Aerospace Industrial Development Corporation

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

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Aerospace Industrial Development Corporation

Opinion

We have audited the accompanying financial statements of Aerospace Industrial Development Corporation (the Company), which comprise the balance sheets as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's financial statements for the year ended December 31, 2016 are stated as follows:

<u>Impairment loss of inventory</u>

The Company assesses impairment of material based on individual identification. The impairment loss of the material involves the management's significant judgment, and hence its assessment is considered as a key audit matter. The Company assesses the impairment loss of the material based on current market conditions and future consumption, an assessment that ensures the valuation of material of the Company aligns to the rules denoted in the IAS 2. Refer to Note 5 and 9. Our key audit procedures performed in regard to the assessment thereof include the followings:

1. Perform the inventory aging test to assure the completeness and accuracy of inventory aging report.

2. Sample inventories which have been aging for more than a year without being provided for impairment.

3. Test the net realizable value of unimpaired inventory, and recalculate the accuracy of allowance for impairment loss.

4. Observe the inventory at year end to assess the appropriateness of allowance for impairment loss of inapplicable inventory.

Warranties

The Company provides warranties for military product maintenance, and the percentage of certain provisions involve management's significant judgment, and hence such type of warranties provisions is considered as a key audit matter. Refer to Note 5 and 18. Our key audit procedures performed in regard to the provisions thereof include the followings:

1. Obtain the documents on management's decision of the provision rate and evaluate the reasonableness of percentage provided for abovementioned provisions.

2. Recalculate the accuracy of the amount of provision.

3. Perform a retrospective test to assured that the provisions are appropriate and sufficient.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Done-Yuin Tseng and Te-Jun Cheng.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 27, 2017

Notice to Readers

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 audit such financial statements are those generally applied in the Republic of China.

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	December 31			
	2016		2015	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 2,545,007	8	$ 1,554,739	5
Notes receivable (Note 4)	4,749	-	19,823	-
Trade receivables from unrelated parties (Notes 4, 5 and 8)	7,256,164	23	6,479,638	23
Trade receivables from related parties (Note 28)	220,669	1	202,531	1
Other receivables (Notes 4 and 8)	179,253	1	153,957	-
Current tax asset (Notes 4 and 23)	-	-	162,372	1
Inventories (Notes 4, 5 and 9)	7,599,577	25	8,795,613	31
Other financial asset - current (Notes 4, 13 and 29)	2,000,102	6	2,554,657	9
Other current assets (Notes 4, 5, 14 and 28)	634,703	2	1,262,414	4
Total current assets	20,440,224	66	21,185,744	74
NON-CURRENT ASSETS				
Financial assets measured at cost - non-current (Notes 4 and 7)	79,200	-	46,200	-
Investment accounted for using equity method (Notes 4 and 10)	795,692	3	665,521	2
Property, plant and equipment (Notes 4, 5 and 11)	8,242,666	27	5,713,002	20
Intangible assets (Notes 4, 5 and 12)	734,805	2	412,054	2
Deferred tax assets (Notes 4, 5 and 23)	305,776	1	298,563	1
Prepayments for equipment	380,150	1	327,952	1
Other financial asset - non-current (Notes 4, 13 and 29)	24,517	-	24,517	-
Other non-current assets (Notes 4, 5, and 14)	21,587	-	30,629	-
Total non - current assets	10,584,393	34	7,518,438	26
TOTAL	$ 31,024,617	100	$ 28,704,182	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 15)	$ 7,200,000	23	$ 5,650,000	20
Short-term bills payable (Note 15)	1,998,882	6	1,697,592	6
Trade payables to unrelated parties	1,395,632	5	1,420,746	5
Trade payables to related parties (Note 28)	19,836	-	25,050	-
Other payables (Notes 17 and 28)	4,131,262	13	3,400,616	12
Current tax liabilities (Notes 4 and 23)	332,915	1	367,499	1
Unearned receipts	208,316	1	212,217	1
Current portion of long-term borrowings (Note 15)	1,167,606	4	964,400	3
Finance lease payables-current (Notes 4 and 16)	5,131	-	6,637	-
Other current liabilities	40,042	-	20,821	-
Total current liabilities	16,499,622	53	13,765,578	48
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 15)	748,240	2	1,915,846	7
Provisions - non-current (Notes 4, 5 and 18)	1,043,511	3	1,108,956	4
Deferred tax liabilities (Notes 4 and 23)	160,542	1	154,714	-
Finance lease payable - non-current (Notes 4 and 16)	-	-	5,131	-
Guarantee deposits	212,263	1	227,362	1
Total non-current liabilities	2,164,556	7	3,412,009	12
Total liabilities	18,664,178	60	17,177,587	60
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
Retained earnings				
Legal reserve	322,880	1	119,963	-
Special reserve	848,678	3	239,927	1
Unappropriated earnings	2,086,241	7	2,053,475	7
Other equity	20,025	-	30,615	-
Total equity	12,360,439	40	11,526,595	40
TOTAL	$ 31,024,617	100	$ 28,704,182	100

