

**Aerospace Industrial Development
Corporation and Subsidiaries**

**Consolidated Financial Statements for the
Six Months Ended June 30, 2017 and 2016
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Aerospace Industrial Development Corporation

We have reviewed the accompanying consolidated balance sheets of Aerospace Industrial Development Corporation and subsidiaries (the "Group") as of June 30, 2017 and 2016 and the related consolidated statements of comprehensive income for the three months ended June 30, 2017 and 2016 and for the six months ended June 30, 2017 and 2016, as well as the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2017 and 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

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

As disclosed in Note 11 to the consolidated financial statements, we did not review the financial statements of associates for the six months ended June 30, 2017 and 2016 which were used as bases of investments accounted for by the equity method. The carrying amounts of the related investments as of June 30, 2017 and 2016 were NT\$301,295 thousand and NT\$720,955 thousand, respectively. For the three months ended June 30, 2017 and 2016 and for the six months ended June 30, 2017 and 2016, the amounts of the related share of profit of associates were NT\$36,639 thousand and NT\$44,336 thousand, NT\$71,045 thousand and NT\$89,391 thousand, respectively. The investment amounts as well as the related information were based on unreviewed financial statements of the investees for the same reporting periods.

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

The logo for Deloitte & Touche, written in a cursive, handwritten-style font.

August 8, 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 review such financial statements are those generally applied in the Republic of China.

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

| ASSETS | June 30, 2017 (Reviewed) | | December 31, 2016 (Audited) | | June 30, 2016 (Reviewed) | |
|--|-----------------------------|------------|--------------------------------|------------|-----------------------------|------------|
| | Amount | % | Amount | % | Amount | % |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents (Note 6) | \$ 1,684,678 | 5 | \$ 2,560,098 | 8 | \$ 2,884,217 | 9 |
| Notes receivable | 10,633 | - | 4,749 | - | 3,929 | - |
| Trade receivables from unrelated parties (Note 8) | 8,665,677 | 26 | 7,256,164 | 23 | 8,627,927 | 26 |
| Trade receivables from related parties (Note 29) | 254,023 | 1 | 220,669 | 1 | 197,565 | 1 |
| Other receivables (Note 8) | 172,078 | 1 | 179,253 | 1 | 143,521 | - |
| Current tax asset (Note 24) | - | - | - | - | 162,372 | - |
| Inventories (Note 9) | 7,678,040 | 23 | 7,599,577 | 25 | 9,060,245 | 28 |
| Other financial asset - current (Notes 14 and 30) | 3,831,178 | 12 | 2,000,102 | 6 | 1,933,037 | 6 |
| Other current assets (Note 15) | <u>379,715</u> | <u>1</u> | <u>634,878</u> | <u>2</u> | <u>1,022,876</u> | <u>3</u> |
| Total current assets | <u>22,676,022</u> | <u>69</u> | <u>20,455,490</u> | <u>66</u> | <u>24,035,689</u> | <u>73</u> |
| NON-CURRENT ASSETS | | | | | | |
| Financial assets measured at cost - non-current (Note 7) | 79,200 | - | 79,200 | - | 46,200 | - |
| Investment accounted for using equity method (Note 11) | 301,295 | 1 | 779,331 | 3 | 720,955 | 2 |
| Property, plant and equipment (Notes 12 and 30) | 8,510,724 | 26 | 8,244,072 | 27 | 6,575,207 | 20 |
| Intangible assets (Note 13) | 841,453 | 3 | 734,805 | 2 | 558,580 | 2 |
| Deferred tax assets (Note 24) | 316,760 | 1 | 305,776 | 1 | 309,381 | 1 |
| Prepayments for equipment | 178,212 | - | 380,150 | 1 | 475,434 | 2 |
| Other financial asset - non-current (Notes 14 and 30) | 10,807 | - | 24,517 | - | 24,517 | - |
| Other non-current assets (Notes 8 and 15) | <u>15,522</u> | <u>-</u> | <u>21,659</u> | <u>-</u> | <u>29,959</u> | <u>-</u> |
| Total non-current assets | <u>10,253,973</u> | <u>31</u> | <u>10,569,510</u> | <u>34</u> | <u>8,740,233</u> | <u>27</u> |
| TOTAL | <u>\$ 32,929,995</u> | <u>100</u> | <u>\$ 31,025,000</u> | <u>100</u> | <u>\$ 32,775,922</u> | <u>100</u> |
| LIABILITIES AND EQUITY | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Short-term borrowings (Note 16) | \$ 10,080,000 | 31 | \$ 7,200,000 | 23 | \$ 8,325,000 | 25 |
| Short-term bills payable (Note 16) | 2,496,949 | 8 | 1,998,882 | 6 | 2,496,449 | 8 |
| Trade payables to unrelated parties | 1,515,136 | 5 | 1,395,632 | 5 | 1,689,923 | 5 |
| Trade payables to related parties (Note 29) | 157,481 | - | 19,836 | - | 88,613 | - |
| Other payables (Notes 18 and 29) | 3,392,374 | 10 | 4,131,171 | 13 | 4,109,542 | 13 |
| Current tax liabilities (Note 24) | 238,707 | 1 | 332,954 | 1 | 308,767 | 1 |
| Unearned receipts | 185,670 | - | 208,316 | 1 | 297,318 | 1 |
| Current portion of long-term borrowings (Note 16) | 892,606 | 3 | 1,167,606 | 4 | 1,203,503 | 4 |
| Finance lease payables - current (Note 17) | - | - | 5,131 | - | 8,467 | - |
| Accrued pension liabilities - current | 13,511 | - | - | - | 9,744 | - |
| Other current liabilities | <u>363,931</u> | <u>1</u> | <u>40,361</u> | <u>-</u> | <u>70,527</u> | <u>-</u> |
| Total current liabilities | <u>19,336,365</u> | <u>59</u> | <u>16,499,889</u> | <u>53</u> | <u>18,607,853</u> | <u>57</u> |
| NON-CURRENT LIABILITIES | | | | | | |
| Long-term borrowings (Note 16) | 439,437 | 1 | 748,240 | 2 | 1,332,043 | 4 |
| Provisions - non-current (Note 19) | 1,000,863 | 3 | 1,043,511 | 3 | 1,138,322 | 3 |
| Deferred tax liabilities (Note 24) | 7,599 | - | 160,658 | 1 | 136,048 | - |
| Guarantee deposits | <u>195,800</u> | <u>1</u> | <u>212,263</u> | <u>1</u> | <u>216,105</u> | <u>1</u> |
| Total non-current liabilities | <u>1,643,699</u> | <u>5</u> | <u>2,164,672</u> | <u>7</u> | <u>2,822,518</u> | <u>8</u> |
| Total liabilities | <u>20,980,064</u> | <u>64</u> | <u>18,664,561</u> | <u>60</u> | <u>21,430,371</u> | <u>65</u> |
| EQUITY | | | | | | |
| Common stock- at par value of \$10 each, authorized 1,500,000 thousand shares, issued 908,262 thousand shares | 9,082,615 | 27 | 9,082,615 | 29 | 9,082,615 | 28 |
| Stock dividends to be distributed | 336,056 | 1 | - | - | - | - |
| Retained earnings | | | | | | |
| Legal reserve | 531,146 | 2 | 322,880 | 1 | 322,880 | 1 |
| Special reserve | 1,473,474 | 4 | 848,678 | 3 | 848,678 | 3 |
| Unappropriated earnings | 549,911 | 2 | 2,086,241 | 7 | 1,071,534 | 3 |
| Other equity | <u>(23,271)</u> | <u>-</u> | <u>20,025</u> | <u>-</u> | <u>19,844</u> | <u>-</u> |
| Total equity | <u>11,949,931</u> | <u>36</u> | <u>12,360,439</u> | <u>40</u> | <u>11,345,551</u> | <u>35</u> |
| TOTAL | <u>\$ 32,929,995</u> | <u>100</u> | <u>\$ 31,025,000</u> | <u>100</u> | <u>\$ 32,775,922</u> | <u>100</u> |

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

(With Deloitte & Touche auditors' review report dated August 8, 2017)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

