, it is expected to see a gradual stability in the market shares after the short-term exchange rate fluctuation and the implementation of new monetary policies. Overall, the ranking of regional markets remains unaffected in the coming years. North America will still be the dominating market due to its matured health insurance systems about other countries.

Factoring the influences such as the Greek government-debt crisis, Islamist terrorist attacks and the European migrant crisis, Western Europe's economic growth had been moving at a slow pace. In the recent years, to boost the European economy, the European Central Bank had weakened the euro over its quantitative easing monetary policy. As a result, the euro fell more than 10% against the dollar which significantly affected the performance of the medical equipment market. In 2015, the market size in Western Europe alone was approximate US$77.72 billion which accounted for 23.8% of the global market. Compared to the scale in 2014, that market share had dropped 12.4%. However, in euros (70.65 billion euros), the percentage had in fact risen 5.9%.

Currently, six of the top 10 countries with population ages 65 and above are in Western Europe. It is expected that the issue of the aging population will continue to simmer and, as a result, the demand for medical care products will increase. This is a market where the Company will prioritize in the next development plan.

The driving forces of economic growth in Central and Eastern Europe depend largely on the euro zone countries. The scale of the medical equipment market in 2015 was approximate US$10.98 billion. However, due to the EU economic sanctions imposed against Russia and the tensions between Russia and Ukraine, the Russian market had dropped 38.6% from 2014 to 2015. This significant decrease was mainly caused by the 20% depreciation in dollar exchange and had directly affected the overall market performance in Central and Eastern Europe.

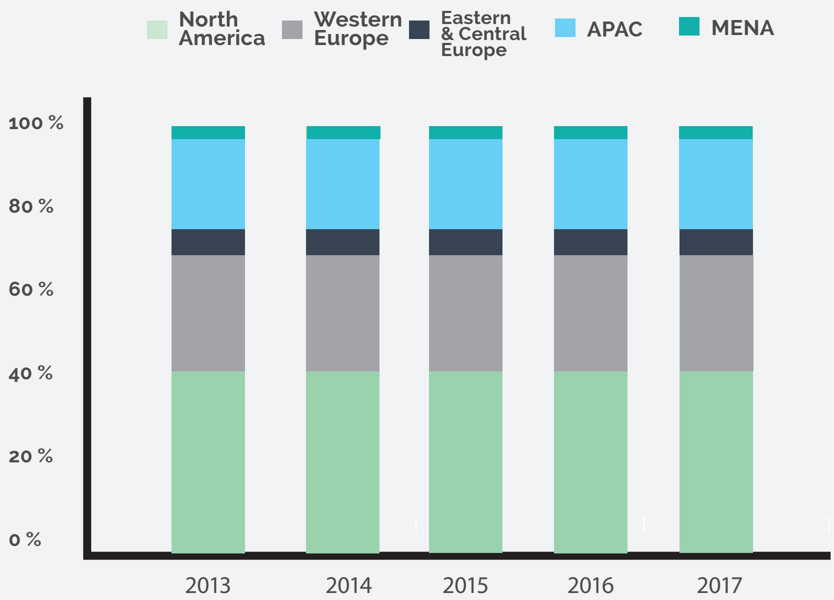
Despite the external factors, if the market growth were to be conducted in the original currency of Russia, the medical market would be showing a slight increase of 3%. It is evident that the demand for medical supplies and equipment had not dropped with its economic situation. Therefore, the market demand is still worthy of attention as the estimated economic growth for other countries in Central and Eastern Europe apart from Ukraine and Russia is 3%.

The leading medical supply market in Asia-Pacific continues to be dominated by Japan, accounting for roughly 40% of the APAC market. The issues of aging population and monetary policy remain two of the biggest influencing factors for Japan's market growth in 2015. China, on the other hand, has increasingly become an important market as the problem from one-child policy in 1979 began to emerge. Reaching 1.38 billion, China has the highest population in the world. With its imbalanced population structure, however; the country will soon face the same challenges as Japan did. The demand for medical equipment catered tot he seniors is expected to rise.

The 2015 medical equipment market can be divided into six broad categories based on the types of products. These categories are medical consumables, radiology products, dental supplies, orthopedics and implants, assistive devices and others. Among them, others take up to approximately 28.2% of the sold medical equipment. The second largest section is the radiology products accounting for 24.6%. This type of products is in high demand mainly because the emerging countries are fast expanding their health facilities and require numerous imaging diagnose products. Also, they are considered to be relatively more expensive as these specialty medical products are only operated by a radiologic technologist. In APAC, it is likely to see a steady growth in radiology products. Nonetheless, cost-effective medical products are comparatively more popular in North America and Europe as healthcare became more and more affordable.

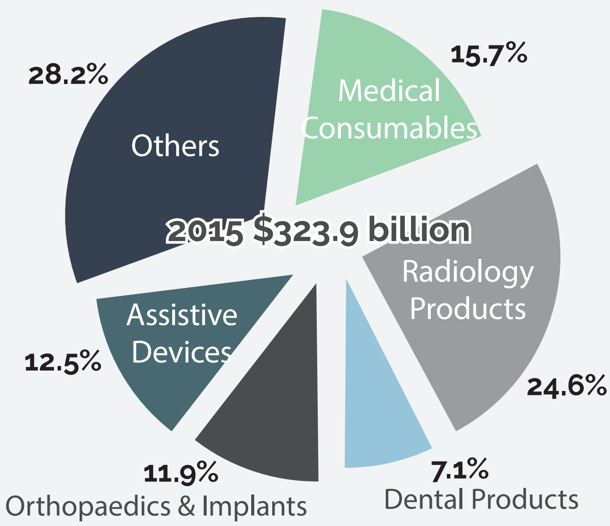
GLOBAL MARKET DISTRIBUTION OF MEDICAL EQUIPMENTS

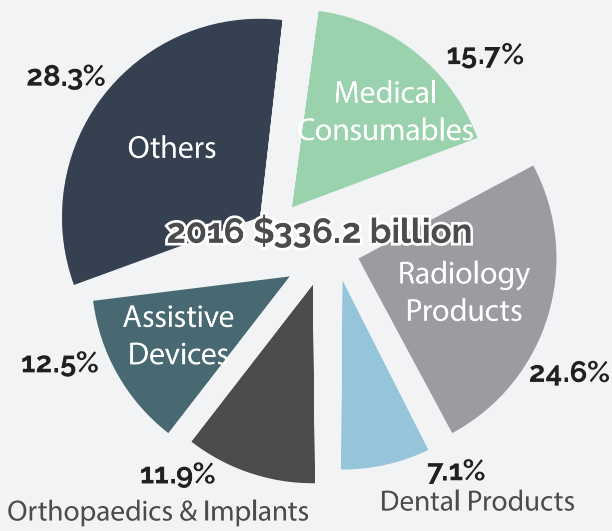
Sources: Espicom BMI (03/2016); IEK (05/2016)



In addition, the longer life span in the 21st century has the aging population demanding more of medical consumables (15.7%) and assistive devices (12.5%). As the structure of world population shifts, there is still plenty of room for these two types of products to grow. The least two categories are orthopedics and implants (11.9%), and dental products (7.1%) which are also expected to rise in demand with relation to the subject of aging. Not to mention the issue with aging population also leads to a higher expense on healthcare. Countries such as China and the United States have implemented new policies towards their healthcare systems. They aim to provide more affordable service and products to encourage regular health examinations and treatments. This will, eventually, change the allocation of medical resources and individual's consumption pattern.

Sources: Espicom BMI (03/2016); IEK (05/2016)





5.2.1 Current Status and Future Development

Motorcycle Industry

Eurocharm's products belong to the middle stream of the industry as the Company manufactures chassis and parts. Downstream in the motorcycle industry refers to the assembled and ready-for-sale motorcycles. With a broader definition, the middle stream can range from building engines to tire productions. Upstream is primary the manufacturing of components for the middle stream products. See the illustrated table below.

Upstream	• Bearing • Variable Speed Wheel • Differential • Cogwheel	• Spark Plug • Valve • Valve Guide • Carburetor	• Rotary Tuner • Engine Crankshaft Seal • Fuel Pipe	• Brakes • Bearing Ball • Sterring steam
Middle Stream	• Engine System • Transmission	• Steering System • Body Frame System	• Brake System	• Tire-Pressure Monitoring System • Common Parts
Downstream	Motorcycle			

Sourced from Taiwan's Industrial Economics and Knowledge Centre 2011/04

5.2.3 Product Trends

Motorcycle Industry

As the issue of global warming and air pollution continues to simmer, automotive manufacturers are launching environmental-friendly products to help preserve the planet. With the current research and development towards advanced technology, the automotive manufacturers are exchanging ideas with their long-term suppliers who are the parts manufacturers. This is beneficial to both the upstream and middle stream companies as they can apply newly developed technologies to manufacture higher quality products and at the same time, reduce the processing waste to ease off the pollution.

In addition, the demand for motorcycles has been rising over the years as countries in Southeast Asia starting to develop economically. Manufacturers such as Honda, Yamaha, Piaggio, and Suzuki had already taken this opportunity to invest in factory establishments and the relatively cheap labor costs in Southeast Asia. Besides supplying the motorcycle needs domestically, the factories also export to neighboring countries with the country's competitive shipping cost.

A few of the fast-growing countries in Southeast Asia including Indonesia, Vietnam, and Thailand are valued as markets with the most potential. Their economy and public infrastructures are maturing and would allow them the capacity to consume motorcycles. In Vietnam, Eurocharm has established its place for being the major motorcycle parts supplier. Besides seeking other potential markets for export or investment, the Company has begun to shift its focus from trading domestically to shipping the products internationally. Along with the idea of Association of Southeast Asian Nations (ASEAN), Eurocharm wishes to increase its competitiveness by adding more machinery such as the laser 3D cutting system to enhance the product quality.

Upstream

Electronic, plastic and hardware parts

Middle Stream

R&D and Manufacturing of Medical Equipments

Middle Stream

Sales agents and wholesalers of medical equipments

Sourced from Taipei Exchange (TPEx)

Medical Equipment Industry

Eurocharm is considered a middle stream manufacturer in the medical equipment industry. The Company manufactures and exports the equipment to original brand manufacturers.

Medical Equipment Industry

Influenced by the increasingly aging population, equipment such as hearing and mobility aids are popular among seniors with self-care capability. Issues associated with sub-replacement fertility also continue to affect world's population structure. In addition, due to the shortage of labors and caretakers, the demand self-care medical devices and equipment will continue to rise.

