Aerospace Industrial Development Corporation and Subsidiaries

Consolidated Financial Statements for the Three Months Ended March 31, 2016 and 2015 Independent Auditors' Review Report

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INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Aerospace Industrial Development Corporation

We have reviewed the accompanying consolidated balance sheets of Aerospace Industrial Development Corporation and subsidiaries (the "Group") as of March 31, 2016 and 2015 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

Except as explained in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 "Review of Financial Statements" issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As disclosed in Note 11 to the consolidated financial statements, we did not review the financial statements of associates for the three months ended March 31, 2016 and 2015 which were used as bases of investments accounted for by the equity method. The carrying amounts of the related investments as of March 31, 2016 and 2015 were NT$676,895 thousand and NT$491,811 thousand, respectively. For the three months ended March 31, 2016 and 2015, the amounts of the related share of profit of associates were NT$45,055 thousand and NT$41,304 thousand, respectively. The investment amounts as well as the related information were based on unreviewed financial statements of the investees for the same reporting periods.

Based on our reviews, except for the effects of adjustments, if any, as might have been determined to be necessary had the financial statements which were used as bases of the investments accounted for by the equity method and the share of profit and related information as described in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the, Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Accounting Standard 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission of the Republic of China.

Deloitte & Touche

May 10, 2016

<u>*Notice to Readers*</u>

The accompanying financial statements are intended only to present the 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 review such financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' review report and the accompanying 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' review report and financial statements shall prevail.

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars, Except Par Value)

	March 31, 2016 (Reviewed)		December 31, 2015 (Audited)		March 31, 2015 (Reviewed)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents (Notes 4 and 6)	$ 1,581,427	5	$ 1,554,739	5	$ 2,900,339	10
Notes receivable (Note 4)	2,067	-	19,823	-	5,084	-
Trade receivables from unrelated parties (Notes 4, 5 and 8)	8,294,682	26	6,479,638	23	6,514,465	23
Trade receivables from related parties (Note 29)	134,077	-	202,531	1	159,252	1
Other receivables (Notes 4 and 8)	150,210	-	153,957	-	145,756	-
Current tax asset (Notes 4 and 24)	162,372	1	162,372	1	162,978	1
Inventories (Notes 4, 5 and 9)	9,793,996	31	8,795,613	31	8,605,526	31
Other financial asset - current (Notes 4, 14 and 30)	2,504,971	8	2,554,657	9	1,603,191	6
Other current assets (Note 4, 5, 15 and 29)	1,151,318	4	1,262,414	4	1,353,525	5
Total current assets	23,775,120	75	21,185,744	74	21,450,116	77
NON-CURRENT ASSETS						
Financial assets measured at cost - non-current (Notes 4 and 7)	46,200	-	46,200	-	46,200	-
Investment accounted for using equity method (Notes 4 and 11)	676,895	2	665,521	2	491,811	2
Property, plant and equipment (Notes 4, 5 and 12)	5,800,041	19	5,713,002	20	4,880,752	18
Intangible assets (Notes 4, 5 and 13)	512,246	2	412,054	2	386,159	1
Deferred tax assets (Notes 4, 5 and 24)	294,526	1	298,563	1	278,329	1
Prepayments for equipment	356,969	1	327,952	1	205,863	1
Other financial asset - non-current (Notes 4, 14 and 30)	24,517	-	24,517	-	4,368	-
Other non-current assets (Notes 4, 5 and 15)	30,634	-	30,629	-	39,879	-
Total non-current assets	7,742,028	25	7,518,438	26	6,333,361	23
TOTAL	$ 31,517,148	100	$ 28,704,182	100	$ 27,783,477	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 16)	$ 7,750,000	25	$ 5,650,000	20	$ 8,080,000	29
Short-term bills payable (Note 16)	2,096,037	7	1,697,592	6	2,491,868	9
Trade payables to unrelated parties	1,643,809	5	1,420,746	5	1,398,958	5
Trade payables to related parties (Note 29)	91,742	-	25,050	-	81,047	-
Other payables (Notes 18 and 29)	2,776,751	9	3,400,616	12	2,357,402	9
Current tax liabilities (Notes 4 and 24)	484,192	1	367,499	1	38,617	-
Unearned receipts	293,036	1	212,217	1	390,627	1
Current portion of long-term loans (Note 16)	1,239,400	4	964,400	3	139,400	1
Finance lease payables-current (Notes 14 and 17)	10,122	-	6,637	-	6,530	-
Accrued pension liabilities (Notes 4 and 5)	12,978	-	-	-	37,395	-
Other current liabilities	69,556	-	20,821	-	26,328	-
Total current liabilities	16,467,623	52	13,765,578	48	15,048,172	54
NON-CURRENT LIABILITIES						
Long-term borrowings (Note 16)	1,640,846	5	1,915,846	7	680,246	2
Provisions-non-current (Notes 4, 5 and 19)	1,078,264	4	1,108,956	4	1,088,699	4
Deferred tax liabilities (Notes 4 and 24)	119,263	-	154,714	-	90,376	-
Finance lease payable - non - current (Notes 4 and 17)	-	-	5,131	-	10,122	-
Guarantee deposits	212,970	1	227,362	1	153,635	1
Total non-current liabilities	3,051,343	10	3,412,009	12	2,023,078	7
Total liabilities	19,518,966	62	17,177,587	60	17,071,250	61
EQUITY						
Common stock- at par value of $10 each authorized 1,500,000 thousand shares, issued 908,262 thousand shares	9,082,615	29	9,082,615	32	9,082,615	33
Retained earnings						
Legal reserve	119,963	-	119,963	-	-	-
Special reserve	239,927	1	239,927	1	-	-
Unappropriated earnings	2,537,268	8	2,053,475	7	1,623,060	6
Total retained earnings	2,897,158	9	2,413,365	8	1,623,060	6
Other equity	18,409	-	30,615	-	6,552	-
Total equity	11,998,182	38	11,526,595	40	10,712,227	39
TOTAL	$ 31,517,148	100	$ 28,704,182	100	$ 27,783,477	100

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

(With Deloitte & Touche auditors' review report dated May 10, 2016)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