(Reviewed, Not Audited)

| | For the Three Months Ended June 30 | | | | For the Six Months Ended June 30 | | | |
|---|------------------------------------|------------|-------------------|------------|----------------------------------|------------|---------------------|------------|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| SALES (Notes 22 and 29) | \$ 6,445,685 | 100 | \$ 7,479,633 | 100 | \$ 12,364,606 | 100 | \$ 13,808,650 | 100 |
| COST OF GOODS SOLD (Notes 9, 23 and 29) | <u>5,667,502</u> | <u>88</u> | <u>6,332,740</u> | <u>85</u> | <u>10,739,156</u> | <u>87</u> | <u>11,685,239</u> | <u>85</u> |
| GROSS PROFIT | <u>778,183</u> | <u>12</u> | <u>1,146,893</u> | <u>15</u> | <u>1,625,450</u> | <u>13</u> | <u>2,123,411</u> | <u>15</u> |
| OPERATING EXPENSES (Notes 23 and 29) | | | | | | | | |
| Selling and marketing expenses | 32,286 | - | 29,313 | - | 59,071 | 1 | 59,887 | - |
| General and administrative expenses | 163,325 | 3 | 124,798 | 2 | 277,516 | 2 | 226,178 | 2 |
| Research and development expenses | <u>87,449</u> | <u>1</u> | <u>166,774</u> | <u>2</u> | <u>165,981</u> | <u>1</u> | <u>286,329</u> | <u>2</u> |
| Total operating expenses | <u>283,060</u> | <u>4</u> | <u>320,885</u> | <u>4</u> | <u>502,568</u> | <u>4</u> | <u>572,394</u> | <u>4</u> |
| PROFIT FROM OPERATIONS | <u>495,123</u> | <u>8</u> | <u>826,008</u> | <u>11</u> | <u>1,122,882</u> | <u>9</u> | <u>1,551,017</u> | <u>11</u> |
| NON-OPERATING INCOME AND EXPENSES | | | | | | | | |
| Other income (Note 23) | 108,999 | 2 | 52,024 | 1 | 138,238 | 1 | 80,527 | 1 |
| Other gains and losses (Note 23) | (3,467) | - | (115,080) | (2) | (530,885) | (4) | (309,600) | (2) |
| Share of profit of associates | 36,639 | 1 | 44,336 | 1 | 71,045 | 1 | 89,391 | 1 |
| Finance costs | <u>(28,474)</u> | <u>(1)</u> | <u>(32,317)</u> | <u>(1)</u> | <u>(55,549)</u> | <u>(1)</u> | <u>(63,630)</u> | <u>(1)</u> |
| Total non-operating income and expenses | <u>113,697</u> | <u>2</u> | <u>(51,037)</u> | <u>(1)</u> | <u>(377,151)</u> | <u>(3)</u> | <u>(203,312)</u> | <u>(1)</u> |
| PROFIT BEFORE INCOME TAX | 608,820 | 10 | 774,971 | 10 | 745,731 | 6 | 1,347,705 | 10 |
| INCOME TAX EXPENSE (Note 24) | <u>179,406</u> | <u>3</u> | <u>193,801</u> | <u>2</u> | <u>204,681</u> | <u>2</u> | <u>282,742</u> | <u>2</u> |
| NET PROFIT FOR THE PERIOD | 429,414 | 7 | 581,170 | 8 | 541,050 | 4 | 1,064,963 | 8 |
| OTHER COMPREHENSIVE INCOME | | | | | | | | |
| Items that may be reclassified subsequently to profit or loss | | | | | | | | |
| Exchange differences on translating foreign operations | <u>682</u> | <u>-</u> | <u>1,435</u> | <u>-</u> | <u>(43,296)</u> | <u>-</u> | <u>(10,771)</u> | <u>-</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | <u>\$ 430,096</u> | <u>7</u> | <u>\$ 582,605</u> | <u>8</u> | <u>\$ 497,754</u> | <u>4</u> | <u>\$ 1,054,192</u> | <u>8</u> |
| EARNINGS PER SHARE (Note 25) | | | | | | | | |
| Basic | <u>\$ 0.46</u> | | <u>\$ 0.62</u> | | <u>\$ 0.57</u> | | <u>\$ 1.13</u> | |
| Diluted | <u>\$ 0.46</u> | | <u>\$ 0.62</u> | | <u>\$ 0.57</u> | | <u>\$ 1.13</u> | |

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

(With Deloitte & Touche review report dated August 8, 2017)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2017 AND 2016 (Reviewed, Not Audited)

| | Equity Attributable to Owners of the Corporation | | | | | Other Equity Exchange Differences on Translating Foreign Operations | Total Equity |
|---|--|--------------------------------------|-----------------------------|-----------------|----------------------------|---|---------------|
| | Common Stock | Stock Dividends to be Distributed | Retained Earnings (Note 21) | | Unappropriated Earnings | | |
| | | | Legal Reserve | Special Reserve | | | |
| BALANCE AT JANUARY 1, 2016 | \$ 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 | - | - | - | - | (1,235,236) | - | (1,235,236) |
| Profit for the six months ended June 30, 2016 | - | - | - | - | 1,064,963 | - | 1,064,963 |
| Other comprehensive income (loss) for the six months ended June 30, 2016, net of income tax | - | - | - | - | - | (10,771) | (10,771) |
| Total comprehensive income (loss) for the six months ended June 30, 2016 | - | - | - | - | 1,064,963 | (10,771) | 1,054,192 |
| BALANCE AT JUNE 30, 2016 | \$ 9,082,615 | \$ - | \$ 322,880 | \$ 848,678 | \$ 1,071,534 | \$ 19,844 | \$ 11,345,551 |
| BALANCE AT JANUARY 1, 2017 | \$ 9,082,615 | \$ - | \$ 322,880 | \$ 848,678 | \$ 2,086,241 | \$ 20,025 | \$ 12,360,439 |
| Appropriation of 2016 earnings | | | | | | | |
| Legal reserve | - | - | 208,266 | - | (208,266) | - | - |
| Special reserve | - | - | - | 624,796 | (624,796) | - | - |
| Cash dividends | - | - | - | - | (908,262) | - | (908,262) |
| Share dividends | - | 336,056 | - | - | (336,056) | - | - |
| Profit for the six months ended June 30, 2017 | - | - | - | - | 541,050 | - | 541,050 |
| Other comprehensive income (loss) for the six months ended June 30, 2017, net of income tax | - | - | - | - | - | (43,296) | (43,296) |
| Total comprehensive income (loss) for the six months ended June 30, 2017 | - | - | - | - | 541,050 | (43,296) | 497,754 |
| BALANCE AT JUNE 30, 2017 | \$ 9,082,615 | \$ 336,056 | \$ 531,146 | \$ 1,473,474 | \$ 549,911 | \$ (23,271) | \$ 11,949,931 |

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

(With Deloitte & Touche audit report dated August 8, 2017)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

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

| | For the Six Months Ended June 30 | |
|---|-------------------------------------|------------------|
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | \$ 745,731 | \$ 1,347,705 |
| Adjustments for: | | |
| Depreciation expenses | 396,715 | 302,309 |
| Amortization expenses | 237,389 | 327,947 |
| Reversal of impairment loss on trade receivables | (3,969) | (3,089) |
| Finance costs | 55,549 | 63,630 |
| Interest income | (26,750) | (13,560) |
| Share of profit of associate | (71,045) | (89,391) |
| Loss on disposal of property, plant and equipment | 4 | 113 |
| Impairment loss recognized on non-financial assets | 5,238 | 78,995 |
| Reversal of impairment loss on non-financial assets | - | (32,173) |
| Unrealized net loss (gain) on foreign currency exchange | 132,083 | (48,429) |
| Recognition of provisions (reversal of provisions) | (3,241) | 93,823 |
| Other income from liabilities | (2,837) | (12,556) |
| Net changes in operating assets and liabilities | | |
| Notes receivable | (5,850) | 15,894 |
| Trade receivables | (1,448,996) | (2,158,602) |
| Other receivables | 2,895 | 11,674 |
| Inventories | (123,108) | (296,916) |
| Other current assets | 255,163 | 239,538 |
| Trade payables | 256,023 | 333,218 |
| Other payables | (946,596) | (700,810) |
| Unearned receipts | (22,646) | 85,101 |
| Other current liabilities | 326,407 | 62,262 |
| Accrued pension liabilities | <u>13,511</u> | <u>9,744</u> |
| Cash used in operations | (228,330) | (383,573) |
| Interest received | 30,253 | 12,557 |
| Interest paid | (55,371) | (63,433) |
| Income tax paid | <u>(338,901)</u> | <u>(368,753)</u> |
| Net cash used in operating activities | <u>(592,349)</u> | <u>(803,202)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for property, plant and equipment | (1,164,059) | (866,400) |
| Increase in refundable deposits | (4,680) | (6,760) |
| Decrease in refundable deposits | 8,604 | 4,938 |
| Payments for intangible assets | (321,672) | (516,209) |
| Increase in other financial assets | (1,943,052) | - |
| Decrease in other financial assets | 13,710 | 690,208 |
| | | (Continued) |