Since the beginning of 2014, the United States President Obama began to implement the parity medical policy, the number of the non-guaranteed population has been reduced to 9.2%(2015) from 15.7%(2009). This signals an increase in market demand for the expansion of insurance coverage and the drop in medical treatment costs. On the other hand, the rising elderly population in the US has been driving its medical expenditure. It is expected to reach 22% of the total government spending in 2023. From 2016 to 2023, the compound growth rate is estimated to be up to 7.3%. Diseases such as cardiovascular disease, hypertension, diabetes, osteoarthritis and so on are all the primary medical expenditures that will affect the medical supply market demand.

According to the Statistics Bureau, Ministry of Internal Affairs and Communications, Japan continues to have the highest proportion of the world's aging population. As of March 1, 2016, the percentage of population ages 65 and above has reached 27%. The estimate shows that by 2055, the number will grow to 41%.

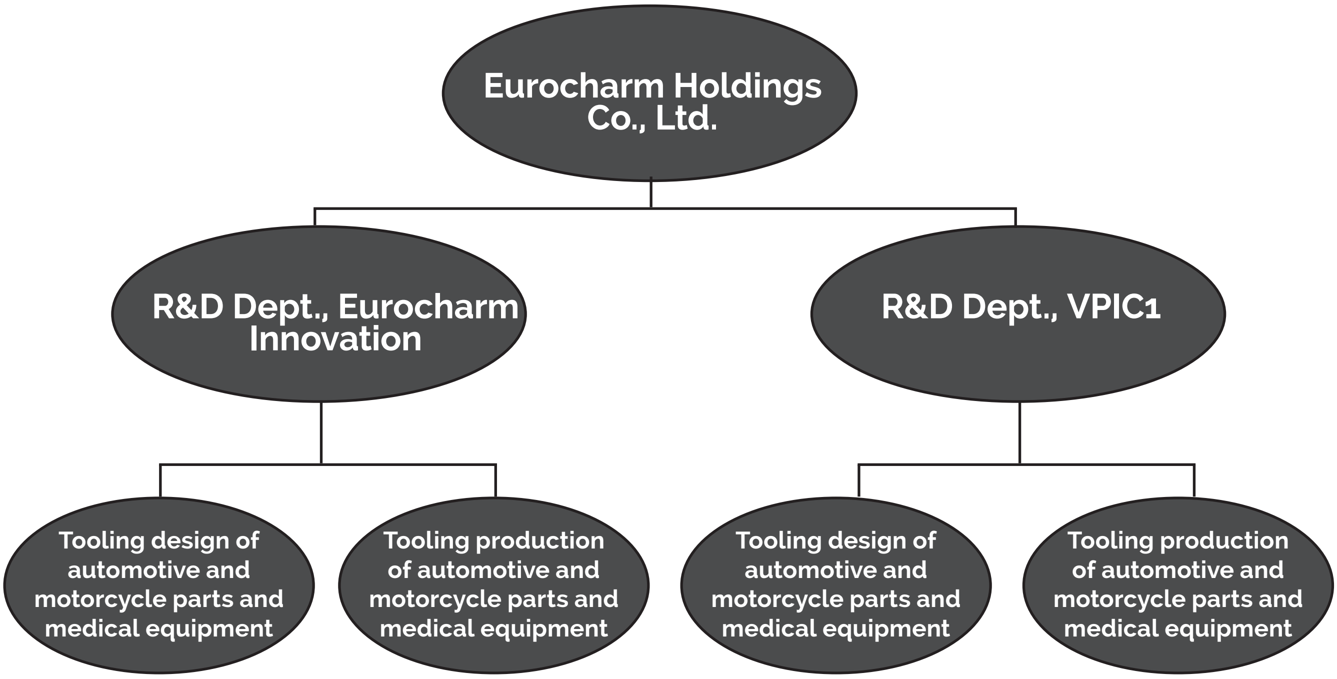
5.2.4 Competition

As the Company's principal business in Vinh Phuc Province, Vietnam is automotive and motorcycle parts manufacturing, there are two major domestic competitors, Cosmos Industrial Co., Ltd and Kyoei Manufacturing Co., Ltd. Established in 2005, Cosmos produces metal components in the same province. Kyoei, headquartered in Japan, manufactures motorcycle and recreational chassis locally in Vietnam.

In the medical equipment department, Eurocharm's major competition which also manufactures medical beds, rails and lifts in Taiwan is Li Wei Co., Ltd. Founded in 1994, Li Wei operates facilities in both Taiwan and China.

5.2.5 Research and Development

Eurocharm aims to provide higher efficiency in processing technology and better quality products. Since the product designs and the specifics are customized according to each customers' request or directly passed down from the customers, the Company's research and development (R&D) department focuses on reducing production cost and the processing time. The team specializes in the development of measuring tools, fixtures and robotic arm machinery. Additionally, Eurocharm cooperates with its customers and suppliers to deliver further technical training and workshops for employee development.



R&D Team

Unit: Person

Year / Education	2013	2014	2015	2016
PhD Degree	-	-	-	-
Master Degree	-	-	1	1
Undergraduate Degree	31	34	45	47
College Degree	30	27	32	33
Total	61	61	78	81

R&D Expenses in Previous 5 Years

Unit: NT$ thousands: %

Category/Year	2012	2013	2014	2015	2016
R&D	18,389	30,839	34,065	38,369	42,991
Net Revenue	3,069,299	3,473,538	3,798,622	4,008,187	4,164,779
%	0.60	0.89	0.90	0.96	1.03

R&D Achievements in Previous 5 Years

Year	Achievement	Description
2012	Shorter Processing Time	Promoted multi-machine operations to simplified product processing
2013	Improved Product Design	Purchased SolidWork, a computer graphic system, to simulate and test the durability of medical equipments
2014	Reduced Production Cost	Purchased a 3D laser cutting machine to increase production flexibility and reduce tooling cost
2015	Better Product Quality	Purchased a laser cutting system to increase manufacturing precision for luxurious vehicle parts
2016	improved Production Efficiency	Imported automated stamping production and increased the number of robotic arms to replace manual handling

In 2016, Eurocharm had budgeted NT$20,000,000 (not to exceed) to introduce new robotic arms and the production of iron and aluminium wires. With this investment, the Company plans to elevate the manufacturing automation and enhance the productivity of the machinery. As for the development in medical equipment production, the Company plans to move into the market of ODM from OEM. Budgeted NT$10,000,000 (not to exceed), Eurocharm intends to develop its own medical equipment brand and market via existing customers.

Business Development Plan

Short Term:

A. Increase existing customers' order numbers, as well as, seek for new customers

B. Develop niche markets for higher profits, i.e. recreational vehicles

C. Improve productivity and provide better product consistency

D. Raise the Company's viability and attract talents via joining the capital market

Long Term:

A. Continue to invest in research and development to diversified product lines and stay competitive

B. Expand operating locations to best serve existing customers and explore potential markets

C. Reach out to potential European customers and move towards globalization

D. Enhance product development capability and integrate resources from customers and suppliers for the business to be mutually beneficial

5.2.6 Market and Sales Overview

I. Market Analysis

Main Products and Sales Regions

Unit: NT$ thousands

Sales Regions	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
Vietnam	2,901,416	76.38	2,973,947	74.20	3,084,786	74.07
Others	897,206	23.62	1,034,240	25.80	1,079,993	25.93
Total	3,798,622	100.00	4,008,187	100.00	4,164,779	100.00

II. Market Share

• Motorcycle Industry

Based on the 2016 total approximate sales of NT$ 124.82 billion from Vietnam's five largest motorcycle manufacturers and Eurocharm Group's 2015 motorcycle parts sales of NT$ 3.25 billion, the Group's motorcycle market share in Vietnam is approximately 2.61%.

• Medical Equipment Industry

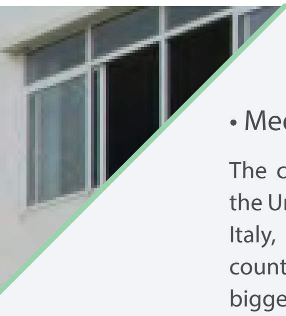
According to Taiwan's Industrial Economics and Knowledge Centre, the global medical equipment market in 2015 is worth US$ 323.9 billion, and the assistive equipment takes up to 12.5% of the market share. Since Eurocharm Group's 2016 medical equipment sales are US$ 440 million, the Group's global market share is approximately 0.136%.

III. Supply, Demand and Future Growth

• Motorcycle Industry

Compared to the numbers in 2015, the motorcycle market in Vietnam has recovered with the total sales of 31.2 million motorcycles in 2016 from the largest five manufacturers. Besides the demand for fuel motorcycles, there has been a steady increase in electric motorcycle sales. Along with the growth of demand in recreational vehicles in North America and Europe, Eurocharm's sales performance will continue to thrive.

Recently, Vietnam's Ministry of Transport had passed Bill No.39/2013/TT-BGTVT and No. 41/2013/TT-BGTVT to regulate the technical standards and safety of electric vehicles.The two provisions came into effect on January 1, 2014. With the insurance that all the electric vehicles produced after 2014 are subjected to comply the regulations, the younger consumers are encouraged to purchase electric motorcycles for short-distance transport within the city where there will be easily accessed charging stations. Eurocharm is prepared to enter the market of electric vehicle components to respond to market changes.



• Medical Equipment Industry

The current ten largest medical equipment markets are the United States, Japan, Germany, China, France, England, Italy, Canada, Russia, and Brazil. Among the top ten countries, undoubtedly; the United States holds the world's biggest market. As Obama continues to promote public healthcare along with the increasing number of people purchasing an insurance plan, the medical equipment market appears to be an uprising slope. It is estimated that in 2018, the US market will reach approximately US$164.6 billion. However, since the health parity act has been in effect, various medical equipment are at risk facing price cutting. Cost-effective products have become preferable to the consumers. As a result, there will be a shift in market shares and brand images. For Eurocharm, this is a great opportunity to expand our customer base as the medical equipment manufacturers look for new suppliers for cost cutting.

Closely following the size of the US medical equipment market is Japan's, the demand for orthopedic aids and assistive equipment is climbing at a steady growth rate due to the aging population. Meanwhile, in Western Europe, Germany has the largest market demand when it comes to medical equipment. The total sale of medical supplies was US$ 22.67 billion in 2015. These are Eurocharm's current target markets because of their growing demand for medical equipment.