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

	For the Three Months Ended March 31			
	2016		2015	
	Amount	%	Amount	%
SALES (Notes 4, 22 and 29)	$ 6,329,017	100	$ 5,839,917	100
COST OF GOODS SOLD (Notes 9, 23 and 29)	5,352,499	85	5,072,960	87
GROSS PROFIT	976,518	15	766,957	13
OPERATING EXPENSES (Notes 23 and 29)				
Selling and marketing expenses	30,574	-	30,586	1
General and administrative expenses	101,380	2	85,503	1
Research and development expenses	119,555	2	74,020	1
Total operating expenses	251,509	4	190,109	3
PROFIT FROM OPERATIONS	725,009	11	576,848	10
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 23)	28,503	-	41,547	1
Other gains and losses (Notes 4 and 23)	(194,520)	(3)	(120,695)	(2)
Share of profit of associates (Note 4)	45,055	1	41,304	1
Finance costs	(31,313)	-	(28,522)	(1)
Total non-operating income and expenses	(152,275)	(2)	(66,366)	(1)
PROFIT BEFORE INCOME TAX	572,734	9	510,482	9
INCOME TAX EXPENSE (Notes 4 and 24)	88,941	2	87,055	2
NET PROFIT FOR THE PERIOD	483,793	7	423,427	7
OTHER COMPREHENSIVE INCOME				
Items that may be neclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	(12,206)	-	(4,702)	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 471,587	7	$ 418,725	7
EARNINGS PER SHARE (Note 25)				
Basic	$ 0.53		$ 0.47	
Diluted	$ 0.53		$ 0.46	

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

(With Deloitte & Touche auditors' review report dated May 10, 2016)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Corporation					
		Retained Earnings (Note 21)			Other Equity	
	Common Stock	Legal reserve	Special reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Total Equity
BALANCE AT JANUARY 1, 2015	$ 9,082,615	$ -	$ -	$ 1,199,633	$ 11,254	$ 10,293,502
Profit for the three months ended March 31, 2015	-	-	-	423,427	-	423,427
Other comprehensive income (loss) for the three months ended March 31, 2015, net of income tax	-	-	-	-	(4,702)	(4,702)
Total comprehensive income (loss) for the three months ended March 31, 2015	-	-	-	423,427	(4,702)	418,725
BALANCE AT MARCH 31, 2015	$ 9,082,615	$ -	$ -	$ 1,623,060	$ 6,552	$ 10,712,227
BALANCE AT JANUARY 1, 2016	$ 9,082,615	$ 119,963	$ 239,927	$ 2,053,475	$ 30,615	$ 11,526,595
Profit for the three months ended March 31, 2016	-	-	-	483,793	-	483,793
Other comprehensive income (loss) for the three months ended March 31, 2016, net of income tax	-	-	-	-	(12,206)	(12,206)
Total comprehensive income (loss) for the three months ended March 31, 2016	-	-	-	483,793	(12,206)	471,587
BALANCE AT MARCH 31, 2016	$ 9,082,615	$ 119,963	$ 239,927	$ 2,537,268	$ 18,409	$ 11,998,182

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

(With Deloitte & Touche auditor's review report dated May 10, 2016)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 572,734	$ 510,482
Adjustments for:		
Depreciation expenses	152,226	144,578
Amortization expenses	101,230	160,725
Impairment loss recognized (reversal of impairment loss) on trade receivables	1,187	(2,836)
Finance costs	31,313	28,522
Interest income	(6,136)	(4,387)
Share of profit of associate	(45,055)	(41,304)
Loss on disposal of property, plant and equipment	74	-
Impairment loss recognized on non-financial assets	-	2,427
Reversal of impairment loss on non-financial assets	(49,554)	-
Unrealized net gain on foreign currency exchange	(711)	(730)
Other income from liabilities	(1,978)	(10,883)
Recognized provisions	686	2,012
Net changes in operating assets and liabilities		
Notes receivable	17,756	17,810
Trade receivables	(1,835,907)	(911,542)
Other receivables	1,862	(16,436)
Inventories	(980,207)	(1,138,827)
Other current assets	111,096	410,936
Trade payables	297,151	52,691
Other payables	(456,263)	(281,082)
Unearned receipts	80,819	144,087
Other current liabilities	50,713	2,021
Accrued pension liabilities	12,978	37,395
Cash used in operations	(1,943,986)	(894,341)
Interest received	8,187	4,189
Interest paid	(29,474)	(34,080)
Income tax paid	(1,162)	(419)
Net cash used in operating activities	(1,966,435)	(924,651)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(363,178)	(77,090)
Increase in refundable deposits	(3,336)	(6,080)
Decrease in refundable deposits	1,727	1,953
Payments for intangible assets	(184,578)	(194,152)
Increase in other financial assets	-	(713,403)
Decrease in other financial assets	132,562	2,543
Increase in prepayments for equipment	(93,102)	(105,748)

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AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2016	2015
Dividend received	$ 19,472	$ 26,020
Net cash used in investing activities	(490,433)	(1,065,957)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	12,080,000	12,185,000
Repayments of short-term borrowings	(9,980,000)	(10,005,000)
Proceeds from short-term bills payable	2,196,037	-
Repayments from short-term bills payable	-	(3,008)
Repayments of long-term borrowings	(1,797,592)	-
Proceeds of guarantee deposits received	55,582	60,828
Refund of guarantee deposits received	(69,974)	(68,206)
Net cash generated from financing activities	2,484,053	2,169,614
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	(497)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,688	179,006
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,554,739	2,721,333
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 1,581,427	$ 2,900,339

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

(With Deloitte & Touche auditors' review report dated May 10, 2016) (Concluded)

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

1. ORGANIZATION AND OPERATIONS

Aerospace Industrial Development Corporation was a state-owned enterprise formed by the Ministry of Economic Affairs on July 1, 1996 from Aero Industry Development Center, Chung-Shan Institute of Science and six other state-owned enterprises. The Company's main business categories are as follows: design, manufacture, assembly, testing and maintenance of aircraft, engines, avionics and related components; consulting services and technology transfers of aerospace technology, logistical support and engineering technology management of large-scale projects; engineering and development of software and sales of aerospace products.

In July 2001, the initial public offering of the Company was approved by the Securities and Futures Bureau of the Financial Supervisory Commission (FSC) of the Republic of China(ROC). On September 13,2013, in accordance with Rule No. 1020055531, the Company started its privatization process. On August 21, 2014, the Ministry of Economic Affairs reduced its shareholding from 99.71% to below 50% (45.73%), and the Company was listed at the Taiwan Stock Exchange four days later.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidates financial statements were approved by the board of directors on May 10, 2016.

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

The International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) in issue but not yet endorsed by the FSC

The Group have not applied the following IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) issued by the International Accounting Standards Board (IASB) but not yet endorsed by the FSC.

On March 10, 2016, the FSC announced the scope of IFRSs to be endorsed and will take effect from January 1, 2017. The scope includes all IFRSs that were issued by the IASB before January 1, 2016 and have effective dates on or before January 1, 2017, which means the scope excludes those that are not yet effective as of January 1, 2017 such as IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” and those with undetermined effective date. In addition, the FSC announced that the Group should apply IFRS 15 starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new, amended and revised standards and interpretations.

