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# 2016 ANNUAL REPORT



中華紙漿股份有限公司  
Chung Hwa Pulp Corporation

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Acting spokesperson David Lin	Finance Manager	+886-2-2396-2998	IR.CHP@yfy.com

## 2. Headquarters, Branch office & Plant

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Jiutang Plant	No.112, Jiutang Rd., Dashu Dist., Kaohsiung City	TEL : +886-7-651-2611~9
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## 4. Auditor

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Note: This report has been prepared in both Mandarin Chinese and English. In the event of any inconsistency, the Chinese version shall be the dominate version and prevail.

## 1. Letter to Shareholders

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Dear Shareholders,

According to the latest forecast published by Chung-Hua Institution for Economic Research (CIER), Taiwan delivered 1.29% economic growth in 2016, an increase of 0.57 percentage points from 0.72% in 2015, while the annual economic growth of 2017 is forecast to be 1.73%. CIER suggests that Taiwan's performance has been affected by the global economic slowdown since second half of 2015. Economic recovery remained sluggish in 2016, with slowdowns in the trade sector worsening and prolonging the duration of the global economic softness. In 2016, uncertainty was elevated by a series of international incidents including Brexit and the U.S. presidential election. Looking into 2017, under factors such as the Trump effect in the U.S., general elections in various European countries, and unclear policy in the South China Sea, the global economy will continue to be variable as the U.S./China dynamic continues to develop.

China enforced phasing out outdated capacity for eighteen industries in 2016 including the paper manufacturing industry; 279 paper manufacturers which approximately 10% of the industry, were included under the policy in order to prevent overcapacity. As a result, China's total production of paper and paperboard amounted to 108 million tons in 2016 with a 1% growth year-on-year, which has shown an obvious slowdown in new capacity expansion. On the other hand, due to factors including weakening RMB, resistance from the environmental advocacy, cost increases in OCC and freight, and increasing demand in the market, the sales prices of pulp and paper products took on an upward trend in Q3 2016.

Chung Hwa Pulp's (CHP) consolidated revenue in 2016 amounted to NTD 22,001,536 thousands, with a growth 4.81% year-on-year. CHP's paper production in 2016 amounted to 441,824 tons, increasing 29,242 tons from 412,582 tons in 2015; total sales amounted to 489,915 tons, including domestic sales of 262,866 and export of 227,049 tons. For paperboard, the 2016 production were 123,026 tons, decreasing by 3,000 tons compared to 126,026 tons in 2015. Under the competitions from imported paper, CHP continued to enhance our product quality, optimize the production lines allocations, expand the product applications and increased domestic customer services to increase our market share. On the other hand, CHP raised the prices of cultural paper, white paper, and waste paper by 5% to 10%, since March 2017, and expected to benefit our profitability of the year.

As the leader in the pulp industry, CHP spares no effort in environmental protection and corporate social responsibility. In recent years, we have been committed to increasing the raw materials' recycling rounds and lowering the consumption of energy and water resources. In June 2016, CHP was awarded the Asia Responsible Entrepreneurship Award (AREA), an honor nicknamed the Nobel Prize in Sustainability. The hydrogen energy project of Hualien Plant has set a national precedent for the manufacturing industry, purifying the byproduct of electrolytic common salt during the recycling of pulping agents into hydrogen energy. In conformity with the spirit that "enterprise is accountable for reduction of environmental impacts" that the Green Leader Medal upholds, we were awarded the special honor of the Green Leader Medal among the over 300 participants from 28 countries.

As a global citizen, CHP continuously dedicates our efforts to take on the responsible and sustainable mission in the changing and challenging environment. Looking forward, CHP will keep working on research and innovation, improving the cost structures and manufacturing

process, developing environmentally friendly products, satisfying customers' needs and social expectations, and improving profitability of the company. CHP will continue to uphold the four pillars of maximized raw material's utilization rate, consolidation of technology and tradition, expand product diversity evolution, and ecological restoration plus educational return, as our corporate vision for sustainable development.

Chairman      Kirk Hwang

## 2. Corporate Overview

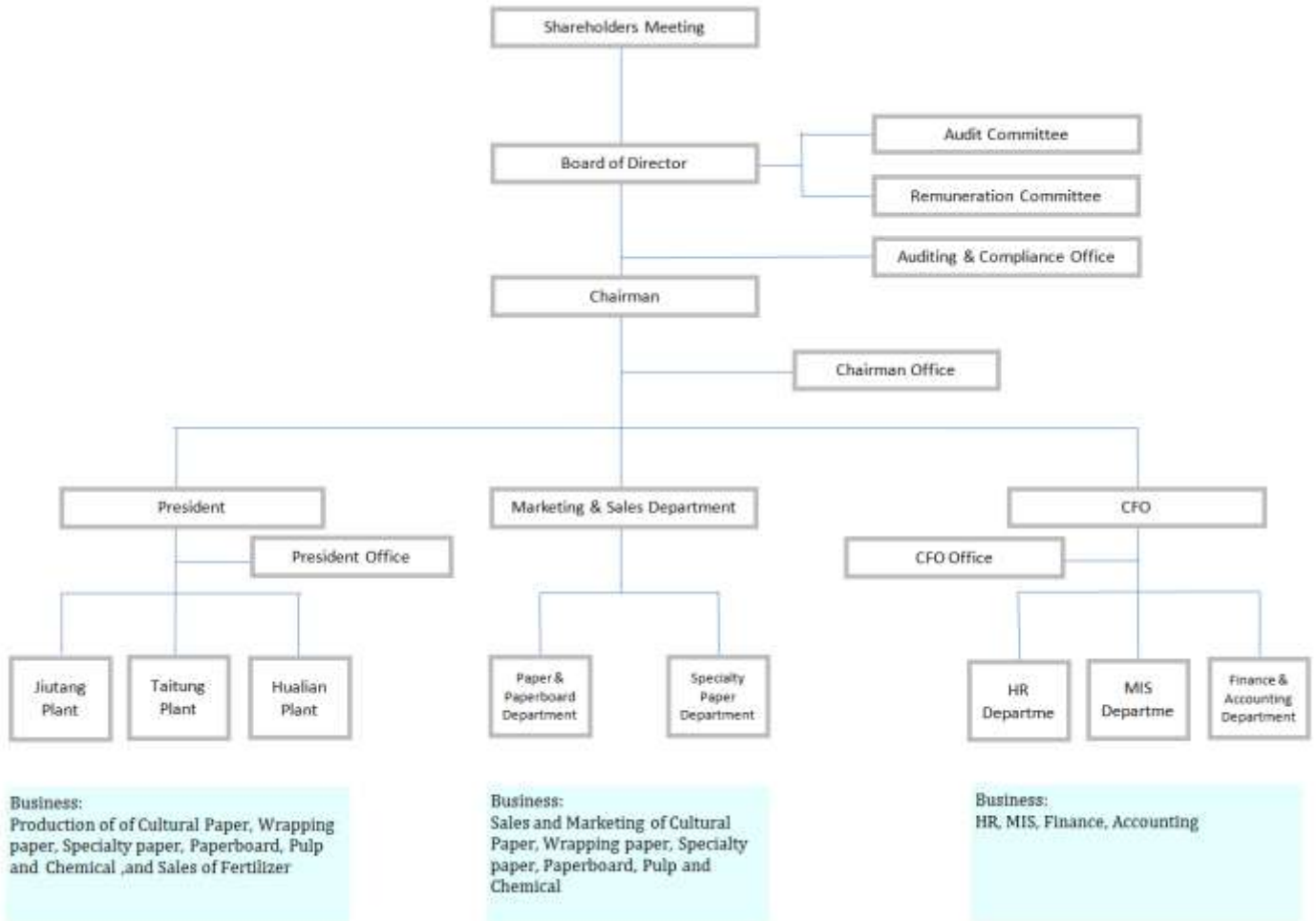
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2.1. Date of Establishment :  
July 5<sup>th</sup> 1968

## 3. Corporate Governance

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### 3.1 Organization Chart



## 3.2. Profiles of the Board Directors and Management Team

### 3.2.1 Directors

4/25/2017

Title	Nationality/ Country of Origin	Name	Gender	Date Elected	Term (years)	Date First elected	Shareholding when Elected		Current shareholding		Spouse and Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director	ROC	YFY Inc.		6/24/2016	3	6/13/2007	627,827,989	56.93	627,827,989	56.93	-	-	-	-	-	-	-	-	-
Chairman	ROC	YFY Inc. Representative: Kirk Hwang	Male	6/24/2016	3	7/1/2011	55,737	-	55,737	-	-	-	-	-	President, CHP Co., Ltd.	CEO, CHP Chairman, HwaFong Investment Co., Ltd. Director, Guangdong Dingfong pulp and paper Co., Ltd. Director, Zhaoqing Dingfeng Forestry Co., Ltd. Director and CTO, YFY Inc. Director, Shinn Foong Specialty and Applied Materials Co Director, Taiwan Global BioFund Director, Hwa Fong Paper (H.K.) Ltd.	-	-	-
Director	ROC	YFY Inc. Representative: Felix Ho	Male	3/16/2017	3	3/16/2017	-	-	-	-	-	-	-	-	MBA, MIT Sloan School of Management	Chairman & CEO, YFY Inc. Director, Sinopac Financial Holdings Co., Ltd. Director, E INK HOLDINGS INC Director/Supervisor, YFY subsidiaries	-	-	-
Director	ROC	YFY Inc. Representative: Melody Chiu	Female	6/24/2016	3	2/24/2006	-	-	-	-	-	-	-	-	Chairman, Yuen Foong Yu Inc.	Chairman, Shinn Foong Specialty and Applied Materials Co Director and CFO, YFY Inc. Director, TaiGen Biopharmaceuticals Holdings Director/Supervisor, YFY subsidiaries	-	-	-
Director	ROC	Lotus Ecoscings & Engineering Co., Ltd		6/24/2016	3	6/25/2013	117,247	0.01	117,247	0.01	-	-	-	-	-	-	-	-	-
Director	ROC	Lotus Ecoscings & Engineering Co., Ltd Representative: Chih-Cheng Huang	Male	6/24/2016	3	6/14/2010	-	-	-	-	-	-	-	-	Executive Vice President, CHP Co., Ltd.	President, CHP Director, Guangdong Dingfong pulp and paper Co., Ltd. Director, Zhaoqing Dingfeng Forestry Co., Ltd. Chairman, Shenzhen Systax Paper Co., Ltd. Director, Hwa Fong Paper (H.K.) Ltd. Director, Union PaperCorp.	-	-	-

Director	ROC	Lotus Ecoscings & Engineering Co., Ltd Representative: Guu-Fong Lin	Male	6/24/2016	3	12/12/2007	49,132	-	49,132	-	565	-	-	-	COO, CHP Co.,Ltd.	CFO,CHP Chairman,Guangdong Dingfeng Paper Co., Ltd. Chairman,Zhaoqing Dingfeng Forestry Co., Ltd. Director,Hwa-Fong Investment Co.,Ltd. Supervisor, Effion Enertech Co., Ltd.	-	-	-
Director	ROC	Lotus Ecoscings & Engineering Co., Ltd Representative: Ray Chen	Male	6/24/2016	3	6/24/2016	-	-	-	*	-	-	-	-	Vice President	Executive Vice President, CHP Director, Shenzhen Systax Paper Co., Ltd. Director, Union Paper Corp.	-	-	-
Independent Director	ROC	Shi-Kuan Chen	Female	6/24/2016	3	6/25/2013	-	-	-	-	-	-	-	-	Porfessor of NTU	Member, CHP. Remuneration Committee and Audit Committee Independent Director , momo.com Inc. Member, momo.com Inc.. Remuneration Committee Independent Director, SINBON Electronics Co., Ltd Independent Director,DBS (Taiwan) Bank Co.,Ltd.	-	-	-
Independent Director	ROC	Donald Chang	Male	6/24/2016	3	6/24/2016	-	-	-	-	-	-	-	-	President of Greater China of 3M	Director, Advantech Co., Ltd. Member, CHP. Remuneration Committee and Audit Committee			
Independent Director	ROC	Shih-Lai Lu	Male	6/24/2016	3	6/24/2016	-	-	-	-	-	-	-	-	Chief Scientist & Sr. R&D Manager of 3M	Member, CHP. Remuneration Committee and Audit Committee Professor of NTHU			

## Eligibility of Independent Status of the Board Directors

Name	Criteria			Eligibility of independent status(Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience	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)	
Kirk Hwang			√			√	√				√	√	√	
Felix Ho			√			√	√				√	√	√	
Melody Chiu		√	√			√	√				√	√	√	
Chih-Cheng Huang			√			√	√	√	√	√	√	√	√	
Guu-Fong Lin			√			√	√	√	√	√	√	√	√	
Ray Chen			√			√	√	√	√	√	√	√	√	
Shi-Kuan Chen	√		√	√	√	√	√	√	√	√	√	√	√	3
Donald Chang			√	√	√	√	√	√	√	√	√	√	√	
Shih-Lai Lu	√		√	√	√	√	√	√	√	√	√	√	√	

Note : Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to 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 in which the Company holds, directly or indirectly, more than 50% of the voting shares.

(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 to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to 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 been 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.