IV. Competitive Niche

• Diversified product lines to satisfy the demand for one-stop purchasing

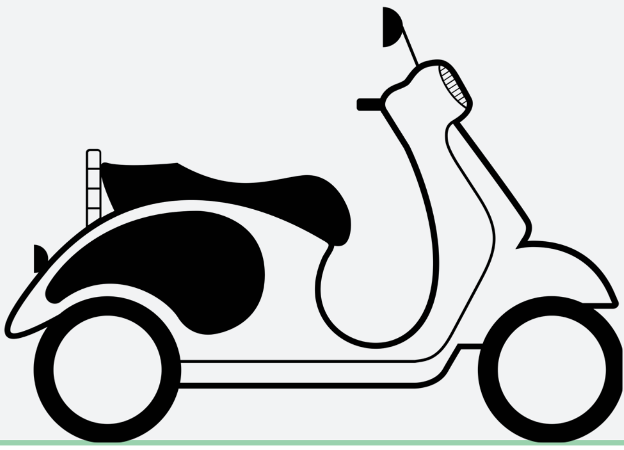
• Mass production for cost-effective and competitive products

• Globalization vision with product management and investment in improved automated production

• Trusting employee relations and high productivity

• Well-maintained long-term partnerships with customers

• International certification (ISO 9001, ISO 14001, ISO/TS 16949, ISO 13485, OHSAS 18001)



V. Foreseen Favourable and Unfavourable Factors and Countermeasures

Favourable Factors

A. Motorcycle Industry

1. The infrastructure in Vietnam is still at the development stage. The day-to-day transport relies largely on motorcycles.

Due to the postwar baby boom, Vietnam has the youngest population in Asia with approximately 70% of the population between 15-64 years old. The median population is 28 years old. With the country's lack of complete infrastructure and public transport system, motorcycles have become most of their means to commute.

2. The scale of ASEAN economy continues to grow along with the demand for motorcycles.

Founded in Bangkok on August 8, 1967, Association of Southeast Asian Nation (ASEAN) was established with the primary objective to accelerate the economic growth of the participated countries. It is to promote stability and peace among countries and respect one another's laws and regulations.

Since then, countries including Singapore, Thailand, Cambodia, Indonesia, Malaysia, Vietnam, Brunei, Myanmar, Laos and the Philippines have joined and benefited from the organization. In 2010, the ASEAN-China Free Trade Area (ACFTA) came into effect which allows the ASEAN members to trade with People's Republic of China at reduced tariffs. The potential market is estimated to reach NT$ 2 trillion

According to the Vietnamese Ministry of Industry and Trade information Centre, ASEAN has become an important trading partner of Vietnam. The average annual trade volume has grown 17% in recent years. Also, the trade amount between Vietnam and ASEAN has preceded the amount between Vietnam and outside ASEAN countries including European Union, Japan, and the United States. It is a positive prospect for ASEAN to reach other free trade area agreements for mutual trading benefits. Eurocharm aims to take full advantage of this and export products outside of the market in Vietnam.

3. Eurocharm possesses an extraordinary management team.

Eurocharm has rooted in Vietnam for over 10 years. The management team has a keen eye for market forecast and can strategize and adapt to the market changes swiftly. In addition, the Company has the industry's leading tooling design and stamping technology. Along with the trusted service and quality, Eurocharm received the Ford Q1 Quality Certification.

B. Medical Equipment Industry

1. Due to the aging population, the demand for medical assistive equipments continues to increase.

As the distribution of population shifts towards older ages, governments across the world have been establishing long-term care facilities, nursing homes, and retirement homes. This then, indirectly, increases the demand for related medical equipment including shower chairs and medical beds.

2. American and Japanese medical equipment markets continue to expand as the government implements healthcare supporting polices.

These new policies to promote quality yet affordable healthcare include social insurance programs such as Medicaid and Medicare. In Japan, the federal government had budgeted US$ 4.1 billion to help with the increasing medical expenditure.

Unfavourable Factors and Countermeasures

A. Motorcycle Industry

1. The growth in Vietnam's motorcycle market has slowed.

In recent years, manufacturers have been expanding their factory capacity in order to stay competitive. The result is an approximate production number of 5 million motorcycles per year in Vietnam alone. This reveals that the local motorcycle market has already been saturated and the manufacturers intend to move into exporting for a stable sales performance.

Countermeasures:

Besides exporting automotive and motorcycle parts as a source of income, Eurocharm also coordinated with Honda, Yamaha and Piaggio to explore completely built up (CBU) automobile export opportunities. In 2015, the number of CBU automobiles, from the three manufacturers, imported in Taiwan reached 300 thousand. Relatively, since the exported products are CBU automobiles instead of parts, the standard for quality control is also much higher. As Eurocharm continues to deliver on quality and reliability, customers, likewise, began to invest trust in the Company.

2. The core product design capability still lies in the hands of OBMs.

At the current stage, Eurocharm is an original equipment manufacturer (OEM). The original product designs are provided by the original brand manufacturers (OBM). Capable of manufacturing and processing according to customers' designs, the Company, however; does not have the necessary talents to develop engineering designs.

Countermeasures:

In upcoming years, Eurocharm is prepared to strengthen the R&D department with product design capability. Joining forces with the customers, the Company plans to install drawing design facilities and software to develop and test new products. This integration will not only benefit the Company in profits but also reinforce our place as a leading automotive and motorcycle manufacturer in Vietnam.

3. The cost of largely imported raw materials could be fluctuated by the exchange rate.

To ensure the quality of the automotive and motorcycle parts, Eurocharm's raw materials are supplied by customer certified supplier. As a result, this US dollar denominated imported materials could influence the pricing of the products sold in Vietnamese dollars greatly as the exchange rate fluctuates.

Countermeasures:

In 2016, Eurocharm began domestic procurement along with importing customer certified raw materials. The ratio of local raw materials has gradually increased from 50% to 80%. Due to this shift, the exchange rate has only minimal effect on Company's operation cost. In addition, with the unified purchase system every quarter, the Company is able to easily manage materials and reduce the risk of running low or waste.

B. Medical Equipment Industry

1. The Company juggles between producing high-quality refined medical equipments while competing with low-quality affordable products.

After the financial crisis in 2008, most countries are unable to support medical expenses as much as they used to. Under the pressure of limited budget, health care institutions gradually move towards importing equipment from China which is relatively cheaper.

Countermeasures:

Eurocharm's medical equipment are supplied to a niche market which specializes in long-term home care or patient care. The customers are located in various developed countries including France, Japan, and the United States. Under the circumstances that the target markets are consumers in economically developed countries, the product quality is considered more important than price competitiveness. From the sales growth year after year, it is believed that the customers trust and rely on Eurocharm's products.

Also, as the minimum wages and social insurance expenditure increase in China, Eurocharm has a comparative advantage manufacturing medical equipment in Vietnam. If the competition chooses to source cheaper materials, it should eventually reflect on the quality of the equipment. Additionally, the Company has the capacity of developing medical equipment tooling which sets it apart from the rest of competition. Eurocharm has, on various occasions, co-developed with customers or self-developed tooling or products.

5.2.7 Production Process and Major Uses of Primary Products

• Major Uses of Primary Products

Primary Products	Major Uses
Automotive and Motorcycle Parts	Chassis, brake system parts, clutch parts, shock absorbers, engine components, fuel tanks and others
Medical Equipments	Medical beds, patient lifting, shower and commode chairs

• Production Process of Primary Products

Automotive and Motorcycle Part

Bending → Punching → Chamfering → Forging → Polishing → Plating or Painting → Shipping

Aluminum Die Casting

Ingot → Heating → Casting → Forming → Polishing → CNC Machining → Painting → Shipping

Medical Equipment

Bending → Purchasing → Chamfering → Forging → Polishing → Painting → Assembly → Shipping

5.2.8 Condition of Raw Material Suppliers

Primary Raw Material	Primary Supplier	Supply Condition
Iron Plate	Company A's Subsidiary, Vulcan, Hanoi Steel Centre, CSMV, VNTEC, SMC	Good
Iron Pipe/Iron Bar	Company A's Subsidiary, Vulcan, Xin Yong Cheng	Good
Aluminum Ingot	Company A's Subsidiary, Company B's Subsidiary	Good

5.2.9 Major Suppliers in the Last Two Calendar Years

Unit: NT$ thousands

Item	2015				2016				2017 (As of March 31)			
	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer
1	Honda Trading	749,829	30.52	None	Honda Trading	733,755	29.68	None	Honda Trading	156,951	27.08	None
	Others	1,706,897	69.48		Others	1,738,580	70.32		Others	422,651	72.92	
	Net Purchases	2,456,726	100.00		Net Purchases	2,472,335	100.00		Net Purchases	579,602	100.00	

Note: Net purchases are net purchases of consolidated financial statements for the latest year.

5.2.10 Major Customers in the Last Two Calendar Years

Unit: NT$ thousands

Item	2015				2016				2017 (As of March 31)			
	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer
1	A	2,040,986	50.92	None	A	2,082,372	50.00	None	A	452,344	45.03	None
2	B	359,348	8.96	None	B	392,882	9.43	None	B	68,867	6.86	None
3	C	301,264	7.52	None	C	302,108	7.25	None	C	107,793	10.73	None
	Others	1,306,589	32.60		Others	1,387,417	33.32		Others	375,517	37.38	
	Net Sales	4,008,187	100.00		Net Sales	4,164,779	100.00		Net Sales	1,004,521	100.00	

Note: Net sales are net sales of consolidated financial statements for the latest year

5.2.11 Production in the Last Two Years

Unit: NT$ thousand piece

	2015			2016		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
Motorcycle Parts	121,608	109,082	3,048,511	119,843	111,603	3,182,353
Medical Equipment	381	350	384,486	477	456	375,451
Others	1,768	1,600	89,370	1,851	1,747	90,861
Total	123,757	111,032	3,522,367	122,171	113,806	3,648,665

5.2.12 Shipments and Sales in the Last Two Years

Unit: NT$ thousand piece

	2015				2016			
	Local (Vietnam)		Export		Local (Vietnam)		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Motorcycle Parts	104,008	2,885,045	1,762	234,406	106,537	2,982,582	2,017	269,165
Medical Equipment	-	-	342	448,340	-	-	457	440,639
Others	1,059	88,694	2,144	347,309	1,220	83,083	1,516	389,309
Total	105,067	2,973,739	4,248	1,030,055	107,757	3,065,665	3,990	1,099,113

5.3 Human Resources

Unit: person: year: age

Year		2015	2016	2017 (As of March 31)
Number of Employees	Direct Labour	2,842	2,691	2,606
	Indirect Labour	844	841	819
	Total	3,686	3,532	3,425
Average Age		28.66	29.69	30.71
Average Years of Service		5.37	6.08	6.27
Education	Ph.D.	-	-	-
	Masters	4	4	4
	Bachelor's Degree	247	272	266
	College or Below High School	3,435	3,256	3,155

5.4 Environmental Protection Expenditure

A. According to laws and regulations if it is required to apply for a permit for installing anti-pollution facilities, or permit of pollution drainage, or to pay anti-pollution fees, or to organize and set up an exclusively responsible unit/office for environmental issues, the description of the status of such applications, payment or establishment shall be made.