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)

(Continued)

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
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
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
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IFRS 15 "Clarifications to IFRS 15"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
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 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 of the above New IFRSs, whenever applied, would not have any material impact on the Group's accounting policies, except for the following:

a. IFRS 9 "Financial Instruments"

1) Recognition and measurement of financial assets

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

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

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

2) The impairment of financial assets

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

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

b. Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

The amendment 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. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique.

c. 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 supersedes IAS 18 “Revenue” and a number of revenue-related interpretations from January 1, 2017.

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 contracts; 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.

d. IFRS 16 “Leases”

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” as endorsed by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

b. Basis of preparation

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

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for the asset or liability.

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

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within twelve months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within twelve months after the reporting period, 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.

d. Basis of consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate.

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. 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 in which they arise.

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 purpose of presenting consolidated financial statements, the functional currencies of the Company and the Group entities (including subsidiaries, in other countries that use currency different from the currency of the Company) are translated into the presentation currency - New Taiwan dollars. Income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

f. Inventories

Inventories consist of raw materials, supplies and work-in-process and 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 Company 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. Raw materials and supplies are recorded at moving weighted-average cost and work-in-process items are recorded at standard cost but adjusted to weighted-average cost on the balance sheet date.

g. 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 Company also recognizes the changes in the Group's share of equity of associates.

The entire carrying amount of the investment 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 the 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.

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

h. Property, plant and equipment

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

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

Depreciation of property, plant and equipment (including assets held under finance leases) is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. 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.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

b) The intention to complete the intangible asset and use or sell it;

c) The ability to use or sell the intangible asset;

d) How the intangible asset will generate probable future economic benefits;

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

j. 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 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.

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

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

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.

k. Financial instruments

Financial assets and financial liabilities are recognized when the Company 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

Loans and receivables (including cash and cash equivalent, notes receivable, trade receivables, other receivables, overdue receivables, refundable deposits, and other financial assets) 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 equivalents include 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. 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.

For financial assets carried at amortized cost, such as trade receivables and overdue receivables, assets are assessed for impairment on a collective basis even if they were assessed as not impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience in the non-collection of 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 financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For 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 trade receivables and overdue receivables, where the carrying amount is reduced through the use of an allowance account. Trade receivable and other receivables considered uncollectible 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 trade receivables and overdue receivables that are written off against the allowance account.

c) Derecognition of financial assets

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

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

2) Financial liabilities

a) Subsequent measurement

The financial liabilities are measured at amortized cost using the effective interest method.

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.

l. Provision

Provision is measured at the best estimate of the discounted cash flows 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.

Provision for the expected cost of warranty obligations is recognized at the date of sale of the relevant products, at the Company's best estimate of the expenditure required to settle the obligation.

m. 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.

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.

2) Rendering of services

Service income is recognized when services are provided.

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

3) 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.

n. Leasing

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

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheets as a finance lease obligation.

Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

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

o. Borrowing costs

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

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

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

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

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

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

q. Taxation

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

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 in the financial statements 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 and unused loss carryforward 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 associates, except where the Company 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax 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 or directly in equity respectively.

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. Income taxes

As of March 31, 2016 and 2015, no deferred tax asset has been recognized on deductible temporary differences of $1,950,321 thousand and $1,966,831 thousand, respectively, due to the unpredictability of future profit streams. The reliability of deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

b. Estimated impairment of trade receivables

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.

c. Write-down of inventory

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

d. Impairment of property, plant and equipment

The impairment of equipment is based on the recoverable amount of those assets. Any changes in future cash flows will affect the recoverable amount of those assets and may lead to recognition of additional or reversal of impairment losses.

e. Estimated of provision

Provision is measured using estimated cash flows needed to settle present obligation. If future cash flows will exceed the estimated amount, then the amount of provision may require material adjustment.

f. Recognition and measurement of defined benefit plans

Net defined benefit liabilities (assets) and the resulting defined benefit costs under defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

6. CASH AND CASH EQUIVALENTS

	March 31, 2016	December 31, 2015	March 31, 2015
Cash on hand and petty cash	$ 1,561	$ 57	$ 1,660
Checking accounts and demand deposits	1,579,866	1,554,682	1,173,780
Cash equivalent			
Time deposits with original maturities less than three months	-	-	1,724,899
	$ 1,581,427	$ 1,554,739	$ 2,900,339

7. FINANCIAL ASSETS MEASURED AT COST - NONCURRENT

	March 31, 2016	December 31, 2015	March 31, 2015
Unlisted common shares			
Aerovision Avionics Inc. (AAI)	$ 43,200	$ 43,200	$ 43,200
Metro Consulting Service Ltd (Metro Ltd)	3,000	3,000	3,000
	$ 46,200	$ 46,200	$ 46,200

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.

8. TRADE RECEIVABLES AND OTHER RECEIVABLES

	March 31, 2016	December 31, 2015	March 31, 2015
Trade receivables from unrelated parties			
Trade receivables	$ 8,296,534	$ 6,481,371	$ 6,515,603
Less: Allowance for impairment loss	(1,852)	(1,733)	(1,138)
	$ 8,294,682	$ 6,479,638	$ 6,514,465
Other receivables			
Tax return receivables	$ 110,194	$ 112,932	$ 88,085
Others	40,016	41,025	57,671
	$ 150,210	$ 153,957	$ 145,756

The average credit period of sales on goods is 60 to 90 days. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for impairment loss was estimated by reference to the aging schedule, past default experience of the counterparties and an analysis of their current financial position.

The aging of trade receivables was as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
0 - 90 days	$ 8,296,348	$ 6,480,174	$ 6,507,499
91 - 180 days	186	1,197	8,104
	$ 8,296,534	$ 6,481,371	$ 6,515,603

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

The ages of individually impaired trade receivables and overdue receivables (other non-current assets) were as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
0 - 90 days	$ 85,873	$ 77,749	$ 32,352
91 - 180 days	86	-	6,517
181 - 365 days	1,577	2,120	5,658
Over 365 days	14,528	10,698	7,019
	$ 102,064	$ 90,567	$ 51,546

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

The movements of the allowance for doubtful trade receivables were as follows:

	For the Three Months Ended March 31			
	2016		2015	
	Trade Receivables	Overdue Receivables	Trade Receivables	Overdue Receivables
Collectively Assessed for Impairment				
Balance at January 1	$ 1,733	$ 18,197	$ 5,551	$ 13,582
Impairment losses recognized (reversed)	119	1,068	(4,413)	1,577
Balance at March 31	$ 1,852	$ 19,265	$ 1,138	$ 15,159

9. INVENTORIES

	March 31, 2016	December 31, 2015	March 31, 2015
Work in progress	$ 5,209,205	$ 5,032,074	$ 4,922,670
Raw materials	4,584,791	3,763,539	3,682,856
	$ 9,793,996	$ 8,795,613	$ 8,605,526

The cost of inventories recognized as cost of goods sold was as follows:

	For the Three Months Ended March 31	
	2016	2015
Recognized (reversal) of inventory write-downs	$ (49,554)	$ 2,427
Loss on disposal of inventories	8,061	925
Income from sales of scraps	(4,310)	(10,775)
Indemnity income	(3,477)	(5,476)

10. SUBSIDIARIES

Subsidiary included in consolidated financial statements:

The consolidated entities as of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012 were as follows:

		% of Ownership		
Investor	Investee	March 31, 2015	December 31, 2014	March 31, 2014
The Company	AIDC USA LLC (AIDC USA)	100	-	-

The Company investment AIDC USA for USD500 thousands at March 2016, the main businesses refer to Tables 4.