### 3.2.2. Management Team

4/25/2017

Title	Nationality	Name	Gender	Date Effective	shareholding		Spouse and 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
CEO	ROC	Kirk Hwang	Male	10/1/2012	55,737	-	-	-	-	-	CHP President	Chairman, HwaFong Investment Co., Ltd. Director, Guangdong Dingfeng Pulp and Paper Co., Ltd. Director, Zhaoqing Dingfeng Forestry Co., Ltd. Director and CTO, YFY Inc. Director, Shin Foong Specialty and Applied Materials Co. Director, Taiwan Global BioFund Director, Hwa Fong (Hong Kong) paper Co., Ltd.	-	-	-
President	ROC	Chih-Cheng Huang	Male	3/16/2017	-	-	-	-	-	-	CHP Executive Vice President	Director, Guangdong Dingfeng pulp and paper Co., Ltd. Director, Zhaoqing Dingfeng Forestry Co., Ltd. Chairman, Shenzhen Systax Paper Co., Ltd. Director, Hwa Fong Paper (H.K.) Ltd. Director, Union PaperCorp.	-	-	-
President (Note 1)	ROC	Cheng-Yang Peng	Male	10/1/2012	-	-	-	-	-	-	YFY President	Director/Supervisor, YFY subsidiaries	-	-	-
CFO	ROC	Guo-Fong Lin	Male	9/1/2013	49,132	-	565	-	-	-	CHP COO	Chairman and GM, Guangdong Dingfeng Paper Co., Ltd. Chairman and GM, Zhaoqing Dingfeng Forestry Co., Ltd. Director, Hwa-Fong Investment Co., Ltd. Supervisor, Taiwan Global BioFund Supervisor, Effion Enertech Co., Ltd.	-	-	-
Executive Vice President	ROC	Ray Chen	Male	7/1/2016	45	-	-	-	-	-	Vice President	Director, Shenzhen Systax Paper Co., Ltd. Director, Union Paper Corp.	-	-	-
Factory Director	ROC	Kuo-Yuan Zeng	Male	7/7/2014	9,077	-	-	-	-	-	CHP Vice President	-	-	-	-
Factory Director	ROC	Rong-Ming Lin	Male	10/1/2012	-	-	-	-	-	-	YFY Factory Director	-	-	-	-
Factory Director	ROC	Shan-Shui Chen	Male	3/16/2017	-	-	-	-	-	-	CHP Director	-	-	-	-
Vice President (Note2)	ROC	Wei-Ying Mao	Male	9/1/2013	-	-	18,939	-	-	-	CHP Assistant Chief Engineer	-	-	-	-
Vice President	ROC	Alex Chen	Male	7/1/2016	-	-	-	-	-	-	CHP Manager	-	-	-	-
Vice President (Note3)	ROC	Joy Huang	Female	7/7/2014	901	-	-	-	-	-	CHP Manager	-	-	-	-

Note1: Resigned on 3/16/2017, transferred as Chairman and GM of YFY Packageing Inc. .

Note2: Retired on 3/31/2017

Note3: Resigned on 7/1/2016



### 3.3.2. Remuneration of Supervisors

12/31/2016, Unit : NTD Thousand

Title	Name	Remuneration Paid to Supervisors						Ratio of Total Remuneration (A+B+C) to Net Income (%)		Compensation Paid to Supervisors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A)		Bonus to Supervisors (B) (Note1)		Allowance (C)		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			
Supervisor Note2	Yuen-Shin-Yi Enterprise Co., Ltd Representative: Addie Wang	-	-	450	450	238	238	0.18	0.18	-
Supervisor Note2	Kuan-De Ho	-	-	450	450	238	238	0.18	0.18	-

Note1: The remuneration amount has been determined by the Board on 3/16/2017.

Note2: After the reelection on 6/24/2016 no longer renewed.

### 3.3.3. Remuneration of the CEO, President and Executive Vice President

12/31/2016, Unit : NTD Thousand

Title	Name	Salaries(A)		Severance Pay (B)		Bonuses and Allowances (C) (Note1)		Profit Sharing- Employee Bonus (D) (Note2)				Ratio of total compensation (A+B+C+D) to net income (%)		Exercisable Employee Stock Options		New Restricted Employee Shares		Compensation paid to the President and Vice President from an Invested Company Other Than the Company's Subsidiary
		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		Consolidated		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements			
								Cash	Stock	Cash	Stock							
CEO	Kirk Hwang	13,745	13,745	376	376	9,323	9,323	-	-	-	-	5.99	5.99	-	-	-	-	-
President	Cheng-Yang Peng																	
CFO	Guu-Fong Lin																	
Executive Vice President	Chih-Cheng Huang																	
Executive Vice President Note3	Ray Chen																	

Note1: Includes car rental expenses approximately NT\$1,395 thousand.

Note2: The remuneration amount has been determined by the Board on 3/16/2017.

Note3: Assumed on 7/1/2016

### 3.3.4. Remuneration Paid to the Management Team

12/31/2016, Unit : Thousand NTD

Title	Name	Stock Value	Cash Amount	Total	Percentage of net income after tax(A+B+C) (%)
CEO	Kirk Hwang	-	26	26	0
President	Cheng-Yang Peng				
CFO	Guu-Fong Lin				
Executive Vice President	Chih-Cheng Huang				
Executive Vice President	Ray Chen <small>Note1</small>				
Factory Director	Kuo-Yuan Zeng				
Factory Director	Rong-Ming Lin				
Vice President	Wei-Ying Mao				
Vice President	Alex Chen <small>Note1</small>				
Vice President	Joy Huang <small>Note2</small>				
Accounting Manager	Jung-Min Huang				
Finance Manager	David Lin				

Note1: Assumed on 7/1/2016  
Note2: Resigned on 7/1/2016

### 3.3.5. The Percentage of the Total Remuneration Paid to the Board Directors, Supervisors, CEO, President and Executive Vice Presidents to Consolidated Profit After Tax.

Item	Total Remuneration to Profit after Tax(%)					
	2016		2015		Difference	
	The company	Consolidated	The company	Consolidated	The company	Consolidated
Directors	10.40	10.57	4.49	4.58	131.63	130.79
Supervisors	0.18	0.18	0.18	0.18	-	-
CEO, Presidents and Executive Vice Presidents	5.99	5.99	2.85	2.85	110.18	110.18

### 3.4. The Attendance of the Board Directors and Supervisors

#### 3.4.1. Attendance of the Board Directors

The Board of Directors met five times (A) within the last fiscal year (2016), and the directors supervisors' attendance details are as follows:

Title	Name		Attend in Person (B)	By Proxy	Attendance Rate(%) (B/A)	Remarks
Chairman	Kirk Hwang	YFY Inc. Representative	3	-	100	17 <sup>th</sup>
Director	Melody Chiu		3	-	100	17 <sup>th</sup>
Director	Cheng-Yang Peng		3	-	100	17 <sup>th</sup>
Director	Chih-Cheng Huang	Lotus Ecoscings & Engineering Co., Ltd. Representative	3	-	100	17 <sup>th</sup>
Director	Guu-Fong Lin		3	-	100	17 <sup>th</sup>
Director	Ray Chen		3	-	100	17 <sup>th</sup>
Independent Director	Shi-Kuan Chen		2	1	67	17 <sup>th</sup>
Independent Director	Donald Chang		3	-	100	17 <sup>th</sup>
Independent Director	Shih-Lai Lu		3	-	100	17 <sup>th</sup>
Chairman	Kirk Hwang	YFY Inc. Representative	2	-	100	16 <sup>th</sup>
Director	S.C. Ho		-	2	0	16 <sup>th</sup>
Director	Melody Chiu		2	-	100	16 <sup>th</sup>
Director	Cheng-Yang Peng		2	-	100	16 <sup>th</sup>
Director	Guu-Fong Lin	Lotus Ecoscings & Engineering Co., Ltd. Representative	2	-	100	16 <sup>th</sup>
Director	Kuo-Yuan Zeng		1	1	50	16 <sup>th</sup>
Director	Chih-Cheng Huang		2	-	100	16 <sup>th</sup>
Independent Director	Pen-Chi Chiang		1	-	50	16 <sup>th</sup>
Independent Director	Shi-Kuan Chen		2	-	100	16 <sup>th</sup>
Supervisor	Addie Wang	Yuen-Shin-Yi Enterprise Co., Ltd. Representative	2	-	100	16 <sup>th</sup>
Supervisor	Kuan-De Ho		1	-	50	16 <sup>th</sup>

### 3.4.2. Attendance of the Audit Committee and Supervisors

There were 2 Board meetings held during the last fiscal year (2016), and the Independent Directors' attendance details are as follows:

Title	Name	Attend in Person	By Proxy	Attendance Rate(%)	Remarks
Independent Director	Shi-Kuan Chen	2	-	100	-
Independent Director	Donald Chang	2	-	100	-
Independent Director	Shih-Lai Lu	2	-	100	-

There were 2 times Board meetings held during the last fiscal year (2016), and the supervisor' attendance details are as follows:

Title	Name		Attend in Person	Attendance Rate(%)	Remarks
Supervisor	Addie Wang	Yuen-Shin-Yi Enterprise Representative Co., Ltd.	2	100	-
Supervisor	Kuan-De Ho		1	50	-

### 3.5. Information of the Remuneration Committee :

#### 3.5.1. Profiles of the Remuneration Committee

Title Identity (Note1)	Criteria Name	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Eligibility of independent status (Note2)								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	Shi-Kuan Chen	V		V	V	V	V	V	V	V	V	V	1	-
Independent Director	Donald Chang			V	V	V	V	V	V	V	V	V	-	-
Independent Director	Shih-Lai Lu	V		V	V	V	V	V	V	V	V	V	-	-

Note1 : Identity should be Director, Independent Director or other.

Note2 :

- (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 in which the Company holds, directly or indirectly, more than 50% of the voting shares.

- (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 to any affiliate of the Company, or a spouse thereof.
- (8) Not a person of any conditions defined in Article 30 of the Company Law.

### 3.5.2. Attendance of Members at Remuneration Committee Meetings

(1) There are 3 members in the Remuneration Committee.

(2) Term from 6/24/2016 to 6/23/2019, and a total of 2 (A) Remuneration Committee meetings were held in the previous period. The attendance record of the Remuneration Committee members was as follows: :

Tilte	Name	Attend in Person(B)	By Proxy	Attendance Rate%(B/A)	Remarks
Convener	Shi-Kuan Chen	2	-	100%	Reelected
Committee member	Donald Chang	1	-	100%	Newly appointed
Committee member	Shih-Lai Lu	1	-	100%	Newly appointed
Committee member	Pen-Chi Chiang	1	-	100%	Former member
Committee member	Jenny Huang	1	-	100%	Former member
Other statutory information: None					

### 3.6. Statement of Internal Control System :

## Chung Hwa Pulp Corporation

### Statement of Internal Control System

Date : March 16 2017

Based on the findings of a self-assessment, CHP states the following with regard to its internal control system during the year 2016 :

1. CHP's Board of Directors and Management are responsible for establishing, implementing, and maintaining an adequate internal control system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operations (including profitability, performance, and safeguarding of assets), reliability of our financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing its stated objectives. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanisms, and YFY takes immediate remedial actions in response to any identified deficiencies.
3. CHP evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five key components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.
4. CHP has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations.
5. Based on the findings of such evaluation, CHP believes that on December 31, 2015, it has maintained, in all material respects an effective internal control system (that includes the supervision and management of our subsidiaries) to provide reasonable assurance over our operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations.
6. This Statement will be an integral part of CHP's Annual Report for the year 2016 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on March 16, 2017, where all of the night attending directors express dissenting opinion and affirmed the content of this Statement.

Chung Hwa Pulp Corporation

### 3.7. Major Resolutions of the Board :

1. Major resolutions of the 14th meeting of the 16th term's board (March 17, 2016) (abstract) :
  - (1) Approval of the CHP's 2015 financial statements.
  - (2) Approval of the CHP's 2015 earnings distribution.
  - (3) Approval of the CHP's 2015 remunerations for employees, directors and supervisors.
  - (4) In accordance with the change of the CHP's Articles of Incorporation, the board approved the Guidelines of Employees Remunerations.
  - (5) Approval of the amendment of CHP's Articles of Incorporation.
  - (6) For the company establishing an Audit Committee, Amendment to the Disposition Procedures of Acquisition of Disposal of Assets, Procedures of Related Party Transactions, Procedures of Engaging in Derivatives Trading, Procedures of Mergers and Consolidations, Splits, Acquisitions and Assignment of Shares and the Operational Procedures for Loaning Funds to Others, the Operational Procedures for Making of Endorsements/Guarantees, Amendment & Rename to Rules for Election of Directors and Supervisors.
  - (7) Approved the resolution to elect the 17th directors and independent directors during the 2015 shareholders meeting.
  - (8) Approval of the proposal to the shareholders meeting to remove the non-competition restriction for CHP's new directors and the institutional entities they represented.
  - (9) Approval of the a resolution which determined the time, location, and other relevant matters regarding the 2016 shareholders meeting.
  - (10) Approval of the a resolution to approve CHP's 2015 Statement on the Internal Control System.
  - (11) Approval of resolution the five years' syndication loan proposals.
  - (12) Approved the resolution of lending money to YFY Caymen Co., and the amount approximately to USD 55 million.
  - (13) Approval of CHP's application of loan credit line with correspondent banks.
2. Major resolutions of the 15th meeting of the 16th term's board (May 13, 2016) (abstract) :
  - (1). Approval of The proposal of the company's 16th directors and independent directors candidates list.
  - (2). Approval of CHP's application of loan credit line with correspondent banks.
3. Major resolutions of the 1st temporary meeting of the 17th term's board (June 24, 2016) (abstract) :
  - (1) Approved the resolution to appoint Kirk Hwang to be the Chairman of the 17th term's Board.
  - (2) Approved the amendment to the Rules of Bord Meeting.
  - (3) Approved to regulate the Audit Committee Constitute Guidelines.
  - (4) Approved the resolution of the member the 1st terms of Audit Committee.
  - (5) Approved the amendment to the Remunization Committee Constitute Guidelines.
  - (6) Approved the resolution of the member the third terms of Remuneration Committee.
4. Major resolutions of the 1st meeting of the 17th term's board (August 12, 2016) (abstract) :

- (1) Approved the 2nd season endorsements and guarantees to CHP and subsidiaries.
  - (2) Approval of CHP's application of loan credit line with correspondent banks.
  - (3) Approved of subsidiary`s application of loan credit line with correspondent banks and join guarantee.
  - (4) Approved of the appointment of branch manager.
5. Major resolutions of the 2nd meeting of the 17th term's board (November 11, 2016)  
(abstract) :
- (1) Approved the CHP's 2017 annual operational budget.
  - (2) Approved the CHP's 2017 audit planing.
  - (3) Amendment to the procedures for halt and resumption applications.
  - (4) Approved the 3rd season endorsements and guarantees to CHP and subsidiaries.
  - (5) Approval of CHP's application of loan credit line with correspondent banks.
6. Major resolutions of the 3rd meeting of the 17th term's board (March 16, 2017)  
(abstract) :
- (1) Approval of the CHP's 2016 financial statements.
  - (2) Approval of the CHP's 2016 earnings distribution.
  - (3) Approval of the CHP's 2016 remunerations for employees,directors and supervisors.
  - (4) Approval of the resolution which determined the time, location, and other relevant matters regarding the 2017 shareholders meeting.
  - (5) Approval of the resolution to approve CHP's 2015 Statement on the Internal Control System.
  - (6) Amendment to the Disposition Procedures of Acquisition of Disposal of Assets.
  - (7) Amendment to the Disposition Procedures of Related Party Transactions.
  - (8) Amendment to the Disposition Procedures of Engaging in Derivatives Trading.
  - (9) Amendment to the Disposition Procedures of Procedures of Mergers and Consolidations, Splits, Acquisitions and Assignment of Shares.
  - (10) Approval of CHP's application of loan credit line with correspondent banks.
  - (11) Approved of subsidiary`s application of loan credit line with correspondent banks and join guarantee.
  - (12) Approved the 4th season endorsements and guarantees to CHP and subsidiaries.
  - (13) Approved of the change of spokesperson.
  - (14) Approved of the organizational changes and personnel adjustments.

