

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**CHIN-POON INDUSTRIAL CO., LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2016 and 2015
(With Independent Auditors' Report Thereon)**

**Address: No. 46, Nei-Tsuoh St., 3rd Lin, Nei-Tsuoh Village,
Lu-Chu County, Taoyuan City, Taiwan, R.O.C.**

Tel: (03)322-2226

REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Consolidated Company Limited as of and for the year ended December 31, 2016, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No. 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Chin-Poon Industrial Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Chin-Poon Industrial Co., Ltd.

Chairman: HUANG , WEI-JIN

Date: March 22, 2017



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Independent Auditors' Report

The Board of Directors
Chin-Poon Industrial Co., Ltd.:

Opinion

We have audited the accompanying consolidated financial statements of Chin-Poon Industrial Co., Ltd. ("the Company") and its subsidiaries ("the Consolidated Company"), which comprise the consolidated statement of financial position as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Consolidated Company as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and 2015 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

1. Subsequent measurements of inventories

Please refer to note 4(h), note 5(a) and 6(d) for the disclosure on subsequent measurements of inventories of the consolidated financial statements.



Description of key audit matter:

The inventories of the Consolidated Company are mainly electronic printed circuit boards and electronic materials. The products may be outdated or no longer meet the market demand due to the rapid changes in technology. In addition, with the price competition in the same industry, the demand on related products and their prices may fiercely fluctuate, which may result in a risk wherein the cost of inventories may exceed its net realizable value. As a result, the subsequent measurements of inventories has to be based on the managements' assessment using internal and external evidences. Therefore, the subsequent measurements of inventories was identified as one of the key audit matters.

How the matter was addressed in our audit:

The procedures included assessing the rationality of accounting policy for inventory subsequent measurements; reviewing the inventory aging documents and analyzing their changes; obtaining the documents of inventory subsequent measurements and understanding the rationality of sales prices adopted by the management while the inventory subsequent measurements was still in progress; selecting samples and examining relevant documents to verify the accuracy of net realizable value of inventories; and assessing whether the disclosure of the inventory subsequent measurements made by the management was appropriate.

2. Provision of sales returns and discounts

Please refer to note 4(l), note 5(b) and note 6(h) for the disclosure on the provision for sales returns and discounts of the consolidated financial statements.

Description of key audit matter:

The Consolidated Company recorded a provision for its estimated future returns and discounts for specific electronic circuit boards by using historical trend and other known factors in the same period when related revenue is recorded. Since the provision for sales returns and discounts was subject to significant judgment of the management, the procedures of estimation can be complicated. Therefore, the provision for sales returns and discounts was identified as one of the key audit matters.

How the matter was addressed in our audit:

The procedures included understanding the management's methodology used in estimating sales returns and allowances; assessing the reasonableness of relevant assumptions made by the management; obtaining the documents of provision for sales returns and allowances, selecting samples and examining relevant documents to verify the reasonableness of the management's methodology used in estimating provision for sales returns and discounts; and assessing whether the disclosure on provision for sales returns and allowances made by the management was appropriate.

Other Matter

Chin-Poon Industrial Co., Ltd. has prepared its parent company-only financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unqualified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



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

Those charged with governance are responsible for overseeing the Consolidated Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Consolidated Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



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

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

The engagement partners on the audit resulting in this independent auditor's report are Lily Lu and Yu Ann Tien.

KPMG

Taipei, Taiwan (Republic of China)
March 22, 2017

Note to Readers

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

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Chin-Poon Industrial Co., Ltd. and subsidiaries

Consolidated Statements of Financial Position

December 31, 2016 and 2015

(All amounts expressed in thousands of New Taiwan dollars)

Assets	December 31, 2016		December 31, 2015		December 31, 2016		December 31, 2015	
	Amount	%	Amount	%	Amount	%	Amount	%
Current assets:								
Cash and cash equivalents (note 6(a))	\$ 4,827,194	19	3,909,412	16			\$ 1,640,164	6
Available-for-sale financial assets—current (note 6(b))	1,101,307	4	1,098,770	4			-	-
Notes receivable, net (note 6(c))	11,736	-	8,468	-			41,763	-
Accounts receivable, net (note 6(c))	4,945,972	20	4,858,982	20			912,874	3
Other receivable (note 6(c))	96,508	-	120,456	-			2,735,380	11
Inventories (notes 6(d) and 9)	3,924,838	16	3,243,435	13			1,987,773	8
Prepayments	113,420	-	140,166	1			381,963	1
Other financial assets—current (note 6(b))	94,193	-	1,182,046	5			478,514	2
Other current assets	145,888	1	189,217	1			140,789	1
Total current assets	15,261,056	60	14,750,952	60			8,319,220	32
Non-current assets:								
Available-for-sale financial assets—non-current (note 6(b))	11,755	-	13,286	-			136,467	1
Property, plant and equipment (notes 6(f), 7, 8 and 9)	8,372,088	33	8,948,615	37			49,668	-
Deferred tax assets (note 6(l))	136,776	1	120,220	-			641,860	3
Prepayments for equipment (note 9)	118,299	-	198,160	1			22,887	-
Other financial assets—non-current (note 6(b))	1,424,794	6	374,266	2			857,882	4
Long-term prepaid rental	60,406	-	67,655	-			796,972	3
Other non-current assets (note 8)	5	-	1,846	-			9,177,102	36
Total non-current assets	10,124,123	40	9,724,048	40			3,974,954	16
Total assets	\$ 25,385,179	100	24,475,000	100			\$ 12,294,174	58
Liabilities and Equity								
Current liabilities:								
Short-term loans (notes 6(g), 8 and 9)								
Financial liabilities at fair value through profit or loss—current (note 6(b))								
Current portion of long-term loans (notes 6(g), 8 and 9)								
Notes payable								
Accounts payable								
Other payables (notes 6(k) and 6(p))								
Current tax liabilities								
Provisions—current (note 6(h))								
Other current liabilities								
Total current liabilities								
Non-current liabilities:								
Bond payables (note 6(i))								
Long-term loans (notes 6(g), 8 and 9)								
Deferred tax liabilities (note 6(l))								
Net defined benefit liability (note 6(k))								
Total long-term liabilities								
Total liabilities								
Equity attributable to shareholders of the Company (notes 6(e), 6(i), 6(b), 6(l) and 6(m)):								
Common stock								
Capital surplus								
Retained earnings:								
Legal reserve								
Unappropriated earnings								
Other equity:								
Foreign currency translation differences for foreign operations								
Unrealized gain (loss) on valuation of available-for-sale financial assets								
Total equity attributable to shareholders of the Company								
Non-controlling interests (notes 6(e) and 6(i))								
Total equity								
Total liabilities and equity								