The subsidiary included in consolidated financial statements is immaterial subsidiary, the financial statements have been reviewed.

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	March 31, 2016	December 31, 2015	March 31, 2015
Investment in associate			
International Turbine Engine Company LLC (ITEC LLC)	$ 676,895	$ 665,521	$ 491,811

As of March 31, 2016 and 2015, the ownership and voting right in associate held by the Company were both 22.05%.

Refer to Table 4 for the nature of activities, principal place of business and country of incorporation of the associates.

The investment 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 not been reviewed.

12. PROPERTY, PLANT AND EQUIPMENT

	For the Three Months Ended March 31, 2016				
	Beginning Balance	Additions	Deductions	Reclassification	Ending Balance
Cost					
Land improvements	$ 123,706	$ -	$ -	$ -	$ 123,706
Buildings	4,351,512	2,752	-	3,106	4,357,370
Machinery and equipment	9,906,369	15,639	(29,691)	62,495	9,954,812
Transportation equipment	718,465	47	(895)	1,590	719,207
Leased assets	42,394	-	-	-	42,394
Other equipment	314,052	1,345	(3,460)	-	311,937
Property in construction	506,098	172,315	-	(3,106)	675,307
	15,962,596	$ 192,098	$ (34,046)	$ 64,085	16,184,733
Accumulated depreciation					
Land improvements	113,347	$ 482	$ -	$ -	113,829
Buildings	2,332,873	33,839	-	-	2,366,712
Machinery and equipment	6,801,138	115,294	(29,617)	-	6,886,815
Transportation equipment	630,692	11,172	(895)	-	640,969
Leased assets	34,740	1,766	-	-	36,506
Other equipment	215,089	6,517	(3,460)	-	218,146
	10,127,879	$ 169,070	$ (33,972)	$ -	10,262,977
Impairment					
	26,258	$ -	$ -	$ -	26,258
Buildings	95,457	-	-	-	95,457
Machinery and equipment	121,715	$ -	$ -	$ -	121,715
	$ 5,713,002				$ 5,800,041

	For the Three Months Ended March 31, 2015				
	Beginning Balance	Additions	Deductions	Reclassification	Ending Balance
Cost					
Land improvements	$ 123,873	$ -	$ -	$ -	$ 123,873
Buildings	4,298,616	9,992	-	-	4,308,608
Machinery and equipment	9,275,874	23,176	(21,253)	151,009	9,428,806
Transportation equipment	689,303	-	(288)	-	689,015
Leased assets	42,394	-	-	-	42,394
Other equipment	305,652	160	(4,164)	-	301,648
Property in construction	1,907	295	-	-	2,202
	14,737,619	$ 33,623	$ (25,705)	$ 151,009	14,896,546
Accumulated depreciation					
Land improvements	111,472	$ 524	$ -	$ -	111,996
Buildings	2,202,166	32,943	-	-	2,235,109
Machinery and equipment	6,633,584	105,740	(21,253)	-	6,718,071
Transportation equipment	590,619	10,304	(288)	-	600,635
Leased assets	27,674	1,766	-	-	29,440
Other equipment	196,853	6,139	(4,164)	-	198,828
	9,762,368	$ 157,416	$ (25,705)	$ -	9,894,079

(Continued)

	For the Three Months Ended March 31, 2015				
	Beginning Balance	Additions	Deductions	Reclassification	Ending Balance
Impairment					
Buildings	$ 26,258	$ -	$ -	$ -	$ 26,258
Machinery and equipment	95,457	-	-	-	95,457
	121,715	$ -	$ -	$ -	121,715
	$ 4,853,536				$ 4,880,752

(Concluded)

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

Land improvements	2-50 years
Buildings	
Main buildings	20-45 years
Others	3-60 years
Machinery and equipment	2-40 years
Transportation equipment	2-15 years
Leased assets	6 years
Other equipment	2-15 years

13. INTANGIBLE ASSETS

	March 31, 2016	December 31, 2015	March 31, 2015
Other intangible assets			
Trademark	$ 335	$ 361	$ 457
Patent	751	770	771
Computer software	41,817	49,418	47,973
Deferred technical cooperation expenses	19,409	21,200	27,046
	62,312	71,749	76,247
Developing intangible assets			
Projects non-recurring costs	449,934	340,305	309,912
	$ 512,246	$ 412,054	$ 386,159

	Other Intangible Assets	Developing Intangible Assets
Cost		
Balance at January 1, 2016	$ 776,037	$ 4,451,189
Additions from internal developments	-	204,290
Disposals	(175)	(162,272)
Balance at March 31, 2016	775,862	4,493,207
Accumulated amortization and impairment		
Balance at January 1, 2016	704,288	4,110,884
Amortization expense	9,437	94,661
Disposals	(175)	(162,272)
Balance at March 31, 2016	713,550	4,043,273
Carrying amounts at March 31, 2016	$ 62,312	$ 449,934
Cost		
Balance at January 1, 2015	$ 896,574	$ 7,096,554
Additions	1,164	-
Additions from internal developments	-	208,915
Disposals	(8,228)	-
Balance at March 31, 2015	889,510	7,305,469
Accumulated amortization and impairment		
Balance at January 1, 2015	810,784	6,842,450
Amortization expense	10,707	153,107
Disposals	(8,228)	-
Balance at March 31, 2015	813,263	6,995,557
Carrying amounts at March 31, 2015	$ 76,247	$ 309,912

Projects non-recurring costs include the costs related to product design, tooling design and fabrication, production planning, specimen and prototype trial fabrication, the costs were allocated by the proportion of actual sales volume divided by expected sales volume. The details were as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
Project name			
787 (FTE)	$ 148,056	$ 123,463	$ 18,059
Airbus SA Aft BF	99,739	57,960	12,979
CT-7 Engine	57,226	22,226	27,814
C191 APU	21,070	20,413	15,924
GE LEAP	20,993	13,338	-
Others	102,850	102,905	235,136
	$ 449,934	$ 340,305	$ 309,912

Deferred technical cooperation expenses include the participation fees or royalties for participation in international cooperation and development of new business, the amounts were allocated by the proportion of actual sales volume divided by expected sales volume. The details were as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
Project name			
The 11th Maintenance and Supply Company of ROCAF Academy Outsourcing Operation	$ 10,634	$ 11,600	$ 14,500
CT-7 Engine	5,007	5,293	6,624
The 2nd ALC Outsourcing Operation (The GOCO Maintenance Program)	3,768	4,307	5,922
	$ 19,409	$ 21,200	$ 27,046

The above items of intangible assets are amortized on a straight-line basis over the estimated useful life of the asset:

Trademark	10-15 years
Patent	10-20 years
Computer software	2-3 years

14. OTHER FINANCIAL ASSETS

Other financial assets are the time deposits with original maturities within three months from the date of acquisition; for pledged assets information, refer to Note 30.