## 4. Capital Overview

### 4.1. The Top-10 Shareholders and Information of Related Parties

April 21, 2017

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	
YFY Inc.	627,827,989	56.93	-	-	-	-	YFY paradigm Investment Co., Ltd.	Director & Supervisor	-
Representative: Felix Ho	-	-	-	-	-	-	Hsin-Yi Enterprise Co., Ltd. Representative Sing-Ju Chang Hsin-Yi Investment Co., Ltd. Representative: Felix Ho Yuen-Hsin-Yi Enterprise Co., Ltd. Representative Felix Ho	Mother & Son Same representative Same representative	-
Hsin-Yi Enterprise Co., Ltd.	50,149,248	4.55	-	-	-	-	YFY Inc. Hsin-Yi Investment Co., Ltd. Yuen-Hsin-Yi Enterprise Co., Ltd.	Director Director Director	-
Representative: Sing-Ju Chang	-	-	1,223,071	0.11%	-	-	YFY Inc. Representative: Felix Ho, Hsin-Yi Investment Co., Ltd. Representative: Felix Ho Yuen-Hsin-Yi Enterprise Co., Ltd. Representative: Felix Ho	Mother & Son Mother & Son Mother & Son	-
Hsin-Ye Golf Course Co., Ltd.	24,334,028	2.21	-	-	-	-	-	-	-
Representative: Bao-Yu Hsieh	-	-	-	-	-	-	-	-	-
Hsin-Yi Investment Co., Ltd.	21,090,110	1.91	-	-	-	-	Yuen-Hsin-Yi Enterprise Co., Ltd.	Supervisor	-
Representative: Felix Ho	-	-	-	-	-	-	YFY Inc. Representative: Felix Ho, Hsin-Yi Enterprise Co., Ltd. Representative Sing-Ju Chang, Yuen-Hsin-Yi Enterprise Co., Ltd. Representative: Felix Ho	Same representative Mother & Son Same representative	-
China Life Insurance Co., Ltd.	18,720,228	1.70	-	-	-	-	-	-	-
Representative: Alan Wang	-	-	-	-	-	-	-	-	-
Nan Shan Life Insurance Co., Ltd.	12,813,000	1.16	-	-	-	-	-	-	-
Representative: Y.T. Du	-	-	-	-	-	-	-	-	-
YFY paradigm Investment Co., Ltd.	7,635,485	0.69	-	-	-	-	-	-	-
Representative: Melody Chiu	-	-	-	-	-	-	-	-	-
Yuen-Hsin-Yi Enterprise Co., Ltd.	7,231,001	0.66	-	-	-	-	-	-	-
Representative: Felix Ho	-	-	-	-	-	-	YFY Inc. Representative: Felix Ho, Hsin-Yi Enterprise Co., Ltd. Representative Sing-Ju Chang Yuen-Hsin-Yi Enterprise Co., Ltd. Representative: Felix Ho	Same representative Mother & Son Same representative	-
Investment Portfolio of Emerging Market Funds, entrusted to Deutsche Bank	6,735,650	0.61	-	-	-	-	-	-	-
Advanced General ETF investment account held in trust by J.P. Morgan Chase	6,321,712	0.57	-	-	-	-	-	-	-

## 4.2. The Structure of Shareholders

4/21/2017

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	2	12	105	47,423	137	47,679
Shareholding (shares)	3,813,000	34,355,989	754,477,857	264,464,102	45,724,368	1,102,835,316
Percentage	0.35	3.11	68.41	23.98	4.15	100.00

## Shareholding Distribution Status

4/21/2017

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership (Shares)	Ownership Percentage(%)
1 – 999	27,328	7,166,414	0.65
1,000 – 5,000	12,968	31,074,736	2.82
5,001 – 10,000	3,485	27,793,966	2.52
10,001 – 15,000	972	12,061,397	1.09
15,001 – 20,000	871	16,011,555	1.45
20,001 – 30,000	594	15,165,613	1.38
30,001 – 50,000	582	23,570,248	2.14
50,001 – 100,000	407	30,002,280	2.72
100,001 – 200,000	256	36,437,613	3.30
200,001 – 400,000	110	31,258,091	2.83
400,001 – 600,000	43	21,231,491	1.93
600,001 – 800,000	17	11,417,404	1.04
800,001 – 1,000,000	11	10,311,728	0.93
Over 1,000,001	35	829,332,780	75.20
Total	47,679	1,102,835,316	100.00

### 4.3. Change in the Proportion of Shareholding Among the Directors, Managers, and Major Shareholders

Unit: Shares

Title	Name		2016		As of Apr. 25, 2017	
			Holding Increase (Decrease) <sup>Note2</sup>	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Director	YFY Inc.		-	-	-	-
Chairman	Kirk Hwang	YFY Inc. Representative	-	-	-	-
Director	Felix Ho <sup>Note1</sup>		-	-	-	-
Director	Melody Chiu		-	-	-	-
Director	S.C. Ho <sup>Note2</sup>		-	-	-	-
Director	Cheng-Yang Peng <sup>Note3</sup>		-	-	-	-
Director	Lotus Ecoscings & Engineering Co., Ltd Representative		-	-	-	-
Director	Chin-Cheng Huang	Lotus Ecoscings & Engineering Co., Ltd Representative	-	-	-	-
Director	Guu-Fong Lin		-	-	-	-
Director	Ray Chen		-	-	-	-
Director	Kuo-Yuan Zeng <sup>Note2</sup>		-	-	-	-
Independent Director	Shi-Kuan Chen		-	-	-	-
Independent Director	Donald Chang		-	-	-	-
Independent Director	Shih-Lai Lu		-	-	-	-
Independent Director	Pen-Chi Chiang <sup>Note2</sup>		-	-	-	-
Supervisor	Yuen-Shin-Yi enterprise Co., Ltd. <sup>Note2</sup>		-	-	-	-
Supervisor	Addie Wang <sup>Note2</sup>	Yuen-Shin-Yi enterprise Co., Ltd. Representative	-	-	-	-
Supervisor	Kuan-De Ho <sup>Note2</sup>		-	-	-	-
CEO	Kirk Hwang		-	-	-	-
President	Chih-Cheng Huang <sup>Note4</sup>		-	-	-	-
President	Cheng-Yang Peng <sup>Note5</sup>		-	-	-	-
CFO	Guu-Fong Lin		-	-	-	-
Executive Vice President	Ray Chen <sup>Note6</sup>		-	-	-	-
Finance Manager	David Lin		-	-	-	-
Accounting Manager	Jung-Min Huang		-	-	-	-
Major shareholders	YFY Inc.		-	-	-	-

Note1: Assumed on 3/16/2017 by juristic-person director

Note2: After election, not assumed on 6/25/2016.

Note3: Resigned on 3/16/2017 by juristic-person director  
 Note4: Appointed on 3/16/2017  
 Note5: Resigned on 3/16/2017 and transferred as Chairman & GM of YFY Packaging Inc.  
 Note6: Appointed on 7/1/2016

#### 4.4. Consolidated Invested Number of Shares in the Subsidiaries Held by the Company, Board Directors, Supervisors, Managers and the Percentage of the Holding Shares

Affiliated Enterprises	Ownership by the Company		Direct or Indirect Ownership by Directors, Supervisors, Managers		Total Ownership	
	Shares	%	Shares	%	Shares	%
CHP INT'L (BVI) CORP.	61,039,956	100	-	-	61,039,956	100
Hwa Fong Investment Co.,Ltd.	3,600,000	100	-	-	3,600,000	100
Guangdong DingFeng Paper and Pulp Co.,Ltd.	-	-	-	100	-	100
Zhaoqing DingFeng Forestry Co.,Ltd.	-	-	-	100	-	100
Effion Enertech Co.,Ltd	34,300,000	49	35,700,000	51	70,000,000	100
KuangHwa Fertilizer Limited Company	-	-	-	100	-	100

#### 4.5. Dividend Policy and Execution

##### (1) Dividend policy:

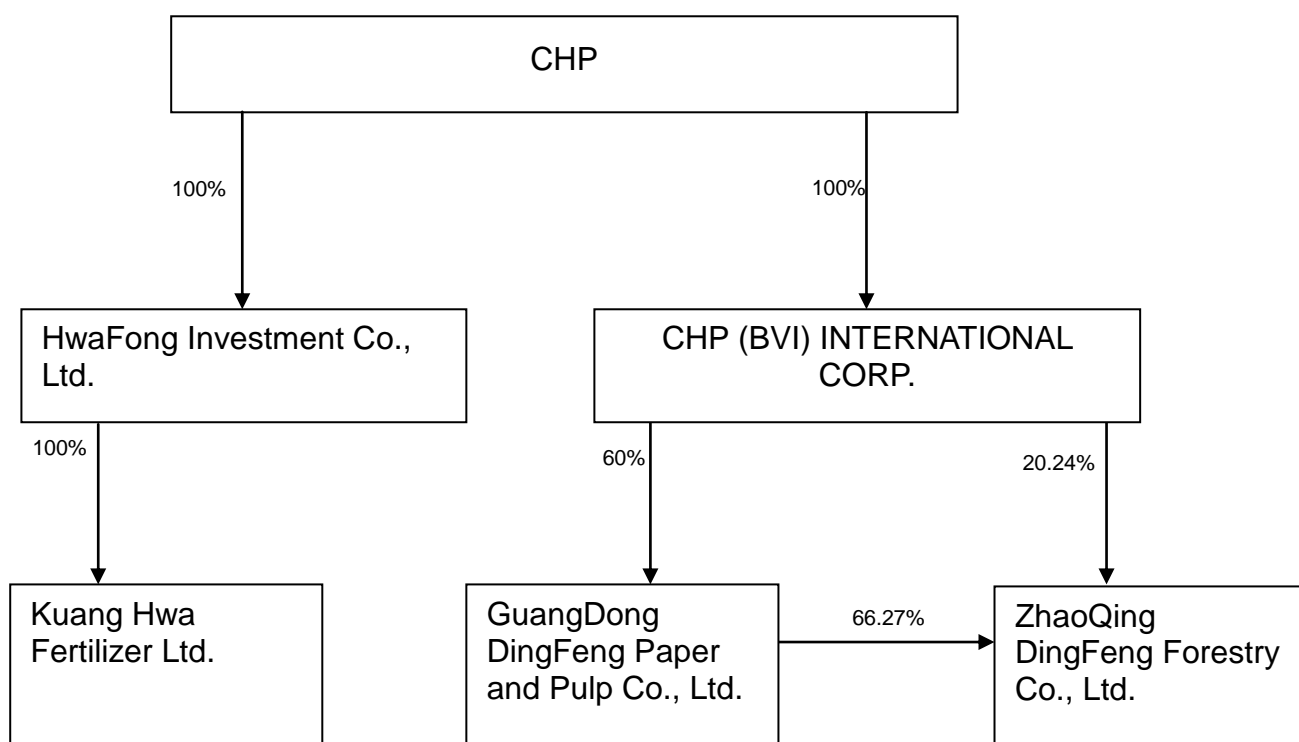
The Company's dividend policy is based on future capital expenditures and working capital requirements. Based on this policy, dividends shall be distributed in a way such that at least twenty percent is distributed as cash dividends and the remainder as stock dividends. However, for the purpose of meeting other capital expenditure requirements, the company may distribute the aforementioned remaining surplus in the form of stock dividends only.

##### (2) Dividend distribution proposed at this shareholders' meeting:

The shareholders' meeting plan to approved the dividend distribution for cash dividends NT\$0.35 per share.

## 5 Financial Information

### 5.1. CHP Affiliates Organization Chart



### 5.2. Financial Performance Overview of Affiliated Companies

Unit: Thousand Dollor

Company Name	Currency	Capital	Total Assets	Total liabilities	Net value	Revenue	Operating profit	Net Income (After Taxes)	EPS (Dollar) (After Taxes)
CHP INTERNATIONAL (BVI) CORP.	USD	61,040	163,812	8	163,804	-	(195)	(1,313)	-
HwaFong Investment Co., Ltd.	NTD	36,000	46,364	175	46,189	3,268	3,103	3,103	1.03
Kuang Hwa Fertilizer Ltd.	NTD	5,000	10,971	1,570	9,401	10,011	3,475	2,969	-
GuangDong DingFeng Pulp and Paper Co.,Ltd.	CNY	648,482	1,493,802	451,673	1,042,129	507,121	(25,461)	(22,840)	-
ZhaoQing DingFeng Forestry Co.,Ltd.	CNY	178,162	827,181	177,607	649,574	115,610	4,568	4,568	-

### 5.3. Consolidate Financial Statements

## **Chung Hwa Pulp Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2016 and 2015 and  
Independent Auditors' Report**

## **DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES**

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2016 are the same as the companies required to be included in the consolidated financial statements of parent company and its subsidiaries as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent company and its subsidiaries. Hence, we have not prepared a separate set of consolidated financial statements of affiliates for the year ended December 31, 2016.