Pollution Control Facility and Pollutant Discharge Permit

Acquired Organization	License	Acquired Date	License Number
VPIC1	Approved Environmental Impact Assessment	04/29/2003	1462/QD-CT
	Approved Environmental Impact Assessment	06/30/2011	1515/QD-CT
	Approved Environmental Impact Assessment	08/26/2013	2289/QD-UBND
	Wastewater Discharge Permit	03/06/2007	700/GP-UBND
	Hazardous Waste Producer Registration	11/12/2013	QLCTNH26.000010.T

Above licenses do not specify dates of expiry. Aside from following the waste disposal guidelines, Eurocharm in Taiwan is not required to install pollution control facility or apply for a pollutant discharge permit because the Company does not produce pollution during the production process.

Pollution Control Expenses

When VPIC1 first established its operating facilities in Khai Quang Industrial Zone, the Company had agreed to pay wastewater treatment fee. In 2016, the Company paid a total of NT$2,114 thousand.

B. Setting forth the Company's investment in the major anti-pollution facilities, the use purpose of such facilities and the possible effects to be produced.

12/31/2016; Unit: VND$ millions

	Facility	Unit Number	Acquired Date	Cost	Book Value	Purpose
1	Wastewater Treatment Plant	3	01/2011 05/2013	1,188	864	Wastewater Treatmen
2	Electroplating Wastewater Treatment System	1	11/2004	3,249	271	Wastewater Treatmen
3	Wastewater Treatment System	3	12/2002 02/2005 08/2006	3,388	1,996	Wastewater Treatmen

A. Describing the process undertaken by the company on environmental pollution improvement for the most recent 2 fiscal years and up to the prospectus' publishing date. If there had been any pollution dispute, its handling process shall also be described.

None

5.5 Labor Relations

Setting forth all employee benefits, continuing education, training, retirement systems, and the status of their implementation, as well as the status of agreements between labor and management, and all measures aimed at preserving the rights and interests of employees.

1. Employee Welfare Measures

Eurocharm values employees as valuable assets and they key to a successful business. In order to fully take care of the employees, the Company has established the following welfare measures:

For the employees employed at the subsidiary in Taiwan, Eurocharm provides the mandatory health and labor insurance in accordance with the Labour Standard Law in Taiwan as well as travel and accident insurance for the employees going on business trips. In addition, the Company has set up a system for individual retirement accounts to protect employee benefits.

For the employees employed at the subsidiary in Vietnam, Eurocharm provides the mandatory medical and unemployment insurance by the Labour Law in Vietnam. In addition, the Company has established a periodic evaluation for promotions, salary adjustments, and bonuses as an incentive to raise overall productivity and performance. On special occasions or holidays, the Company collaborates with the trade union hosting activities and dinner parties for employee entertainment.

2. Advanced Education and Training

Eurocharm regards employee training as highly as the attitude of an employee. In order to accomplish better productivity, both the onboarding training and on-the-job training are essential.

A. Onboarding Training

All the newly hired employees are subject to attend onboarding training. The training includes understanding the Company's history, culture, management, safety, workplace environment, production process, quality control and regulatory, legal content.

B. Onboarding Technical Training

Newly hired technical specialists or employees with responsibilities of potentially dangerous attributes are required to attend onboarding technical training and pass the necessary examinations.

C. On-the-job Training (Including higher management)

The Company, periodically, provides external training program or educational TV programs for the employees and executives.

D. On-the-job Technical Training

Aside from the foundation of onboarding technical training, additional on-the-job technical training is provided to employees to enhance their current level of skills.

3. Finance Related Certifications & Licenses

There had been no occurrence of license acquirement in 2016.

4. Retirement System and Implementation Status

In Taiwan, the Company follows closely with the Labour Standards Act in accordance with regional laws and regulations. Under the system, Eurocharm contributes 6% or more of a worker's monthly wage into an individual pension account overseen by the Bureau of Labor Insurance.

At Eurocharm's operating base in Vietnam, the Company has been paying social insurance fees on a monthly basis to the local institution. Once the employee has reached the legal retirement age, s/he is entitled to the pension.

5. Labour-Management Agreements

In addition to labor contracts concluded in accordance with relevant laws after employees assume their duties, the Company has also established a grievance channel via email and a labor union to provide open communication channels between labor and management.

6. Code of Conduct and Ethic

The Company safeguards employee rights and interests in accordance with the law and has formulated welfare management guidelines that clearly state various benefits, rights, and interests. Actual implementation is based on these guidelines,

A. All employees should be responsible and comply with the Company's policies, regulations, and measures.

B. All employees should protect the company's honor and work with your correspondent teams with Company's interest as the priority.

C. All the managers should be the role model and provide the necessary guidance. The staff should listen and obey the command given by the supervisors instead of making excuses for misbehaving conducts.

D. Employees are not allowed to leave work stations without approval.

E. All employees should report to the correspondent managers based on the company's hierarchy, except emergencies.

F. Employees are not permitted to photograph, film or record within the premises of the company.

G.All employees are subject to the trade secret, non-competition and intellectual property law. Employees may not leak confidential information directly or indirectly for personal interest or the interest of others.

H. All employees are subject to comply the relevant business laws and regulations.

I. Employees should not behave in any way that can damage personal or Company's reputation.

J. Employees should not accept bribery of any form including but not limited to money, gifts and irrelevant invitations.

K. Employees are not authorized to utilize the name of the Company except handling sales related matters.

7. Personal Safety Measures and Work Environment

A. For the safety of the employees, the Company has covered labour, health and group insurance.

B. The Company's labor safety and health committee holds quarterly meeting to discuss and implement the relevant policies and regulations

C. For a safe working environment, the periodic maintenance is implemented on relevant facilities including the fire hydrants.

D. The Company provides basic health and safety training to all the employees and professional workshops for operational managers who are responsible for specialized machinery and equipment.

E. The Company supervises the investigation and statistics of the occupational accidents within the organization.

Describing the loss suffered by the Company due to labor disputes occurring in the most recent 2 fiscal years and up to the prospectus' publishing date, and disclosing the estimated amount expected to be incurred for the present and future as well as the preventive measures. If a reasonable estimate cannot be made, an explanation of why it cannot be made shall be provided.

The Company's labour disputes are primarily caused by mishandling of the equipment and traffic collisions while employees travel to work. All the past and current disputes have been settled and compensated. A number of compensations are minimal and does not affect the Company's overall operation.

5.6 Important Contracts

Borrower	Lender	Contract Commencement/ Termination Date	Amount	Agreement	Restrictive Clauses
Eurocharm Innovation	First Bank	08/22/2016-08/22/2017	NT$ 80 million	Pledge: Land and building of Eurocharm Innovation	None
Eurocharm Innovation	Bank SinoPac	12/19/2016-12/19/2017	NT$ 30 million	Guarantors: Eurocharm Holdings Co., Ltd. Pledge: NT$ 30 million promissory note	None
Eurocharm Innovation	Yuata Bank	02/19/2016-02/19/2017	NT$ 30 million	Guarantor: Eurocharm Holdings Co., Ltd.	None
VPIC1	Fubon Bank - Vietnam	06/06/2016-06/06/2017	US$ 2.5 million	Guarantor: Steven Yu Pledge: US$ 2.8 millions	None
APEX	E.SUN Commercial Bank	08/23/2016-08/23/2017	US$ 1 million	Guarantor: Eurocharm Holdings Co., Ltd.	None
VPIC1	VIB	11/15/2016-11/15/2017	VN$ 500 billion	Supplement investment quota for tooling, parts and medical machineries	None
VPIC1	Bangkok	03/31/2016-03/31/2026	US$ 2 million	Raw materials and other capital needs	None
VPIC1	CTBC	08/25/2016-08/25/2017 (Automatically renewed for another year)	US$ 3 million	Guarantor: Eurocharm Holdings Co., Ltd.	None

5.6.2 Sales Agreement

Supplier	Purchaser	Contract Commencement/ Termination Date	Agreement	Restrictive Clauses
VPIC1	Honda Vietnam Co., Ltd.	06/05/2009 (Automatically renewed)	General Agreement for Purchase of Parts	Confidential
VPIC1	Yamaha Motor Vietnam Co., Ltd.	01/05/2003 (Automatically renewed)	Supply Agreement	Confidential
VPIC1	Exedy Vietnam Co., Ltd.	02/09/2006 (Termination will only be decided upon writing by both parties	Supply Agreement	Confidential
VPIC1	Kyoei Manufacturing Vietnam Co., Ltd.	04/21/2004 (Automatically renewed)	General Agreement for Sale and Purchasing	Confidential
VPIC1	Piaggio Vietnam Co., Ltd.	11/05/2007 (Automatically renewed)	General Purchase-Supply Agreement	Confidential
VPIC1	Nissin Brake Vietnam Co., Ltd.	09/15/2008 (Automatically renewed)	General Agreement for Purchase of Parts	Confidential
VPIC1	FranceBed Co., Ltd.	07/28/2010 (Automatically renewed)	General Agreement of Trade	Confidential
VPIC1	Piaggio & C.S.P.A.	07/11/2012 (Perpetual Contract)	General terms of Purchaes	Confidential
VPIC1	Honda Italia Industriale S.P.A.	03/31/2015 (Automatically renewed for another year)	Supply Agreement	Confidential
VPIC1	Polaris Industries Inc.	12/05/2014 (Perpetual Contract)	Master Supply Agreement	Confidential

5.6.3 Purchase Agreement

Supplier	Purchaser	Contract Commencement/ Termination Date	Agreement	Restrictive Clauses
Honda Trading Vietnam Company Ltd.	VPIC1	05/01/2011 (Automatically renewed)	Retaining Sale and Purchase Agreement	None
Hanoi Steel Centre Company Ltd.	VPIC1	01/03/2014 (Automatically renewed)	Principle Contracts	None

5.6.4 Lease Agreement

Lesse	Lessor	Contract Commencement/ Termination Date	Amount	Agreement	Restrictive Clauses
Eurocharm Innovation	Shen Yuan Metal Co., Ltd.	01/16/2016-01/15/2018	NT$ 168 thousand/ month	Rent the land and building at No.10 , Lane 315, XinShu Road,XinZhuang District, New Taipei City, Taiwan 242	None
Exedy Vietnam Co., Ltd.	VPIC1	01/01/2017-12/31/2017 (Automatically renewed for two years)	Section A: VN$ 682,157/ square meter/year Section B: VN$249,249/ square meter/year	Lease VPIC's facilities and factory to Exedy Vietnam Co., Ltd.	None
Hsien Yuan Technology Vietnam Co., Ltd.	VPIC1	12/31/2011 (12/30/2013 added signing contract)	VN$56,846/square meter/year	Lease VPIC's facilities and factory to Hsien Yuan Technology VietnamCo., Ltd.	None