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2016		2015	
	Amount	%	Amount	%
SALES (Notes 4, 21 and 28)	$ 27,325,514	100	$ 26,878,156	100
COST OF GOODS SOLD (Notes 9, 22 and 28)	23,210,018	85	23,626,449	88
GROSS PROFIT	4,115,496	15	3,251,707	12
OPERATING EXPENSES (Notes 22 and 28)				
Selling and marketing expenses	146,684	1	159,167	-
General and administrative expenses	587,442	2	499,561	2
Research and development expenses	655,828	2	439,262	2
Total operating expenses	1,389,954	5	1,097,990	4
PROFIT FROM OPERATIONS	2,725,542	10	2,153,717	8
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 22)	189,183	1	155,102	1
Other gains and losses (Notes 4 and 22)	(371,175)	(1)	4,232	-
Share of profit of associates (Note 4)	177,861	1	302,673	1
Finance costs	(127,344)	(1)	(133,440)	(1)
Total non-operating income and expenses	(131,475)	-	328,567	1
PROFIT BEFORE INCOME TAX	2,594,067	10	2,482,284	9
INCOME TAX EXPENSE (Notes 4 and 23)	511,412	2	453,115	1
NET PROFIT FOR THE YEAR	2,082,655	8	2,029,169	8
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(2,985)	-	20,164	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(10,590)	-	19,361	-
Other comprehensive income (loss) for the year, net of income tax	(13,575)	-	39,525	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 2,069,080	8	$ 2,068,694	8

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2016		2015	
	Amount	%	Amount	%
EARNINGS PER SHARE (Note 24)				
Basic	$ 2.29		$ 2.23	
Diluted	$ 2.28		$ 2.23	

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

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

	Equity Attributable to Owners of the Corporation					
		Retained Earnings (Note 20)			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
Appropriation of 2014 earnings						
Legal reserve	-	119,963	-	(119,963)	-	-
Special reserve	-	-	239,927	(239,927)	-	-
Cash dividends distributed by the Company	-	-	-	(835,601)	-	(835,601)
Profit for the year ended December 31, 2015	-	-	-	2,029,169	-	2,029,169
Other comprehensive income for the year ended December 31, 2015 net of income tax	-	-	-	20,164	19,361	39,525
Total comprehensive income for the year ended December 31, 2015	-	-	-	2,049,333	19,361	2,068,694
BALANCE AT DECEMBER 31, 2015	9,082,615	119,963	239,927	2,053,475	30,615	11,526,595
Appropriation of 2015 earnings						
Legal reserve	-	202,917	-	(202,917)	-	-
Special reserve	-	-	608,751	(608,751)	-	-
Cash dividends distributed by the Company	-	-	-	(1,235,236)	-	(1,235,236)
Profit for the year ended December 31, 2016	-	-	-	2,082,655	-	2,082,655
Other comprehensive income for the year ended December 31, 2016 net of income tax	-	-	-	(2,985)	(10,590)	(13,575)
Total comprehensive income for the year ended December 31, 2016	-	-	-	2,079,670	(10,590)	2,069,080
BALANCE AT DECEMBER 31, 2016	$ 9,082,615	$ 322,880	$ 848,678	$ 2,086,241	$ 20,025	$ 12,360,439

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2016	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 2,594,067	$ 2,482,284
Adjustments for:		
Depreciation expenses	653,628	585,420
Amortization expenses	804,933	884,687
Impairment loss recognized on trade receivables	(3,398)	797
Finance costs	127,344	133,440
Interest income	(33,712)	(21,519)
Dividend income	(614)	(880)
Share of profit of associate	(177,861)	(302,673)
Loss on disposal of property, plant and equipment	116	166
Impairment loss recognized on non-financial assets	136,660	89,833
Unrealized net gain on foreign currency exchange	(99,418)	(197,814)
Recognized provisions	69,995	105,018
Other income from liabilities	(23,281)	(27,272)
Net changes in operating assets and liabilities		
Notes receivable	15,074	3,083
Trade receivables	(714,060)	(824,864)
Other receivables	(22,742)	(22,377)
Inventories	1,002,931	(1,443,886)
Other current assets	784,878	526,337
Trade payables	(31,238)	21,224
Other payables	47,169	544,570
Unearned receipts	(3,901)	(34,323)
Other current liabilities	42,501	23,786
Cash generated from operations	5,169,071	2,525,037
Interest received	31,789	19,704
Interest paid	(124,881)	(137,777)
Income tax paid	(542,992)	(1,942)
Net cash generated from operating activities	4,532,987	2,405,022
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of financial assets carried at cost	(33,000)	-
Equity interest in subsidiary	(16,590)	-
Payments for property, plant and equipment	(1,938,769)	(1,059,011)
Increase in refundable deposits	(15,437)	(28,363)
Decrease in refundable deposits	23,469	33,420
Payments for intangible assets	(1,139,396)	(955,551)
Increase in other financial assets	-	(1,596,965)
Decrease in other financial assets	578,071	9,479
Increase in prepayments for equipment	(689,758)	(362,240)
Dividend received	52,135	143,551
Net cash used in investing activities	(3,179,275)	(3,815,680)

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2016	**2015**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	$ 51,080,000	$ 50,948,000
Repayments of short-term borrowings	(49,530,000)	(51,198,000)
Proceeds from short-term bills payable	7,688,961	6,586,538
Repayments of short-term bills payable	(7,387,671)	(7,383,822)
Proceeds from long-term borrowings	-	2,200,000
Repayments of long-term borrowings	(964,399)	(139,400)
Proceeds of guarantee deposits received	214,271	306,953
Refund of guarantee deposits received	(229,370)	(240,604)
Dividends paid to owners of the Company	(1,235,236)	(835,601)
Net cash generated (used in) from financing activities	(363,444)	244,064
NET DECREASE (INCREASE) IN CASH	990,268	(1,166,594)
CASH AT THE BEGINNING OF THE YEAR	1,554,739	2,721,333
CASH AT THE END OF THE YEAR	$ 2,545,007	$ 1,554,739

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Aerospace Industrial Development Corporation (AIDC or "the Company") 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. Ministry of Economic Affairs holding the Company 40.07% at December 31, 2016.