See accompanying notes to the consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

CHIN-POON INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

(All amounts expressed in thousands of New Taiwan dollars)

	2016		2015	
	Amount	%	Amount	%
Operating revenue (notes 6(h) and 6(o))	\$ 23,939,699	100	22,644,105	100
Operating costs (notes 6(d) and 6(k))	<u>19,555,849</u>	<u>82</u>	<u>19,310,837</u>	<u>85</u>
Gross profit	4,383,850	18	3,333,268	15
Operating expenses (notes 6(c), 6(l), 6(p) and 7):				
Selling expenses	686,087	3	631,334	3
Administrative expenses	522,758	2	440,891	2
Research and development expenses	<u>155,882</u>	<u>1</u>	<u>197,358</u>	<u>1</u>
Total operating expenses	<u>1,364,727</u>	<u>6</u>	<u>1,269,583</u>	<u>6</u>
Operating income	<u>3,019,123</u>	<u>12</u>	<u>2,063,685</u>	<u>9</u>
Non-operating income and expenses (notes 6(f), 6(i) and 6(q)):				
Other income	429,635	2	478,424	3
Other gains and losses	(89,802)	-	55,226	-
Finance costs	<u>(37,459)</u>	<u>-</u>	<u>(31,524)</u>	<u>-</u>
Total non-operating income and expenses	<u>302,374</u>	<u>2</u>	<u>502,126</u>	<u>3</u>
Income before income tax	3,321,497	14	2,565,811	12
Less: income tax expenses (note 6(l))	<u>864,983</u>	<u>4</u>	<u>651,356</u>	<u>3</u>
Net income	<u>2,456,514</u>	<u>10</u>	<u>1,914,455</u>	<u>9</u>
Other comprehensive income (loss) (notes 6(k), 6(l) and 6(r)):				
Items that may not be reclassified subsequently to profit or loss:				
Remeasurements of defined benefit plans	(37,222)	-	28,811	-
Income tax related to items that will not be reclassified subsequently to profit or loss	<u>6,355</u>	<u>-</u>	<u>(4,760)</u>	<u>-</u>
Total items that will not be reclassified subsequently to profit or loss	<u>(30,867)</u>	<u>-</u>	<u>24,051</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences for foreign operations	(508,738)	(2)	(43,307)	-
Unrealized gain on valuation of available-for-sale financial assets	1,869	-	(30,264)	-
Income tax related to items that may be reclassified subsequently to profit or loss	-	-	-	-
Total Items that may be reclassified subsequently to profit or loss	<u>(506,869)</u>	<u>(2)</u>	<u>(73,571)</u>	<u>-</u>
Other comprehensive income (loss), net of tax	<u>(537,736)</u>	<u>(2)</u>	<u>(49,520)</u>	<u>-</u>
Total comprehensive income	<u>\$ 1,918,778</u>	<u>8</u>	<u>1,864,935</u>	<u>9</u>
Net income attributable to:				
Shareholders of the Company	\$ 2,489,038	10	1,977,323	9
Non-controlling interests	<u>(32,524)</u>	<u>-</u>	<u>(62,868)</u>	<u>-</u>
	<u>\$ 2,456,514</u>	<u>10</u>	<u>1,914,455</u>	<u>9</u>
Total comprehensive income attributable to:				
Shareholders of the Company	\$ 1,932,729	8	1,960,241	9
Non-controlling interests	<u>(13,951)</u>	<u>-</u>	<u>(95,306)</u>	<u>-</u>
	<u>\$ 1,918,778</u>	<u>8</u>	<u>1,864,935</u>	<u>9</u>
Basic earnings per share (expressed in New Taiwan dollars) (note 6(n))	<u>\$</u>	<u>6.26</u>	<u>\$</u>	<u>4.97</u>
Diluted earnings per share (expressed in New Taiwan dollars) (note 6(n))	<u>\$</u>	<u>6.21</u>	<u>\$</u>	<u>4.94</u>

See accompanying notes to the consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

CHIN-POON INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(All amounts expressed in thousands of New Taiwan dollars)