5.6.5 Insurance Contract

Insured	Insurance Company	Contract Commencement/ Termination Date	Agreement	Restrictive Clauses
Eurocharm Innovation	MSIG Ming Tai Insurance	12/23/2016 - 12/23/2017	Property Insurance of NT$ 3.5 million	None
VPIC1	Petrolimex Insurance Corp.	07/12/2016 - 07/11/2017	Inventory Insurance of VN$ 222,151,122,938	None
VPIC1	VinhPhucBao Minh Co.	08/01/2016 - 08/01/2017	Fire Insurance of VN$ 96,188,322,753	None
VPIC1	Fubon Insurance Vietnam Co., Ltd.	08/01/2016 - 08/01/2017	Personal Accident Insurance of 3,512 employees	None
VPIC1	Fubon Insurance Vietnam Co., Ltd.	11/30/2016 - 11/30/2017	Fire Insurance of VN$ 191,072,346,184	None
VPIC1	Vietin Bank Insurance Company - Hanoi Branch	12/26/2016 - 12/26/2017	Inventory Insurance of VN$ 82,370,985,770	None
VPIC1	ACE Insurance Company Ltd.	04/06/2016 - 04/05/2017	Insurance Type: Product Liability Insurance AHM's Estimated Revenue: US$ 1.5 million (patient lifters)	None
VPIC1	Petrolimex insurance corporation	10/01/2016 - 09/30/2017	Product Recall Insurance	None
VPIC1	Petrolimex insurance corporation	01/01/2017 - 12/31/2017	Product Recall Insurance	None

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Balance Sheet

Consolidated Condensed Balance Sheet - Based on IFRS

Unit: NT$ thousands

Item \ Year		Financial Summary for The Last Five Years					As of March 31, 2017
		2012	2013	2014	2015	2016	
Current assets		1,225,468	1,283,553	2,138,801	2,444,054	2,496,319	2,393,356
Investment		72,269	83,018	100,414	113,755	134,671	134,161
Property, Plant and Equipment		779,028	747,255	695,259	670,600	651,041	591,572
Intangible assets		6,777	6,414	3,934	6,978	5,437	5,422
Other assets		373	808	1,114	1,114	1,114	2,390
Total assets		2,083,915	2,121,048	2,939,522	3,236,501	3,288,582	3,126,901
Current liabilities	Before distribution	707,222	576,415	706,378	680,635	600,217	558,033
	After distribution	536,600	405,793	480,617	355,519	Not Yet Distributed	-
Non-current liabilities		67,312	61,269	66,249	58,845	46,327	41,004
Total liabilities	Before distribution	774,534	637,684	772,627	739,480	706,544	599,037
	After distribution	603,912	467,062	546,866	414,364	Not Yet Distributed	-
Equity attributable to shareholders of the parent		1,309,381	1,483,364	2,166,895	2,497,021	2,582,038	2,527,864
Capital stock		568,742	568,742	643,492	649,322	658,192	657,532
Capital surplus		436,632	439,825	794,848	813,038	829,726	835,030
Retained earnings	Before distribution	381,784	536,096	709,190	982,046	1,128,919	1,228,857
	After distribution	211,162	365,474	483,429	656,930	Not Yet Distributed	-
Other equity interest		-	-	-	-	-	-
Other components of equity		(77,777)	(61,299)	19,365	52,615	(34,799)	(193,555)
Non-controlling interest		-	-	-	-	-	-
Total equity	Before distribution	1,309,381	1,483,364	2,166,895	2,497,021	2,582,038	2,527,864
	After distribution	1,138,759	1,312,742	1,941,134	2,171,905	Not Yet Distributed	-

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6.1.2 Condensed Statement of Comprehensive Income/Condensed Statement of Income

Consolidated Condensed Statement of Comprehensive Income-Based on IFRS

Unit: NT$ thousands (except earnings per share)

Item \ Year	Financial Summary for The Last Five Years					Q1 2017
	2012	2013	2014	2015	2016	
Operating revenue	3,069,299	3,473,538	3,798,622	4,008,187	4,164,779	1,004,521
Gross profit	569,636	542,530	612,576	792,614	748,384	187,658
Income from operations	399,316	338,233	373,001	528,866	513,020	132,581
Non-operating income and expenses	17,726	82,712	82,773	122,583	128,687	1,774
Income before tax from continuing operations	417,042	420,945	455,774	651,449	641,707	134,355
Net income (Loss) from continuing operations	380,575	318,675	344,099	484,120	471,793	99,938
Loss of discontinued operations	-	-	-	-	-	-
Net income (Loss)	380,575	318,675	344,099	484,120	471,793	99,938
Other comprehensive income (income after tax)	(39,471)	22,737	80,281	47,747	(87,218)	(158,756)
Total comprehensive income	341,104	341,412	424,380	531,867	384,575	(58,818)
Net income attributable to shareholders of the parent	380,575	318,675	344,099	484,120	471,793	99,938
Net income attributable to non-controlling interest	-	-	-	-	-	-
Comprehensive income attributable to Shareholders of the parent	341,104	341,412	424,380	531,867	384,575	(58,818)
Comprehensive income attributable to non-controlling interest	-	-	-	-	-	-
Earnings per share	6.79	5.60	5.77	7.50	7.25	1.52

Reference: Every consolidated financial statement has been certified by a CPA.

Note 1: The Company was established on July 18th, 2011.

Note 2: Above information has been certified by a CPA.

nce: Every consolidated al statement has been ed by a CPA.

: The Company was established on July 011.

: The numbers above are the amounts after ution based on the shareholder meetings' ons

6.1.3 Auditors' Opinions from 2012 to 2016

Year	Accounting Firm	CPA	Audit Opinion
2012	Ernst & Young	Mars Hong & Steven Chang	No Reservations
2013	Ernst & Young	Mars Hong & Steven Chang	No Reservations
2014	Ernst & Young	Mars Hong & Steven Chang	No Reservations
2015	Ernst & Young	Mars Hong & Steven Chang	No Reservations
2016	Ernst & Young	Mars Hong & Steven Chang	No Reservations

6.2 Financial Analysis

A. Consolidated Financial Analysis – Based on IFRS

Item	Year	Financial Analysis for the Last Five Years					As of March 31, 2017
		2012	2013	2014	2015	2016	
Financial structure (%)	Debt Ratio	37.17	30.06	26.28	22.85	21.48	19.16
	Ratio of long-term capital to property, plant and equipment	176.72	206.71	321.20	381.13	403.72	434.24
Solvency (%)	Current ratio	173.28	222.68	302.78	359.08	378.11	428.89
	Quick ratio	122.67	166.13	241.66	285.94	302.37	348.11
	Interest earned ratio (times)	30.25	122.17	416.47	483.55	779.77	1,075.84
Operating performance	Accounts receivable turnover (times)	6.59	8.10	7.43	6.60	6.95	6.95
	Average collection period	55	45	49	55	52	52
	Inventory turnover (times)	6.72	9.58	9.88	8.61	8.70	8.73
	Accounts payable turnover (times)	54	38	37	42.4	42	41.8
	Average days in sales	6.01	8.76	9.41	8.92	10.15	10.90
	Property, plant and equipment turnover (times)	3.88	4.55	5.27	5.87	6.30	6.47
	Total assets turnover (times)	1.45	1.65	1.50	1.30	1.28	1.25
Profitability	Return on total assets (%)	18.49	15.29	13.64	15.71	14.48	12.48
	Return on stockholders' equity (%)	31.99	22.82	18.85	20.76	18.58	15.65
	Pre-tax income to paid-in capital (%)	73.33	74.01	70.83	100.33	97.90	81.73
	Profit ratio (%)	12.40	9.17	9.06	12.08	11.33	9.95
	Earnings per share (NT$)	6.79	5.60	5.77	7.50	7.25	1.52
Cash flow	Cash flow ratio (%)	93.28	83.08	48.12	74.79	100.51	10.43
	Cash flow adequacy ratio (%)	169.43	170.92	155.43	147.40	151.66	127.87
	Cash reinvestment ratio (%)	25.92	13.55	5.37	7.79	8.89	1.57
Leverage	Operating leverage	1.34	1.44	1.44	1.32	1.31	1.28
	Financial leverage	1.04	1.01	1.00	1.00	1.00	1.00

Item \ Year	Financial Analysis for the Last Five Years					As of March 31, 2017
	2012	2013	2014	2015	2016	

Analysis of financial ratio differences for the last two years,

1) The ratio of long-term capital to property, plant and equipment: The ratio increases because of the growth in respective sales performance and the amount of 2016 dividend payment being less than the profit in the respective year.

2) Current ratio: The Company's growth in respective sales performance is causing the substantial increase in cash flow.

3) Quick ratio: The Company's growth in respective sales performance is causing the substantial increase in cash flow.

4) Interest earned ratio: A lower interest rate due to the relatively less amount of loan at current period compared to the previous period.

5) Pre-tax income to paid-in capital: The number of pre-tax income to paid-in capital increases is due to the sales growth of high-margin product and the depreciation of Taiwan New Dollars relative to US dollars.

6) Cash flow ratio: The ratio increases because of the growth in respective sales performance and the scheduled payments received have been on time.

7) Cash reinvestment ratio: Due to the growth in respective sales performance and the rising cash flow, the ratio of cash reinvestment continues to increase.

Reference: Every consolidated financial statement has been certified by a CPA.