The financial statements are presented in the Company's functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on March 27, 2017.

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

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

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

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016

(Continued)

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

(Concluded)

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

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

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

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

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

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

The FSC announced that amendments to IFRS 4 (only the overlay approach can be applied), IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018

(Continued)

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

(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 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Company’s accounting policies, except for the following:

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

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

For the Company’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 the above, all other financial assets are measured at fair value through profit or loss. However, the Company 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.

Impairment of financial assets

IFRS 9 requires impairment loss on financial assets to be 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 Company takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendment

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

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

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

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

3) 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 Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases. The Company 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 statements of comprehensive income, the Company 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 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.

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

When IFRS 16 becomes effective, the Company 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.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

The 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 Company 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. Foreign currencies

In preparing the financial statements of Company, transactions in currencies other than the Company's functional currency (New Taiwan dollars) 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 purposes of presenting company only financial statements, the assets and liabilities of the Company's foreign operations are translated into NT$ using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

e. 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.

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries. Subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

g. Investment in associates

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

The Company 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 Company's share of the profit or loss and other comprehensive income of the associate. The Company also recognizes the changes in the Company'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 Company transacts with its associate, profits and losses resulting from the transactions with the associate are recognized by the Company in its financial statements only to the extent of interests in the associate that are not related to the Company.

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 Company 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 Company 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 uncollectable 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 uncollectable trade receivables and overdue receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Company 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 Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) The Company 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 Company; 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 Company 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 Company 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 Company 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 (including current service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings 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.

q. Taxation

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

1) Current tax

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

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities 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 Company'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. 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.

b. 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.

6. CASH

	December 31	
	2016	2015
Cash on hand and petty cash	$ 54	$ 57
Checking accounts and demand deposits	2,544,953	1,554,682
	$ 2,545,007	$ 1,554,739
Rates of bank balance (%)	0.01-0.45	0.01-0.45

7. FINANCIAL ASSETS MEASURED AT COST - NONCURRENT

	December 31	
	2016	2015
Unlisted common shares		
Aerovision Avionics Inc. (AAI Inc.)	$ 43,200	$ 43,200
UHT Unitech Co Ltd (UHT Ltd)	33,000	-
Metro Consulting Service Ltd (Metro Ltd)	3,000	3,000
	$ 79,200	$ 46,200

Management believed that the fair value of the above unlisted equity investments held by the Company 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

	December 31	
	2016	2015
Trade receivables from unrelated parties		
Trade receivables	$ 7,257,977	$ 6,481,371
Less: Allowance for impairment loss	(1,813)	(1,733)
	$ 7,256,164	$ 6,479,638
Other receivables		
Tax return receivables	$ 106,856	$ 112,932
Others	72,397	41,025
	$ 179,253	$ 153,957

The average credit period of sales on goods is 60 to 90 days. In determining the recoverability of trade receivables, the Company 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 receivables was as follows:

	December 31	
	2016	2015
0-90 days	$ 7,241,221	$ 6,480,174
91-180 days	16,756	1,197
	$ 7,257,977	$ 6,481,371

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

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

	December 31	
	2016	2015
0-90 days	$ 30,060	$ 77,749
91-180 days	16,335	-
181-365 days	3,758	4,008
Over 365 days	13,432	17,670
	$ 63,585	$ 99,427

The above aging of trade receivables 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 Year Ended December 31, 2016		For the Year Ended December 31, 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 loss recognized (reversed)	80	(3,478)	(3,818)	4,615
Balance at December 31	$ 1,813	$ 14,719	$ 1,733	$ 18,197

9. INVENTORIES

	December 31	
	2016	2015
Work in progress	$ 4,877,884	$ 5,032,074
Raw materials	2,721,693	3,763,539
	$ 7,599,577	$ 8,795,613

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

	Year Ended December 31	
	2016	2015
Indemnity income	$ (168,045)	$ (73,052)
Recognized of inventory write-downs	57,665	34,650
Loss on disposal of inventories	41,830	18,266
Income from sales of scraps	(21,845)	(48,060)
Loss on physical inventories	32	361

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2016	2015
Investment in associate		
International Turbine Engine Company LLC (ITEC)	$ 779,331	$ 665,521
Investment in subsidiaries		
AIDC USA LLC (AIDC USA)	16,361	-
	$ 795,692	$ 665,521

At the end of the reporting period, the ownership and voting right in associate held by the Company were both 22.05%.

The Company invested US$500,000 in AIDC USA in March 2016, and the ownership and voting right in associate held by Company was 100%.