	Equity attributable to shareholders of the Company										Total equity attributable to shareholders of the Company	Non-controlling interests	Total equity
	Common stock	Capital surplus	Legal reserve	Unappropriated earnings	Total	Foreign currency translation differences for foreign operations	Other equity gain (loss) on valuation of available-for-sale financial assets	Total	Company	interests			
Balance at January 1, 2015	\$ 3,974,954	1,571,014	1,545,905	6,468,889	8,014,794	577,464	63,241	640,705	14,201,467	613,283	14,814,750		
Appropriations and distributions:													
Legal reserve	-	-	176,899	(176,899)	-	-	-	-	-	-	-		
Cash dividends	-	-	-	(874,490)	(874,490)	-	-	-	(874,490)	(11,159)	(885,649)		
Net income for the year	-	-	-	1,977,323	1,977,323	-	-	-	1,977,323	(62,868)	1,914,455		
Other comprehensive income for the year	-	-	-	25,780	25,780	(12,598)	(30,264)	(42,862)	(17,082)	(32,438)	(49,520)		
Total comprehensive income for the year	-	-	-	2,003,103	2,003,103	(12,598)	(30,264)	(42,862)	1,960,241	(95,306)	1,864,935		
Changes in the ownership interests in subsidiaries	-	3,375	-	-	-	-	-	-	3,375	-	3,375		
Balance at December 31, 2015	3,974,954	1,574,389	1,722,804	7,420,603	9,143,407	564,866	32,977	597,843	15,290,593	506,818	15,797,411		
Appropriations and distributions:													
Legal reserve	-	-	197,733	(197,733)	-	-	-	-	-	-	-		
Cash dividends	-	-	-	(1,033,488)	(1,033,488)	-	-	-	(1,033,488)	-	(1,033,488)		
Net income for the year	-	-	-	2,489,038	2,489,038	-	-	-	2,489,038	(32,524)	2,456,514		
Other comprehensive income for the year	-	-	-	(30,834)	(30,834)	(527,344)	1,869	(525,475)	(556,309)	18,573	(537,736)		
Total comprehensive income for the year	-	-	-	2,458,204	2,458,204	(527,344)	1,869	(525,475)	1,932,729	(13,951)	1,918,778		
Changes in the ownership interests in subsidiaries	-	(6,071)	-	(47,513)	(47,513)	-	-	-	(53,584)	(421,040)	(474,624)		
Balance at December 31, 2016	\$ 3,974,954	1,568,318	1,920,537	8,600,073	10,520,610	37,522	34,846	72,368	16,136,250	71,827	16,208,077		

See accompanying notes to the consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

CHIN-POON INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(All amounts expressed in thousands of New Taiwan dollars)

	2016	2015
Cash flows from operating activities:		
Income before tax	\$ 3,321,497	2,565,811
Adjustments:		
Adjustments to reconcile profit and loss		
Depreciation	1,092,696	880,331
Provision for bad debt expense	66,733	1,419
Interest expense	37,459	31,524
Interest income	(98,887)	(119,833)
Dividend income	(886)	(886)
Loss on disposal of property, plant and equipment	17,815	21,635
Gain on disposal of investments	(9,863)	(40,473)
Impairment loss on non-financial assets	-	14,718
Amortization expense for long-term prepaid rental	1,622	1,688
Total adjustments to reconcile profit and loss	<u>1,106,689</u>	<u>790,123</u>
Changes in operating assets and liabilities relating:		
Net changes in operating assets:		
Notes receivable	(3,268)	5,330
Accounts receivable	(153,723)	(571,863)
Other receivables	16,592	10,506
Inventories	(681,403)	99,195
Prepayments	28,369	(41,151)
Other current assets	43,329	24,061
Total net changes in operating assets	<u>(750,104)</u>	<u>(473,922)</u>
Net changes in operating liabilities:		
Financial liabilities at fair value through profit or loss—current	(53)	53
Notes payable	(19,022)	16,684
Accounts payable	340,636	(218,668)
Other payables	234,269	(58,906)
Provisions—current	51,728	255,087
Other current liabilities	5,290	9,210
Net defined benefit liability	(5,945)	(15,509)
Total net changes in operating liabilities	<u>606,903</u>	<u>(12,049)</u>
Total net changes in operating assets and liabilities	<u>(143,201)</u>	<u>(485,971)</u>
Total adjustments	<u>963,488</u>	<u>304,152</u>
Cash inflow generated from operations	4,284,985	2,869,963
Interest income received	98,290	128,434
Interest paid	(39,992)	(24,081)
Income tax paid	(726,454)	(536,794)
Net cash flows from operating activities	<u>3,616,829</u>	<u>2,437,522</u>
Cash flows from (used in) investing activities:		
Acquisition of available-for-sale financial assets	(1,314,032)	(1,013,495)
Proceeds from disposal of available-for-sale financial assets	1,323,451	2,254,500
Acquisition of property, plant and equipment	(580,806)	(2,141,081)
Proceeds from disposal of property, plant and equipment	8,124	16,863
Decrease in other financial assets—current and non-current	27,385	331,096
Decrease in other non-current assets	1,841	79
Increase in prepayments for equipment	(143,990)	(94,849)
Dividend received	886	886
Net cash flows used in investing activities	<u>(677,141)</u>	<u>(646,001)</u>
Cash flows from (used in) financing activities:		
Increase in short-term loans	3,928,280	4,057,920
Decrease in short-term loans	(4,122,203)	(4,607,044)
Increase in long-term loans	-	72,968
Repayments of long-term loans	(43,660)	(27,399)
Cash dividends paid	(1,033,488)	(874,490)
Cash dividends paid to non-controlling interests	-	(11,159)
Changes in non-controlling interests	(474,624)	-
Net cash flows used in financing activities	<u>(1,745,695)</u>	<u>(1,389,204)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(276,211)</u>	<u>18,905</u>
Net increase in cash and cash equivalents	917,782	421,222
Cash and cash equivalents at beginning of year	3,909,412	3,488,190
Cash and cash equivalents at end of year	<u>\$ 4,827,194</u>	<u>3,909,412</u>

See accompanying notes to the consolidated financial statements.