15. OTHER ASSETS

	March 31, 2016	December 31, 2015	March 31, 2015
Current			
Prepayment	$ 1,014,600	$ 1,158,611	$ 1,197,899
Prepaid pension cost	-	24,294	-
Others	136,718	79,509	155,626
	$ 1,151,318	$ 1,262,414	$ 1,353,525
Non-current			
Overdue receivables (Note 8)	$ 21,142	$ 21,678	$ 18,706
Less: Allowance for impairment loss	(19,265)	(18,197)	(15,159)
	1,877	3,481	3,547
Refundable deposits	28,757	27,148	36,332
	$ 30,634	$ 30,629	$ 39,879

16. BORROWINGS

a. Short-term borrowings

	March 31, 2016	December 31, 2015	March 31, 2015
Unsecured borrowings	$ 5,550,000	$ 3,800,000	$ 6,580,000
Secured borrowings (Note 30)	2,200,000	1,850,000	1,500,000
	$ 7,750,000	$ 5,650,000	$ 8,080,000
Rates of interest per annum (%)	0.87-1.12	0.89-1.15	0.9-1.29

b. Short-term bills payable

	March 31, 2016	December 31, 2015	March 31, 2015
Commercial paper	$ 2,100,000	$ 1,700,000	$ 2,500,000
Less: Unamortized discount on bills payable	(3,963)	(2,408)	(8,132)
	$ 2,096,037	$ 1,697,592	$ 2,491,868
Rate of interest per annum (%)	1.00-1.07	0.65-0.99	1.15-1.3

c. Long-term borrowings

	March 31, 2016	December 31, 2015	March 31, 2015
Credit borrowings	$ 2,880,246	$ 2,880,246	$ 819,646
Less: Current portion	(1,239,400)	(964,400)	(139,400)
Long-term borrowings	$ 1,640,846	$ 1,915,846	$ 680,246
Rates of interest per annum (%)	1.27-1.36	1.34-1.43	1.41

17. FINANCE LEASE PAYABLE

	March 31, 2016	December 31, 2015	March 31, 2015
Minimum lease payments			
Not later than one year	$ 10,260	$ 6,825	$ 6,825
Later than one year and not later than five years	-	5,141	10,260
	10,260	11,966	17,085
Less: Future finance charges	(138)	(198)	(433)
Present value of minimum lease payments	$ 10,122	$ 11,768	$ 16,652

(Continued)

	March 31, 2016	December 31, 2015	March 31, 2015
Present value of minimum lease payments			
Not later than one year	$ 10,122	$ 6,637	$ 6,530
Later than one year and not later than five years	-	5,131	10,122
	$ 10,122	$ 11,768	$ 16,652

(Concluded)

The Company leased 2 sets of Machining Centers (4-Axis Horizontal Machining Center) under finance leases in February, 2011. The lease terms is for 72 months at the rental of $597 thousand (inclusive of tax) per month. The Company has option to purchase the equipment for $2,400 thousand each at the end of the lease term. The interest rate of the finance lease was fixed at 2.162%

18. OTHER LIABILITIES

	March 31, 2016	December 31, 2015	March 31, 2015
Payable for salaries and bonus	$ 1,229,871	$ 1,411,477	$ 963,212
Payable for outsourcing	648,859	790,934	681,538
Payable for annual leave	197,703	195,357	112,679
Payable for service fee	422,535	429,193	81,790
Payable for purchase of equipment	78,634	248,068	42,609
Payable for remedy	42,227	46,947	42,426
Others	156,922	278,640	433,148
	$ 2,776,751	$ 3,400,616	$ 2,357,402

19. PROVISIONS - NONCURRENT

	March 31, 2016	December 31, 2015	March 31, 2015
Warranties	$ 889,465	$ 905,253	$ 870,091
Others	188,799	203,703	218,608
	$ 1,078,264	$ 1,108,956	$ 1,088,699

The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Company's obligations for warranties under local sale of goods legislation. The estimate had been made on the basis of historical warranty trends and may vary as a result of other events affecting product quality.

Others refer to the obligation of the Company to improve its Taichung Complex groundwater pollution remediation site as ordered by the Environmental Protection Administration. The Company has the obligation to improve this site and recognized the discounted value of the best estimate of the remediation expenses as provisions.

20. RETIREMENT BENEFIT PLANS

Employee benefit expenses in respect of the Corporation's defined benefit retirement plans were calculated using the actuarially determined pension cost discount rate as of December 31, 2015 and 2014. Employee benefit expenses for the three months ended March 31, 2016 and 2015 were $99,033 thousand and $100,170 thousand, respectively.

21. EQUITY

The Company's Articles of Incorporation provide that the annual net income after paying income tax should be used first to make up for prior years' losses, set aside 10% as a legal reserve and set aside a special reserve; and then set aside not more than 1% of the balance as bonus to the directors and not less than 1% and not more than 8% as bonus to employees. The residual earnings will be allocated according to the following principles subject to the resolution in the shareholders' meeting:

a. Profits may be distributed after taking into consideration financial, business, operational, or other related factors.

b. Profits of the Company may be distributed by way of cash dividend and/or stock dividend. Since the Company is in a capital-intensive industry with steady growth in its current business, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend provided; however, the ratio of stock dividend shall not exceed 50% of total distribution.

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 consequential amendments to the Company's Articles of Incorporation had been proposed by the Company's board of directors on December 16, 2015 and are subject to the resolution of the shareholders in their meeting to be held on June 14, 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to Note 23.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's capital surplus. 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 capital surplus, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865 and Rule 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 special reserve.

Except for non-ROC resident shareholders, all shareholders receiving dividends are allowed a tax credit of the imputed tax credit at the distribution date.