Calculation formulas are as follows:

1. Financial Structure

(1) Debt Ratio = Total Liabilities / Total Assets

(2) Long Term Fund to Fixed Asset Ratio = (Total Equities+Non-Current Liability) / Net Fixed Asset

2. Liquidity

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities

(3) Times Interest Earned = Net Income before Income Tax and Interest Expense / Current Interest Expense

3. Operating Performance

(1) Account Receivable (including Account Receivable and Operating Notes Receivables) Turnover Rate = Net Sales / Average Account Receivable (including Account Receivable and Operating Notes Receivables) Balance

(2) Average Collection Days = 365 / Account Receivable Turnover Rate

(3) Inventory Turnover Rate = Cost of Sales / Average Inventory

(4) Account Payable (including Account Payable and Operating Notes Payables) Turnover Rate = Cost of Sales / Average Account Payable (including Account Payable and Operating Notes Payables) Balance

(5) Average Days of Sales = 365 / Inventory Turnover Rate

(6) Fixed Asset Turnover Rate = Net Sales / Net Average Fixed Asset

(7) Total Asset Turnover Rate = Net Sales / Average Total Asset

4. Profitability

(1) Return on Asset [Income After Tax + Interest Expense × (1 - Tax Rate)] / Average Total Asset

(2) Return on Equity = Income After Tax / Average Total Equity

(3) Net Margin Rate = Income After Tax / Net Sales

(4) Earnings Per Share = (Income Attributed to Parent Company Owner - Preferred Share Dividend) / Weighted Average Number of Outstanding Shares

5. Cash Flow

(1) Cash Flow Ratio = Operating Activity Net Cash Flow / Current Liability

(2) Net Cash Flow Adequacy Ratio = Operating Net Cash Flow for the Last Five Years / (Capital Expenditure + Increased Inventory + Cash Dividend) for the Last Five Years

(3) Cash Re-Investment Ratio = (Operating Activity Net Cash Flow - Cash Dividend) / (Gross Fixed Asset + Long Term Investment + Other Non-Current Asset + Working Capital)

6. Leverage

(1) Operating Leverage = (Net Sales - Variable Operating Cost & Expense) / Operating Income

(2) Financial Leverage = Operating Income / (Operating Income - Interest Expense)

6.3 Supervisors' or Audit Committee's Report in the Most Recent Year

2016 Audit Committee's Review Report

The Board of Directors has prepared the Company's 2016 Business Report, Financial Statements, and proposal for allocation of profits. The CPA firm of Ernst & Young was retained to audit Eurocharm Holdings Corporation Limited's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements and profit allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of Eurocharm Holdings Corporation Limited. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

To Eurocharm Holdings Co., Ltd. 2017 Annual General Shareholders' Meeting

Eurocharm Holdings Co., Ltd.

Chairman of the Audit Committee: Wei-Ming Lin

March 16, 2017

6.4 Financial Statements in the Most Recent Year

Please refer to Appendix 1.

6.5 CPA-Audited Financial Statement in the Most Recent Year

None

6.6 Financial Difficulties in the Most Recent Year

None

VII. Review of Financial Conditions, Operating Results, and Risk Management

Unit: NT$ thousands: %

Year / Item	2016	2015	Difference	
			Amount	%
Current Assets	2,496,319	2,444,054	52,265	2.14
Investment	134,671	113,755	20,916	18.39
Fixed Assets	651,041	670,600	(19,559)	(2.91)
Intangible Assets	5,437	6,978	(1,541)	(22.08)
Other Assets	1,114	1,114	-	-
Total Assets	3,288,582	3,236,501	52,081	1.61
Current Liabilities	660,217	680,635	(20,418)	(3.00)
Long-term Liabilities	46,327	58,845	(12,518)	(21.27)
Total Liabilities	706,544	739,480	(32,936)	(4.45)
Capital stock	658,192	649,322	8,870	1.37
Capital surplus	829,726	813,038	16,688	2.05
Retained Earnings	1,128,919	982,046	146,873	14.96
Other Adjustments	(34,799)	52,615	(87,414)	(166.14)
Total Stockholders' Equity	2,582,038	2,497,021	85,017	3.40

Item \ Year	2016	2015	Difference	
			Amount	%
Analysis of changes in financial ratios (increase/decrease by over 10%; total amounts of increases/decreases are equivalent to 1% of the total asset value of the respective year NT$32,886 thousand): 1) Investment: The result of the investment is benefited by the rise in sales from EXEDY. 2) Retained Earnings: The Company continued to profit in 2016 and the dividend payments did not exceed profits in 2016. 3) Other Adjustments: The appreciation of the Taiwanese dollar against the US dollar in 2016 resulted in a decrease in the cumulative conversion The above differences are expected in regular Company operations and the impact on the Company's financial situation is minimal.				

Reference: Every consolidated financial statement has been certified by a CPA

7.2 Analysis of Financial Performance

Unit: NT$ thousands: %

Item \ Year	2016	2015	Difference	
			Amount	%
Operating Income	4,164,779	4,008,187	156,592	3.91
Operating Cost	3,416,393	3,215,602	200,791	6.24
Operating Gross Margin	748,384	792,614	(44,230)	(5.58)
Operating Expenses	235,364	263,748	(28,384)	(10.76)
Operating Net Income	513,020	528,866	(15,846)	(3.00)
Non-operating Income and Expenses	128,687	122,583	6,104	4.98
Income Before Tax	641,707	651,449	(9,742)	(1.50)
Income After Tax	471,793	484,120	(12,327)	(2.55)
Analysis of changes in financial ratios (increase/decrease by over 10%; total amounts of increases/decreases are equivalent to 1% of the total asset value of the respective year NT$32,886 thousand): 1) Operating Expenses: The difference is the result of employees' retirements according to the government's new pension regulations in 2015. The above differences are expected in regular Company operations and the impact on the Company's financial situation is minimal.				

Reference: Every consolidated financial statement has been certified by a CPA

• Effect of Change on the Company's future business: The Company establishes sales goals based on the global economy, industry condition, customer's assembling plan and other relevant metrics.

• Future Response Actions: According to the business growth shown in the above tables, the Company will require additional working capital to finance the business going forward. Therefore, the teams will continue to budget the cash flow and study every expenditure.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Current Year

Unit: NT$ thousands: %

Year / Item	2016	2015	Variance	
			$	%
Operating Activity	663,602	509,032	154,570	30.37
Investment Activity	(279,479)	(3,449)	(276,030)	8003.19
Financing Activity	(316,266)	(226,215)	(90,051)	39.81
Analysis of financial ratio change: Operating Activity: The Increase is due to the sales growth and on-time payments. Investment Activity: The increase is due to the rise in debt instrument investments for which no active market exists. Financing Activity: The increase is due to the growth in cash dividends compared to 2015.				

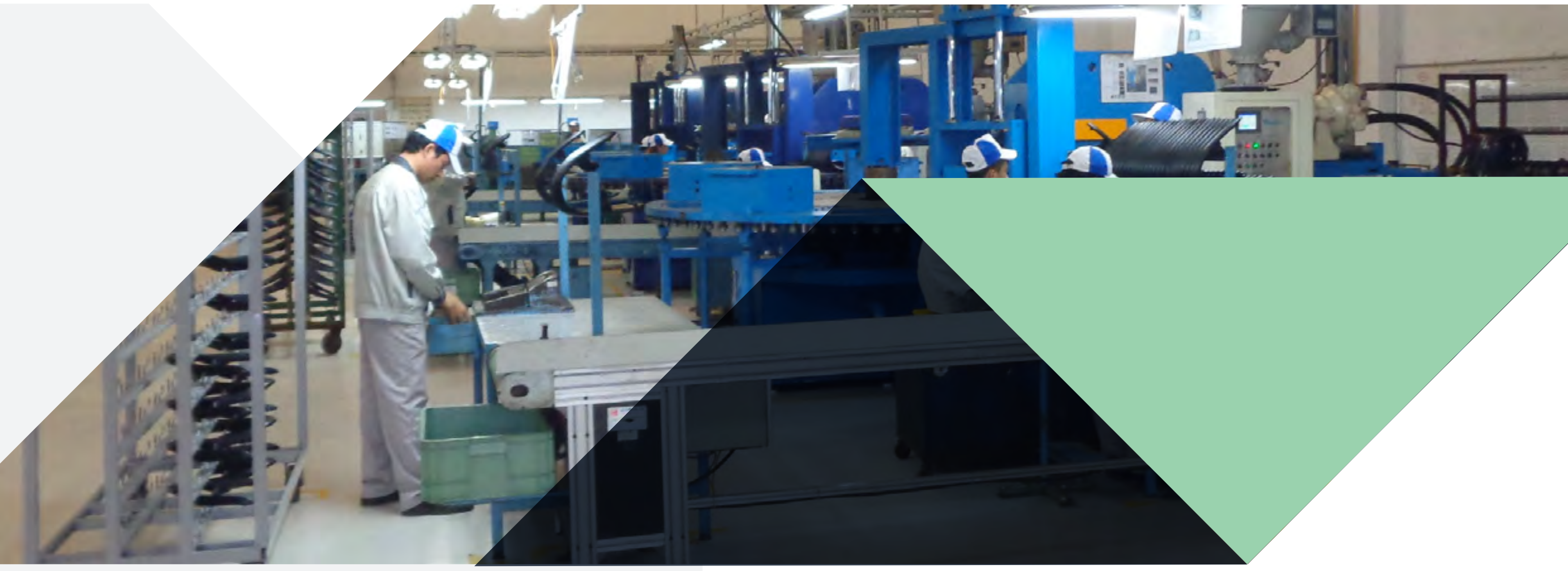
Reference: Every consolidated financial statement has been certified by a CPA

7.3.2 Remedy for Cash Deficit and Liquidity Analysis: None

7.3.3 Cash Flow Analysis for the Coming Year

Unit: NT$ thousands:

Estimated Cash and Cash Equivalents, Beginning of Year (1)	Estimated Net Cash Flow from Operating Activities (2)	Estimated Cash Outflow from Investment Activities (3)	Estimated Cash Outflow from Financing Activities (4)	Cash Surplus (Deficit) (1)+(2)(3)+(4)	Leverage of Cash Surplus (Deficit)	
					Investment Plans	Financing Plans
1,415,450	643,491	(264,797)	(277,359)	1,516,785	-	-
Analysis of financial ratio change: 1) Operating Activities: It is estimated to see an increase as the Company expects growth in operating profits. 2) Investment Activities: It is estimated to see a decrease as the Company expects to purchase fixed assets. 3) Financing Activities: It is estimated to see a decrease as the Company expects to pay cash dividends Remedy for expected shortfall of cash and liquidity analysis: N/A						



7.4 Major Capital Expenditure Items

7.4.1 Major Capital Expenditure Items and Source of Capita: None

7.4.2 Expected Benefits: None

7.5 Investment Policy in Last Year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year

A. ReInvestment Plan

The Company's reinvestment plan is primarily targeted at the relevant automotive and industrial manufacturing industries. The execution is carried out by based on the Subsidiary Operation Policy, Investment Cycle from the internal control and Asset's Acquisition and Disposal Program. The other implementation and measures will be discussed by the board of directors or at the shareholders meeting.