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CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

(expressed in thousands of New Taiwan dollars unless otherwise stated)

(1) Organization

Consolidated Company (the Company) was incorporated in the Republic of China (ROC) on September 26, 1979, as a corporation limited by shares in accordance with the ROC Company Act. The consolidated entities in the consolidated financial statements include the Company and its subsidiaries (the Consolidated Company). The Consolidated Company's major business includes

- (a) Manufacturing, producing and selling electronic printed circuit boards and electronic materials;
- (b) Manufacturing, producing and selling models used in the punching process of electronic printed circuit boards and in steel production;
- (c) Manufacturing, producing and selling insulation board; and
- (d) Importing and exporting the above-mentioned products.

(2) Approval date and procedures of the financial statements

The consolidated financial statements were approved by the board of directors on March 22, 2017.

(3) New standards and interpretations not yet adopted

- (a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. Aforementioned new, revised or amended standards and interpretations to be effective as of January 1, 2017 but not yet adopted by the Consolidated Company are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Consolidated Company assessed that the initial application of the above IFRSs would not have any material impact on the consolidated financial statements.

(b) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Consolidated Company should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Consolidated Company's financial statements were issued, the FSC has yet to announce the effective dates of the other IFRSs. As of the end of reporting date is as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share based Payment Transactions"	January 1, 2018
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 "Insurance Contracts" ("Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts")	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 "Transfer of Investment Property"	January 1, 2018

The Consolidated Company is still currently determining the potential impact of the standards listed below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: <ul style="list-style-type: none"> • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

The Consolidated Company is still in the process of evaluating the impact on the parent company only financial position and performance of the adoption of the standards interpretations mentioned above, and the Consolidated Company will disclose relevant impacts when the evaluation is completed.

(4) Significant accounting policies

The significant accounting policies presented in the consolidated financial statements are summarized as follows. The significant accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to the Regulations) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to as the IFRSs endorsed by the FSC).

(b) Basis of preparation

i) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except otherwise specified in the notes to accounting policies.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

ii) Functional and presentation currency

The functional currency of a Consolidated Company entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional currency. The assets and liabilities of foreign operations are translated to the Company's functional currency using the exchange rates on reporting date. The income and expenses of foreign operations are translated to the Company's functional currency at the average rate. Foreign currency differences are recognized in other comprehensive income. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Losses applicable to non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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

Changes in the Consolidated Company's ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the parent.

ii) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Business activities	Percentage of ownership		Remarks
			December 31, 2016	December 31, 2015	
CHIN-POON INDUSTRIAL CO., LTD.	VEGA International Enterprise Co., Ltd.	Investment	100.00 %	100.00 %	
CHIN-POON INDUSTRIAL CO., LTD.	Chin-Poon Japan Co., Ltd.	Trading of PCB	100.00 %	100.00 %	
CHIN-POON INDUSTRIAL CO., LTD.	Draco PCB Public Co., Ltd.	Production and trading of PCB	95.53 %	52.59 %	(Note)
VEGA International Enterprise Co., Ltd.	Chin-Poon Holdings Cayman Limited	Investment	100.00 %	100.00 %	
Chin-Poon Holdings Cayman Limited	Chin-Poon (Changshu) Electronic Co., Ltd	Production and trading of PCB	100.00 %	100.00 %	

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements**

Note: In 2016, the Company acquired interest in Draco PCB Public Co., Ltd. for \$474,624 thousand of 106,121 thousand shares, increasing its ownership from 52.59% to 95.53%. The Company recognized the amount of \$6,071 thousand and \$47,513 thousand, respectively, as reductions of capital surplus and retained earnings.

(d) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation. Foreign currency differences arising from retranslated are recognized in profit or loss, except for the available-for-sale equity investment differences, which are recognized in other comprehensive income arising on the retranslated.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(e) Assets and liabilities classified as current and non-current

Cash or cash equivalents, assets held for trading purposes or short-term and expected to be converted to cash within twelve months after the reporting period or for intention of sales or consumption within its normal operating cycle are classified as current assets; all other assets are classified as noncurrent assets.

Liabilities that must be fully liquidated within twelve months after the reporting period are classified as current liabilities; all other liabilities are classified as noncurrent liabilities.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits are classified as cash and cash equivalents only when they satisfy the aforementioned definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Financial instruments

Financial assets and financial liabilities are initially recognized when the Consolidated Company becomes a party to the contractual provisions of the instruments. Trade-date accounting is used when purchasing or selling of these financial assets.

i) Financial assets

The Consolidated Company classifies financial assets into the following categories:

i. Available-for-sale financial assets

Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses.

Dividend income is recognized in profit or loss on the date that the Consolidated Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in non-operating income and expenses.