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | For the Six Months Ended June 30 | |
|--|-------------------------------------|----------------------------|
| | 2017 | 2016 |
| Increase in prepayments for equipment | \$ (151,486) | \$ (311,978) |
| Dividend received | <u>501,997</u> | <u>21,429</u> |
| Net cash used in investing activities | <u>(3,060,638)</u> | <u>(984,772)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from short-term borrowings | 22,270,000 | 21,325,000 |
| Repayments of short-term borrowings | (19,390,000) | (18,650,000) |
| Proceeds from short-term bills payable | 4,994,850 | 3,892,485 |
| Repayments from short-term bills payable | (4,496,783) | (3,093,628) |
| Repayments of long-term borrowings | (583,802) | (344,700) |
| Proceeds of guarantee deposits received | 103,530 | 100,785 |
| Refund of guarantee deposits received | <u>(119,993)</u> | <u>(112,042)</u> |
| Net cash generated from financing activities | <u>2,777,802</u> | <u>3,117,900</u> |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES | | |
| | <u>(235)</u> | <u>(448)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (875,420) | 1,329,478 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | <u>2,560,098</u> | <u>1,554,739</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | <u>\$ 1,684,678</u> | <u>\$ 2,884,217</u> |

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

(With Deloitte & Touche auditors' review report dated August 8, 2017)

(Concluded)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

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

1. ORGANIZATION AND OPERATIONS

Aerospace Industrial Development Corporation was a state-owned enterprise formed by the Ministry of Economic Affairs on July 1, 1996 from Aero Industry Development Center, Chung-Shan Institute of Science and six other state-owned enterprises. The Group'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 25, 2014, the Company was listed at the Taiwan Stock Exchange.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on August 8, 2017.

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

- a. Initial application of the 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) (collectively, the "IFRSs") endorsed and issued into effect by the FSC

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Group's accounting policies.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the "IFRSs" endorsed by the FSC for application starting from 2018

| 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 |

(Continued)

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|---|--|
| IFRS 9 “Financial Instruments” | January 1, 2018 |
| Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures” | January 1, 2018 |
| IFRS 15 “Revenue from Contracts with Customers” | January 1, 2018 |
| Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers” | January 1, 2018 |
| 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.

1) IFRS 9 “Financial Instruments”

Recognition, measurement and impairment of financial assets

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

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

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

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

assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

Impairment of financial assets

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

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

The Group has performed a preliminary assessment that the Group will apply the simplified approach to recognize lifetime expected credit losses for trade receivables, contract assets and lease receivables. In relation to the debt instrument investments and the financial guarantee contracts, the Group will assess whether there has been a significant increase in the credit risk to determine whether to recognize 12-month or lifetime expected credit losses. In general, the Group anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for financial assets.

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.

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.

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

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

| New IFRSs | Effective Date Announced by IASB (Note) |
|--|--|
| 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 16 “Leases” | January 1, 2019 |
| IFRS 17 “Insurance Contracts” | January 1, 2021 |
| IFRIC 23 “Uncertainty Over Income Tax Treatments” | January 1, 2019 |

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

IFRS 16 “Leases”

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

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

- b. Basis of preparation

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

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

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

c. Basis of consolidation

See Note 10 and Table 4 for the detailed information of subsidiaries (including the percentage of ownership and main business).

d. Other significant accounting policies

For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2016.

1) Retirement benefits

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

2) Taxation

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgments and key sources of estimation uncertainty of these consolidated financial statements were the same as those applied in the preparation of the consolidated financial statements for the year ended December 31, 2016.

6. CASH AND CASH EQUIVALENTS

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|---|---------------------|----------------------|---------------------|
| Cash on hand and petty cash | \$ 1,846 | \$ 54 | \$ 1,895 |
| Checking accounts and demand deposits | 1,682,832 | 2,545,659 | 2,882,322 |
| Cash equivalent | | | |
| Time deposits with original maturities less than three months | _____ - | _____ 14,385 | _____ - |
| | <u>\$ 1,684,678</u> | <u>\$ 2,560,098</u> | <u>\$ 2,884,217</u> |

7. FINANCIAL ASSETS MEASURED AT COST – NON-CURRENT

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|--|------------------|----------------------|------------------|
| <u>Unlisted common shares</u> | | | |
| Aerovision Avionics Inc. (AAI) | \$ 43,200 | \$ 43,200 | \$ 43,200 |
| UHT Unitech Co Ltd (UHT Ltd) | 33,000 | 33,000 | - |
| Metro Consulting Service Ltd (Metro Ltd) | <u>3,000</u> | <u>3,000</u> | <u>3,000</u> |
| | <u>\$ 79,200</u> | <u>\$ 79,200</u> | <u>\$ 46,200</u> |

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

8. TRADE RECEIVABLES AND OTHER RECEIVABLES

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|---|---------------------|----------------------|---------------------|
| <u>Trade receivables from unrelated parties</u> | | | |
| Trade receivables | \$ 8,666,383 | \$ 7,257,977 | \$ 8,628,694 |
| Less: Allowance for impairment loss | <u>(706)</u> | <u>(1,813)</u> | <u>(767)</u> |
| | <u>\$ 8,665,677</u> | <u>\$ 7,256,164</u> | <u>\$ 8,627,927</u> |
| <u>Other receivables</u> | | | |
| Tax return receivables | \$ 143,525 | \$ 106,856 | \$ 104,219 |
| Others | <u>28,553</u> | <u>72,397</u> | <u>39,302</u> |
| | <u>\$ 172,078</u> | <u>\$ 179,253</u> | <u>\$ 143,521</u> |

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

The aging of trade receivables was as follows:

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|---------------|---------------------|----------------------|---------------------|
| 0 - 90 days | \$ 8,659,888 | \$ 7,241,221 | \$ 8,624,054 |
| 91 - 180 days | <u>6,495</u> | <u>16,756</u> | <u>4,640</u> |
| | <u>\$ 8,666,383</u> | <u>\$ 7,257,977</u> | <u>\$ 8,628,694</u> |

The above aging schedule was based on the past due date. The trade receivables of the Group have no overdue but not impaired.

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

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|----------------|--------------------------|------------------------------|--------------------------|
| 0 - 90 days | \$ 19,046 | \$ 30,060 | \$ 24,357 |
| 91 - 180 days | 6,495 | 16,335 | 3,793 |
| 181 - 365 days | 517 | 3,758 | 8,403 |
| Over 365 days | <u>11,598</u> | <u>13,432</u> | <u>8,660</u> |
| | <u>\$ 37,656</u> | <u>\$ 63,585</u> | <u>\$ 45,213</u> |

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

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

| | For the Six Months Ended June 30 | | | |
|---|---|-------------------------------|------------------------------|--------------------------------|
| | 2017 | | 2016 | |
| | Trade Receivable | Overdue Receivable | Trade Receivables | Overdue Receivables |
| <u>Collectively Assessed for Impairment</u> | | | | |
| Balance at January 1 | \$ 1,813 | \$ 14,719 | \$ 1,733 | \$ 18,197 |
| Reversed of impairment losses | <u>(1,107)</u> | <u>(2,862)</u> | <u>(966)</u> | <u>(2,123)</u> |
| Balance at June 30 | <u>\$ 706</u> | <u>\$ 11,857</u> | <u>\$ 767</u> | <u>\$ 16,074</u> |

9. INVENTORIES

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|------------------|--------------------------|------------------------------|--------------------------|
| Work in progress | \$ 4,815,101 | \$ 4,877,884 | \$ 5,158,187 |
| Raw materials | <u>2,862,939</u> | <u>2,721,693</u> | <u>3,902,058</u> |
| | <u>\$ 7,678,040</u> | <u>\$ 7,599,577</u> | <u>\$ 9,060,245</u> |

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

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|---|---|-------------|---|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| Recognized (reversal) of inventory write-downs | \$ (7,612) | \$ 17,381 | \$ 5,238 | \$ (32,173) |
| Income from sales of scraps | (13,672) | (6,839) | (19,200) | (11,149) |
| Indemnity income | (5,168) | (6,031) | (8,366) | (9,508) |
| Loss on disposal of inventories | 5,961 | 4,332 | 11,653 | 12,393 |

Provision write-downs were reversed as a result of sold inventories.