Very truly yours,

CHUNG HWA PULP CORPORATION

By:

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March 16, 2017

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and the Shareholders  
Chung Hwa Pulp Corporation

### **Opinion**

We have audited the accompanying consolidated financial statements of Chung Hwa Pulp Corporation and its subsidiaries (the Group) which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC) and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC) 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 Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. 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.

The descriptions of the key audit matters of the consolidated financial statements for the year ended December 31, 2016 are as follows:

#### **Volume Estimation in Biological Assets**

The Group's biological assets are eucalyptus trees planted in areas located in Guangdong Province, Zhaoqing City. The eucalyptus trees are mainly grown for the manufacture of paper products. The fair value of biological assets are based on the volume of eucalyptus trees and market price per ton. The volume of eucalyptus trees was determined by the annual forest growth investigation report, which is based on the reckoning of sampling measurement areas and involves considerations such as growth difference, weather condition, and insect infestation. Since measuring the volume of biological assets involves significant uncertainty, it has been identified as a key audit matter.

Our key audit procedures performed in respect of the above area included the following:

1. Obtain the annual forest growth investigation report and recalculate the data to evaluate its correctness.
2. Validate the consistency in the measurement adopted for estimating the volume of the biological assets and confirm the authorized managements' approval of the measurement thereof.
3. Attend the annual inventory counts of the biological assets and perform sample counts.

#### Provision for Receivables

The notes and accounts receivables of the Group are material in amount. In consideration of the business volume and client condition, the recoverability of receivables is subject to management's judgement. Therefore, the provision for receivables has been identified as a key audit matter.

Our key audit procedures performed in respect of the above area included the following:

1. Assess the reasonableness of the assumptions used by the management through the inspection on the clients' financial position and historical payment records, particularly on those with significant outstanding receivables and longer days of turnover.
2. Confirm if there is any client with significant amount of outstanding receivables, reflecting financial difficulties, and ensure that the management has adopted appropriate response to secure its receivables.
3. Assess the collections for those past due receivables.

#### **Other Matter**

We have also audited the parent company only financial statements of Chung Hwa Pulp Corporation as of and for the years ended December 31, 2016 and 2015, on which we have issued unqualified report.

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

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

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

Those charged with governance (including the audit committee) are responsible for overseeing the Group's financial reporting process.

### **Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

1. Identify and assess the 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 Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Shiow-Ming Shue and Cheng-Hung Kuo.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 16, 2017

Notice to Readers

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

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail. Also, as state in Note 32 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.*

# CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

ASSETS	2016		2015	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 496,230	2	\$ 345,315	1
Financial assets at fair value through profit or loss (Notes 4 and 7)	16,958	-	-	-
Available-for-sale financial assets (Notes 4 and 8)	651,792	2	640,580	2
Derivative financial assets for hedging - current (Notes 4 and 9)	567	-	1,284	-
Debt investments with no active market - current (Notes 4, 10 and 30)	10,100	-	22,400	-
Notes and accounts receivable (Notes 4 and 13)	2,428,447	8	2,371,060	8
Notes and accounts receivable from related parties (Notes 4 and 29)	1,166,810	4	1,053,182	4
Other receivables from related parties (Notes 4 and 29)	344,705	1	639,908	2
Inventories (Notes 4 and 14)	2,989,561	10	3,778,977	12
Biological assets (Notes 4 and 15)	3,275,503	11	3,622,184	12
Other current assets (Note 28)	503,857	2	605,417	2
Total current assets	<u>11,884,530</u>	<u>40</u>	<u>13,080,307</u>	<u>43</u>
<b>NON-CURRENT ASSETS</b>				
Available-for-sale financial assets (Notes 4 and 8)	416,578	1	451,387	1
Debt investments with no active market - non-current (Notes 4 and 11)	170,000	1	170,000	1
Financial assets measured at cost (Notes 4 and 12)	261,902	1	261,952	1
Investments accounted for using the equity method (Notes 4 and 17)	955,180	3	978,187	3
Property, plant and equipment (Notes 4 and 18)	14,560,196	49	13,741,408	45
Investment properties (Notes 4 and 19)	258,008	1	258,398	1
Deferred tax assets (Notes 4 and 24)	250,253	1	216,711	1
Prepayment for equipment	562,494	2	698,715	2
Long-term prepayments for lease	217,530	1	243,421	1
Other non-current assets (Note 28)	116,222	-	325,653	1
Total non-current assets	<u>17,768,363</u>	<u>60</u>	<u>17,345,832</u>	<u>57</u>
<b>TOTAL</b>	<u>\$29,652,893</u>	<u>100</u>	<u>\$30,426,139</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 20)	\$ 1,838,000	6	\$ 2,396,667	8
Short-term bills payable (Note 20)	1,999,359	7	1,997,674	6
Financial liabilities at fair value through profit or loss (Notes 4 and 7)	8,317	-	2,015	-
Derivative financial liabilities for hedging - current (Notes 4 and 9)	443	-	-	-
Notes and accounts payable	1,539,072	5	1,474,994	5
Notes and accounts payable to related parties (Note 29)	543,253	2	623,404	2
Other payables	672,529	2	734,232	2
Current tax liabilities	5,904	-	419	-
Current portion of long-term borrowings	108,000	-	-	-
Other current liabilities	701,249	3	540,989	2
Total current liabilities	<u>7,416,126</u>	<u>25</u>	<u>7,770,394</u>	<u>25</u>
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings (Note 20)	1,841,765	6	1,240,000	4
Deferred tax liabilities (Notes 4 and 24)	1,991,618	7	1,989,854	7
Net defined benefit liabilities (Notes 4 and 21)	286,549	1	291,933	1
Other non-current liabilities (Note 28)	57,508	-	31,244	-
Total non-current liabilities	<u>4,177,440</u>	<u>14</u>	<u>3,553,031</u>	<u>12</u>
Total liabilities	<u>11,593,566</u>	<u>39</u>	<u>11,323,425</u>	<u>37</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 22)</b>				
Share capital	<u>11,028,353</u>	<u>37</u>	<u>11,028,353</u>	<u>36</u>
Capital surplus	<u>34,403</u>	<u>-</u>	<u>27,286</u>	<u>-</u>
Retained earnings				
Legal reserve	80,721	-	2,750	-
Special reserve	1,186,894	4	1,186,894	4
Unappropriated earnings	<u>2,919,034</u>	<u>10</u>	<u>3,317,394</u>	<u>11</u>
Total retained earnings	<u>4,186,649</u>	<u>14</u>	<u>4,507,038</u>	<u>15</u>
Other equity	<u>464,552</u>	<u>2</u>	<u>946,780</u>	<u>3</u>
Total equity attributable to owners of the Company	15,713,957	53	16,509,457	54
<b>NON-CONTROLLING INTERESTS</b>	<u>2,345,370</u>	<u>8</u>	<u>2,593,257</u>	<u>9</u>
Total equity	<u>18,059,327</u>	<u>61</u>	<u>19,102,714</u>	<u>63</u>
<b>TOTAL</b>	<u>\$29,652,893</u>	<u>100</u>	<u>\$30,426,139</u>	<u>100</u>

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

# CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
<b>OPERATING REVENUE (Note 29)</b>				
Sales	\$22,256,138	101	\$21,170,876	101
Sales returns and allowances	<u>314,893</u>	<u>1</u>	<u>256,101</u>	<u>1</u>
Net sales	21,941,245	100	20,914,775	100
Other operating revenue	<u>60,291</u>	<u>-</u>	<u>76,068</u>	<u>-</u>
Total operating revenue	<u>22,001,536</u>	<u>100</u>	<u>20,990,843</u>	<u>100</u>
<b>OPERATING COSTS (Notes 14, 23 and 29)</b>				
Cost of goods sold	20,074,078	92	18,675,122	89
Other operating cost	<u>38,104</u>	<u>-</u>	<u>43,802</u>	<u>-</u>
Total operating costs	<u>20,112,182</u>	<u>92</u>	<u>18,718,924</u>	<u>89</u>
<b>GROSS PROFIT</b>	<u>1,889,354</u>	<u>8</u>	<u>2,271,919</u>	<u>11</u>
<b>LOSS FROM CHANGES IN FAIR VALUE LESS COSTS TO SELL OF BIOLOGICAL ASSETS (Note 15)</b>				
	<u>(13,295)</u>	<u>-</u>	<u>(740)</u>	<u>-</u>
<b>OPERATING EXPENSES (Notes 23 and 29)</b>				
Selling and marketing	1,180,237	6	1,182,766	6
General and administrative	285,819	1	288,687	1
Research and development	<u>24,895</u>	<u>-</u>	<u>20,218</u>	<u>-</u>
Total operating expenses	<u>1,490,951</u>	<u>7</u>	<u>1,491,671</u>	<u>7</u>
<b>PROFIT FROM OPERATIONS</b>	<u>385,108</u>	<u>1</u>	<u>779,508</u>	<u>4</u>
<b>NON-OPERATING INCOME AND EXPENSES</b>				
Finance costs (Note 23)	(74,222)	-	(65,163)	-
Share of profit of associates	44,714	-	19,763	-
Interest income (Note 29)	33,792	-	30,848	-
Dividend income	30,393	-	40,379	-
Other income	43,341	-	40,724	-
Gain on disposal of investments	85	-	439	-
Foreign exchange (loss) gain	(102,393)	-	25,773	-
Other losses	(12,402)	-	(2,644)	-
Loss on disposal of property, plant and equipment	(1,604)	-	(70)	-
Loss on financial instruments at FVTPL (Note 7)	<u>(13,692)</u>	<u>-</u>	<u>(9,102)</u>	<u>-</u>
Total non-operating income and expenses	<u>(51,988)</u>	<u>-</u>	<u>80,947</u>	<u>-</u>

(Continued)

# CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
PROFIT BEFORE INCOME TAX	333,120	1	860,455	4
INCOME TAX (BENEFIT) EXPENSE (Notes 4 and 24)	<u>(16,598)</u>	<u>-</u>	<u>14,677</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>349,718</u>	<u>1</u>	<u>845,778</u>	<u>4</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(64,092)	-	30,962	-
Share of other comprehensive loss of associates	(162)	-	(411)	-
Tax effect of items that will not be reclassified	10,896	-	(5,264)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(547,348)	(3)	(116,404)	(1)
Unrealized loss on available-for-sale financial assets	(71,620)	-	(250,287)	(1)
Cash flow hedges	(14,388)	-	6,135	-
Share of other comprehensive loss of associates	<u>(55,363)</u>	<u>-</u>	<u>(43,883)</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(742,077)</u>	<u>(3)</u>	<u>(379,152)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ (392,359)</u>	<u>(2)</u>	<u>\$ 466,626</u>	<u>2</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 391,114	2	\$ 779,717	4
Non-controlling interests	<u>(41,396)</u>	<u>-</u>	<u>66,061</u>	<u>-</u>
	<u>\$ 349,718</u>	<u>2</u>	<u>\$ 845,778</u>	<u>4</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ (144,472)	(1)	\$ 478,369	2
Non-controlling interests	<u>(247,887)</u>	<u>(1)</u>	<u>(11,743)</u>	<u>-</u>
	<u>\$ (392,359)</u>	<u>(2)</u>	<u>\$ 466,626</u>	<u>2</u>

(Continued)

# CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

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	2016		2015	
	Amount	%	Amount	%
EARNINGS PER SHARE (Note 25)				
Basic	<u>\$ 0.35</u>		<u>\$ 0.66</u>	<u>-</u>
Diluted	<u>\$ 0.35</u>		<u>\$ 0.66</u>	<u>-</u>

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

(Concluded)

**CHUNG HWA PULP CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015  
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of the Company (Note 4 and 22)												
	Shares		Capital Surplus	Retained Earnings				Exchange Differences on Translating Foreign Operations	Other Equity		Cash Flow Hedges	Non-controlling Interests	Total Equity
	Shares (Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings	Total		Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total			
BALANCE AT JANUARY 1, 2015	1,222,835	\$12,228,353	\$ 21,030	\$ -	\$ 1,186,894	\$ 2,637,589	\$ 3,824,483	\$ 541,542	\$ 734,970	\$ (3,097)	\$17,347,281	\$ 2,605,000	\$19,952,281
Appropriation of the 2014 earnings													
Legal reserve	-	-	-	2,750	-	(2,750)	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(122,283)	(122,283)	-	-	-	(122,283)	-	(122,283)
Adjustments for the changes in equity of associates	-	-	6,256	-	-	(166)	(166)	-	-	-	6,090	-	6,090
Net profit for the year ended December 31, 2015	-	-	-	-	-	779,717	779,717	-	-	-	779,717	66,061	845,778
Other comprehensive income for the year ended December 31, 2015, net of income tax	-	-	-	-	-	25,287	25,287	(43,912)	(288,858)	6,135	(301,348)	(77,804)	(379,152)
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	-	805,004	805,004	(43,912)	(288,858)	6,135	478,369	(11,743)	466,626
Capital reduction by cash	(120,000)	(1,200,000)	-	-	-	-	-	-	-	-	(1,200,000)	-	(1,200,000)
BALANCE AT DECEMBER 31, 2015	1,102,835	11,028,353	27,286	2,750	1,186,894	3,317,394	4,507,038	497,630	446,112	3,038	16,509,457	2,593,257	19,102,714
Appropriation of the 2015 earnings													
Legal reserve	-	-	-	77,971	-	(77,971)	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(661,701)	(661,701)	-	-	-	(661,701)	-	(661,701)
Adjustments for the changes in equity of associates	-	-	7,117	-	-	3,556	3,556	-	-	-	10,673	-	10,673
Net profit for the year ended December 31, 2016	-	-	-	-	-	391,114	391,114	-	-	-	391,114	(41,396)	349,718
Other comprehensive income for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(53,358)	(53,358)	(366,081)	(101,759)	(14,388)	(535,586)	(206,491)	(742,077)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	-	337,756	337,756	(366,081)	(101,759)	(14,388)	(144,472)	(247,887)	(392,359)
BALANCE AT DECEMBER 31, 2016	1,102,835	\$11,028,353	\$ 34,403	\$ 80,721	\$ 1,186,894	\$ 2,919,034	\$ 4,186,649	\$ 131,549	\$ 344,353	\$ (11,350)	\$15,713,957	\$ 2,345,370	\$18,059,327