Interest income from investments in debt instruments is recorded under non-operating income and expenses.

ii. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables comprise trade receivables and other receivables. Such assets are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Interest income is recognized in profit or loss and it is recorded in non-operating income and expenses.

iii. Impairment of financial assets

A financial assets is impaired if, and only if, there is any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial assets that can be estimated reliably. An impairment test ought to be performed on each reporting date.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements**

Objective evidence that financial assets are impaired includes default or delinquency by a debtor (such as delay in payment of interest or principal or default on payments), restructuring of an amount due to the Consolidated Company on terms that the Consolidated Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Consolidated Company uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual loss are likely to be greater or lesser than those suggested by historical trends.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was loss recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Impairment losses and recoveries of accounts receivable are recognized in operating expenses, and impairment losses and recoveries of other financial assets are recognized and included in other gains and losses under non-operating income and expenses.

iv. **Derecognition of financial assets**

The Consolidated Company derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated or when the Consolidated Company transfers substantially all the risks and rewards of ownership of the financial assets.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements**

ii) Financial liabilities and equity instruments

i. Classification of debt or equity

Debt or equity instruments issued by the Consolidated Company are classified as financial liabilities or equity in accordance with the substance of the contract and the definition of financial liabilities and equity instruments.

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received less the direct cost of issuing.

Compound financial instruments issued by the Consolidated Company comprise convertible notes that can be converted to share capital at the option of the holder when the number of shares to be issued is fixed.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest, gains, or losses related to financial liabilities are recognized in profit or loss, and recorded under non-operating income and expenses.

Upon conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

When the company holds the convertible bonds issued by its subsidiary, the bonds held shall be viewed as redeemed bonds of the issuer in the consolidated financial statements.

ii. Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which comprise loans and borrowings, and trade and other payables, are measured at fair value plus any directly attributable transaction costs at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and is recorded under non-operating income and expenses.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements**

iii. Derecognition of financial liabilities

The Consolidated Company derecognizes a financial liability when its contractual obligation has been discharged or cancelled or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in other gains and losses under non-operating income or expenses.

iv. Offsetting of financial assets and liabilities

The Consolidated Company presents financial assets and liabilities on a net basis when the Consolidated Company has the legally enforceable right to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

iii) Derivative financial instruments

The Consolidated Company holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, and are included in non-operating income and expense.

When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

(h) Inventories

The cost of inventories consists of all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories includes an appropriate share of fixed production overhead based on normal capacity and allocated variable production overhead based on actual output. However, unallocated fixed production overhead arising from lower or idle capacity is recognized in cost of goods sold during the period. If actual capacity is higher than normal capacity, fixed production overhead should be allocated based on actual capacity. The method of valuing inventories is the weighted-average method.

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period. When the cost of inventories is higher than the net realizable value, inventories are written down to net realizable value, and the write-down amount is charged to current year's cost of goods sold. If net realizable value increases in the future, the cost of inventories is reversed within the original write-down amount, and such reversal is treated as a reduction of cost of goods sold.

(i) Property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset, and any borrowing cost that is eligible for capitalization.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as those of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other gains and losses.

ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Consolidated Company. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

iii) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a straight-line basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives, for the current and comparative years, of significant items of property, plant and equipment are as follows:

i. Buildings	2~60 years
ii. Machinery	2~10 years
iii. Other equipment	2~40 years
iv. Leasehold equipment	15~30 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the changes are accounted for as a change in an accounting estimate.

(j) Leases

i) Lessee

Leases are operating leases and are not recognized in the Consolidated Company's statement of financial position. Payments made under an operating lease are recognized in profit or loss on a straight-line basis over the term of the lease.

ii) Long-term prepaid rental

Long-term prepaid rental is the land use right of Chin-Poon (Changshu) Electronic Co., Ltd., which is recorded by acquisition costs, is amortize within useful term (50 years) by straight-line method, and is reclassify in to prepaid expenses and long-term prepaid for lease.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****(k) Impairment—non-derivative financial assets**

With regard to non-financial assets (other than inventories, deferred tax assets and employee benefits), the Consolidated Company assesses at the end of each reporting period whether there is any indication that an impairment loss has occurred, and estimates the recoverable amount for assets with an indication of impairment. If it is not possible to determine the recoverable amount for the individual asset, then the Consolidated Company will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Consolidated Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. Impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount, increasing the individual asset's or cash-generating unit's carrying amount to its estimated recoverable amount. The reversal of an impairment loss of an individual asset or cash-generating unit cannot exceed the carrying amount of the individual asset or cash-generating unit, less any depreciation or amortization, had it not recognized an impairment loss.

(l) Provisions

A provision is recognized if, as a result of a past event, the Consolidated Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost, except if the accrued interest on a short-term provision isn't material.

The Consolidated Company's provision for sales returns is recognized at the time of sale and estimated on the basis of provisions experience and relevant factors.

(m) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements**

(n) Employee benefits

i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Consolidated Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date (market yields of high-quality corporate bonds or government bonds) on bonds that have maturity dates approximating the terms of the Consolidated Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Consolidated Company, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Consolidated Company. An economic benefit is available to the Consolidated Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses; (2) the return on plan assets excluding the amounts included in net interest on the net defined benefit liability (assets); and (3) any change in the effect of the asset ceiling, excluding the amounts included in net interest on the net defined benefit liability (assets); The Consolidated Company recognizes the remeasurements of the defined benefit liability (asset) in other comprehensive.