10. SUBSIDIARIES

Subsidiary included in consolidated financial statements:

| Investor | Investee | % of Ownership | | |
|-------------|-------------------------|------------------|----------------------|------------------|
| | | June 30, 2017 | December 31, 2016 | June 30, 2016 |
| The Company | AIDC USA LLC (AIDC USA) | 100 | 100 | 100 |

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

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

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|--|-------------------|----------------------|-------------------|
| <u>Investment in associate</u> | | | |
| International Turbine Engine Company LLC (ITEC) | <u>\$ 301,295</u> | <u>\$ 779,331</u> | <u>\$ 720,955</u> |

As of June 30, 2017 and 2016, the ownership and voting right in associate held by the Group were both 22.05%.

The Company capital increase AIDC USA by transfer the ownership of ITEC held by the Company at April, 2017. The agreement has been resolved by the board of directors on March 27, 2017.

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

The investment accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have not been reviewed.

12. PROPERTY, PLANT AND EQUIPMENT

| | For the Six Months Ended June 30, 2017 | | | | | |
|--------------------------|--|-------------------|---------------------|-------------------|--|-------------------|
| | Beginning Balance | Additions | Deductions | Reclassification | Effects of Foreign Currency Exchange Differences | Ending Balance |
| <u>Cost</u> | | | | | | |
| Land improvements | \$ 123,706 | \$ - | \$ - | \$ - | \$ - | \$ 123,706 |
| Buildings | 5,131,565 | 11,252 | - | 719,983 | - | 5,862,800 |
| Machinery and equipment | 11,849,710 | 198,846 | (170,823) | 213,806 | (1) | 12,091,538 |
| Transportation equipment | 721,700 | 3,370 | (2,405) | 4,826 | (75) | 727,416 |
| Leased assets | 42,394 | - | - | (42,394) | - | - |
| Other equipment | 394,339 | 14,035 | (755) | 343,479 | (12) | 751,086 |
| Property in construction | <u>782,719</u> | <u>104,888</u> | <u>-</u> | <u>(886,529)</u> | <u>-</u> | <u>1,078</u> |
| | <u>19,046,133</u> | <u>\$ 332,391</u> | <u>\$ (173,983)</u> | <u>\$ 353,171</u> | <u>\$ (88)</u> | <u>19,557,624</u> |
| | | | | | | (Continued) |

For the Six Months Ended June 30, 2017

| | Beginning Balance | Additions | Deductions | Reclassification | Effects of Foreign Currency Exchange Differences | Ending Balance |
|---------------------------------|------------------------------|-------------------|---------------------|-------------------------|---|------------------------------------|
| <u>Accumulated depreciation</u> | | | | | | |
| Land improvements | \$ 115,261 | \$ 857 | \$ - | \$ - | \$ - | \$ 116,118 |
| Buildings | 2,478,513 | 85,533 | - | - | - | 2,564,046 |
| Machinery and equipment | 7,133,807 | 299,878 | (170,819) | 42,394 | - | 7,305,260 |
| Transportation equipment | 671,667 | 7,873 | (2,405) | - | (9) | 677,126 |
| Leased assets | 41,806 | 588 | - | (42,394) | - | - |
| Other equipment | 239,292 | 24,099 | (755) | - | (1) | 262,635 |
| | <u>10,680,346</u> | <u>\$ 418,828</u> | <u>\$ (173,979)</u> | <u>\$ -</u> | <u>\$ (10)</u> | <u>10,925,185</u> |
| <u>Impairment</u> | | | | | | |
| Buildings | 26,258 | \$ - | \$ - | \$ - | \$ - | 26,258 |
| Machinery and equipment | 95,457 | - | - | - | - | 95,457 |
| | <u>121,715</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>121,715</u> |
| | <u>\$ 8,244,072</u> | | | | | <u>\$ 8,510,724</u> (Concluded) |

For the Six Months Ended June 30, 2016

| | Beginning Balance | Additions | Deductions | Reclassification | Effects of Foreign Currency Exchange Differences | Ending Balance |
|---------------------------------|------------------------------|---------------------|--------------------|-------------------------|---|---------------------------|
| <u>Cost</u> | | | | | | |
| Land improvements | \$ 123,706 | \$ - | \$ - | \$ - | \$ - | \$ 123,706 |
| Buildings | 4,351,512 | 10,682 | - | 208,236 | - | 4,570,430 |
| Machinery and equipment | 9,906,369 | 446,046 | (85,776) | 136,078 | - | 10,402,717 |
| Transportation equipment | 718,465 | 1,075 | (1,336) | (46) | - | 718,158 |
| Leased assets | 42,394 | - | - | - | - | 42,394 |
| Other equipment | 314,052 | 6,786 | (3,557) | 23,335 | - | 340,616 |
| Property in construction | 506,098 | 572,801 | - | (203,107) | - | 875,792 |
| | <u>15,962,596</u> | <u>\$ 1,037,390</u> | <u>\$ (90,669)</u> | <u>\$ 164,496</u> | <u>\$ -</u> | <u>17,073,813</u> |
| <u>Accumulated depreciation</u> | | | | | | |
| Land improvements | 113,347 | \$ 965 | \$ - | \$ - | \$ - | 114,312 |
| Buildings | 2,332,873 | 68,259 | - | - | - | 2,401,132 |
| Machinery and equipment | 6,801,138 | 230,758 | (85,662) | - | - | 6,946,234 |
| Transportation equipment | 630,692 | 22,364 | (1,336) | - | - | 651,720 |
| Leased assets | 34,740 | 3,532 | - | - | - | 38,272 |
| Other equipment | 215,089 | 13,690 | (3,558) | - | - | 225,221 |
| | <u>10,127,879</u> | <u>\$ 339,568</u> | <u>\$ (90,556)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>10,376,891</u> |
| <u>Impairment</u> | | | | | | |
| Buildings | 26,258 | \$ - | \$ - | \$ - | \$ - | 26,258 |
| Machinery and equipment | 95,457 | - | - | - | - | 95,457 |
| | <u>121,715</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>121,715</u> |
| | <u>\$ 5,713,002</u> | | | | | <u>\$ 6,575,207</u> |

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

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

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 30.

13. INTANGIBLE ASSETS

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|--|-------------------|--|---|
| <u>Other intangible assets</u> | | | |
| Trademark | \$ 289 | \$ 338 | \$ 309 |
| Patent | 681 | 719 | 733 |
| Computer software | 98,884 | 117,168 | 37,744 |
| Deferred technical cooperation expenses | <u>11,553</u> | <u>14,615</u> | <u>17,900</u> |
| | 111,407 | 132,840 | 56,686 |
| <u>Developing intangible assets</u> | | | |
| Projects non-recurring costs | <u>730,046</u> | <u>601,965</u> | <u>501,894</u> |
| | <u>\$ 841,453</u> | <u>\$ 734,805</u> | <u>\$ 558,580</u> |
| | | Other Intangible Assets | Developing Intangible Assets |
| <u>Cost</u> | | | |
| Balance at January 1, 2017 | | \$ 876,296 | \$ 5,250,996 |
| Additions from internal developments | | - | 342,028 |
| Additions | | 8,332 | - |
| Disposals | | (5,766) | (24,256) |
| Reclassification | | <u>253</u> | <u>-</u> |
| Balance at June 30, 2017 | | <u>879,115</u> | <u>5,568,768</u> |
| <u>Accumulated amortization and impairment</u> | | | |
| Balance at January 1, 2017 | | 743,456 | 4,649,031 |
| Amortization expense | | 30,017 | 213,947 |
| Disposals | | <u>(5,765)</u> | <u>(24,256)</u> |
| Balance at June 30, 2017 | | <u>767,708</u> | <u>4,838,722</u> |
| Carrying amounts at June 30, 2017 | | <u>\$ 111,407</u> | <u>\$ 730,046</u> |

| | Other Intangible Assets | Developing Intangible Assets |
|--|--|---|
| <u>Cost</u> | | |
| Balance at January 1, 2016 | \$ 776,037 | \$ 4,451,189 |
| Additions | 3,551 | - |
| Additions from internal developments | - | 556,128 |
| Disposals | <u>(380)</u> | <u>(226,439)</u> |
| Balance at June 30, 2016 | <u>779,208</u> | <u>4,780,878</u> |
| <u>Accumulated amortization and impairment</u> | | |
| Balance at January 1, 2016 | 704,288 | 4,110,884 |
| Amortization expense | 18,614 | 315,544 |
| Disposals | (380) | (226,439) |
| | <u>-</u> | <u>78,995</u> |
| Balance at June 30, 2016 | <u>722,522</u> | <u>4,278,984</u> |
| Carrying amounts at June 30, 2016 | <u>\$ 56,686</u> | <u>\$ 501,894</u> |