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

**CHUNG HWA PULP CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**  
(In Thousands of New Taiwan Dollars)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 333,120	\$ 860,455
Adjustments for:		
Depreciation and amortization expenses	964,535	924,615
Impairment loss recognized on accounts receivable	2,860	1,096
Net loss on fair value change of financial instruments at fair value through profit or loss	13,692	9,102
Finance costs	74,222	65,163
Interest income	(33,792)	(30,848)
Dividend income	(30,393)	(40,379)
Share of profit of associates	(44,714)	(19,763)
Loss on disposal of property, plant and equipment	1,604	70
Net gain on disposal of investments	(85)	(439)
(Reversal of) write-down of inventories	(5,038)	3,978
Net unrealized gain on foreign currency exchange	(17,617)	(7,243)
Loss on changes in fair value less cost to sell of biological assets	13,295	740
Changes in operating assets and liabilities		
Notes and accounts receivable	(108,568)	182,391
Notes and accounts receivable from related parties	(194,941)	(160,698)
Inventories	763,309	250,538
Biological assets	44,985	(706,479)
Other current assets	82,095	(197,104)
Notes payable and accounts payable	82,950	119,455
Notes and accounts payable to related parties	71,457	56,825
Other payables	(52,190)	139,822
Other current liabilities	197,623	172,282
Net defined benefit liabilities	(69,476)	(16,556)
Cash generated from operations	2,088,933	1,607,023
Interest received	35,008	30,976
Interest paid	(76,257)	(61,644)
Income tax paid	(1,501)	(16,594)
Net cash generated from operating activities	<u>2,046,183</u>	<u>1,559,761</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial instruments at fair value through profit or loss	(1,915,779)	(7,173,432)
Proceeds of the sale of financial instruments at fair value through profit or loss	1,891,516	7,162,375
Purchase of available-for-sale financial assets	(48,023)	-
Proceeds of the sale of available-for-sale financial assets	-	4,646
Purchase of debt investments with no active market	(20,100)	(446,968)
Proceeds of the sale of debt investments with no active market	32,400	476,285
Proceeds of capital reduction on financial assets measured at cost	50	13,950
Purchase of financial instruments for hedging	(16,112)	-
Proceeds of the sale of financial instruments for hedging	2,884	4,851

(Continued)

## CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	2016	2015
Payments for property, plant and equipment	(1,971,325)	(2,082,160)
Proceeds of the disposal of property, plant and equipment	-	2,156
Decrease in other receivables of related parties	295,203	852,655
(Increase) decrease in other non-current assets	(10,761)	179,770
Decrease (increase) in prepayments for equipment	306,060	(670,382)
Dividend received	<u>53,261</u>	<u>66,805</u>
Net cash used in investing activities	<u>(1,400,726)</u>	<u>(1,609,449)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Decrease) increase in short-term borrowings	(558,667)	215,049
Increase in short-term bills payable	1,685	797,950
Proceeds of long-term borrowings	3,259,765	2,080,000
Repayments of long-term borrowings	(2,550,000)	(1,760,000)
Increase in other non-current liabilities	29,608	9,847
Capital reduction by cash	-	(1,200,000)
Cash dividends paid	<u>(660,279)</u>	<u>(121,780)</u>
Net cash (used in) generated from financing activities	<u>(477,888)</u>	<u>21,066</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>(16,654)</u>	<u>(2,811)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>150,915</b>	<b>(31,433)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u><b>345,315</b></u>	<u><b>376,748</b></u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u><b>\$ 496,230</b></u>	<u><b>\$ 345,315</b></u>

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

(Concluded)

# CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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#### 1. GENERAL INFORMATION

Chung Hwa Pulp Corporation (the “Company”), is engaged in production and sale of pulp and paper. The Company’s shares have been listed on the Taiwan Stock Exchange (TSE).

In line with the Company’s operating strategy to carry out vertical integration, in the meetings of the board of directors on March 21, 2012 and of the shareholders on June 27, 2012, the Company decided to issue new shares in exchange of YFY Inc.’s paper and cardboard business unit’s assets, liabilities and operation. After this transaction, the Company became a subsidiary of YFY Inc.

YFY Inc. and its subsidiaries held 57.7% of ordinary shares of the Company as of December 31, 2016 and 2015.

The consolidated financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

#### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 16, 2017.

#### 3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Company and entities controlled by the Company (collectively, the Group) should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the IFRSs) issued by the IASB and endorsed by the FSC for application starting from 2017.

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

(Continued)

IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

(Concluded)

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

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

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

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Group’s accounting policies, except for the following:

1) Amendment to IFRS 8 “Operating Segments”

IFRS 8 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to require disclosure of the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker. The judgements made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

2) Amendments to IFRS 13 “Fair Value Measurement”

The basis for conclusions of IFRS 13 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to clarify that when the amendment becomes effective in 2017, the short-term receivables and payables with no stated interest rate will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial. Otherwise, the material effect of discounting will be adjusted retrospectively.

IFRS 13 was also amended by the Annual Improvements to IFRSs: 2011-2013 Cycle to clarify that the scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

3) Amendment to IAS 36 “Impairment of Assets”

The amendment “Disclosures for Non-financial Assets” clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Group is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2 or Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. The amendment will be applied retrospectively.

4) IFRIC 21 “Levies”

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. It addresses the accounting for a liability whose timing and amount is certain and the accounting for a provision whose timing or amount is not certain. The Group accrues related liability when the transaction or activity that triggers the payment of the levy occurs. Therefore, if the obligating event occurs over a period of time (such as generation of revenue over a period of time), the liability is recognized progressively. If an obligation to pay a levy is triggered upon reaching a minimum threshold (such as a minimum amount of revenue or sales generated), the liability is recognized when that minimum threshold is reached.

5) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group’s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group’s financial position and financial performance, and will disclose these other impacts when the assessment is completed.

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

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of investment property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, the financial assets are measured at amortized cost. Except for the above, all other financial assets are measured at fair value through profit or loss.

## Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risks eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item..

## Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

### 2) IFRS 15 “Revenue from Contracts with Customers” and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations from January 1, 2018.

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

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

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

### 3) Amendments to IAS 40 “Transfers of Investment Property”

The amendments clarify that the Group should transfer to, or from, investment property when, and only when, the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that the evidence of the change in use is not limited to those illustrated in IAS 40.

The Group may elect to apply the amendments prospectively and reclassify the property as required to reflect the conditions that exist at the date of initial application. The Group is also required to disclose the reclassified amounts and such amounts should be included in the reconciliation of the carrying amount of investment property. Alternatively, the Group may elect to apply the amendments retrospectively if, and only if, that is possible without the use of hindsight.

#### 4) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

##### a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed by the FSC with the effective dates.

##### b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments and biological assets which are measured at fair value.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in their entirety, which are described as follows:

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

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents.

Current liabilities include:

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

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

The Group engages in the forestry business, which has an operating cycle of over one year; the normal operating cycle of over one year is observed in the classification of the Group's forestry-related assets and liabilities.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

e. Business combinations

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

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

f. Foreign currencies

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

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period.

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

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including of the subsidiaries and associates operating in other countries or currencies used are different from the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period.

g. Inventories

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

h. Investment in associates

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

The Group uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of equity of associates.

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

When the Group subscribes for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of equity of associates. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is

insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

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

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. 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 Group continues to apply the equity method and does not remeasure the retained interest.

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

i. Property, plant and equipment

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

Property in the course of construction for production, supply or administrative purposes is carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such property is depreciated and classified to the appropriate category of property, plant and equipment when completed and ready for intended use.

Freehold land is not depreciated.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

j. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

## k. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

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

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

## l. Financial instruments

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

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

### 1) Financial assets

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

#### a) Measurement category

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

##### i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 28.

##### ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment loss is recognized in profit and loss.

### iii. Loans and receivables

Loans and receivables (including notes and accounts receivable, cash and cash equivalent, debt investments with no active market, etc.) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

### b) Impairment of financial assets

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

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

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the

difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

c) Derecognition of financial assets

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

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

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

Except for financial liabilities at fair value through profit or loss, all financial liabilities are measured at amortized cost using the effective interest method:

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

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividend paid on the financial liability. Fair value is determined in the manner described in Note 28.

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign

exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

m. Hedge accounting

The Group designates certain hedging instruments as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the Group revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

n. Provisions

Provisions, including those arising from the contractual obligation, are stated at the best estimate of the discounted cash flow of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

o. Revenue recognition

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

1) Sale of goods

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

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

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

2) Dividend and interest income

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

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

p. Leasing

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

q. Borrowing costs

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

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

r. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

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

s. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

### 1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

### 2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets 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.

### 3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income.

### t. Biological assets

Biological assets are measured at cost plus transaction costs on initial recognition, and subsequently measured at fair value less costs to sell. The gains and losses arising from the change in fair value less costs to sell are recognized in profit or loss when they occur.

Agricultural produce harvested from biological assets is initially measured at fair value less costs to sell at the point of harvest, and subsequently transferred to inventory and accounted for accordingly.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Estimated impairment of notes and accounts receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

b. Biological assets

On initial recognition and at the end of the reporting period, biological assets are measured at fair value less costs to sell. Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Costs to sell refer to transport and other costs incurred to take the assets to the market. Estimations of fair value and costs to sell may be significantly influenced by changes in market conditions.

## 6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2016	2015
Cash on hand	\$ 883	\$ 7,925
Checking accounts and demand deposits	469,047	309,390
Cash equivalents		
Time deposits with original maturities less than three months	<u>26,300</u>	<u>28,000</u>
	<u>\$496,230</u>	<u>\$345,315</u>

The market rate intervals of cash in bank (excluding checking accounts) at the end of the reporting period were as follows:

	<u>December 31</u>	
	2016	2015
Bank balance	0.001%-0.6%	0.001%-0.35%

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2016	2015
<u>Financial assets held for trading</u>		
Mutual funds	\$15,307	\$ -
Foreign exchange forward contracts	<u>1,651</u>	<u>-</u>
	<u>\$16,958</u>	<u>\$ -</u>

## Financial liabilities held for trading

Foreign exchange forward contracts \$ 8,317      \$ 2,015

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2016</u>			
Sell	USD:NTD	2017.01.09-2017.01.26	USD33,000/ NTD1,064,250
Sell	JPY:NTD	2017.01.23	JPY50,000/NTD13,780
Sell	RMB:NTD	2017.01.06-2017.02.24	RMB52,600/NTD244,537

## December 31, 2015

Sell	USD:NTD	2016.01.11-2016.01.29	USD12,500/NTD410,313
Sell	JPY:NTD	2016.01.12	JPY17,000/NTD4,636

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. The above foreign exchange forward contracts held by the Group did not meet hedge effectiveness, so they are not applicable for hedge accounting.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Current</u>		
Domestic investments		
Listed shares and emerging market shares	<u>\$651,792</u>	<u>\$640,580</u>
<u>Non-current</u>		
Domestic investments		
Listed shares and emerging market shares	<u>\$416,578</u>	<u>\$451,387</u>

## 9. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	<u>December 31</u>	
	2016	2015
<u>Derivative financial assets under hedge accounting - current</u>		
Cash flow hedges - foreign exchange forward contracts	<u>\$ 567</u>	<u>\$ 1,284</u>
<u>Derivative financial liabilities under hedge accounting - current</u>		
Cash flow hedges - foreign exchange forward contracts	<u>\$ 443</u>	<u>\$ -</u>

The Group's hedge strategy is to enter foreign exchange forward contracts to avoid its foreign currency exposure to certain foreign currency receipts and payments and to manage its foreign currency exposure in relation to foreign currency forecast sales and purchases. When forecast sales and purchases actually take place, the carrying amounts of the non-financial hedged items will be adjusted accordingly.

The terms of the foreign exchange forward contracts were negotiated to match the terms of the respective designated hedged items. The outstanding foreign exchange forward contracts at the end of the reporting period were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2016</u>			
Buy	EUR:NTD	2017.01.23-2017.01.2 5	EUR808/NTD27,391
Buy	JPY:NTD	2017.01.23-2017.01.2 6	JPY334,282/NTD92,128
<u>December 31, 2015</u>			
Buy	EUR:NTD	2016.01.04-2016.01.2 8	EUR2,438/NTD87,475

## 10. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT

	<u>December 31</u>	
	2016	2015
Time deposits with original maturity more than 3 months	<u>\$ 10,100</u>	<u>\$ 22,400</u>
The market rate intervals	0.63%-1.07%	0.81%-1.24%

## 11. DEBT INVESTMENTS WITH NO ACTIVE MARKET - NON-CURRENT

	<u>December 31</u>	
	2016	2015
<u>Domestic investment</u>		
Subordinated financial bonds of Bank SinoPac	<u>\$170,000</u>	<u>\$170,000</u>

In 2015, the Group bought subordinated financial bonds issued by Bank SinoPac with a coupon rate of 3.9% at par value of \$170,000 thousand. The bonds have no maturity but may be redeemed by Bank SinoPac after 5 years from issue date.

## 12. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

	<u>December 31</u>	
	2016	2015
Domestic unlisted shares	\$258,000	\$258,050
Foreign unlisted shares	<u>3,902</u>	<u>3,902</u>
	<u>\$261,902</u>	<u>\$261,952</u>
Classified according to financial asset measurement categories		
Available-for-sale financial assets	<u>\$261,902</u>	<u>\$261,952</u>

Management believed that the fair value of the above unlisted equity investments held by the Group cannot be reliably measured due to the very significant range of reasonable fair value estimates; therefore, they were measured at cost less impairment at the end of reporting period.

## 13. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	2016	2015
Notes receivable - operating	\$ 539,548	\$ 661,985
Accounts receivable - operating	<u>1,916,485</u>	<u>1,733,801</u>
	2,456,033	2,395,786
Less: Allowance for impairment loss	<u>(27,586)</u>	<u>(24,726)</u>
	<u>\$2,428,447</u>	<u>\$2,371,060</u>

The Group's customers are a large number of unrelated customers that did not create concentration of credit risk.