Refer to "Table 4: Information on Investees" 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 of the associate were based on the associate's financial statements audited by auditors for the same years.

11. PROPERTY, PLANT AND EQUIPMENT

	Year Ended December 31, 2016				
	Balance, Beginning of Year	Additions	Deductions	Reclassification	Balance, End of Year
Cost					
Land improvements	$ 123,706	$ -	$ -	$ -	$ 123,706
Buildings	4,351,512	88,108	-	691,945	5,131,565
Machinery and equipment	9,906,369	1,506,350	(162,487)	599,459	11,849,691
Transportation equipment	718,465	3,287	(1,336)	(46)	720,370
Leased assets	42,394	-	-	-	42,394
Other equipment	314,052	53,094	(4,892)	31,873	394,127
Property in construction	506,098	962,292	-	(685,671)	782,719
	15,962,596	$ 2,613,131	$ (168,715)	$ 637,560	19,044,572
Accumulated depreciation					
Land improvements	113,347	$ 1,914	$ -	$ -	115,261
Buildings	2,332,873	145,640	-	-	2,478,513
Machinery and equipment	6,801,138	495,038	(162,371)	-	7,133,805
Transportation equipment	630,692	42,178	(1,336)	-	671,534
Leased assets	34,740	7,066	-	-	41,806
Other equipment	215,089	29,075	(4,892)	-	239,272
	10,127,879	$ 720,911	$ (168,599)	$ -	10,680,191
Impairment					
Buildings	26,258	$ -	$ -	$ -	26,258
Machinery and equipment	95,457	-	-	-	95,457
	121,715	$ -	$ -	$ -	121,715
	$ 5,713,002				$ 8,242,666

	Year Ended December 31, 2015				
	Balance, Beginning of Year	Additions	Deductions	Reclassification	Balance, End of Year
Cost					
Land improvements	$ 123,873	$ -	$ (167)	$ -	$ 123,706
Buildings	4,298,616	53,467	(881)	310	4,351,512
Machinery and equipment	9,275,874	615,158	(267,451)	282,788	9,906,369
Transportation equipment	689,303	30,658	(1,496)	-	718,465
Leased assets	42,394	-	-	-	42,394
Other equipment	305,652	12,645	(6,559)	2,314	314,052
Property in construction	1,907	504,191	-	-	506,098
	14,737,619	$ 1,216,119	$ (276,554)	$ 285,412	15,962,596

(Continued)

	Year Ended December 31, 2015				
	Balance, Beginning of Year	Additions	Deductions	Reclassification	Balance, End of Year
Accumulated depreciation					
Land improvements	$ 111,472	$ 2,042	$ (167)	$ -	$ 113,347
Buildings	2,202,166	131,492	(785)	-	2,332,873
Machinery and equipment	6,633,584	434,936	(267,382)	-	6,801,138
Transportation equipment	590,619	41,568	(1,495)	-	630,692
Leased assets	27,674	7,066	-	-	34,740
Other equipment	196,853	24,795	(6,559)	-	215,089
	9,762,368	$ 641,899	$ (276,388)	$ -	10,127,879
Impairment					
Buildings	26,258	$ -	$ -	$ -	26,258
Machinery and equipment	95,457	-	-	-	95,457
	121,715	$ -	$ -	$ -	121,715
	$ 4,853,536				$ 5,713,002

(Concluded)

The above items of Property, plant and equipment are 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

12. INTANGIBLE ASSETS

	December 31	
	2016	2015
Other intangible assets		
Trademark	$ 338	$ 361
Patent	719	770
Computer software	117,168	49,418
Deferred technical cooperation expenses	14,615	21,200
	132,840	71,749
Developing intangible assets		
Projects non-recurring costs	601,965	340,305
	$ 734,805	$ 412,054

	Other Intangible Assets	Developing Intangible Assets
Cost		
Balance at January 1, 2016	$ 776,037	$ 4,451,189
Additions	104,068	-
Additions from internal developments	-	1,115,636
Disposals	(3,809)	(315,829)
Balance at December 31, 2016	$ 876,296	$ 5,250,996
Accumulated amortization and impairment		
Balance at January 1, 2016	$ 704,288	$ 4,110,884
Amortization expense	42,977	774,981
Disposals	(3,809)	(315,829)
Impairment loss recognized in profit and loss	-	78,995
Balance at December 31, 2016	$ 743,456	$ 4,649,031
Carrying amounts at December 31, 2016	$ 132,840	$ 601,965
Cost		
Balance at January 1, 2015	$ 764,700	$ 3,617,746
Additions	26,251	-
Additions from internal developments	-	999,865
Disposals	(14,914)	(166,422)
Balance at December 31, 2015	$ 776,037	$ 4,451,189
Accumulated amortization and impairment		
Balance at January 1, 2015	$ 678,910	$ 3,363,642
Amortization expense	40,292	858,481
Disposals	(14,914)	(166,422)
Impairment loss recognized in profit and loss	-	55,183
Balance at December 31, 2015	$ 704,288	$ 4,110,884
Carrying amounts at December 31, 2015	$ 71,749	$ 340,305

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:

	December 31	
	2016	**2015**
Project name		
Airbus SA Aft BF	$ 277,971	$ 57,960
787 (FTE)	129,757	123,463
Airbus SA Aft BF_M2	121,814	1,855
CT-7 Engine	54,037	22,226
787-819 S44-46 Composite Parts	6,141	6,141
Others	12,245	128,660
	$ 601,965	$ 340,305

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:

	December 31	
Project name	**2016**	**2015**
The 11th Maintenance and Supply Company of ROCAF Academy Outsourcing Operation	$ 7,734	$ 11,600
CT-7 Engine	4,728	5,293
The 2nd ALC Outsourcing Operation (The GOCO Maintenance Program)	2,153	4,307
	$ 14,615	$ 21,200

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

13. 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 29. The market rates of the time deposits at the end of the reporting period were both 0.3%-1.40%.