The appropriations of earnings for 2015 and 2014 having been proposed by the board of directors on March 29, 2016 and approved in the shareholders' meetings on June 23, 2015, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share(NT$)	
	2015	2014	2015	2014
Legal reserve	$ 202,917	$ 119,963		
Special reserve	608,751	239,927		
Cash dividends	1,235,236	835,601	$1.36	$0.92

22. REVENUES

	For the Three Months Ended March 31	
	2015	2014
Aircraft/vehicle maintenance	$ 3,430,508	$ 3,331,802
Aero/Industrial Engine	2,816,856	2,467,562
Industrial Technology services	81,653	40,553
	$ 6,329,017	$ 5,839,917

23. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

	For the Three Months Ended March 31	
	2016	2015
Interest income	$ 6,136	$ 4,387
Other income from condoned liabilities	1,978	10,883
Remedy income	75	2,504
Others	20,314	23,773
	$ 28,503	$ 41,547

b. Other gains and losses

	For the Three Months Ended March 31	
	2016	2015
Net foreign exchange losses	$ (128,089)	$ (73,830)
Loss on disposal of property, plant and equipment	(74)	-
Others	(66,357)	(46,865)
	$ (194,520)	$ (120,695)

c. Employee benefits, depreciation and amortization

	Operating Cost	Operating Expense	Non-operating Expense	Transfer to Development Intangible Assets	Total
For the Three Months Ended March 31, 2016					
Employee benefits expense					
Salaries expense	$ 938,474	$ 113,917	$ 1,638	$ 44,210	$ 1,098,239
Retirement benefit					
Defined contribution plans	8,700	1,465	17	539	10,721
Defined benefit plans	80,363	13,533	154	4,983	99,033
Labor and health insurance	57,620	5,806	12,357	2,774	78,557
Other employee benefits	11,519	1,163	2,378	112	15,172
Depreciation expense	134,854	12,281	5,091	16,844	169,070
Amortization expense	98,786	2,436	8	2,868	104,098

	Operating Cost	Operating Expense	Non-operating Expense	Transfer to Development Intangible Assets	Total
For the Three Months Ended March 31, 2015					
Employee benefits expense					
Salaries expense	$ 815,178	$ 97,439	$ 175	$ 47,220	$ 960,012
Retirement benefit					
Defined contribution plans	4,473	721	-	336	5,530
Defined benefit plans	81,016	13,061	-	6,093	100,170
Labor and health insurance	43,574	5,341	10,746	3,068	62,729
Other employee benefits	13,065	1,394	2,771	-	17,230
Depreciation expense	134,831	8,845	902	12,838	157,416
Amortization expense	158,388	2,337	-	3,089	163,814

The existing (2015) Articles of Incorporation of the Company stipulate to distribute bonus to employees and remuneration to directors and supervisors at the rates no less than 1% and no higher than 8%, and no higher than 1%, respectively, of net income. For the year ended March 31, 2015, the bonus to employees and the remuneration to directors and supervisors were $23,712 thousand and $1,482 thousand, respectively, representing 8% and 0.5%, respectively, of the base net income.

To be in compliance with the Company Act as amended in May 2015, the proposed amended Articles of Incorporation of the Company stipulate to distribute employees' compensation at the rates no less than 0.58% and no higher than 4.65%, and remuneration to directors and supervisors at the rates no higher than 0.58%, respectively, of net profit before income tax. For the year ended March 31, 2016, the employees' compensation and the remuneration to directors and supervisors were $26,632 thousand and $3,322 thousand, respectively, representing 4.65% and 0.58%, respectively, of the base net profit.

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

The appropriations of employees' compensation and remuneration to directors and supervisors for 2015 having been resolved by the board of directors on March 29, 2016, and the appropriations of bonus to employees and remuneration to directors and supervisors for 2014 having been approved in the shareholders' meetings on June 23, 2015, respectively, were stated as below. The employees' compensation and remuneration to directors and supervisors for 2015 are subject to the resolution of the amendments to the Company's Articles of Incorporation for adoption by the shareholders in their meeting to be held on June 14, 2016, and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

	For the Year Ended December 31	
Cash /Cash Dividends	**2015**	**2014**
Employees' compensation /Bonus to employees	$ 115,426	$ 67,179
Remuneration of directors and supervisors	14,397	4,199

There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the shareholders' meetings and in the financial statements.

Information on the employees' compensation and remuneration to directors and supervisors for 2015 resolved by the Company's board of directors in 2016 and bonus to employees, directors and supervisors for 2014 resolved by the shareholders' meeting in 2015 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

d. Gain or loss on foreign currency exchange

	For the Three Months Ended March 31	
	2016	2015
Foreign exchange gains	$ 29,207	$ 125,679
Foreign exchange losses	(157,296)	(199,509)
Net gains (losses)	$ (128,089)	$ (73,830)

24. TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Three Months Ended March 31	
	2016	2015
Current tax		
In respect of the current year	$ 117,855	$ 39,036
Deferred tax		
In respect of the current year	(28,914)	48,019
Income tax expense recognized in profit or loss	$ 88,941	$ 87,055

b. Income tax recognized in other comprehensive income

	For the Three Months Ended March 31	
	2016	2015
Deferred tax		
Translation of foreign operations	$ 2,500	$ 964

c. Integrated income tax

	March 31, 2016	December 31, 2015	March 31, 2015
Unappropriated earnings generated on and after January 1, 1998	$ 2,537,268	$ 2,053,475	$ 1,623,060
Imputation credits account	$ 162,286	$ 161,331	$ 403,909

	For the Three Months Ended March 31	
	2015 (Expected)	**2013 (Actual)**
Creditable ratio for distribution of earnings	20.51%	20.48%

d. Income tax assessments

Income tax returns of the Company through 2012 have been examined and cleared by the tax authorities.

25. EARNINGS PER SHARE

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

	For the Three Months Ended March 31	
	2016	**2015**
Profit for the period attributable to owners of the Company		
Earnings used in the computation of basic earnings per share (Earnings used in the computation of diluted earnings per share)	$ 483,793	$ 423,427
Weighted average number of ordinary shares outstanding (in thousand shares)		
Weighted average number of ordinary shares in computation of basic earnings per share	908,262	908,262
Effect of potentially dilutive ordinary shares:		
Employees' compensation issue to employees	3,384	2,521
Weighted average number of ordinary shares used in the computation of diluted earnings per share	911,646	910,783

Since the Group provides to settle compensation paid to employees in cash or shares, the Group assumes the entire amount of the compensation 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 number of shares to be distributed to employees is resolved in the following year.