For the accounts receivable that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss because there was no significant change in credit quality and the amounts were still considered recoverable. The Group held adequate collaterals or other credit enhancements for these receivables. In addition, the Group also did not have offset right for the receivables against the payables of the same parties.

The aging of receivables was as follows:

	<u>December 31</u>	
	2016	2015
Not past due	\$2,305,614	\$2,084,710
Less than 90 days	142,388	303,550
91-180 days	4,031	1,489
181 days-1 year	-	11
Over 1 year	<u>4,000</u>	<u>6,026</u>
	<u>\$2,456,033</u>	<u>\$2,395,786</u>

The above aging schedule was based on the past due date.

The aging of receivables that were past due but not impaired was as follows:

	<u>December 31</u>	
	2016	2015
Less than 90 days	\$115,450	\$299,671
91-180 days	4,030	1,231
181 days-1 year	-	-
Over 1 year	<u>3,859</u>	<u>5,560</u>
	<u>\$123,339</u>	<u>\$306,462</u>

The above aging of receivable before deducting the allowance for impairment was presented based on the past due date.

The movements of the allowance for doubtful accounts receivable were as follows:

	<b>Collectively Assessed for Impairment</b>
Balance at January 1, 2015	\$23,630
Add: Impairment loss recognized on receivables	<u>1,096</u>
Balance at December 31, 2015	24,726
Add: Impairment loss recognized on receivables	<u>2,860</u>
Balance at December 31, 2016	<u>\$27,586</u>

## 14. INVENTORIES

	<u>December 31</u>	
	2016	2015
Finished and purchased goods	\$1,610,827	\$2,181,630
Work in process	336,482	535,322
Materials	<u>1,042,252</u>	<u>1,062,025</u>
	<u>\$2,989,561</u>	<u>\$3,778,977</u>

The cost of goods sold for the years ended December 31, 2016 and 2015 included reversal of write-downs of inventory \$5,038 thousand and write-downs of inventory \$3,978 thousand, respectively. Previous write-downs were reversed as a result of increased selling prices.

## 15. BIOLOGICAL ASSETS

	<u>For the Year Ended December 31</u>	
	2016	2015
Balance at January 1	\$3,622,184	\$2,990,129
Increases due to planting	229,253	845,817
Loss from changes in fair value less costs to sell	(13,295)	(740)
Decreases due to harvest	(274,238)	(139,338)
Net exchange differences	<u>(288,401)</u>	<u>(73,684)</u>
Balance at December 31	<u>\$3,275,503</u>	<u>\$3,622,184</u>

The Group's biological assets are eucalyptus trees planted in areas located in Guangdong Province, Zhaoqing city. The eucalyptus trees are mainly grown for paper manufacturing.

The fair value measurements of biological assets (before deducting partial costs to sell) were as follows:

	<u>For the Year Ended December 31</u>	
	2016	2015
Eucalyptus (Level 3)	<u>\$3,370,430</u>	<u>\$3,730,495</u>
Opening balance	\$3,730,495	\$3,072,341
Increases due to planting	248,511	879,610
Loss from changes in fair value less costs to sell - unrealized	( 14,412 )	( 770 )
	( 297,275 )	( 144,905 )
Decreases due to harvest	)	)
Exchange differences on translating foreign operations recognized in other comprehensive income	( <u>296,889</u> )	( <u>75,781</u> )
Ending balance	<u>\$3,370,430</u>	<u>\$3,730,495</u>

## 16. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements:

Investor	Investee	Main Business	% of Ownership	
			2016	2015
The Company	CHP International (BVI) Corporation	Investment and holding	100.00	100.00
CHP International (BVI) Corporation	Hwa Fong Investment Co., Ltd.	Investment and holding	100.00	100.00
	Guangdong Ding Feng Pulp & Paper Co., Ltd.	Pulp and paper production, trading and forestry business	60.00	60.00
	Zhaoqing Ding Feng Forestry Ltd.	Seedling cultivation and sales, reforestation, sales-cum-forest logging and other forestry, processing and transportation	20.20	20.20
Hwa Fong Investment Co., Ltd.	Kuang Hwa Fertilizer Limited Company	To produce fertilizer	100.00	100.00
Guangdong Ding Feng Pulp & Paper Co., Ltd.	Zhaoqing Ding Feng Forestry Ltd.	Seedling cultivation and sales, reforestation, sales-cum-forest logging and other forestry, processing and transportation	66.30	66.30

The financial statements of Kuang Hwa Fertilizer Limited Company have not been audited; as of December 31, 2016 and 2015, the assets were about 0.04% (\$10,971 thousand) and 0.04% (\$11,924 thousand) of total consolidated assets, respectively; the liabilities were about 0.01% (\$1,570 thousand) and 0.01% (\$1,429 thousand) of total consolidated liabilities, respectively; for the years ended December 31, 2016 and 2015, net sales were about 0.05% (\$10,011 thousand) and 0.06% (\$12,250 thousand) of total consolidated net sales, respectively; the net income were about 0.85% (\$2,969 thousand) and 0.53% (\$4,514 thousand) of total consolidated net income, respectively. Management believes the amounts will not have material differences even if the financial statements were audited.

## 17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2016	2015
Associates that are not individually material	<u>\$ 955,180</u>	<u>\$ 978,187</u>
Aggregate information of associates that are not individually material		
	For the Year Ended December 31	
	2016	2015
The Group's share of:		
Profit from continuing operations	\$ 44,714	\$ 19,763
Other comprehensive loss	<u>(55,525)</u>	<u>(44,294)</u>
Total comprehensive loss for the year	<u>\$(10,811)</u>	<u>\$(24,531)</u>

The combined ownership held by the Group and its parent company, YFY Inc., in some associates that are not individually material was more than 20 per cent. Thus, the Group used the equity method to account for its investments in these associates.

The Group is able to exercise significant influence over some associates that are not individually material even if it holds less than 20 per cent of their voting rights. Thus, the Group uses the equity method to account for its investments in these associates.

Except for some associates that are not individually material, investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have been audited. Management believes there is no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income even if the financial statements of some associates that are not individually material were audited.

## 18. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery	Electric Equipment	Tools	Miscellaneous Equipment	Property in Construction	Total
<u>Cost</u>								
Balance at January 1, 2015	\$ 6,889,847	\$ 3,376,881	\$ 25,614,469	\$ 2,601,411	\$ 1,278,239	\$ 579,497	\$ 358,021	\$ 40,698,365
Additions	-	51,539	489,895	93,575	78,306	17,375	1,351,470	2,082,160
Disposals	-	(73)	(59,595)	(3,670)	(9,803)	(15,955)	-	(89,096)
Effect of foreign currency exchange differences	-	(11,128)	(69,768)	-	-	(1,038)	(8,599)	(90,533)
Transfer to investment property	(252,589)	(19,745)	-	-	-	-	-	(272,334)
Balance at December 31, 2015	<u>\$ 6,637,258</u>	<u>\$ 3,397,474</u>	<u>\$ 25,975,001</u>	<u>\$ 2,691,316</u>	<u>\$ 1,346,742</u>	<u>\$ 579,879</u>	<u>\$ 1,700,892</u>	<u>\$ 42,328,562</u>
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2015	\$ -	\$ 2,466,141	\$ 21,533,207	\$ 2,163,413	\$ 1,148,845	\$ 517,776	\$ -	\$ 27,829,382
Disposals	-	(73)	(59,339)	(3,669)	(9,803)	(13,986)	-	(86,870)
Depreciation expense	-	89,826	681,502	62,500	65,483	16,047	-	915,358
Effect of foreign currency exchange differences	-	(3,708)	(52,581)	-	-	(784)	-	(57,073)
Transfer to investment property	-	(13,643)	-	-	-	-	-	(13,643)
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 2,538,543</u>	<u>\$ 22,102,789</u>	<u>\$ 2,222,244</u>	<u>\$ 1,204,525</u>	<u>\$ 519,053</u>	<u>\$ -</u>	<u>\$ 28,587,154</u>
Carrying amounts at December 31, 2015	<u>\$ 6,637,258</u>	<u>\$ 858,931</u>	<u>\$ 3,872,212</u>	<u>\$ 469,072</u>	<u>\$ 142,217</u>	<u>\$ 60,826</u>	<u>\$ 1,700,892</u>	<u>\$ 13,741,408</u>
<u>Cost</u>								
Balance at January 1, 2016	\$ 6,637,258	\$ 3,397,474	\$ 25,975,001	\$ 2,691,316	\$ 1,346,742	\$ 579,879	\$ 1,700,892	\$ 42,328,562
Additions	-	5,723	52,836	27,569	108,761	9,720	1,766,716	1,971,325
Disposals	-	(5,691)	(32,267)	(3,637)	(18,975)	(3,812)	-	(64,382)
Effect of foreign currency exchange differences	-	(51,465)	(305,109)	-	-	(9,811)	(41,350)	(407,735)
Reclassify	-	335,999	2,115,632	92,059	44,671	158,200	(2,746,561)	-
Balance at December 31, 2016	<u>\$ 6,637,258</u>	<u>\$ 3,682,040</u>	<u>\$ 27,806,093</u>	<u>\$ 2,807,307</u>	<u>\$ 1,481,199</u>	<u>\$ 734,176</u>	<u>\$ 679,697</u>	<u>\$ 43,827,770</u>
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2016	\$ -	\$ 2,538,543	\$ 22,102,789	\$ 2,222,244	\$ 1,204,525	\$ 519,053	\$ -	\$ 28,587,154
Disposals	-	(4,087)	(32,267)	(3,637)	(18,975)	(3,812)	-	(62,778)
Depreciation expense	-	87,978	708,821	65,662	68,410	24,941	-	955,812
Effect of foreign currency exchange differences	-	(14,327)	(195,181)	-	-	(3,106)	-	(212,614)
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 2,608,107</u>	<u>\$ 22,584,162</u>	<u>\$ 2,284,269</u>	<u>\$ 1,253,960</u>	<u>\$ 537,076</u>	<u>\$ -</u>	<u>\$ 29,267,574</u>
Carrying amounts at December 31, 2016	<u>\$ 6,637,258</u>	<u>\$ 1,073,933</u>	<u>\$ 5,221,931</u>	<u>\$ 523,038</u>	<u>\$ 227,239</u>	<u>\$ 197,100</u>	<u>\$ 679,697</u>	<u>\$ 14,560,196</u>

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

Buildings	
Main buildings	15-35 years
Others	3-44 years
Machinery	3-15 years
Electric equipment	5-15 years
Tools	3-5 years
Miscellaneous equipment	3-20 years

## 19. INVESTMENT PROPERTIES

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Cost</u>		
Opening balance	\$272,334	\$ -
Transferred from plant and equipment	<u>-</u>	<u>272,334</u>
Ending balance	<u>\$272,334</u>	<u>\$272,334</u>
<u>Accumulated depreciation and impairment</u>		
Opening balance	\$(13,936)	\$ -
Transferred from plant and equipment	-	(13,643)
Depreciation expense	<u>(390)</u>	<u>(293)</u>
Ending balance	<u>\$(14,326)</u>	<u>\$(13,936)</u>
Ending carrying amount	<u>\$258,008</u>	<u>\$258,398</u>

The investment properties held by the Group are depreciated over their estimated useful life of 55 years, using the straight-line method.

The valuation was done by the Group using market transaction prices for similar properties. The fair value of the investment properties owned by the Group were as follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Fair value	<u>\$ 341,731</u>	<u>\$ 341,731</u>

## 20. BORROWINGS

### a. Short-term borrowings

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Bank credit loans	\$1,838,000	\$1,725,000
Letter of credit loans	<u>-</u>	<u>671,667</u>
	<u>\$1,838,000</u>	<u>\$2,396,667</u>

As of December 31, 2016 and 2015, the interest rates of short-term borrowings were 0.90%-0.98% per annum and 0.80%-1.51% per annum, respectively.

### b. Short-term bills payable

	<u>December 31</u>	
	2016	2015
Commercial paper	\$2,000,000	\$2,000,000
Less: Unamortized discount on bills payable	<u>(641)</u>	<u>(2,326)</u>
	<u>\$1,999,359</u>	<u>\$1,997,674</u>

Short-term bills payable are commercial papers due within one year. Interest rates on these bills payable were 0.40%-0.75% and 0.46%-0.92% as of December 31, 2016 and 2015, respectively.

c. Long-term borrowings

	<u>December 31</u>	
	2016	2015
Unsecured bank loans	\$1,960,000	\$1,240,000
Less: Current portions	(108,000)	-
Loan management fees	<u>(10,235)</u>	<u>-</u>
Long-term bank loans	<u>\$1,841,765</u>	<u>\$1,240,000</u>

	Due Date	Article	Interest Rate	<u>December 31</u>	
				2016	2015
Taipei Fubon Bank-Credit loan A	2018.11.25	The credit can be revolved within 60 months from first loan drawdown	1.63%	\$ 1,500,000	\$ 880,000
Taipei Fubon Bank-Credit loan B	2018.11.25	Interest is paid monthly and the principal will be repaid 30% on 2017.11.25 and 70% on due date.	1.93%	360,000	360,000
Taiwan Bank Credit loan	2021.06.30	The credit can be revolved within 60 months from first loan drawdown	0.99%	100,000	-
Total				<u>\$ 1,960,000</u>	<u>\$ 1,240,000</u>

## 21. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company, Hwa Fong Investment Co., Ltd. and Kuang Hwa Fertilizer Limited Company of the Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of the Group's subsidiary in mainland China are members of a state-managed retirement benefit plan operated by the government of mainland China. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plan

The defined benefit plan adopted by the Group in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salary

of the six months before retirement. The Group contributes specific percentage of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plan were as follows:

	<u>December 31</u>	
	2016	2015
Present value of defined benefit obligation	\$647,298	\$620,106
Fair value of plan assets	<u>(360,749)</u>	<u>(328,173)</u>
Net defined benefit liability	<u>\$286,549</u>	<u>\$291,933</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2015	<u>\$676,426</u>	<u>\$(336,975)</u>	<u>\$339,451</u>
Service cost			
Current service cost	16,694	-	16,694
Net interest expense (income)	<u>14,526</u>	<u>(7,159)</u>	<u>7,367</u>
Recognized in profit or loss	<u>31,220</u>	<u>(7,159)</u>	<u>24,061</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(2,974)	(2,974)
Actuarial loss - changes in financial assumptions	21,524	-	21,524
Actuarial gain - experience adjustments	<u>(49,512)</u>	<u>-</u>	<u>(49,512)</u>
Recognized in other comprehensive income	<u>(27,988)</u>	<u>(2,974)</u>	<u>(30,962)</u>
Contributions from the employer	-	(40,617)	(40,617)
Benefits paid	<u>(59,552)</u>	<u>59,552</u>	<u>-</u>
Balance at December 31, 2015	<u>\$620,106</u>	<u>\$(328,173)</u>	<u>\$291,933</u>
Balance at January 1, 2016	<u>\$620,106</u>	<u>\$(328,173)</u>	<u>\$291,933</u>
Service cost			
Current service cost	25,573	-	25,573
Net interest expense (income)	<u>10,467</u>	<u>(8,615)</u>	<u>1,852</u>
Recognized in profit or loss	<u>36,040</u>	<u>(8,615)</u>	<u>27,425</u>

(Continued)

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability</b>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ 6,250	\$ 6,250
Actuarial loss - changes in financial assumptions	<u>57,842</u>	<u>-</u>	<u>57,842</u>
Recognized in other comprehensive income	<u>57,842</u>	<u>6,250</u>	<u>64,092</u>
Contributions from the employer	-	(90,387)	(90,387)
Benefits paid	<u>(66,690)</u>	<u>60,176</u>	<u>(6,514)</u>
Balance at December 31, 2016	<u>\$647,298</u>	<u>\$(360,749)</u>	<u>\$286,549</u>

(Concluded)

Through the defined benefit plan under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<u>December 31</u>	
	2016	2015
Discount rates	1.75%	1.75%
Expected rates of salary increase - less than 16 years	1.50%	1.50%
Expected rates of salary increase - more than 16 years	1.00%	1.00%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	<u>December 31</u>	
	2016	2015
Discount rates		
0.125% increase	<u>\$(5,606)</u>	<u>\$(5,507)</u>
0.125% decrease	<u>\$ 5,694</u>	<u>\$ 5,595</u>
Expected rates of salary increase		
0.125% increase	<u>\$ 5,731</u>	<u>\$ 5,630</u>
0.125% decrease	<u>\$(5,655)</u>	<u>\$(5,555)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	2016	2015
The expected contributions to the plan for the next year	<u>\$ 97,704</u>	<u>\$ 90,387</u>
The average duration of the defined benefit obligation	12 years	12 years

## 22. EQUITY

### a. Ordinary shares

	<u>December 31</u>	
	2016	2015
Number of shares authorized (in thousand)	<u>1,300,000</u>	<u>1,300,000</u>
Shares authorized	<u>\$13,000,000</u>	<u>\$13,000,000</u>
Number of shares issued and fully paid (in thousand)	<u>1,102,835</u>	<u>1,102,835</u>
Shares issued	<u>\$11,028,353</u>	<u>\$11,028,353</u>

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right to dividends.

On their June 23, 2015 meeting, the Company's shareholders resolved to reduce capital by 120,000 thousand ordinary shares by paying cash of NT\$10 per share on the subscription base date, August 21, 2015, and decreased the share capital issued and fully paid by \$1,200,000 thousand.

b. Capital surplus

	<u>December 31</u>	
	2016	2015
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Arising from treasury share transactions	\$20,817	\$20,817
<u>May be used to offset a deficit only</u>		
Arising from share of changes in capital surplus of associates	<u>13,586</u>	<u>6,469</u>
	<u>\$34,403</u>	<u>\$27,286</u>

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 24, 2016, and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the Articles), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, and setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of the compensation of employees and remuneration of directors and supervisors before and after amendment, refer to c. employee benefits expense in Note 23.

In making its dividend policy, the Company takes into account future capital expenditures and working capital requirements. Based on this policy, dividends should be distributed as follows:

- 1) At least 20% as cash dividends; and
- 2) Remainder, as stock dividends. If there is a requirement for capital expenditure, the Company may distribute only stock dividends.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under Order No. 1010012865 and Order No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2015 and 2014 approved in the shareholders' meetings on June 24, 2016, and June 23, 2015, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Legal reserve	\$ 77,971	\$ 2,750		
Cash dividends	661,701	122,283	\$ 0.6	\$ 0.1

The appropriations of earnings for 2016 had been proposed by the Company's board of directors on March 16, 2017. The appropriations and dividends per share were as follows:

	<u>Appropriation</u>	<u>Dividends Per</u>
	<u>of Earnings</u>	<u>Share (NT\$)</u>
Legal reserve	\$ 39,111	
Cash dividends	385,992	\$ 0.35

The appropriations of earnings for 2016 are subject to the resolution of the shareholders in their meeting to be held in 2017.

d. Special reserves

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Special reserves	<u>\$1,186,894</u>	<u>\$1,186,894</u>

The Company provided a special reserve in an amount equal to the unrealized revaluation increment, which was already transferred to retained earnings.

e. Others equity items

	Exchange Differences Arising on Translating the Foreign Operations	Unrealized Gain (Loss) on Available-for- sale Financial Assets	Cash Flow Hedge	Total
<u>2015</u>				
Balance at January 1	\$ 541,542	\$ 734,970	\$ (3,097)	\$1,273,415
Unrealized gain on available-for-sale financial assets	-	(250,287)	-	(250,287)
Exchange differences arising on translating the foreign operation	(38,600)	-	-	(38,600)
Cash flow hedge	-	-	6,135	6,135
Share of associates accounted for using the equity method	<u>(5,312)</u>	<u>(38,571)</u>	<u>-</u>	<u>(43,883)</u>
Balance at December 31	<u>\$ 497,630</u>	<u>\$ 446,112</u>	<u>\$ 3,038</u>	<u>\$ 946,780</u>
<u>2016</u>				
Balance at January 1	\$ 497,630	\$ 446,112	\$ 3,038	\$ 946,780
Unrealized gain on available-for-sale financial assets	-	(71,620)	-	(71,620)
Exchange differences arising on translating the foreign operation	(340,857)	-	-	(340,857)
Cash flow hedge	-	-	(14,388)	(14,388)
Share of associates accounted for using the equity method	<u>(25,224)</u>	<u>(30,139)</u>	<u>-</u>	<u>(55,363)</u>
Balance at December 31	<u>\$ 131,549</u>	<u>\$ 344,353</u>	<u>\$ (11,350)</u>	<u>\$ 464,552</u>

f. Non-controlling interests

	<u>For the Year Ended December 31</u>	
	2016	2015
Balance at January 1	\$2,593,257	\$2,605,000
Attributable to non-controlling interests:		
Share of (loss) profit for the year	(41,396)	66,061
Exchange difference arising on translation of foreign entities	<u>(206,491)</u>	<u>(77,804)</u>
Balance at December 31	<u>\$2,345,370</u>	<u>\$2,593,257</u>

**23. NET PROFIT**

a. Finance costs

	<u>For the Year Ended December 31</u>	
	2016	2015
Interest on bank loans	\$91,353	\$70,160
Less: Amounts included in the cost of qualifying assets	<u>(17,131)</u>	<u>(4,997)</u>
	<u>\$74,222</u>	<u>\$65,163</u>

Information about capitalized interest was as follows:

	<u>For the Year Ended December 31</u>	
	2016	2015
Capitalization rate	1.00%-2.25%	1.30%-1.77%

b. Depreciation and amortization

	<u>For the Year Ended December 31</u>	
	2016	2015
An analysis of depreciation by function		
Operating costs	\$949,476	\$908,757
Operating expenses	<u>6,726</u>	<u>6,894</u>
	<u>\$956,202</u>	<u>\$915,651</u>
An analysis of amortization by function		
Operating costs	\$ 7,542	\$ 8,276
Operating expenses	<u>791</u>	<u>688</u>
	<u>\$ 8,333</u>	<u>\$ 8,964</u>

c. Employee benefit expense

	<u>For the Year Ended December 31</u>	
	2016	2015
Post-employment benefits		
Defined contribution plans	\$ 64,263	\$ 60,213
Defined benefit plans	<u>27,425</u>	<u>24,061</u>
	91,688	84,274
Other employee benefits	<u>1,801,820</u>	<u>1,753,031</u>
Total employee benefit expense	<u>\$1,893,508</u>	<u>\$1,837,305</u>
An analysis of employee benefit expense by function		
Operating costs	\$1,681,118	\$1,633,545
Operating expenses	<u>212,390</u>	<u>203,760</u>
	<u>\$1,893,508</u>	<u>\$1,837,305</u>

As of December 31, 2016 and 2015, the Group had 2,657 and 2,706 employees, respectively.

1) Compensation of employees and remuneration of directors and supervisors of 2016 and 2015

To comply with the Company Act amended in May 2015, the Company proposed an amendment to its Articles of Incorporation that stipulates to distribute compensation of employees and remuneration of directors and supervisors at the rates no less than 1% and no higher than 2%, respectively, of net profit before income tax, compensation of employees, and remuneration to directors and supervisors. The compensation of employees and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015, which have been approved by the Company's board of directors on March 16, 2017, and March 17, 2016, respectively, were as follows:

Amount

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
	<u>Cash</u>	<u>Cash</u>
Compensation of employees	\$ 4,600	\$ 8,000
Remuneration of directors and supervisors	7,000	7,000

If there is a change in the proposed amounts after the consolidated financial statements of the fiscal year were authorized for issue, the differences are recorded as a change in accounting estimate.

There was no difference between the actual amounts of the compensation and remuneration proposed by the board of directors on March 17, 2016, and the amounts recognized in the consolidated financial statements for the year ended December 31, 2015.

Information on the compensation of employees and remuneration of directors and supervisors resolved by the Company's board of directors in 2017 and 2016 bonus of employees is available on the Market Observation Post System website of the Taiwan Stock Exchange.

2) Compensation of employees and remuneration of directors and supervisors of 2014

The Company had no earnings that can be appropriated for the year ended December 31, 2014; therefore, no bonus of employees and remuneration of directors and supervisors had been accrued. Information on the compensation of employees and remuneration of directors and supervisors resolved by the Company's board of directors in 2017 and 2016 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

**24.INCOME TAXES**

a. Income tax recognized in profit or loss

The major components of tax (benefit) expense were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Current tax		
In respect of the current year	\$ 610	\$ 925
Offshore withholding tax	-	14,794
Adjustments for prior years	19	384
Income tax on unappropriated earnings	<u>6,517</u>	<u>-</u>
	<u>7,146</u>	<u>16,103</u>
Deferred tax		
In respect of the current year	<u>(23,744)</u>	<u>(1,426)</u>
Income tax (benefit) expense recognized in profit or loss	<u>\$(16,598)</u>	<u>\$14,677</u>

A reconciliation of accounting profit and income tax (benefit) expenses is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Profit before tax from continuing operations	<u>\$333,120</u>	<u>\$860,455</u>
Income tax expense calculated at the statutory rate (17%)	\$ 56,630	\$146,277
Permanent differences	(19,541)	(18,683)
Temporary differences	(12,372)	(3,080)
Unrecognized loss carryforwards	(33,669)	(136,088)
Offshore withholding tax	-	14,794
Adjustments for prior years	19	384
Income tax on unappropriated earnings	6,517	-
Effect of different tax rate of group entities operating in other jurisdictions	<u>(14,182)</u>	<u>11,073</u>
Income tax (benefit) expense recognized in profit or loss	<u>\$(16,598)</u>	<u>\$ 14,677</u>

The tax rate used by the Group entities in the ROC is the corporate tax rate of 17%. Tax rates used by other Group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of 2017 appropriations of earnings is uncertain, the potential income tax consequences of 2016 unappropriated earnings were not reliably determinable.



- d. Deductible temporary differences, unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

The Company

	<u>December 31</u>	
	2016	2015
Loss carryforwards		
Expiry in 2022	\$ -	182,020
Expiry in 2023	<u>-</u>	<u>15,958</u>
	<u>\$ -</u>	<u>\$197,978</u>

Guangdong Ding Feng Pulp & Paper Co., Ltd

	<u>December 31</u>	
	2016	2015
Loss carryforwards		
Expiry in 2017	\$ -	\$ 7,637
Expiry in 2019	<u>-</u>	<u>74,949</u>
	<u>\$ -</u>	<u>\$82,586</u>

Hwa Fong Investments Co., Ltd.

	<u>December 31</u>	
	2016	2015
Loss carryforwards		
Expiry in 2018	<u>\$43,631</u>	<u>\$43,704</u>

- e. Loss carryforwards as of December 31, 2016 comprised:

The Company

Unused Amount	Expiry Year
\$ 630,718	2023
<u>94,555</u>	2024
<u>\$ 725,273</u>	

Guangdong Ding Feng Pulp & Paper Co., Ltd

Unused Amount	Expiry Year
\$ 7,023	2017
68,930	2019
<u>110,576</u>	2021
<u>\$186,529</u>	

Hwa Fong Investments Co., Ltd.

**Unused Amount**

**Expiry Year**

\$43,631

2018

- f. The aggregate amount of temporary differences associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2016 and 2015, the taxable temporary differences associated with investment in subsidiaries for which deferred tax liabilities have not been recognized were \$536,182 thousand and \$553,071 thousand, respectively.

- g. Integrated income tax

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Unappropriated earnings		
Generated after January 1, 1998	<u>\$2,919,034</u>	<u>\$3,317,394</u>
Imputation credits account	<u>\$ 47,405</u>	<u>\$ 59,532</u>
	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
	<u>(Expected)</u>	
Creditable ratio for distribution of earnings	1.82%	1.81%

- h. Income tax assessments

	<u>Latest</u> <u>Approved Year</u>
The Company	2013
Hwa Fong Investments Co., Ltd.	2014
Kuang Hwa Fertilizer Limited Company	2014

**25. EARNINGS PER SHARE**

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Basic earnings per share	<u>\$ 0.35</u>	<u>\$ 0.66</u>
Diluted earnings per share	<u>\$ 0.35</u>	<u>\$ 0.66</u>

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share from continuing operations were as follows:

## Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Profit for the year attributable to owners of the Company	<u>\$391,114</u>	<u>\$779,717</u>
Weighted average number of ordinary shares outstanding (in thousand shares):		
	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Weighted average number of ordinary shares in computation of basic earnings per share	1,102,835	1,179,109
Effect of potentially dilutive ordinary shares:		
Bonus issue to employees	<u>728</u>	<u>821</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>1,103,563</u>	<u>1,179,930</u>

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

## 26. OPERATING LEASE ARRANGEMENTS

### The Group as lessor

Operating lease relates to the leasing of the investment property with lease period from May 1, 2015 to June 30, 2020. The lessee does not have a bargain purchase option to acquire the property at the expiry of the lease period.