B. Primary Reason for Reinvestment Loss and Gain

12/31/2016; Unit: NT$ thousands

Reinvestment	2016 Reinvestment Loss and Gain	Description
Eurocharm Innovation (B.V.I.)	553,875	Operations in Good Condition
Eurocharm Innovation	20,787	Operations in Good Condition
VPIC1	522,370	Operations in Good Condition
APEX	2,964	Operations in Good Condition
OPTIMAL	743	Operations in Good Condition
VHS	11,900	Operations in Good Condition
EXEDY	30,992	Operations in Good Condition
VPIC	10,927	Cash dividends measured by the cost of financial assets

C. Reinvestment Plan for the Upcoming Year

In order to meet the existing customers' needs, Eurocharm plans to coordinate with them and expands its operating facilities towards other ASEAN countries. Besides the initial plan of acquiring factory plant in the south of Vietnam, the Company will continue to purchase new technology and machinery for productivity growth. Depending on the direction of business development, the Company will expand its size of the operation and raise its scale of capital after careful evaluations.

7.6 Analysis of Risk Management

7.6.1 Risk Management and Structure

The Company's risk management's organizational structure is divided into the execution department (managers and audit committee) and the management department (board of directors).

Risk Management policies:

I. Any associated risk events should be reported to the immediate supervisors, audit committee, general managers, chairman and the board of directors.

II. The risk assessment is carried out by the general manager and used as a record of tracking business performance.

III. The Company has established policies and implementations towards Internal Control, Internal Audit Implementation and Self-Assessed Internal Control Procedures. Department managers are each responsible for closely monitoring the associated risks. The audit committee is to perform risk assessment and report directly to the direct supervisors if any irregularities were discovered.

7.6.2 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

I. Interest rate: The changes in interest rate has no significant effect on the business operation as the Company's 2016 annual interest income and interest expense have minimal influences on the pre-tax net profit.

II. Foreign exchange rate: The changes in foreign exchange rate has no significant effect on the business operation as the Company's 2016 foreign exchange gain is accounted for 0.04% of the consolidated revenue. In addition, the Company monitors the exchange rate movement closely to minimize the risk of an exchange rate.

III. Inflation: In recent years, the high demand for raw materials from emerging countries has inflated the global markets significantly. In order to reduce the inflation risk and lower the production cost, the Company will be actively seeking methods to improve processing and adjusting product pricing accordingly.

7.6.3 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

I. The Company did not engage in any high-risk or high-leveraged investments. The transactions and procedures related to lending and endorsement are based on the Company's "Procedures for Lending" and "Procedures for Endorsement Guarantee." Furthermore, derivative transactions follow the "Procedures for Acquisition and Disposal of Assets."

II. Approved by the board of directors, the Company guaranteed endorsement NT$32,279,000 NT$90,000,000 and NT$187,218000 respectively to its subsidiaries Apex Precision Industrial Ltd., Eurocharm Innovation Co., Ltd. and Vietnam Precision industrial No.1 Co., Ltd. As at the end of 2016, the amount spent was $0.

7.6.4 Future Research & Development Projects and Corresponding Budget

The Company's future R&D plan utilizes new auxiliary materials to enhance casting product quality, reduce defected product, enhance casting product material conversion rate and develop high power wind power products.

The Company's R&D expenses account for 0.96% and 1.03% of sales amount for 2015 and 2016 respectively. Future R&D expenditure is mainly for collaboration with customers in developing new products and production process, enhancement of molds and increasing operational productivity. As such, related R&D expenditure will be invested in accordance with actual needs.

7.6.5 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales

The Company is registered in the Cayman Islands while its subsidiaries are registered in Taiwan, Vietnam and the British Virgin Islands. The Company does not operate in the Cayman Islands. Fluctuation in Vietnam's internal exchange rate is stable. The political relationship between Taiwan and Vietnam is stable. The Company and its important subsidiaries conduct all their businesses in accordance with regulations of their respective territories. The Company's major products including automotive and motorcycle parts and medical equipment are not considered part of the restricted industry. Therefore, in the latest year and as of the date when annual report was published, critical policy changes or regulation changes in Taiwan, Vietnam, the Cayman Islands and the British Virgin Islands are not expected to pose significant influences on the Company's finances and sales.

However, due to the Company has customers and suppliers across the world, in the event of changes in respective government's policy, economy, tax or interest rate, or in the event of incidents involving politics, diplomacy or society, a business of the Company's client or the Company might be affected accordingly.

7.6.6 Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales

The Company's clients include leading vendors across the world. Given the close collaboration relationship between both parties now, the Company is, therefore, able to access to information of the latest technology through such relationship. Losing such important clients is equal to losing critical sources to understand changes in technology as well as shifts in the industry. Failure to master market trend and the trend for future product development will keep the Company from launching products needed by the market and operation may suffer from a significant and adverse impact. As such, the Company continuously pursues the advancement of metal processing and tooling. On the other hand, the Company also follows clients' steps closely in order to obtain, at any time, the latest technology information in the market, understand future changes in the industry and master market trend as well as product future development direction.

At current phase, the Company focuses its development on automotive, motorcycle and recreational vehicle parts and medical assistive equipment. With the popularity of environmental protection consciousness, the security need for lightweight vehicle products is in demand. This allows the Company's business to enjoy continued growth. There is no replacing technology or product in a short time going forward. Therefore, changes in technology and industry are not expected to pose significant influence on the Company's finance business.

7.6.7 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures

The Company enjoys a good business reputation in the international market, and this has established the Company's credibility and position in this industry. After being listed, the emphasis on corporate image is larger than ever. The Company will continue to expand its international sales territory and maximize its profit through high productivity. There is no change of company image which leads to crisis management in the latest year and as of the date when annual report was published.

7.6.8 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans

None, no such plans.

7.6.9 Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans

All of the Company's plant expansions have gone through complete, careful and assessment processes by responsible units, and have already taken comprehensive considerations of investment benefits and potential risks.

7.6.10 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

The main raw materials the Company uses are iron pipes, iron, iron rolls, aluminum, steel, coating, etc. The purchasing decisions are made based on the factors including quality, price, delivery and flexibility. These suppliers are replaceable, and none of the raw materials is exclusive. Therefore, there is no risk or concern over an excessive concentration of purchasing.

Concerning the issue with excessive customer concentration, percentages of the Company's sales to its largest and second largest clients does not exceed 10%. However, the operating income of the two customers takes up to 59.43% of the consolidated operating income. As the Company's largest and second largest customers hold 90% of the market share in Vietnam and the Company being their main supplier, the situation of excessive customer concentration is expected. As a result, the Company has been actively developing new customers to diversify and lower the impact of excessive customer concentration.

7.6.11 Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%

No aforementioned cases in the latest year and as of the date when annual report was published.

7.6.12 Effects of, Risks Relating to and Response to the Changes in Management Rights

In the latest year and as of the date when annual report was published, the management rights has not changed. The Company has also established a professional management system. Therefore, the changes in management rights should have minimal effect on the Company.

7.6.13 The Company and the Company’s director, supervisor, general manager, actual responsible person and major shareholders holding more than 10% of shares shall prescribed litigation or non-litigation incidents. With respect to subsidiary’s finalized or pending major litigation, non-litigation and administrative dispute incidents, the disputed facts, target amount, litigation commencement date, major parties involved and processing status as of annual report publish date shall all be disclosed if results for aforementioned incidents may have significant influence over shareholder’s equity or securities price.

None.

7.6.14 Other Major Risks

None.

7.7 Other Important Matters

None.

VIII. Special Disclosure

8.1 Summary of Affiliated Companies

8.1.1 Enterprise Organization Chart

Please refer to page 9 of the annual report.

8.1.2 Subsidiary Basic Information

Name of Enterprise	Date of Establishment	Address	Paid-in Capital	Major Business or Production Items
Eurocharm Holding Co., Ltd.	07/2011	5th Floor, No. 708-2, ZhongZheng Road, XinZhuang District, New Taipei City, Taiwan 242	NT$643,492 thousand	Investment in share holding
Eurocharm Innovation Co., Ltd.(B.V.I.)	08/2001	P.O. BOX957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	US$17,000 thousand	Investment in share holding
Eurocharm Innovation Co., Ltd.	04/1974	No. 15, Lane 315, Xinshu Rd, Xinzhuang District, New Taipei City, 242	NT$58,500 thousand	Trading business and manufacturing automotive and motorcycle parts and medical equipment
Vietnam Precision Industrial No.1 Co., Ltd.	12/2001	Khai Quang Industrial Zone, Vinh Yen City, Vinh Phuc Province, Vietnam	USD $12,000 thousand	Trading business and manufacturing automotive and motorcycle parts and medical equipment
Hsien Yuan Technology Vietnam Co., Ltd.	06/2010	Khai Quang Industrial Zone, Vinh Yen City, Vinh Phuc Province, Vietnam	USD $1,250 thousand	Trading business and manufacturing automotive and motorcycle parts and medical equipment
Exedy Vietnam Co., Ltd.	02/2006	Khai Quang Industrial Zone, Vinh Yen City, Vinh Phuc Province, Vietnam	USD $4,000 thousand	Trading business and manufacturing automotive and motorcycle parts and medical equipment
Apex Precision Industrial Ltd.	04/2015	Offshore Chambers, P.O. Box 217, Apia, Samoa	USD $2,000 thousand	Trading business and manufacturing automotive and motorcycle parts and medical equipment
Optimal Victory Ltd.	09/2016	Offshore Chambers, P.O. Box 217, Apia, Samoa	USD $900 thousand	Trading business and manufacturing automotive and motorcycle parts and medical equipment

8.1.3 Private Placement Securities in the Most Recent Years

None

8.1.4 The Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years

Name of Enterprise	Title	Name(s)
Eurocharm Holdings Co., Ltd.	Director	Steven Yu, Antonio Yu, Michael Yu, Steven Chang, Bryan Peng, Wei-Min Lin, Gen-Yu Fong
	General Manager	Steven Yu
Eurocharm Innovation Co., Ltd.(B.V.I.)	Director	Steven Yu, Antonio Yu, Michael Yu
Eurocharm Innovation Co., Ltd.	Director	Steven Yu, Antonio Yu, Michael Yu
	Supervisior	Tian-Hong Yu
	General Manager	Steven Yu
Vietnam Precision Industrial No.1 Co., Ltd.	Director	Steven Yu, Antonio Yu, Michael Yu
	Supervisior	Hung-Yi Kao
	General Manager	Andy Wu
Hsien Yuan Technology Vietnam Co.,Ltd.	Director	Zheng-Long Wang, Zheng-Zhou Wang, Steven Yu, Michael Yu, Wei-Quan Chen
Exedy Vietnam Co., Ltd.	Director	Mitsuhiko Takenaka, Shogo Okamura, Hideki Kanai, Y. Osanai, Steven Yu
Apex Precision Industrial Ltd.	Director	Steven Yu
Optimal Victory Ltd.	Director	Steven Yu