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:

| <u>Project name</u> | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|---------------------|--------------------------|------------------------------|--------------------------|
| Airbus SA Aft BF | \$ 346,176 | \$ 277,971 | \$ 192,666 |
| Airbus SA Aft BF_M2 | 183,041 | 121,814 | 59,035 |
| 787 (FTE) | 130,037 | 129,757 | 119,000 |
| CT-7 Engine | 53,442 | 54,037 | 57,185 |
| ITEC1042 | 5,194 | - | - |
| Others | <u>12,156</u> | <u>18,386</u> | <u>74,008</u> |
| | <u>\$ 730,046</u> | <u>\$ 601,965</u> | <u>\$ 501,894</u> |

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:

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|---|--------------------------|------------------------------|--------------------------|
| <u>Project name</u> | | | |
| The 11th Maintenance and Supply Company of ROCAF Academy Outsourcing Operation | \$ 5,800 | \$ 7,734 | \$ 9,666 |
| CT-7 Engine | 4,676 | 4,728 | 5,004 |
| The 2nd ALC Outsourcing Operation (The GOCO Maintenance Program) | <u>1,077</u> | <u>2,153</u> | <u>3,230</u> |
| | <u>\$ 11,553</u> | <u>\$ 14,615</u> | <u>\$ 17,900</u> |

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

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

14. OTHER FINANCIAL ASSETS

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

15. OTHER ASSETS

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|-------------------------------------|--------------------------|------------------------------|--------------------------|
| <u>Current</u> | | | |
| Prepayment | \$ 306,950 | \$ 491,142 | \$ 912,985 |
| Net defined benefit asset | - | 20,698 | - |
| Others | <u>72,765</u> | <u>123,038</u> | <u>109,891</u> |
| | <u>\$ 379,715</u> | <u>\$ 634,878</u> | <u>\$ 1,022,876</u> |
| <u>Non-current</u> | | | |
| Overdue receivables (Note 8) | \$ 12,115 | \$ 17,190 | \$ 17,063 |
| Less: Allowance for impairment loss | <u>(11,857)</u> | <u>(14,719)</u> | <u>(16,074)</u> |
| | 258 | 2,471 | 989 |
| Refundable deposits | <u>15,264</u> | <u>19,188</u> | <u>28,970</u> |
| | <u>\$ 15,522</u> | <u>\$ 21,659</u> | <u>\$ 29,959</u> |

16. BORROWINGS

a. Short-term borrowings

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|---------------------------------|--------------------------|------------------------------|--------------------------|
| Unsecured borrowings | \$ 7,280,000 | \$ 5,400,000 | \$ 6,525,000 |
| Secured borrowings (Note 30) | <u>2,800,000</u> | <u>1,800,000</u> | <u>1,800,000</u> |
| | <u>\$ 10,080,000</u> | <u>\$ 7,200,000</u> | <u>\$ 8,325,000</u> |
| Rates of interest per annum (%) | 0.78-0.90 | 0.78-0.98 | 0.81-1.05 |

b. Short-term bills payable

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|---|--------------------------|------------------------------|--------------------------|
| Commercial paper | \$ 2,500,000 | \$ 2,000,000 | \$ 2,500,000 |
| Less: Unamortized discount on bills payable | <u>(3,051)</u> | <u>(1,118)</u> | <u>(3,551)</u> |
| | <u>\$ 2,496,949</u> | <u>\$ 1,998,882</u> | <u>\$ 2,496,449</u> |
| Rates of interest per annum (%) | 0.86 | 0.5-0.71 | 0.89-1.03 |

c. Long-term borrowings

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|---------------------------------|--------------------------|------------------------------|--------------------------|
| Credit borrowings | \$ 1,332,043 | \$ 1,915,846 | \$ 2,535,546 |
| Less: Current portion | <u>(892,606)</u> | <u>(1,167,606)</u> | <u>(1,203,503)</u> |
| | <u>\$ 439,437</u> | <u>\$ 748,240</u> | <u>\$ 1,332,043</u> |
| Rates of interest per annum (%) | 1.13-1.22 | 1.13-1.22 | 1.20-1.29 |

17. FINANCE LEASE PAYABLE

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|---|--------------------------|------------------------------|--------------------------|
| <u>Minimum lease payments</u> | | | |
| Not later than one year | \$ - | \$ 5,141 | \$ 8,553 |
| Later than one year and not later than five years | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>-</u> | 5,141 | 8,553 |
| Less: Future finance charges | <u>-</u> | <u>(10)</u> | <u>(86)</u> |
| | <u>\$ -</u> | <u>\$ 5,131</u> | <u>\$ 8,467</u> |

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|---|--------------------------|------------------------------|--------------------------|
| <u>Present value of minimum lease payments</u> | | | |
| Not later than one year | \$ - | \$ 5,131 | \$ 8,467 |
| Later than one year and not later than five years | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ -</u> | <u>\$ 5,131</u> | <u>\$ 8,467</u> |

The Company leased 2 sets of Machining Centers (4-Axis Horizontal Machining Center) under finance leases in February, 2011. The lease terms is for 72 months at the rental of \$597 thousand (inclusive of tax) per month. The Company has paid the equipment for \$2,400 thousand each at the end of the lease term, and reclassification from leased assets to machinery and equipment. Refer to note 12. The interest rate of the finance lease was fixed at 2.162%.

18. OTHER LIABILITIES

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|-----------------------------------|--------------------------|------------------------------|--------------------------|
| Payable for dividends | \$ 908,262 | \$ - | \$ 1,235,236 |
| Payable for salaries and bonus | 801,914 | 1,488,147 | 991,848 |
| Payable for outsourcing | 582,112 | 817,298 | 620,243 |
| Payable for annual leave | 237,827 | 273,573 | 150,631 |
| Payable for purchase of equipment | 102,530 | 929,067 | 477,218 |
| Payable for service fee | 97,679 | 76,773 | 118,461 |
| Payable for claim | 36,285 | 37,540 | 36,396 |
| Others | <u>625,765</u> | <u>508,773</u> | <u>479,509</u> |
| | <u>\$ 3,392,374</u> | <u>\$ 4,131,171</u> | <u>\$ 4,109,542</u> |

19. PROVISIONS - NON-CURRENT

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|------------|--------------------------|------------------------------|--------------------------|
| Warranties | \$ 841,875 | \$ 869,618 | \$ 949,524 |
| Others | <u>158,988</u> | <u>173,893</u> | <u>188,798</u> |
| | <u>\$ 1,000,863</u> | <u>\$ 1,043,511</u> | <u>\$ 1,138,322</u> |

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

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

20. RETIREMENT BENEFIT PLANS

Employee benefit expenses in respect of the Corporation's defined benefit retirement plans were calculated using the actuarially determined pension cost discount rate as of December 31, 2016 and 2015. Employee benefit expenses for the three months ended June 30, 2017 and 2016 were \$99,383 thousand and \$99,033 thousand and for the six months ended June 30, 2017 and 2016 were \$198,766 thousand and \$198,066 thousand, respectively.

21. 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 23.