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

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Not later than 1 year	\$ 7,080,000	\$ 7,080,000
Later than 1 year and not later than 5 years	<u>17,700,000</u>	<u>24,780,000</u>
	<u>\$24,780,000</u>	<u>\$31,860,000</u>

## 27. CAPITAL MANAGEMENT

The capital structure of the Group consists of debt and equity of the Group (comprising issued capital, reserves, retained earnings and other equity).

Key management personnel of the Group review the capital structure on a regular basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. In order to balance the overall capital structure, the Group may adjust the amount of new debt issued or existing debt redeemed.

## 28. FINANCIAL INSTRUMENTS

### a. Fair value of financial instruments

#### 1) Fair value of financial instruments not carried at fair value

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate fair values.

#### 2) Fair value measurements recognized in the consolidated balance sheets

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Mutual funds	\$ 15,307	\$ -	\$ -	\$ 15,307
Derivative financial assets - foreign exchange forward contracts	<u>-</u>	<u>1,651</u>	<u>-</u>	<u>1,651</u>
	<u>\$ 15,307</u>	<u>\$ 1,651</u>	<u>\$ -</u>	<u>\$ 16,958</u>
Financial assets held for hedging				
Derivative financial assets - foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 567</u>	<u>\$ -</u>	<u>\$ 567</u>
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	<u>\$1,068,370</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,068,370</u>
Financial liabilities at FVTPL				
Derivative financial liabilities - foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 8,317</u>	<u>\$ -</u>	<u>\$ 8,317</u>
Financial liabilities held for hedging				
Derivative financial liabilities - foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 443</u>	<u>\$ -</u>	<u>\$ 443</u>

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets held for hedging				
Derivative financial assets - foreign exchange forward contracts	\$ _____ -	\$ 1,284	\$ _____ -	\$ 1,284
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	\$1,091,967	\$ _____ -	\$ _____ -	\$1,091,967
Financial liabilities at FVTPL				
Derivative financial liabilities - foreign exchange forward contracts	\$ _____ -	\$ 2,015	\$ _____ -	\$ 2,015

There were no transfers between Levels 1 and 2 for the years ended December 31, 2016 and 2015.

3) Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities were determined as follows:

- a) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets were determined by reference to quoted market prices;
- b) The fair values of derivative instruments were calculated using quoted prices. If market price is not available, non-option derivatives use the discounted cash flow analysis of duration's yield curve to compute fair value, and option-based derivatives use option pricing model to compute fair value. The estimates and assumptions used by the Group were consistent with those that market participants would use in setting a price for the financial instrument;
- c) The fair values of other financial assets and financial liabilities (excluding those described above) were determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

b. Categories of financial instruments

	<u>December 31</u>	
	2016	2015
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	\$ 16,958	\$ -
Derivative instruments in designated hedge accounting relationships	567	1,284
Loans and receivables (1)	4,520,825	4,677,982

Available-for-sale financial assets (2)	1,330,272	1,353,919
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Financial liabilities

Fair value through profit or loss (FVTPL)

Held for trading	8,317	2,015
Amortized cost (3)	8,599,486	8,498,215
Derivative instruments in designated hedge accounting relationships	443	-

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, notes and accounts receivable, notes and accounts receivable from related parties, other receivables and refundable deposits.
- 2) The balances included the carrying amount of available-for-sale financial assets measured at cost.
- 3) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, notes and accounts payable, notes and accounts payable to related parties, other payables, long-term borrowings and deposits received.

c. Financial risk management objectives and policies

The Group's main target in financial risk management is to manage the market risk related to operating activity (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. To reduce the potential and detrimental influence of the fluctuations in market on the Group's financial performance, the Group is devoted to identify, estimate and hedge the uncertainties of the market.

The Group sought to minimize the effects of these risks by using both derivative and nonderivative financial instruments to avoid risk exposures. The use of financial instruments is governed by the Group's policies approved by the board of directors, which provides written principles on foreign exchange risk, interest rate risk, credit risk, derivative and nonderivative financial instruments, and investment of excess liquidity. Compliance with policies and exposure limits is being reviewed by the internal auditors on a regular basis. The Group did not enter into or trade financial instruments, derivative financial instruments, for speculative purposes.

1) Market risk

a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk. The Group used foreign exchange forward contracts to eliminate currency exposure. These foreign exchange forward contracts could reduce the influence of the exchange rate fluctuations on the Group's income.

Sensitivity analysis

For the position of financial assets and liabilities that had significant influence on the Group, the risk was measured by considering the net position of foreign currency forward contract that was in force.

The Group was mainly exposed to the USD and RMB.

The following table details the Group's sensitivity to a 5% increase in the functional currency against the relevant foreign currency. For a 5% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

**For the Year Ended December 31**

	<b>2016</b>	<b>2015</b>
Influence to profit or loss at 5% variance		
USD	\$(55,692)	\$(44,509)
RMB	8,747	2

b) Interest rate risk

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

	<b><u>December 31</u></b>	
	<b>2016</b>	<b>2015</b>
Fair value interest rate risk		
Financial assets	\$ 551,105	\$ 860,308
Financial liabilities	3,949,124	3,237,674
Cash flow interest rate risk		
Financial assets	469,047	309,390
Financial liabilities	1,838,000	2,396,667

Due to the close and long-term relationship with banks, the Group obtained better and flexible interest rate from banks. The impact of changing in interest rate is not significant to the Group.

Sensitivity analysis

For the Group's floating interest rate financial liabilities, if interest rates had been 0.1% higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2016 and 2015 would decrease/increase as follows:

	<b><u>For the Year Ended December 31</u></b>	
	<b>2016</b>	<b>2015</b>
Decrease/increase	<u>\$ 1,369</u>	<u>\$ 2,087</u>

c) Other price risk

The Group was exposed to equity price risk through its investments in listed equity securities. To prevent significant price risk, the Group has built an immediate control system.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher, pre-tax profit for years ended December 31, 2016 would have increased by \$765 thousand, as a result of the changes in fair value of mutual funds, and the other comprehensive income for the years ended December 31, 2016 and 2015 would increase by \$53,419 thousand and \$54,598 thousand, respectively, as a result of the changes in fair value of available-for-sale shares.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to

credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is at the level of the carrying amount of the respective recognized financial assets which comprise receivables from operating activities and financial assets from investing activities as stated in the consolidated balance sheets.

The Group's transactions were done with a large number of unrelated customers and various industries. The Group continuously evaluated the financial conditions of those customers.

To maintain the quality of the accounts receivable, the Group has developed a credit risk management procedure to reduce the credit risk from specific customer. The credit evaluation of individual customer includes considering factors that will affect its payment ability such as financial condition, past transaction records and current economic conditions. Credit risk of bank deposits, fixed-income investments and other financial instruments with banks is evaluated and monitored by the Group's financial department. Since the counterparties are creditworthy banks and financial institutions with good credit rating, there was no significant credit risk.

### 3) Liquidity risk

The objective of liquidity risk management is to maintain adequate cash and cash equivalents with high liquidity and sufficient bank facilities that business operation requires and to ensure the Group has sufficient financial flexibility.

## 29. TRANSACTIONS WITH RELATED PARTIES

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

### a. Sales of goods

Related Parties Types	<u>For the Year Ended December 31</u>	
	2016	2015
Fellow subsidiaries	\$4,900,625	\$3,760,365
Parent company	<u>200</u>	<u>73</u>
	<u>\$4,900,825</u>	<u>\$3,760,438</u>

For sales of goods to related parties, the prices and terms of receivables approximate to those with non-related parties.

### b. Purchases of goods

Related Parties Types	<u>For the Year Ended December 31</u>	
	2016	2015
Fellow subsidiaries	<u>\$2,387,706</u>	<u>\$2,304,665</u>

For purchases of goods from related parties, the prices and terms of payables approximate to those with non-related parties.

### c. Receivables from related parties

Related Parties Types	<u>December 31</u>	
	2016	2015
Fellow subsidiaries	<u>\$1,166,810</u>	<u>\$1,053,182</u>

The outstanding accounts receivable from related parties are unsecured. No bad debt was recognized for the years ended December 31, 2016 and 2015 for allowance of impaired accounts receivable from related parties.

d. Payables to related parties

<b>Related Parties Types</b>	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Fellow subsidiaries	<u>\$ 543,253</u>	<u>\$ 623,404</u>

The outstanding accounts payable to related parties are unsecured.

e. Acquisition of property, plant and equipment from related parties

<b>Related Parties Types</b>	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Fellow subsidiaries	<u>\$ 9,446</u>	<u>\$ 538</u>

f. Loan to related parties (interest receivable included)

<b>Related Parties Types</b>	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Fellow subsidiaries	<u>\$ 344,705</u>	<u>\$ 639,908</u>

The Group provided fellow subsidiaries with short-term loans at rates comparable to the market rate of interest.

For the years ended December 31, 2016 and 2015, the interest income from the loans to related parties amounted to \$5,623 thousand and \$8,834 thousand, respectively.

g. Others

<b>Related Parties Types</b>	<b>Rental Income (Accounted as Other Income) For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Fellow subsidiaries	<u>\$ 1,543</u>	<u>\$ 1,315</u>

<b>Related Parties Types</b>	<b>Management Fee and Rental Expenses (Accounted as Operating Expenses) For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Fellow subsidiaries	\$ 54,949	\$ 91,321
Parent company	<u>41,420</u>	<u>-</u>
	<u>\$ 96,369</u>	<u>\$ 91,321</u>

The amount of management fee was depended on the agreements, rental income and expenses were received or paid monthly.

h. Compensation of key management personnel

	<u>For the Year Ended December 31</u>	
	2016	2015
Salaries and benefits	\$ 27,430	\$ 23,995
Executive fees	<u>3,835</u>	<u>4,261</u>
	<u>\$ 31,265</u>	<u>\$ 28,256</u>

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

### 30. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2016 and 2015, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately \$296,087 thousand and \$223,908 thousand, respectively.

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

The following is information on the foreign currency other than the functional currencies of the Group entities and the exchange rates between the foreign currency and respective functional currencies. The significant assets and liabilities denominated in foreign currencies were as follows:

	<u>December 31, 2016</u>		
	Foreign Currency (In thousands)	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 43,823	32.25	\$1,413,290
RMB	90,231	4.649	419,483

#### Financial liabilities

Monetary items			
USD	45,361	32.25	1,462,879

	<u>December 31, 2015</u>		
	Foreign Currency (In thousands)	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 46,118	32.825	\$1,513,828
RMB	9	5.06	45

## Financial liabilities

### Monetary items

USD	60,737	32.825	1,993,697
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For the years ended December 31, 2016 and 2015, realized and unrealized foreign exchange (losses) gains were (\$102,393) thousand and \$25,773 thousand, respectively. It is impractical to disclose net foreign exchange gains by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

### 32. ADDITIONAL DISCLOSURES (omitted)

### 33. SEGMENT INFORMATION

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

	Business Unit of Pulp and Fine Paper	Business Unit of Forestry	Other Segment	Adjustment and Elimination	Total
<u>For the year ended December 31, 2016</u>					
Revenue from external customers	<u>\$21,840,084</u>	<u>\$ 101,161</u>	<u>\$ 60,291</u>	<u>\$ -</u>	<u>\$22,001,536</u>
Revenue from other internal operating segments	<u>\$ -</u>	<u>\$ 473,854</u>	<u>\$ 6,702</u>	<u>\$ (480,556)</u>	<u>\$ -</u>
Segment profit or loss	<u>\$ 329,045</u>	<u>\$ 22,193</u>	<u>\$ (1,520)</u>	<u>\$ -</u>	<u>\$ 349,718</u>
<u>For the year ended December 31, 2015</u>					
Revenue from external customers	<u>\$20,914,775</u>	<u>\$ -</u>	<u>\$ 76,068</u>	<u>\$ -</u>	<u>\$20,990,843</u>
Revenue from other internal operating segments	<u>\$ -</u>	<u>\$ 436,317</u>	<u>\$ 10,129</u>	<u>\$ (446,446)</u>	<u>\$ -</u>
Segment profit or loss	<u>\$ 839,821</u>	<u>\$ 3,804</u>	<u>\$ 2,153</u>	<u>\$ -</u>	<u>\$ 845,778</u>

The Group classifies its products into two segments in accordance with their characteristics, as follows:

a. Pulp and fine paper segment

Manufacture and sale of cardboard, paper and pulp.

b. Forestry segment

Seedling cultivation and reforestation.

The accounting policies of each segment are the same as those accounting policies stated in Note 4. The performance of segments is measured by income after tax. Revenue and profit between segments have been adjusted; these adjustments include the elimination of inter-segment transactions to reconcile the segment information with that reported for the Group as a whole.

### Geographical Information

The Group operates in two principal geographical areas - Taiwan and mainland China.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

**Revenue from  
External Customers**  

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**For the Year Ended**

**Non-current Assets**  

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	December 31		December 31	
	2016	2015	2016	2015
Taiwan	\$19,436,403	\$18,730,479	\$12,458,712	\$12,188,701
Mainland China	<u>2,565,133</u>	<u>2,260,364</u>	<u>3,255,738</u>	<u>3,078,894</u>
	<u>\$22,001,536</u>	<u>\$20,990,843</u>	<u>\$15,714,450</u>	<u>\$15,267,595</u>

**Information about Major Customers**

No single customer contributed 10% or more of the Group's revenue for both 2016 and 2015.