8.1.5 Operating Summary for Respective Subsidiaries

Unit: In addition to Earnings Per Share being NT$, the other is NT/VND$ thousands

Name of Enterprise	Paid in Capital	Total Asset	Total Liability	Net Value	Operating Income	Operating Benefit	Current Income (Loss)	Earnings Per Share (NTD)
Eurocharm Holdings Co., Ltd.	655,492	3,288,582	706,544	2,582,038	4,164,779	513,020	471,793	7.25
Eurocharm Innovation Co., Ltd. (B.V.I.)	615,652	2,606,913	-	2,606,913	-	(83)	553,875	See Note 1
Eurocharm Innovation Co., Ltd.	58,500	304,149	181,476	122,673	455,902	15,759	17,037	2.91
Vietnam Precision Industrial No.1 Co., Ltd.	388,970	2,816,857	448,919	2,367,938	3,938,143	532,022	522,370	See Note 1
Hsien Yuan Technology Vietnam Co.,Ltd.	23,179,239	65,784,259	13,571,802	52,212,457	127,485,294	22,866,563	17,978,193	See Note 1
Exedy Vietnam Co., Ltd.	66,083,544	378,127,684	71,321,483	306,806,201	634,475,272	108,307,180	102,867,021	See Note 1
Apex Precision Industrial Ltd.	62,460	103,552	4,997	98,554	79,377	14,741	12,763	2.04
Optimal Victory Ltd.	28,238	28,981	-	28,981	-	-	743	0.26

Note 1: Earnings per share cannot be calculated because this is not an incorporated company.
Note 2: Numbers for Hsien Yuan Technology Vietnam Co., Ltd. and Exedy Vietnam Co., Ltd. are in Vietnamese Dollars.

8.1.6 Affiliated Enterprise Consolidated Financial Statements

Please refer to appendix 1.

8.1.7 Affiliation Report

None

8.2 In the latest year and as of the date when this annual report was published, any cases of securities private placement

None

8.3 In the latest year and as of the date when this annual report was published, cases of subsidiary holding or disposing the Company's shares

None

8.4 Other necessary supplementary explanation

None

8.5 Explanation of major differences from ROC shareholder equity protection regulations

None

8.6 Information Disclosure as prescribed in Clause 2, Paragraph 2, Article 36 of Securities of Exchange Law

None

8.7 Differences from Republic of China Shareholder equity protection regulations

Please refer to page 152 of the Chinese annual report.

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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

Address: PO Box472, 2nd Floor, Harbour Place, 103 South Church Street,
George Town KY1-1106, Grand Cayman, Cayman Islands
Telephone: (02)2908-3863

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.

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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.

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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

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 SHEETS

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**		660,217	680,635
Other current assets		850	651				
Total current assets		2,496,319	2,444,054	**Non-current liabilities**			
				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**		46,327	58,845
Investment accounted for under the equity method	4, 6(7)	123,664	102,748				
Property, plant and equipment	4, 6(8), 8	651,041	670,600	**Total liabilities**		706,544	739,480
Intangible assets	4, 6(9)	5,437	6,978				
Deferred tax assets	4, 6(22)	714	714	**Equity attributable to shareholders of the parent**			
Other non-current assets	6(10)	400	400	**Capital**	6(15)		
Total non-current assets		792,263	792,447	Common stock		655,492	649,322
				Capital collected in advance		2,700	-
				Capital surplus	6(15)	829,726	813,038
				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		2,582,038	2,497,021
Total assets		$3,288,582	$3,236,501	**Total liabilities and equity**		$3,288,582	$3,236,501

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)

Desrciption	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

EUROCHARM 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 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	Total	
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
Cash flows from operating activities:		
Net income before tax	$641,707	$651,449
Adjustments to reconcile net income before tax to net cash provided by (used in) operating activities:		
Depreciation	154,471	161,753
Amortization	3,342	3,602
Bad debt expenses	-	12,426
Interest expense	824	1,350
Interest income	(46,964)	(38,175)
Dividends	(10,927)	(9,070)
Cost of share-based payment	856	1,558
Share of profit or loss of associates and joint ventures	(42,892)	(26,099)
Loss on disposal of property, plant and equipment	828	670
Unrealized (Realized) sales profit	2	(29)
Changes in operating assets and liabilities:		
Notes receivables	(138)	553
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

Items	2016	2015
Cash flows from investing activities:		
Acquisition of debt instrument investments for which no active market exists	(117,246)	135,667
Acquisition of property, plant and equipment	(160,239)	(132,427)
Acquisition of intangible assets	(1,994)	(6,689)
Net cash provided by (used in) investing activities	(279,479)	(3,449)
Cash flows from financing activities:		
Increase in (repayment of) short-term borrowings	(19,057)	(23,392)
Increase (Decrease) in guarantee deposits	3,205	476
Cash dividends	(325,116)	(225,761)
Exercise of employee stock option	24,702	22,462
Net cash provided by (used in) financing activities	(316,266)	(226,215)
Effect of exchange rate changes	(63,164)	37,867
Net increase (decrease) in cash and cash equivalents	4,693	317,235
Cash and cash equivalents at beginning of period	836,885	519,650
Cash and cash equivalents at end of period	$841,578	$836,885

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

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.

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.

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) 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.

(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.

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.

(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 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:

(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.

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

The consolidated entities are listed as follows:

			Percentage of ownership (%)	
			As of December 31,	
Investor	Subsidiary	Main businesses	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.

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.

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).

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.

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 exits 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 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.

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.

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 affects 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.

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, 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 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:

	Computer software	Patents
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 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:

(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.

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. SIGNIGICANT 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 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.

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

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	$841,578	$836,885

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

	As of December 31,	
	2016	2015
Time deposits	$573,872	$456,626

	As of December 31,	
	2016	2015
Current	$573,872	$456,626
Non-current	-	-
Total	$573,872	$456,626

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	$149	$11

Notes receivables were not pledged.

(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:

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

(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 obselencense	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

(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	$11,007	$11,007

(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 :

	As of December 31,			
	2016		2015	
Investee companies	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	$123,664		$102,748	

(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:

(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 progress and equipment awaiting examination	Total
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

(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	$52,420	$181,364	$1,363,976	$76,807	$11,674	$111,774	$50,486	$1,848,501
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	$52,420	$183,599	$1,335,992	$74,518	$10,984	$103,417	$8,825	$1,769,755
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	$-	$95,773	$937,354	$61,102	$7,735	$95,496	$-	$1,197,460
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	$-	$88,247	$862,398	$58,928	$6,733	$82,849	$-	$1,099,155
Net carrying amount as of:								
Dec. 31, 2016	$52,420	$85,591	$426,622	$15,705	$3,939	$16,278	$50,486	$651,041
Dec. 31, 2015	$52,420	$95,352	$473,594	$15,590	$4,251	$20,568	$8,825	$670,600

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.

(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	$24,086	$228	$24,314
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	$23,465	$228	$23,693
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	$18,649	$228	$18,877
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	$16,681	$34	$16,715
Net carrying amount as of:			
Dec. 31, 2016	$5,437	$-	$5,437
Dec. 31, 2015	$6,784	$194	$6,978

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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

		As of December 31,	
	Interest Rates (%)	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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(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 mandation, 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 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.

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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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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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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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(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.

(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

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.

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(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:

	Appropriation of earnings		Dividend per share (in NT$)	
	2016	2015	2016	2015
Common stock- cash dividend	$263,013	$325,116	$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 life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

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(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	202,000	$36	894,000	$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' renumeration, 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

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

(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.

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

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)

(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

(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)	$169,914	$167,329

(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	$-	$-

(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	$641,707	$651,449
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	$169,914	$167,329

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

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

	For the year ended December 31, 2016						
	Beginning balance as of Jan. 1, 2016	Deferred tax income (expense) recognized in profit or loss	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	Ending balance as of Dec. 31, 2016
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)		$(9)	$-	$-	$-	$-	
Net deferred tax assets/(liabilities)	$(17,205)						$(17,214)
Reflected in balance sheet as follows:							
Deferred tax assets	$714						$714
Deferred tax liabilities	$(17,919)						$(17,928)

	For the year ended December 31, 2015						
	Beginning balance as at Jan. 1, 2015	Deferred tax income (expense) recognized in profit or loss	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	Ending balance as at Dec. 31, 2015
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)		$(49)	$-	$-	$-	$-	
Net deferred tax assets/(liabilities)	$(17,156)						$(17,205)
Reflected in balance sheet as follows:							
Deferred tax assets	$714						$714
Deferred tax liabilities	$(17,870)						$(17,919)

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

(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:

	The assessment of income tax returns
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.

	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

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

Lessee	Lease	Duration	Rental income
For the year ended Dec. 31, 2016			
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

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

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			$19,151

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

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

8. PLEDGED ASSETS

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

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

9.SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

None.

10.SIGNIFICANT DISASTER LOSS

None.

11.SIGNIFICANT SUBSEQUENT EVENTS

None.

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

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 activates. The Group identifies measures and manages the aforementioned risks based on the Group's policy and risk appetite.

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.

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, 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

	Less than 1 year
As of December 31, 2016	
Short term borrowings	$48,137
Trade and other payables	495,392
As of December 31, 2015	
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.

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.

(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
Financial assets						
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

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

Investments accounted for using the equity method						
VND	$84,920,640	0.001457	$123,729	$68,043,635	0.00151	$102,748
Financial liabilities						
Monetary items:						
USD	$970	33.01	$32,024	$659	34.04	$22,430
VND	$229,083,154	0.001469	$336,591	$272,749,253	0.00151	$412,124

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.

(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.

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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

(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 discourses 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

		Receiving party											
No. (Note 1)	Endorser/Guarantor	Company name	Relationship	Limit of guarantee/endorsement amount for receiving party	Maximum balance for the period	Ending balance	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
0	Eurocharm Holdings Co., Ltd.	Apex Precision Industrial Ltd.	Sub-subsidiary	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-subsidiary	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-subsidiary	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: As of Dec. 31, 2016	Original Investment Amount: As of Dec. 31, 2015	Investments as of December 31, 2016: Number of shares	Investments as of December 31, 2016: Percentage of ownership (%)	Investments as of December 31, 2016: Book Value	Net income (loss) of investee company	Investment income (loss) recognized	Note
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

				Investments as of December 31, 2016					
Company	Investee Company	Relationship	Financial statement account	Number of shares	Book Value	Percentage of ownership (%)	Fair Value	Note	Shares as collateral
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

				Transactions			Details of non-arm's length transaction		Notes and accounts receivables (payable)		
Purchase (sales) company	Related party	Relationship	Purchases (Sales)	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 transactionstime)

(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)
	Year 2016						
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%
	Year 2015						
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.