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 2016 and 2015 having been approved in the shareholders' meetings on June 14, 2017, and June 14, 2016, respectively, were as follows:

| | Appropriation of Earnings | | Dividends Per Share(NT\$) | |
|-----------------|---------------------------|------------|---------------------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Legal reserve | \$ 208,266 | \$ 202,917 | | |
| Special reserve | 624,796 | 608,751 | | |
| Cash dividends | 908,262 | 1,235,236 | \$ 1.00 | \$ 1.36 |
| Stock dividends | 336,056 | - | 0.37 | - |

22. REVENUES

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|--------------------------------|---------------------------------------|---------------------|-------------------------------------|----------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Aircraft/Vehicle Maintenance | \$ 3,970,122 | \$ 4,443,612 | \$ 7,745,623 | \$ 7,874,120 |
| Aero/Industrial Engine | 2,402,859 | 2,961,277 | 4,496,249 | 5,778,133 |
| Industrial Technology Services | <u>72,704</u> | <u>74,744</u> | <u>122,734</u> | <u>156,397</u> |
| | <u>\$ 6,445,685</u> | <u>\$ 7,479,633</u> | <u>\$ 12,364,606</u> | <u>\$ 13,808,650</u> |

23. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|---|---------------------------------------|------------------|-------------------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Remedy income | \$ 71,795 | \$ 817 | \$ 72,424 | \$ 892 |
| Interest income | 15,727 | 7,424 | 26,750 | 13,560 |
| Other income from condoned liabilities | 2,834 | 10,578 | 2,837 | 12,556 |
| Others | <u>18,643</u> | <u>33,205</u> | <u>36,227</u> | <u>53,519</u> |
| | <u>\$ 108,999</u> | <u>\$ 52,024</u> | <u>\$ 138,238</u> | <u>\$ 80,527</u> |

b. Other gains and losses

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|--|---------------------------------------|---------------------|-------------------------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net foreign exchange gains (losses) | \$ 48,230 | \$ 24,630 | \$ (417,750) | \$ (103,459) |
| Impairment loss | - | (78,995) | - | (78,995) |
| Loss on disposal of property, plant and equipment | (4) | (39) | (4) | (113) |
| Others | <u>(51,693)</u> | <u>(60,676)</u> | <u>(113,131)</u> | <u>(127,033)</u> |
| | <u>\$ (3,467)</u> | <u>\$ (115,080)</u> | <u>\$ (530,885)</u> | <u>\$ (309,600)</u> |

c. Employee benefits, depreciation and amortization

| | Operating Cost | Operating Expense | Non-operating Expense | Transfer to Development Intangible Assets | Total |
|---|-----------------------|--------------------------|------------------------------|--|--------------|
| <u>For the Three Months Ended June 30, 2017</u> | | | | | |
| Employee benefits expense | | | | | |
| Salaries expense | \$ 1,014,593 | \$ 127,841 | \$ 3,044 | \$ 23,876 | \$ 1,169,354 |
| Retirement benefit | | | | | |
| Defined contribution plans | 13,832 | 1,790 | 32 | 378 | 16,032 |
| Defined benefit plans | 85,770 | 11,070 | 203 | 2,340 | 99,383 |
| Labor and health insurance | 73,525 | 8,811 | 13,857 | 1,585 | 97,778 |
| Other employee benefits | 13,892 | 1,563 | 2,602 | 54 | 18,111 |
| Depreciation expense | 186,719 | 11,522 | 5,100 | 10,952 | 214,293 |
| Amortization expense | 122,472 | 2,036 | 13 | 4,013 | 128,534 |
| <u>For the Three Months Ended June 30, 2016</u> | | | | | |
| Employee benefits expense | | | | | |
| Salaries expense | 1,012,235 | 123,918 | 2,106 | 47,870 | 1,186,129 |
| Retirement benefit | | | | | |
| Defined contribution plans | 10,062 | 1,727 | 24 | 643 | 12,456 |
| Defined benefit plans | 79,971 | 13,746 | 196 | 5,120 | 99,033 |
| Labor and health insurance | 63,199 | 9,098 | 12,994 | 3,005 | 88,296 |
| Other employee benefits | 11,627 | 1,815 | 2,429 | 51 | 15,922 |
| Depreciation expense | 129,197 | 15,927 | 4,959 | 20,415 | 170,498 |
| Amortization expense | 223,776 | 2,933 | 8 | 3,342 | 230,059 |
| <u>For the Six Months Ended June 30, 2017</u> | | | | | |
| Employee benefits expense | | | | | |
| Salaries expense | 2,055,516 | 248,222 | 5,335 | 46,524 | 2,355,597 |
| Retirement benefit | | | | | |
| Defined contribution plans | 25,817 | 3,402 | 60 | 717 | 29,996 |
| Defined benefit plans | 171,071 | 22,540 | 402 | 4,753 | 198,766 |
| Labor and health insurance | 143,744 | 16,200 | 27,642 | 3,166 | 190,752 |
| Other employee benefits | 24,517 | 2,636 | 4,663 | 54 | 31,870 |
| Depreciation expense | 362,319 | 24,205 | 10,191 | 22,113 | 418,828 |
| Amortization expense | 232,897 | 4,467 | 25 | 6,575 | 243,964 |
| <u>For the Six Months Ended June 30, 2016</u> | | | | | |
| Employee benefits expense | | | | | |
| Salaries expense | 1,950,709 | 237,835 | 3,744 | 92,080 | 2,284,368 |
| Retirement benefit | | | | | |
| Defined contribution plans | 18,762 | 3,192 | 41 | 1,182 | 23,177 |
| Defined benefit plans | 160,334 | 27,279 | 350 | 10,103 | 198,066 |
| Labor and health insurance | 120,819 | 14,904 | 25,351 | 5,779 | 166,853 |
| Other employee benefits | 23,146 | 2,978 | 4,807 | 163 | 31,094 |
| Depreciation expense | 264,051 | 28,208 | 10,050 | 37,259 | 339,568 |
| Amortization expense | 322,562 | 5,369 | 16 | 6,211 | 334,158 |

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting on June 14, 2016, the Company accrued employees' compensation at the rates of no less than 0.58% and no higher than 4.65%, and remuneration of directors and supervisors at the rates of no higher than 0.58%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. For the three months ended June 30, 2017 and 2016, and for the six months ended June 30, 2017 and 2016 the employees' compensation and the remuneration of directors and supervisors were as follows:

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|---|---|-------------|---|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| Employees' compensation | \$ 27,676 | \$ 36,036 | \$ 33,992 | \$ 62,668 |
| Remuneration of directors and supervisors | 3,452 | 4,495 | 4,240 | 7,817 |

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

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

| | For the Year Ended December 31 | |
|---|---------------------------------------|-------------|
| | 2016 | 2015 |
| Employees' compensation | \$ 120,624 | \$ 115,426 |
| Remuneration of directors and supervisors | 15,046 | 14,397 |

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2016 and 2015.

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

d. Gain or loss on foreign currency exchange

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|-------------------------|---|------------------|---|---------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Foreign exchange gains | \$ 83,079 | \$ 97,857 | \$ 131,317 | \$ 127,064 |
| Foreign exchange losses | <u>(34,849)</u> | <u>(73,227)</u> | <u>(549,067)</u> | <u>(230,523)</u> |
| Net gains (losses) | <u>\$ 48,230</u> | <u>\$ 24,630</u> | <u>\$ (417,750)</u> | <u>\$ (103,459)</u> |

24. TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|---|---------------------------------------|-------------------|-------------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Current tax | | | | |
| In respect of the current period | \$ 68,780 | \$ 133,064 | \$ 299,830 | \$ 250,919 |
| Income tax on unappropriated earnings | 62,709 | 59,102 | 62,709 | 59,102 |
| Adjustments for prior years | 2,084 | - | 2,084 | - |
| Deferred tax | | | | |
| In respect of the current period | <u>45,833</u> | <u>1,635</u> | <u>(159,942)</u> | <u>(27,279)</u> |
| Income tax expense recognized in profit or loss | <u>\$ 179,406</u> | <u>\$ 193,801</u> | <u>\$ 204,681</u> | <u>\$ 282,742</u> |

b. Income tax recognized in other comprehensive income

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|-----------------------------------|---------------------------------------|-----------------|-------------------------------------|-----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Deferred tax | | | | |
| Translation of foreign operations | <u>\$ -</u> | <u>\$ (295)</u> | <u>\$ (4,101)</u> | <u>\$ 2,205</u> |

c. Integrated income tax

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|--|-------------------|----------------------|---------------------|
| Unappropriated earnings generated on and after January 1, 1998 | <u>\$ 549,911</u> | <u>\$ 2,086,241</u> | <u>\$ 1,071,534</u> |
| Imputation credits account | <u>\$ 619,689</u> | <u>\$ 284,691</u> | <u>\$ 529,440</u> |

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

d. Income tax assessments

Income tax returns of the Company through 2015 have been examined and cleared by the tax authorities.