26. OPERATING LEASE ARRANGEMENTS

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

	March 31, 2016	December 31, 2015	March 31, 2015
Not later than 1 year	$ 130,593	$ 129,902	$ 67,972
Later than 1 year and not later than 5 years	384,999	415,688	40,781
	$ 515,592	$ 545,590	$ 108,753

27. CAPITAL MANAGEMENT

The Group must maintain adequate capital necessary for profitable operations and factory expansion, equipment upgrade and participation in international new aircraft developing. Therefore, the Group manages its capital to ensure that the Group will have enough financial resources to respond accordingly to its working capital requirements at least for the next 12 months, capital expenditures, participation in international new aircraft developing and repayments of liabilities.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents and other financial assets) and equity (comprising issued capital, retained earnings and other equity).

28. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

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

The management considers the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values or their fair values cannot be reliably measured.

2) 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 are determined with reference to quoted market prices.

b) The fair values of other financial assets and financial liabilities were determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

b. Categories of financial instruments

	March 31, 2016	December 31, 2015	March 31, 2015
Financial assets			
Loans and receivables	$ 12,722,585	$ 11,020,491	$ 11,372,334
Financial assets measured at cost	46,200	46,200	46,200

	March 31, 2016	December 31, 2015	March 31, 2015
Financial liabilities			
Financial liabilities at amortized cost	$ 16,034,103	$ 13,706,546	$ 14,323,317

Loans and receivables measured at amortized cost and comprise cash and cash equivalents, notes receivable, trade receivables, other receivables, overdue receivables, other financial assets and refundable deposits.

Financial liabilities at amortized cost comprise short-term loans, short-term bills payable, trade payables, other payables (excluded payable for salaries and bonus and payable for annual leave), finance lease payables (included not later than one year), long-term loans (included not later than one year) and guarantee deposits.

c. Financial risk management objectives

The Group's major financial risk management objectives are to manages the market risk (including currency risk and interest rate risk), credit risk and liquidity risk of operating activities. The Group minimizes the unfavorable effects of these risks by identification and assessment of the risks and by applying aversion methods to the uncertainties.

The Group's financial targets including its investment plan for fixed assets are laid out in its "Five-Year Business Plan". The financial plan includes risk management policies and the division of responsibilities.

The Group's major financial instruments include cash and cash equivalents, trade receivables, short-term borrowings, trade payables and long-term borrowings. The financial department coordinates access to domestic financial markets.

The Group's compliance with the operating procedure and responsibilities are reviewed by the internal auditors. The evaluation results are also used for future reference by the authorities.

1) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

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

Foreign currency risk

The Group minimizes its currency exposure by natural hedging. Foreign currency operation performance is reported to the key management personnel every quarter and the expected foreign currency and operation direction are set for the next quarter.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 32.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar. The Group's sensitivity to a 0.5% stronger or weaker New Taiwan dollar against the relevant foreign currencies means profit before income tax would be higher by $37,229 thousand and $41,459 thousand for the three months ended March 31, 2016 and 2015. The sensitivity rate of 0.5% represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, with the foreign currency rates at the end of the reporting period adjusted for a 0.5% change.

Interest rate risk

The Group's interest risk is evaluated in terms of short-term loans and long-term loans. Borrowing and repayment require budget planning in advance to control the interest risk. Interest rates of short-term loans from different financial organizations are compared and lowest one will be selected.

The interest rate risk of free cash flow is based on the published floating interest rate of similar debt, but part of the interest rate risk is offset by the cash and cash equivalents. Therefore, interest rate risk has no critical effect to the Group.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The possible financial loss would equal to the carrying amount of the recognized financial assets as stated in the balance sheets. However, the Group is executing forward exchange only with the correspondent financial institutions, and they are creditworthy with no credit risks.

The Group's dealing counterparties are national defence organizations and international aerospace corporations, and they are creditworthy with extreme low risk of bankruptcy. The Group's key management checks the accounts receivable every month, and instructs the project team to Collected the past due amounts.

The Group's concentration of credit risk by geographical location was mainly in the U.S., which accounted for 28%, 33% and 37% of the total trade receivable as of March 31, 2016, December 31, 2015 and March 31, 2015, respectively.

3) Liquidity risk

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

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

a) Liquidity and interest risk rate tables for non-derivative financial liabilities

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

	March 31, 2016	
	Less Than 1 Year	More than 1 Year
Non-derivative financial liabilities		
Non-interest bearing liabilities	$ 3,084,728	$ 212,970
Finance lease payable	10,122	-
Variable interest rate liabilities	8,989,400	1,640,846
Fixed interest rate liabilities	2,096,037	-
	$ 14,180,287	$ 1,853,816

	December 31, 2015	
	Less Than 1 Year	More than 1 Year
Non-derivative financial liabilities		
Non-interest bearing liabilities	$ 3,239,578	$ 227,362
Finance lease payable	6,637	5,131
Variable interest rate liabilities	6,614,400	1,915,846
Fixed interest rate liabilities	1,697,592	-
	$ 11,558,207	$ 2,148,339

	March 31, 2015	
	Less Than 1 Year	More than 1 Year
Non-derivative financial liabilities		
Non-interest bearing liabilities	$ 2,761,516	$ 153,635
Finance lease payable	6,530	10,122
Variable interest rate liabilities	8,219,400	680,246
Fixed interest rate liabilities	2,491,868	-
	$ 13,479,314	$ 844,003

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities (reviewed annually)

	March 31, 2016	December 31, 2015	March 31, 2015
Unsecured bank loan facility:			
Amount used	$ 6,420,543	$ 4,562,961	$ 7,407,168
Amount unused	7,209,457	9,068,350	7,292,832
	$ 13,630,000	$ 13,631,311	$ 14,700,000

	March 31, 2016	December 31, 2015	March 31, 2015
Secured bank loan facilities:			
Amount used	$ 2,200,000	$ 1,850,000	$ 1,500,000
Amount unused	600,000	950,000	-
	$ 2,800,000	$ 2,800,000	$ 1,500,000

29. TRANSACTIONS WITH RELATED PARTIES

Details of transactions between the Group and other related parties are disclosed below.

a. Sales of goods

Related Parties Types	For the Three Months Ended March 31 2016	2015
Associates	$ 321,943	$ 251,210

The Group's sales prices are based on the contracts. The collection terms are as follows:

Item	Collection terms
Engine	90 days after the invoice date
Backup parts	Offset account receivables with account payable

There is no unrelated party with similar product item to compare the engine sales price. The backup parts are only directly sold to the ROC air force, and the sales price is according to the purchase contract with related party plus the processing fee agreed by both parties, and collection term is monthly 30-60 days.

b. Purchase of goods

Related Parties Types	For the Three Months Ended March 31 2016	2015
Associates	$ 173,386	$ 208,186

The Group's buying prices from related party are based on contract. The payment term in principle is 30-60 days or paying after offset of accounts receivable. There are no unrelated parties with similar product items that can serve as basis of comparison of prices and terms.