The Consolidated Company recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, and any related actuarial gains or losses and past service cost that had not previously been recognized.

iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements**

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Consolidated Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(o) **Income taxes**

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the exceptions below:

- i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- iii) Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- ii) The taxing of deferred tax assets and liabilities fulfills one of the scenarios below:
 - i. levied by the same taxing authority; or
 - ii. levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry-forward unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall be re-evaluated every year on the financial reporting date, and they shall be adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****(p) Earnings per share**

Earnings per share (EPS) of common stock are calculated by dividing net income (or loss) for the reporting period attributable to common stockholders by the weighted-average number of common shares outstanding during that period. The weighted-average number of common shares outstanding is adjusted retroactively for the increase in common shares outstanding from stock issuance arising from the capitalization of retained earnings, or additional paid-in capital.

Employee bonuses in the form of stock of the Company are potential stock. If the potential stock does not have a dilutive effect, only the basic earnings per share are disclosed; otherwise, diluted earnings per share are disclosed in addition to the basic earnings per share. When computing diluted earnings per share with regard to employee bonuses in the form of stock, the closing price at the reporting date is used as the basis of computation of the number of shares to be issued. When computing diluted earnings per share prior to the following Board of Directors, the effect of dilution from these potential shares is taken into consideration.

(q) Segment information

An operating segment is a component of the Consolidated Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Consolidated Company). Operating results of the operating segment are regularly reviewed by the Consolidated Company's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

There are no critical judgments in applying accounting policies that have significant effect on the amounts recognized in the consolidated financial statements.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

(a) Subsequent measurements of inventories

As inventories are stated at the lower of cost or net realizable value, the Consolidated Company assesses the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The subsequent measurements of inventories are mainly determined based on the current market price. Therefore, there may be significant changes in the net realizable value of inventories due to the rapid change of industrial.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Provision for sales returns and discounts

The Consolidated Company records a provision for estimated future sales returns and discounts in the same period the related revenue is recorded. Provision for estimated sales returns and discounts is generally made and adjusted based on historical trend and other known factors that would significantly affect the sales returns and discounts. The adequacy of estimations is reviewed periodically. Any changes in these estimates might affect the provision for sales returns and discounts significantly.

(6) Description of significant accounts

(a) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand	\$ 2,195	2,330
Demand deposits	3,279,230	2,110,819
Time deposits	1,454,295	1,613,459
Checking deposits	<u>91,474</u>	<u>182,804</u>
Cash and cash equivalents per statements of cash flow	<u>\$ 4,827,194</u>	<u>3,909,412</u>

Please refer to note 6(s) for the disclosure for the interest rate risk and the sensitivity analysis for the Consolidated Company's financial assets and liabilities.

Please refer to note 6(b) for the disclosure for the Consolidated Company's time deposits with a maturity of three months and above were recorded under other financial assets—current and other financial assets—non-current.

(b) Financial assets

i) Financial liabilities at fair value through profit or loss

	December 31, 2016	December 31, 2015
Forward Contracts	\$ <u>-</u>	<u>53</u>

Please refer to note 6(q) for net gains or losses on disposal of financial assets and liabilities remeasured at fair value through profit or loss.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Consolidated Company uses derivative financial instruments to manage the exposures due to fluctuations of foreign exchange risk from its operating activities. As of December 31, 2015, the Consolidated Company reported the following derivatives financial instruments as financial assets and liabilities at fair value through or loss profit without the application of hedge accounting.

	Fair value liabilities	Contract amount (in thousands)	Expiry date
December 31, 2015			
Forward Contracts	\$ <u>53</u>	USD 574	2016.3

As of December 31, 2016, there was no outstanding forward contracts.

ii) Available-for-sale financial assets

	December 31, 2016	December 31, 2015
Current:		
Beneficiary certificates	\$ 1,101,307	1,098,770
Non-current:		
OTC Stocks on domestic markets	<u>11,755</u>	<u>13,286</u>
Total	<u>\$ 1,113,062</u>	<u>1,112,056</u>

Please refer to note 6(q) for net gains or losses on disposal of investments and dividend income. Please refer to note 6(r) for unrealized gains and losses from available-for sale investments.

The Consolidated Company's exposure to credit, currency and interest rate risk and the sensitivity analysis on the financial instruments held by the Consolidated Company are disclosed in note 6(s).

iii) Sensitivity analysis—market price risk

If the market price of the available-for-sale financial assets fluctuates (assuming that all other variables remain the same), the impact on other comprehensive income will be as follows:

Fluctuation in market price at reporting date	2016		2015	
	Other comprehensive income (after tax)	Net income	Other comprehensive income (after tax)	Net income
Increase 1%	\$ <u>11,131</u>	<u>-</u>	<u>11,121</u>	<u>-</u>
Decrease 1%	\$ <u>(11,131)</u>	<u>-</u>	<u>(11,121)</u>	<u>-</u>

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv) Other financial assets

As of December 31, 2016 and 2015, time deposits with maturity date 3 months to 1 year and over 1 year were recorded under Other financial assets—current and Other financial assets—non-current respectively. The details were as follows:

	December 31, 2016	December 31, 2015
Other financial assets—current	\$ 94,193	1,182,046
Other financial assets—non-current	<u>1,412,938</u>	<u>363,138</u>
Total	<u>\$ 1,507,131</u>	<u>1,545,184</u>

As of December 31, 2016 and 2015, the Consolidated Company did not pledge its financial assets mentioned above as collateral.