25. EARNINGS PER SHARE

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

| | Unit: NT\$ Per share | | | |
|----------------------------|---------------------------------------|----------------|-------------------------------------|----------------|
| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
| | 2017 | 2016 | 2017 | 2016 |
| Basic earnings per share | <u>\$ 0.46</u> | <u>\$ 0.62</u> | <u>\$ 0.57</u> | <u>\$ 1.13</u> |
| Diluted earnings per share | <u>\$ 0.46</u> | <u>\$ 0.62</u> | <u>\$ 0.57</u> | <u>\$ 1.13</u> |

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares on July 29, 2017. The basic and diluted earnings per share adjusted retrospectively for the three months ended June 30, 2016 and the six months ended June 30, 2016 were as follows:

| | Before Retrospective Adjustment | | After Retrospective Adjustment | |
|----------------------------|--|--|--|--|
| | For the Three Months Ended June 30 | For the Six Months Ended June 30 | For the Three Months Ended June 30 | For the Six Months Ended June 30 |
| Basic earnings per share | <u>\$ 0.64</u> | <u>\$ 1.17</u> | <u>\$ 0.62</u> | <u>\$ 1.13</u> |
| Diluted earnings per share | <u>\$ 0.64</u> | <u>\$ 1.17</u> | <u>\$ 0.62</u> | <u>\$ 1.13</u> |

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

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|---|---------------------------------------|-------------------|-------------------------------------|--------------------|
| | 2017 | 2016 | 2017 | 2016 |
| <u>Profit for the period attributable to owners of the Company</u> | | | | |
| Earnings used in the computation of basic earnings per share (Earnings used in the computation of diluted earnings per share) | <u>\$ 429,414</u> | <u>\$ 581,170</u> | <u>\$ 541,050</u> | <u>\$1,064,963</u> |

Unit: NT\$ Per share

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|--|---------------------------------------|----------------|-------------------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| <u>Weighted average number of ordinary shares outstanding (in thousand shares)</u> | | | | |
| Weighted average number of ordinary shares in computation of basic earnings per share | 941,867 | 941,867 | 941,867 | 941,867 |
| Effect of potentially dilutive ordinary shares: Employees' compensation issue to employees | <u>949</u> | <u>1,424</u> | <u>2,534</u> | <u>2,801</u> |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | <u>942,816</u> | <u>943,291</u> | <u>944,401</u> | <u>944,668</u> |

Since the Group provides to settle compensation paid to employees in cash or shares, the Group assumes the entire amount of the compensation would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

26. OPERATING LEASE ARRANGEMENTS

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

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|--|-------------------|----------------------|-------------------|
| Not later than 1 year | \$ 130,638 | \$ 130,676 | \$ 130,666 |
| Later than 1 year and not later than 5 years | <u>221,655</u> | <u>287,010</u> | <u>352,388</u> |
| | <u>\$ 352,293</u> | <u>\$ 417,686</u> | <u>\$ 483,054</u> |

27. CAPITAL MANAGEMENT

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

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

28. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

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

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

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

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

- a) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices.
- b) The fair values of other financial assets and financial liabilities were determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

b. Categories of financial instruments

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|---|--------------------------|------------------------------|--------------------------|
| <u>Financial assets</u> | | | |
| Loans and receivables | \$ 14,644,596 | \$ 12,267,211 | \$ 13,844,672 |
| Financial assets measured at cost | 79,200 | 79,200 | 46,200 |
| <u>Financial liabilities</u> | | | |
| Financial liabilities at amortized cost | 18,438,284 | 15,117,041 | 18,327,166 |

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), other financial assets (recognized in other current liabilities), long-term loans (included not later than one year) and guarantee deposits.

c. Financial risk management objectives

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

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

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

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

1) Market risk

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

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

Foreign currency risk

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

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

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar. The Group's sensitivity to a 0.5% stronger or weaker New Taiwan dollar against the relevant foreign currencies means profit before income tax would be higher by \$46,858 thousand and \$40,067 thousand for the six months ended June 30, 2017 and 2016. The sensitivity rate of 0.5% represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, with the foreign currency rates at the end of the reporting period adjusted for a 0.5% change.

Interest rate risk

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

Sensitivity analysis

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended June 30, 2017 and 2016 would decrease/increase by \$14,265 thousand and \$13,576 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings. A 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 Group. The possible financial loss would equal to the carrying amount of the recognized financial assets as stated in the balance sheets. However, the Group is executing forward exchange only with the correspondent financial institutions, and they are creditworthy with no

credit risks.

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

The Group's concentration of credit risk by geographical location was mainly in the U.S., which accounted for 38%, 42% and 28% of the total trade receivable as of June 30, 2017, December 31, 2016 and June 30, 2016, respectively.

3) Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As of June 30, 2017, December 31, 2016 and June 30, 2016, the Group had available unutilized short-term loans facilities as set out in (b) below.

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

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

| | June 30, 2017 | |
|---|-----------------------------|-----------------------------|
| | Less than 1 Year | More than 1 Year |
| <u>Non-derivative financial liabilities</u> | | |
| Non-interest bearing liabilities | \$ 4,333,492 | \$ 195,800 |
| Variable interest rate liabilities | 10,972,606 | 439,437 |
| Fixed interest rate liabilities | <u>2,496,949</u> | <u>-</u> |
| | <u>\$ 17,803,047</u> | <u>\$ 635,237</u> |
| | December 31, 2016 | |
| | Less than 1 Year | More than 1 Year |
| <u>Non-derivative financial liabilities</u> | | |
| Non-interest bearing liabilities | \$ 3,784,919 | \$ 212,263 |
| Finance lease payable | 5,131 | - |
| Variable interest rate liabilities | 8,367,606 | 748,240 |
| Fixed interest rate liabilities | <u>1,998,882</u> | <u>-</u> |
| | <u>\$ 14,156,538</u> | <u>\$ 960,503</u> |

| | June 30, 2016 | |
|---|-----------------------------|-----------------------------|
| | Less than 1 Year | More than 1 Year |
| <u>Non-derivative financial liabilities</u> | | |
| Non-interest bearing liabilities | \$ 4,745,599 | \$ 216,105 |
| Finance lease payable | 8,467 | - |
| Variable interest rate liabilities | 9,528,503 | 1,332,043 |
| Fixed interest rate liabilities | <u>2,496,449</u> | <u>-</u> |
| | <u>\$ 16,779,018</u> | <u>\$ 1,548,148</u> |

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)

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|-------------------------------|--------------------------|------------------------------|--------------------------|
| Unsecured bank loan facility: | | | |
| Amount used | \$ 7,763,996 | \$ 6,000,368 | \$ 7,287,127 |
| Amount unused | <u>7,966,004</u> | <u>8,529,632</u> | <u>6,342,873</u> |
| | <u>\$ 15,730,000</u> | <u>\$ 14,530,000</u> | <u>\$ 13,630,000</u> |
| Secured bank loan facilities: | | | |
| Amount used | \$ 2,800,000 | \$ 1,800,000 | \$ 1,800,000 |
| Amount unused | <u>-</u> | <u>1,000,000</u> | <u>1,000,000</u> |
| | <u>\$ 2,800,000</u> | <u>\$ 2,800,000</u> | <u>\$ 2,800,000</u> |

29. TRANSACTIONS WITH RELATED PARTIES

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

a. Related Party Categories / Names

| <u>Related Party</u> | <u>Relationship with the Consolidated Company</u> |
|------------------------------|---|
| ITEC | Associates |
| Ministry of Economic Affairs | Corporate director (holdings 40.07%) |

b. Sales of goods

| Related Parties Types | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|------------------------------|---|-------------------|---|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| ITEC | <u>\$ 289,684</u> | <u>\$ 387,373</u> | <u>\$ 423,832</u> | <u>\$ 709,316</u> |

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

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

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

c. Purchase of goods

| Related Parties Types | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|-----------------------|---------------------------------------|-------------------|-------------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| ITEC | \$ <u>188,705</u> | \$ <u>231,413</u> | \$ <u>375,556</u> | \$ <u>404,799</u> |