c. Manufacturing expenses

Related Parties Types	For the Three Months Ended March 31 2016	2015
Associates	$ 17,950	$ 321
Ministry of Economic Affairs	12,607	7,294
	$ 30,557	$ 7,615

d. Operation expenses

Related Parties Types	For the Three Months Ended March 31 2016	2015
Ministry of Economic Affairs	$ 9,791	$ 4,199

e. The Company leases land from the Ministry of Economic Affairs, rent expense is calculated at 5% of the annually announced land values, payment is once a year. Rent expense recognized in manufacturing expenses, operation expenses and developing intangible assets, for the three months ended March 31, 2016 and 2015 were $30,701 thousand and $16,068 thousand, respectively.

f. Receivable from related parties

Related Parties Types	March 31, 2016	December 31, 2015	March 31, 2015
Associates	$ 134,077	$ 202,531	$ 159,252

The outstanding trade receivables from related parties are unsecured and no impairment loss was recognized on trade receivables from related parties.

g. Other assets - current

Related Parties Types	March 31, 2016	December 31, 2015	March 31, 2015
Ministry of Economic Affairs	$ -	$ -	$ 1,052

h. Payable to related parties

Related Parties Types	March 31, 2016	December 31, 2015	March 31, 2015
Associates	$ 91,742	$ 25,050	$ 81,047

The outstanding trade payables to related parties are unsecured.

i. Other payables

Related Parties Types	March 31, 2016	December 31, 2015	March 31, 2015
Ministry of Economic Affairs	$ 30,701	$ -	$ 16,068
Associates	6,680	18,905	1,461
	$ 37,381	$ 18,905	$ 17,529

j. Compensation of key management personnel

	For the Three Months Ended March 31	
	2016	2015
Short-term benefits	$ 6,868	$ 7,146
Post-employment benefits	389	337
	$ 7,257	$ 7,483

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

30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings and as deposit for inviting tenders:

	March 31, 2016	December 31, 2015	March 31, 2015
Time deposits			
Other financial assets - Current	$ 2,458,103	$ 2,506,909	$ 1,576,025
Other financial assets - Noncurrent	24,517	24,517	4,368
	$ 2,482,620	$ 2,531,426	$ 1,580,393

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of March 31, 2016, December 31, 2015 and March 31, 2015 were as follows:

a. As of March 31, 2016, December 31, 2015 and March 31, 2015, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately $1,298,980 thousand, $1,480,043 thousand and $2,338,870 thousand, respectively.

b. As of March 31, 2016, December 31, 2015 and March 31, 2015, unpaid contract for purchases of raw materials and machinery and equipment amounted to approximately $11,254,348 thousand, $13,302,115 thousand and $12,645,322 thousand, respectively.

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

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

	March 31, 2016			December 31, 2015		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets						
Monetary items						
USD	$ 241,546	32.185	$ 7,774,185	$ 229,179	32.825	$ 7,522,801
Non-monetary items						
USD	21,031	32.185	676,895	20,275	32.825	665,521
Financial liabilities						
Monetary items						
USD	10,201	32.185	328,319	4,008	32.825	131,563

	March 31, 2015		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets			
Monetary items			
USD	$ 271,504	31.3	$ 8,498,075
Non-monetary items			
USD	15,713	31.3	491,811
Financial liabilities			
Monetary items			
USD	6,589	31.3	206,236

The significant unrealized foreign exchange gains (losses) were as follows:

	For the Three Months Ended March 31, 2016		For the Three Months Ended March 31, 2015	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
USD	32.185	$ (4,937)	31.30	$ 40,025

33. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others. (None)

2) Endorsements/guarantees provided. (None)

3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities). (Table 1)

4) Marketable securities acquired and disposed at costs or prices at least $300 million or 20% of the paid-in capital. (None)

5) Acquisition of individual real estate at costs of at least $300 million or 20% of the paid-in capital. (None)

6) Disposal of individual real estate at prices of at least $300 million or 20% of the paid-in capital. (None)

7) Total purchases from or sales to related parties amounting to at least $100 million or 20% of the paid-in capital. (Table 2)

8) Receivables from related parties amounting to at least $100 million or 20% of the paid-in capital. (Table 3)

9) Trading in derivative instruments. (None)

10) Intercompany relationships and significant intercompany transactions. (None)

11) Information on investees. (Table 4)

b. Information on investments in mainland China. (None)

34. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the type of services delivered or provided.
The Group has only one operating segment which is the main business, i.e. design, manufacture, assembly, testing and maintenance of aircraft.

Geographical information

	For the Three Months Ended March 31	
	2016	**2015**
America	$ 2,953,413	$ 3,117,387
Asia	2,672,857	2,033,093
Europe	702,747	689,437
	$ 6,329,017	$ 5,839,917

TABLE 1

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
MARCH 31, 2016
(In Thousands of New Taiwan Dollars or Shares, Unless Stated Otherwise)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	March 31, 2016			
				Shares	Carrying Value	Percentage of Ownership	Fair Value
The Company	Capital stock						
	AAI	The Company is a corporate director	Financial assets measured at cost – noncurrent	4,968	$ 43,200	13.09%	$ 58,526
	Metro Ltd	The Company is a corporate director	Financial assets measured at cost – noncurrent	300	3,000	6.00%	3,320

Note: Information about associate is provided in Table 4.

TABLE 2

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2016
(In Thousands of New Taiwan Dollars)

Purchaser or Seller	Related Party	Nature of Relationship with the Purchaser or Seller	Transaction Details				Abnormal Transaction		Notes and Accounts Receivable (Payable)		Note
			Purchase or Sale	Amount	% to Total	Collection Terms	Unit Price	Collection Terms	Ending Balance	% to Total	
The Company	ITEC	Investments using equity method	(Sale)	$ (321,943)	(5)	Note	Note	Note	$ 134,077	2	
			Purchase	173,386	4	Note	Note	Note	(91,742)	(5)	

Note: Information is provided in Note 29.

TABLE 3

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
MARCH 31, 2016
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Action Taken		
The Company	ITEC	Investments using equity method	$ 134,077	7.65	$ -	-	$ 42,810	$ -

TABLE 4

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE THREE MONTHS ENDED MARCH 31, 2016
(In Thousands of New Taiwan Dollars or Shares, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of March 31, 2016			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				March 31, 2016	December 31, 2015	Shares	%	Carrying Amount			
The Company	AIDC USA	State of Delaware USA	Provide program management and relevant services for purchasing and selling raw materials, parts and components of aircraft, engines and subsystems.	$ 16,590	$ -	-	100	$ 16,090	$ (2)	$ (2)	Subsidiary
	ITEC	State of Delaware USA	Development production and remodel of aircraft	728	728	-	22.05	676,895	204,333	45,055	Associate