14. OTHER ASSETS

	December 31	
	2016	2015
Current		
Prepayment	$ 490,967	$ 1,158,611
Net defined benefit asset (Note 19)	20,698	24,294
Others	123,038	79,509
	$ 634,703	$ 1,262,414
Non-current		
Overdue receivables (Note 8)	$ 17,190	$ 21,678
Less: Allowance for impairment loss	(14,719)	(18,197)
	2,471	3,481
Refundable deposits	19,116	27,148
	$ 21,587	$ 30,629

15. BORROWINGS

a. Short-term borrowings

	December 31	
	2016	2015
Credit borrowings	$ 5,400,000	$ 3,800,000
Secured borrowings (Note 29)	1,800,000	1,850,000
	$ 7,200,000	$ 5,650,000
Rates of interest per annum (%)	0.78-0.98	0.89-1.15

b. Short-term bills payable

	December 31	
	2016	2015
Commercial paper	$ 2,000,000	$ 1,700,000
Less: Unamortized discount on bills payable	(1,118)	(2,408)
	$ 1,998,882	$ 1,697,592
Rate of interest per annum (%)	0.5-0.71	0.65-0.99

c. Long-term borrowings

	December 31	
	2016	2015
Credit borrowings	$ 1,915,846	$ 2,880,246
Less: Current portion	(1,167,606)	(964,400)
Long-term borrowings	$ 748,240	$ 1,915,846
Rates of interest per annum (%)	1.13-1.22	1.34-1.43

16. FINANCE LEASE PAYABLES

	December 31	
	2016	2015
Minimum lease payments		
Not later than one year	$ 5,141	$ 6,825
Later than one year and not later than five years	-	5,141
	5,141	11,966
Less: Future finance charges	(10)	(198)
Present value of minimum lease payments	$ 5,131	$ 11,768
Present value of minimum lease payments		
Not later than one year	$ 5,131	$ 6,637
Later than one year and not later than five years	-	5,131
	$ 5,131	$ 11,768

The Company leased a pair of 4-Axis Horizontal Machining Center under finance leases in February, 2011. The lease term 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%

17. OTHER LIABILITIES

	December 31	
	2016	2015
Payable for salaries and bonus	$ 1,487,383	$ 1,411,477
Payable for purchase of equipment	929,067	248,068
Payable for outsourcing	817,298	790,934
Payable for annual leave	273,573	195,357
Payable for service fee	76,773	125,098
Payable for remedy	37,540	46,947
Others	509,628	582,735
	$ 4,131,262	$ 3,400,616

18. PROVISIONS-NONCURRENT

	December 31	
	2016	2015
Warranties	$ 869,618	$ 905,253
Others	173,893	203,703
	$1,043,511	$1,108,956

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.

19. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes to a pension fund administered by the pension fund monitoring committee; the amounts of contributions were both equal to 15.83% and 15% of total monthly salaries and wages for the years ended December 31, 2016 and 2015, respectively. Pension contributions are deposited in the Bank of Taiwan in the committee's name and are managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	December 31	
	2016	2015
Present value of defined benefit obligation	$ 988,764	$ 591,362
Fair value of plan assets	(1,009,462)	(615,656)
Net defined benefit asset	$ (20,698)	$ (24,294)

Movements in net defined benefit liability (asset) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Asset
Balance at January 1, 2015	$ 198,500	$ (200,774)	$ (2,274)
Service cost			
Current service cost	404,002	-	404,002
Net interest expense (income)	3,427	(6,571)	(3,324)
Recognized in profit or loss	407,249	(6,571)	400,678
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(28,521)	(28,521)
Actuarial loss - changes in financial assumptions	27,421	-	27,421
Actuarial gain - experience adjustments	(23,194)	-	(23,194)
Recognized in other comprehensive income	4,227	(28,521)	(24,294)
Contributions from the employer	-	(398,404)	(398,404)
Benefits paid	(18,614)	18,614	-
Balance at December 31, 2015	591,362	(615,656)	(24,294)
Service cost			
Current service cost	398,578	-	398,578
Net interest expense (income)	6,465	(8,911)	(2,446)
Recognized in profit or loss	405,043	(8,911)	396,132
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	3,295	3,295
Actuarial loss - changes in financial assumptions	(3,939)	-	(3,939)
Actuarial gain - experience adjustments	4,240	-	4,240
Recognized in other comprehensive income	301	3,295	3,596
Contributions from the employer	-	(396,132)	(396,132)
Benefits paid	(7,942)	7,942	-
Balance at December 31, 2016	$ 988,764	$ (1,009,462)	$ (20,698)