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

d. Manufacturing expenses

| Related Parties Types | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|-----------------------|---------------------------------------|------------------|-------------------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| ITEC | \$ <u>28,748</u> | \$ <u>19,754</u> | \$ <u>56,207</u> | \$ <u>37,704</u> |

e. The Company leases land from the Ministry of Economic Affairs, rent expense is calculated at 5% of the annually announced land values, payment is once a year. Rent expense for the six months ended June 30, 2017 and 2016 were \$52,781 thousand and \$61,402 thousand. Rent payable recognized in other payables, for the six months ended June 30, 2017 and 2016 were \$52,781 thousand and \$61,402 thousand.

f. Receivable from related parties

| Related Parties Types | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|-----------------------|-------------------|----------------------|-------------------|
| ITEC | \$ <u>254,023</u> | \$ <u>220,669</u> | \$ <u>197,565</u> |

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 | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|-----------------------|-------------------|----------------------|------------------|
| ITEC | \$ <u>157,481</u> | \$ <u>19,836</u> | \$ <u>88,613</u> |

The outstanding trade payables to related parties are unsecured.

h. Other payables

| Related Parties Types | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|------------------------------|--------------------------|------------------------------|--------------------------|
| ITEC | \$ <u>4,289</u> | \$ <u>19,401</u> | \$ <u>1,461</u> |

i. Compensation of key management personnel

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|--------------------------|---|------------------|---|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Short-term benefits | \$ 6,824 | \$ 9,781 | \$ 18,381 | \$ 16,649 |
| Post-employment benefits | <u>410</u> | <u>389</u> | <u>820</u> | <u>778</u> |
| | <u>\$ 7,234</u> | <u>\$ 10,170</u> | <u>\$ 19,201</u> | <u>\$ 17,427</u> |

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

30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

| | June 30, 2017 | December 31, 2016 | June 30, 2016 |
|--------------------------------------|--------------------------|------------------------------|--------------------------|
| <u>Time deposits</u> | | | |
| Property, plant and equipment | \$ 2,226,402 | \$ - | \$ - |
| Other financial assets - current | 2,991,994 | 1,946,451 | 1,884,022 |
| Other financial assets - non-current | <u>10,807</u> | <u>24,517</u> | <u>24,517</u> |
| | <u>\$ 5,229,203</u> | <u>\$ 1,970,968</u> | <u>\$ 1,908,539</u> |

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

- a. As of June 30, 2017, December 31, 2016 and June 30, 2016, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately \$251,226 thousand, \$455,368 thousand and \$978,706 thousand, respectively.
- b. As of June 30, 2017, December 31, 2016 and June 30, 2016, unpaid contract for purchases of raw materials and machinery and equipment amounted to approximately \$9,271,796 thousand, \$9,896,150 thousand and \$9,468,592 thousand, respectively.

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

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

| | June 30, 2017 | | | December 31, 2016 | | |
|------------------------------|--------------------|---------------|--------------------|--------------------|---------------|--------------------|
| | Foreign Currencies | Exchange Rate | New Taiwan Dollars | Foreign Currencies | Exchange Rate | New Taiwan Dollars |
| <u>Financial assets</u> | | | | | | |
| Monetary items | | | | | | |
| USD | \$ 313,510 | 30.42 | \$ 9,536,974 | \$ 257,764 | 32.25 | \$ 8,312,889 |
| Non-monetary items | | | | | | |
| USD | 9,905 | 30.42 | 301,295 | 24,165 | 32.25 | 779,331 |
| <u>Financial liabilities</u> | | | | | | |
| Monetary items | | | | | | |
| USD | 15,762 | 30.42 | 479,480 | 3,483 | 32.25 | 112,327 |
| | June 30, 2016 | | | | | |
| | Foreign Currencies | Exchange Rate | New Taiwan Dollars | | | |
| <u>Financial assets</u> | | | | | | |
| Monetary items | | | | | | |
| USD | \$ 254,181 | 32.275 | \$ 8,203,692 | | | |
| Non-monetary items | | | | | | |
| USD | 22,338 | 32.275 | 720,955 | | | |
| <u>Financial liabilities</u> | | | | | | |
| Monetary items | | | | | | |
| USD | 5,899 | 32.275 | 190,390 | | | |

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

| Foreign Currencies | For the Six Months Ended June 30, 2017 | | For the Six Months Ended June 30, 2016 | |
|--------------------|---|---------------------------|---|---------------------------|
| | Exchange Rate | Net Foreign Exchange Loss | Exchange Rate | Net Foreign Exchange Gain |
| USD | 30.42 | <u>\$(129,402)</u> | 32.275 | <u>\$ 54,197</u> |
| Foreign Currencies | For the Three Months Ended June 30, 2017 | | For the Three Months Ended June 30, 2016 | |
| | Exchange Rate | Net Foreign Exchange Gain | Exchange Rate | Net Foreign Exchange Gain |
| USD | 30.42 | <u>\$171,828</u> | 32.275 | <u>\$ 59,134</u> |

33. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (None)
- 2) Endorsements/guarantees provided. (None)
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities). (Table 1)
- 4) Marketable securities acquired and disposed at costs or prices at least \$300 million or 20% of the paid-in capital. (None)
- 5) Acquisition of individual real estate at costs of at least \$300 million or 20% of the paid-in capital. (None)
- 6) Disposal of individual real estate at prices of at least \$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sales to related parties amounting to at least \$100 million or 20% of the paid-in capital. (Table 2)
- 8) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital. (Table 3)
- 9) Trading in derivative instruments. (None)
- 10) Intercompany relationships and significant intercompany transactions. (None)
- 11) Information on investees. (Table 4)

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

34. SEGMENT INFORMATION

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

JUNE 30, 2017

(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 | June 30, 2017 | | | |
|----------------------|--|---------------------------------------|--|---------------|----------------|-------------------------|------------|
| | | | | Shares | Carrying Value | Percentage of Ownership | Fair Value |
| The Company | <u>Capital stock</u> | | | | | | |
| | AAI | The Company is a corporate director | Financial assets measured at cost - noncurrent | 4,968 | \$ 43,200 | 13% | \$ 51,008 |
| | Metro Ltd | The Company is a corporate director | Financial assets measured at cost - noncurrent | 300 | 3,000 | 6% | 3,202 |
| | UHT Ltd | The Company is a corporate director | Financial assets measured at cost - noncurrent | 1,100 | 33,000 | 4.05% | 735 |

Note: Information about associate is provided in Table 4.

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE THREE MONTHS ENDED JUNE 30, 2017

(In Thousands of New Taiwan Dollars)

| Purchaser or Seller | Related Party | Nature of Relationship with the Purchaser or Seller | Transaction Details | | | | Abnormal Transaction | | Notes and Accounts Receivable (Payable) | | Note |
|---------------------|---------------|---|---------------------|--------------|------------|------------------|----------------------|------------------|---|------------|------|
| | | | Purchase or Sale | Amount | % to Total | Collection Terms | Unit Price | Collection Terms | Ending Balance | % to Total | |
| The Company | ITEC | Investments using equity method | (Sale) | \$ (423,832) | (3) | Note | Note | Note | \$ 254,023 | 3 | |
| | | | Purchase | 375,556 | 7 | Note | Note | Note | (157,481) | (9) | |

Note: Information is provided in Note 29.

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

JUNE 30, 2017

(In Thousands of New Taiwan Dollars)

| Company Name | Related Party | Relationship | Ending Balance | Turnover Rate | Overdue | | Amount Received in Subsequent Period | Allowance for Impairment Loss |
|--------------|---------------|---------------------------------|----------------|---------------|---------|--------------|--------------------------------------|-------------------------------|
| | | | | | Amount | Action Taken | | |
| The Company | ITEC | Investments using equity method | \$ 254,023 | 3.57 | \$ - | - | \$ 197,980 | \$ - |

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTEEES

FOR THE THREE MONTHS ENDED JUNE 30, 2017

(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 June 30, 2017 | | | Net Income (Loss) of the Investee | Share of Profits (Loss) | Note |
|------------------|------------------|-----------------------|--|----------------------------|-------------------|---------------------|-------|-----------------|-----------------------------------|-------------------------|------------|
| | | | | June 30, 2017 | December 31, 2016 | 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. | \$ 288,661 | \$ 16,590 | - | 100 | \$ 311,242 | \$ 23,123 | \$ 23,123 | Subsidiary |
| | ITEC | State of Delaware USA | Development production and remodel of aircraft | 728 | 728 | - | 22.05 | 301,295 | 322,200 | 71,045 | Associate |