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Pension Fund or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2016	**2015**
Discount rate(s)	1.15%	1.10%
Expected rate(s) of salary increase	1.50%	1.50%

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

	December 31	
	2016	**2015**
Discount rate(s)		
0.25% increase	$ (19,361)	$ (12,690)
0.25% decrease	$ 19,920	$ 13,080
Expected rate(s) of salary increase		
0.25% increase	$ 19,801	$ 12,995
0.25% decrease	$ (19,342)	$ (12,671)

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

	December 31	
	2016	**2015**
The expected contributions to the plan for the next year	$ 397,530	$ 396,132
The average duration of the defined benefit obligation	7.8 years	8.4 years

20. EQUITY

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 14, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

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 appropriate or reverse special reserve. The residual earnings will be allocated by the resolution in the shareholders' meeting. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to Note 22.

Profits of the Company may be distributed by way of cash dividend 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.

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 approved in the shareholders' meetings on June 14, 2016, and 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

The appropriations of earnings for 2016 had been proposed by the Company's board of directors on March 27, 2017. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 208,265	
Special reserve	624,796	
Cash dividends	908,261	$ 1
Share dividends	336,057	0.37

The appropriations of earnings for 2016 are subject to the resolution of the shareholders' meeting to be held on June 2017.

21. REVENUES

	For the Year Ended December 31	
	2016	**2015**
Aircraft/vehicle maintenance	$ 16,466,407	$ 15,196,514
Aero/Industrial Engine	10,410,899	11,130,551
Industrial Technology services	448,208	551,091
	$ 27,325,514	$ 26,878,156

22. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

	For the Year Ended December 31	
	2016	2015
Interest income	$ 33,712	$ 21,519
Other income from condoned liabilities	23,281	27,272
Remedy income	5,108	9,668
Others	127,082	96,643
	$ 189,183	$ 155,102

b. Other gains and losses

	For the Year Ended December 31	
	2016	2015
Impairment loss	$ (78,995)	$ (55,183)
Net foreign exchange gains	(49,748)	292,404
Loss on disposal of property, plant and equipment	(116)	(166)
Others	(242,316)	(232,823)
	$ (371,175)	$ 4,232

c. Employee benefits, depreciation and amortization

	Operating Cost	Operating Expense	Non-operating Expense	Transfer to Developing Intangible Assets	Total
2016					
Employee benefits expense					
Salaries expense	$ 3,995,039	$ 596,088	$ 10,301	$ 174,422	$ 4,775,850
Retirement benefit					
Defined contribution plans	39,942	7,082	93	2,334	49,451
Defined benefit plans	319,955	56,734	744	18,699	396,132
Labor and health insurance	234,656	32,724	51,960	11,103	330,443
Other employee benefits	44,649	6,189	9,777	313	60,928
Depreciation expense	563,949	69,990	19,689	67,283	720,911
Amortization expense	787,944	16,950	39	13,025	817,958
2015					
Employee benefits expense					
Salaries expense	3,637,484	532,689	-	191,972	4,362,145
Retirement benefit					
Defined contribution plans	23,977	3,945	-	1,701	29,623
Defined benefit plans	324,321	53,352	-	23,005	400,678
Labor and health insurance	206,477	27,485	45,963	12,312	292,237
Other employee benefits	51,579	6,777	11,288	325	69,969
Depreciation expense	536,396	45,441	3,583	56,479	641,899
Amortization expense	874,109	10,578	-	14,086	898,773

As of December 31, 2016 and 2015, the company had 4,418 and 3,763 employees, respectively.

1) Employees' compensation and remuneration of directors and supervisors for 2016 and 2015

In compliance with the Company Act as amended in May 2015, the shareholders held their meeting and resolved amendments to the Company's Articles; the amendments stipulate distribution of 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.

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

The Employees' compensation and the remuneration of directors and supervisors for 2016 and 2015 having been resolved by the board of directors on March 27, 2017 and March 29, 2016, were as follows:

	For the Year Ended December 31			
	2016		2015	
	The Proportion of Estimate	**Amount of Money**	**The Proportion of Estimate**	**Amount of Money**
Employees' compensation	4.65%	$ 120,624	4.65%	$ 115,426
Remuneration of directors and supervisors	0.58%	15,046	0.58%	14,397

There was no difference between the employees' compensation and the remuneration of directors and supervisors approved in the shareholders' meetings and in the financial statements for the year of 2015.

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

2) Bonus to employee and remuneration of directors and supervisors for 2014

The bonuses to employees and remuneration to directors and supervisors for 2014 which have been approved in the shareholders' meetings on June 23, 2015, were as follows:

	For the Year Ended December 31, 2014
Bonus to employees	$ 67,179
Remuneration of directors and supervisors	4,199

There was no difference between the bonus to employee and the remuneration of directors and supervisors approved in the shareholder's meetings and in the financial statements for the year of 2014.

Information on the bonus to employees and the remuneration of directors and supervisors 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 Year Ended December 31	
	2016	2015
Foreign exchange gains	$ 383,107	$ 802,517
Foreign exchange losses	(432,855)	(510,113)
Net gains (losses)	$ (49,748)	$ 292,404

23. TAXES

a. Income tax recognized in profit or loss

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

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current year	$ 449,306	$ 344,688
Income tax on unappropriated earnings	59,102	24,407
Adjustments for prior years	1,610	956
Deferred tax		
In respect of the current year	(1,394)	83,064
Income tax expense recognized in profit or loss	$ 511,412	$ 453,115

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2016	2015
Income tax expense calculated at the statutory rate (17%)	$ 440,991	$ 421,988
Nondeductible expenses in determining taxable income	10	23
Tax-exempt income	(104)	(150)
Income tax on unappropriated earnings	59,102	24,407
Unrecognized deductible temporary differences	9,803	5,891
Adjustments for prior years' tax	1,610	956
Income tax expense recognized in profit or loss	$ 511,412	$ 453,115

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

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
Deferred tax		
Remeasurement of defined benefit plan	$ 611	$ (4,130)
Translation of foreign operations	2,169	(3,965)
	$ 2,780	$ (8,095)

c. Deferred tax assets and liabilities

	For the Year Ended December 31, 2016			
	Opening Balance	**Recognized in Profit or Loss**	**Recognized in Other Comprehensive Income**	**Closing Balance**
Deferred tax assets				
Temporary differences				
Provision	$ 188,522	$ (11,126)	$ -	$ 177,396
Intangible assets	56,138	5,042	-	61,180
Property plant and equipment	20,692	-	-	20,692
Payable for annual leave	33,211	13,297	-	46,508
	$ 298,563	$ 7,213	$ -	$ 305,776
Deferred tax liabilities				
Temporary differences				
Investment accounted for using equity method	$ 107,014	$ 21,478	$ -	$ 128,492
Unrealized gain on foreign currency exchange	37,300	(12,870)	-	24,430
Translating foreign operations	6,270	-	(2,169)	4,101
Defined benefit plan	4,130	-	(611)	3,519
	$ 154,714	$ 8,608	$ (2,780)	$ 160,542

	For the Year Ended December 31, 2015			
	Opening Balance	**Recognized in Profit or Loss**	**Recognized in Other Comprehensive Income**	**Closing Balance**
Deferred tax assets				
Temporary differences				
Provision	$ 189,876	$ (1,354)	$ -	$ 188,522
Intangible assets	64,266	(8,128)	-	56,138
Property plant and equipment	20,692	-	-	20,692
Payable for annual leave	19,768	13,443	-	33,211
Loss carryforward	70,777	(70,777)	-	-
	$ 365,379	$ (66,816)	$ -	$ 298,563

	For the Year Ended December 31, 2015			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax liabilities				
Temporary differences				
Investment accounted for using equity method	$ 79,814	$ 27,200	$ -	$ 107,014
Unrealized gain on foreign currency exchange	47,865	(10,565)	-	37,300
Translating foreign operations	2,305	-	3,965	6,270
Defined benefit plan	387	(387)	4,130	4,130
	$ 130,371	$ 16,248	$ 8,095	$ 154,714

d. Deductible temporary differences for which no deferred tax assets have been recognized in the balance sheets

	December 31	
	2016	2015
Deductible temporary differences		
Inventories	$ 2,057,541	$ 1,999,876

e. Integrated income tax

	December 31	
	2016	2015
Unappropriated earnings generated on and after January 1, 1998	$ 2,086,241	$ 2,053,475
Imputation credits account	$ 284,691	$ 166,331

	For the Year Ended December 31	
	2016 (Expected)	2015 (Actual)
Creditable ratio for distribution of earnings	20.52%	20.51%

f. Income tax assessments

Income tax returns of the Company through 2014 have been examined and cleared by the tax authorities.

24. 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 Year Ended December 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)	$ 2,082,655	$ 2,029,169
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 or bonus issue to employees	3,843	3,610
Weighted average number of ordinary shares used in the computation of diluted earnings per share	912,105	911,872

Since the Company provides to settle compensation paid to employees in cash or shares, the Company 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.

25. OPERATING LEASE ARRANGEMENTS

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

	December 31	
	2016	2015
Not later than 1 year	$ 129,902	$ 129,902
Later than 1 year and not later than 5 years	285,785	415,688
	$ 415,687	$ 545,590

26. CAPITAL MANAGEMENT

The Company must maintain adequate capital necessary for profitable operations and business expansion, equipment upgrade and participation in international new aircraft developing. Therefore, the Company manages its capital to ensure that the Company 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 Company 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).

27. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

1) 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

	December 31	
	2016	**2015**
Financial assets		
Loans and receivables	$ 12,252,048	$ 11,020,491
Financial assets measured at cost	79,200	46,200
Financial liabilities		
Financial liabilities at amortized cost	15,117,896	13,706,546

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

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

The Company’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 Company’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 Company’s exposure to market risks or the manner in which these risks were managed and measured.

Foreign currency risk

The Company 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 Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 31.

Sensitivity analysis

The Company was mainly exposed to the U.S. dollar. The Company’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 $41,002 thousand and $36,956 thousand for the years ended December 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 Company’s interest risk is evaluated in terms of short-term loans; short-term bills payable 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.

Sensitivity analysis

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Company’s pre-tax profit for the years ended December 31, 2016 and 2015 would decrease/increase by $22,789 thousand and $21,325 thousand, respectively, which was mainly attributable to the Company’s exposure to interest rates on its variable-rate bank borrowings. 25 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates.

2) Credit risk

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

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

The Company's concentration of credit risk by geographical location was mainly in the U.S., which accounted for 42% and 33% of the total trade receivable as of December 31, 2016 and 2015, respectively.

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company'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 Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2016 and 2015, the Company had available unutilized short-term bank loan facilities as set out in (b) below.

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

The following tables details the Company'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 Company 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.

	December 31, 2016	
	Less Than 1 Year	**More than 1 Year**
Non-derivative financial liabilities		
Non-interest bearing liabilities	$ 3,785,774	$ 212,263
Finance lease payable	5,131	-
Variable interest rate liabilities	8,367,606	748,240
Fixed interest rate liabilities	1,998,882	-
	$ 14,157,393	$ 960,503

	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

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)

	December 31	
	2016	2015
Unsecured bank overdraft facility:		
Amount used	$ 6,000,368	$ 4,562,961
Amount unused	8,529,632	9,068,350
	$ 14,530,000	$ 13,631,311
Secured bank loan facilities:		
Amount used	$ 1,800,000	$ 1,850,000
Amount unused	1,000,000	950,000
	$ 2,800,000	$ 2,800,000

28. TRANSACTIONS WITH RELATED PARTIES

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

a. Sales of goods

	For the Year Ended December 31	
Related Parties Types	2016	2015
Associates	$ 1,375,323	$ 1,272,708

The Company’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 Year Ended December 31 2016	2015
Associates	$ 623,200	$ 681,815

The Company'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 Year Ended December 31 2016	2015
Associates	$ 89,743	$ 73,797
Ministry of Economic Affairs	43,223	27,167
	$ 132,966	$ 100,964

d. Operation expenses

Related Parties Types	For the Year Ended December 31 2016	2015
Ministry of Economic Affairs	$ 42,975	$ 18,812
Subsidiary	8,695	-
	$ 51,670	$ 18,812

e. The Company leases land from the Ministry of Economic Affairs, rent expense is calculated at 5% of the annually announced land values, rent payment is once a year. Rent expense recognized in manufacturing expenses, operation expenses and developing intangible assets, for the year ended December 31, 2016 and 2015 were $122,804 thousand and $63,706 thousand, respectively.

f. Receivable from related parties

Related Parties Types	December 31 2016	2015
Associates	$ 220,669	$ 202,531

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

g. Payable to related parties

Related Parties Types	December 31	
	2016	2015
Associates	$ 19,836	$ 25,050

The outstanding trade payables to related parties are unsecured.

h. Other payables

Related Parties Types	December 31	
	2016	2015
Associates	$ 19,410	$ 18,905
Subsidiary	1,242	-
	$ 28,541	$ 18,905

i. Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Short-term benefits	$ 26,410	$ 24,247
Post-employment benefits	2,131	1,347
	$ 28,499	$ 25,594

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

29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	December 31	
	2016	2015
Time deposits		
Other financial assets - Current	$ 1,946,451	$ 2,506,909
Other financial assets - Noncurrent	24,517	24,517
	$ 1,970,968	$ 2,531,426

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

a. As of December 31, 2016 and 2015, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately $455,368 thousand and $1,480,043 thousand, respectively.

b. As of December 31, 2016 and 2015, unpaid contract for purchases of raw materials and machinery and equipment amounted to approximately $9,896,150 thousand and $13,302,115 thousand, respectively.

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

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

	December 31					
	2016			2015		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets						
Monetary items						
USD	$ 257,764	32.25	$ 8,312,889	$ 229,179	32.825	$ 7,522,801
Non-monetary items						
USD	24,672	32.25	795,692	20,275	32.825	665,521
Financial liabilities						
Monetary items						
USD	3,483	32.25	112,327	4,008	32.825	131,563

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

	For the Year Ended December 31			
	2016		2015	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain	Exchange Rate	Net Foreign Exchange Gain
USD	32.25	$142,878	32.825	$217,796

32. 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) Information on investees. (Table 4)

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

MARKETABLE SECURITIES HELD
DECEMBER 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	December 31, 2016			
				Shares	Carrying Value	Percentage of Ownership	Fair Value
The Company	Capital stock						
	AAI Inc.	The Company is a corporate director	Financial assets measured at cost - non-current	4,968	$ 43,200	13%	$ 52,914
	Metro Ltd	The Company is a corporate director	Financial assets measured at cost - non-current	300	3,000	6%	3,272
	UHT Ltd	The Company is a corporate director	Financial assets measured at cost - non-current	1,100	33,000	4.55%	5,614

Note: Information about associate is provided in Table 4.

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 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 LLC	Investments using equity method	Sale	$ (1,375,323)	(5)	Note	Note	Note	$ 220,669	3	
			Purchase	623,200	5	Note	Note	Note	(19,836)	(1)	

Note: Information is provided in Note 28.

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 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 LLC	Investments using equity method	$ 220,669	6.5	$ -	-	$ 71,538	$ -

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 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 December 31, 2016			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 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	$ 16,361	$ 236	$ 236	Subsidiary
	ITEC	State of Delaware USA	Development production and remodel of aircraft	728	728	-	22.05	779,331	805,556	177,625	Associate