(c) Notes receivable and accounts receivable, and other receivable

	December 31, 2016	December 31, 2015
Notes receivable	\$ 12,430	9,162
Accounts receivable	5,025,889	4,872,148
Other receivables	96,508	120,456
Less: allowance for doubtful accounts—notes receivable	694	694
allowance for doubtful accounts—accounts receivable	<u>79,917</u>	<u>13,166</u>
	<u>\$ 5,054,216</u>	<u>4,987,906</u>

An aging analysis of past due but not impaired notes receivable, accounts receivables, and other receivables of the Consolidated Company were as follows:

	December 31, 2016	December 31, 2015
Past due 1~30 days	\$ 139,792	115,137
Past due 31~180 days	<u>49,568</u>	<u>83,202</u>
	<u>\$ 189,360</u>	<u>198,339</u>

The changes in the aforementioned allowance for doubtful accounts were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2016	\$ 13,860	-	13,860
Impairment loss recognized	66,733	-	66,733
Foreign Currency Translation effect	<u>18</u>	<u>-</u>	<u>18</u>
Balance at December 31, 2016	<u>\$ 80,611</u>	<u>-</u>	<u>80,611</u>

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2015	\$ 12,786	-	12,786
Impairment loss recognized	1,419	-	1,419
Translation effect	<u>(345)</u>	<u>-</u>	<u>(345)</u>
Balance at December 31, 2015	<u>\$ 13,860</u>	<u>-</u>	<u>13,860</u>

The Consolidated Company considered the credibility of clients on the reporting date when assessing the collectability of accounts receivable and notes receivable. Except for receivables for related parties, based on historical default records, accounts receivable and other receivables aging over 180 days may have difficulties in collection. The Consolidated Company provided a 100% allowance for accounts receivable and other receivables which were past due over 180 days. For those accounts receivable and other receivables aging 1 to 180 days, the Consolidated Company estimated the amounts that might not be collected by taking into consideration the default records and financial status analysis of the counterparties.

Specific impairment loss recognized for individually significant receivables is calculated as the difference between their carrying amount and the present value of the estimated future cash flows from the delinquency discounted at the current market rate of return for a similar financial asset. The Consolidated Company had not provided the notes and accounts receivables as collateral or factored them for cash.

(d) Inventories

	December 31, 2016	December 31, 2015
Finished goods	\$ 1,880,476	1,458,500
Work in progress	1,326,070	1,371,242
Raw materials	<u>718,292</u>	<u>413,693</u>
	<u>\$ 3,924,838</u>	<u>3,243,435</u>

For the years ended December 31, 2016 and 2015, the Consolidated Company recognized the amounts of \$495,660 thousand and \$489,435 thousand, respectively, as reductions of operating cost due to the disposal of scrap materials.

For the years ended December 31, 2016 and 2015, the Consolidated Company recognized the losses on inventory valuation of \$1,682 thousand and \$22,520 thousand, respectively, by writing down the value of their inventories to net realizable value.

As of December 31, 2016 and 2015, the Consolidated Company did not pledge its inventories as collateral.

(e) Acquisitions of NCI

In 2016, the Company acquired interest in Draco PCB Public Co., Ltd. in cash for \$474,624 thousand, increasing its ownership from 52.59% to 95.53%. The Company recognized the amounts of \$6,071 thousand and \$47,513 thousand, respectively, as reductions of capital surplus and retained earnings.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

The changes in the subsidiary's equity attributed to the Consolidated Company were as follows:

	December 31, 2016
Carrying amount of non-controlling interest on acquisition	\$ 421,040
Consideration paid to non-controlling interests	<u>(474,624)</u>
Differences between consideration and carrying amounts of subsidiaries acquired	<u>\$ (53,584)</u>

The Company asked for conversion of the bonds of Draco PCB Public Co., Ltd. for 1,750,000 bonds on January 14, 2015. The conversion price was THB\$5.4 per share and the amount of the conversion of the bonds into common shares of Draco PCB Public Co., Ltd. was 31,328 thousand shares. As a result, the Company increased its interest from 45.71% to 52.59% and recognized capital surplus for \$3,375 thousand.

(f) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Consolidated Company for the years ended December 31, 2016 and 2015 were as follows:

	Land	Buildings	Machinery equipment	Other equipment	Leasehold improvement	Construction in progress	Total
Cost:							
Balance at January 1, 2016	\$ 839,016	3,475,696	10,100,153	2,670,177	14,671	709,465	17,809,178
Additions	-	18,813	326,500	112,703	609	79,969	538,594
Disposals	-	(1,678)	(134,780)	(59,194)	-	-	(195,652)
Reclassification	-	58,413	763,253	139,591	-	(735,860)	225,397
Translation effect	(1,056)	(109,021)	(275,822)	(94,534)	-	(7,121)	(487,554)
Balance at December 31, 2016	<u>\$ 837,960</u>	<u>3,442,223</u>	<u>10,779,304</u>	<u>2,768,743</u>	<u>15,280</u>	<u>46,453</u>	<u>17,889,963</u>
Balance at January 1, 2015	\$ 843,186	2,955,321	8,767,270	2,145,407	14,671	944,006	15,669,861
Additions	-	98,367	1,167,697	108,186	-	797,267	2,171,517
Disposals	-	-	(78,305)	(45,271)	-	-	(123,576)
Reclassification	-	442,152	292,564	473,944	-	(1,009,681)	198,979
Translation effect	(4,170)	(20,144)	(49,073)	(12,089)	-	(22,127)	(107,603)
Balance at December 31, 2015	<u>\$ 839,016</u>	<u>3,475,696</u>	<u>10,100,153</u>	<u>2,670,177</u>	<u>14,671</u>	<u>709,465</u>	<u>17,809,178</u>
Accumulated depreciation and impairment loss:							
Balance at January 1, 2016	\$ -	1,041,898	6,316,919	1,499,102	2,355	289	8,860,563
Depreciation	-	106,565	748,049	237,485	597	-	1,092,696
Disposal	-	(1,678)	(117,285)	(50,750)	-	-	(169,713)
Reclassification	-	-	285	-	-	(285)	-
Translation effect	-	(39,897)	(162,933)	(62,837)	-	(4)	(265,671)
Balance at December 31, 2016	<u>\$ -</u>	<u>1,106,888</u>	<u>6,785,035</u>	<u>1,623,000</u>	<u>2,952</u>	<u>-</u>	<u>9,517,875</u>
Balance at January 1, 2015	\$ -	947,739	5,762,080	1,349,700	1,781	-	8,061,300
Depreciation	-	100,266	598,089	181,402	574	-	880,331
Impairment loss	-	3,648	9,489	1,292	-	289	14,718
Disposals	-	-	(56,709)	(28,369)	-	-	(85,078)
Translation effect	-	(9,755)	3,970	(4,923)	-	-	(10,708)
Balance at December 31, 2015	<u>\$ -</u>	<u>1,041,898</u>	<u>6,316,919</u>	<u>1,499,102</u>	<u>2,355</u>	<u>289</u>	<u>8,860,563</u>
Carrying amount:							
Balance at December 31, 2016	<u>\$ 837,960</u>	<u>2,335,335</u>	<u>3,994,269</u>	<u>1,145,743</u>	<u>12,328</u>	<u>46,453</u>	<u>8,372,088</u>
Balance at December 31, 2015	<u>\$ 839,016</u>	<u>2,433,798</u>	<u>3,783,234</u>	<u>1,171,075</u>	<u>12,316</u>	<u>709,176</u>	<u>8,948,615</u>
Balance at January 1, 2015	<u>\$ 843,186</u>	<u>2,007,582</u>	<u>3,005,190</u>	<u>795,707</u>	<u>12,890</u>	<u>944,006</u>	<u>7,608,561</u>

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

i) Loss and gain on disposal

For the years ended December 31, 2016 and 2015, the Consolidated Company recognized loss and gain on disposal of property, plant and equipment, please refer to note 6(q).

ii) Impairment loss

The Consolidated Company overestimated the market demand in Thailand on its single and double sized print-circuit board in 2015. The Consolidated Company performed its impairment test by estimating its future cash flow. The impairment loss of \$14,718 thousand was recognized as the estimated amount of its future cash flow and was recorded under non-operating income and expenses – other gains or losses.

iii) Collateral

As of December 31, 2016 and 2015, the Consolidated Company pledged its property, plant and equipment as collateral for long-term and short-term loans, please refer to note 8.

(g) Short-term and long-term loans

The details, terms and clauses of the Consolidated Company's short-term and long-term loans were as follows:

i) Short-term loans

	Currency	December 31, 2016		Amount
		Range of interest rates (%)	Year of maturity	
Secured loans	THB	2.35~2.9	2017	\$ 98,430
Unsecured loans	USD	1.09~1.55	2017	1,304,181
Unsecured loans	EUR	0.44~1.62	2017	<u>237,553</u>
Total				<u>\$ 1,640,164</u>

	Currency	December 31, 2015		Amount
		Range of interest rates (%)	Year of maturity	
Secured loans	USD	1.0174~1.15	2016	\$ 591,732
Unsecured loans	USD	1.0174~1.35	2016	838,287
Unsecured loans	EUR	0.57~1.60	2016	287,926
Unsecured loans	JPY	0.62~1.09	2016	81,990
Letter of credit	THB	2.35~2.65	2016	<u>34,152</u>
Total				<u>\$ 1,834,087</u>

As of December 31, 2016 and 2015, the unused credit facilities of the Consolidated Company's short-term loans amounted to \$4,368,059 thousand, and \$4,885,405 thousand, respectively.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii) Long-term loans

	Currency	December 31, 2016		Amount
		Range of interest rates (%)	Year of maturity	
Secured loans	THB	4.50	2019	\$ <u>91,431</u>
Current				\$ 41,763
Non-current				<u>49,668</u>
Total				\$ <u>91,431</u>

	Currency	December 31, 2015		Amount
		Range of interest rates (%)	Year of maturity	
Secured loans	THB	4.50	2019	\$ <u>135,091</u>
Current				\$ 42,358
Non-current				<u>92,733</u>
Total				\$ <u>135,091</u>

Please refer to note 6(s) for risk exposure to interest risk, currency risk and liquidity risks.

iii) Collateral of loans

The Consolidated Company has mortgaged its assets as collateral of loans, please refer to note 8.

(h) Provisions

	Allowance for sales return and discounts
Balance as of January 1, 2016	\$ 426,786
Provisions made during the year	100,048
Povisionds reversed during the year	(45,541)
Transtation effect	<u>(2,779)</u>
Balance as of December 31, 2016	\$ <u>478,514</u>
Balance as of January 1, 2015	\$ 171,699
Provisions made during the year	255,192
Transtation effect	<u>(105)</u>
Balance as of December 31, 2015	\$ <u>426,786</u>

The provision of customer returns and discounts was based on historical experience, management's judgments and other known factors estimated product rectums and rebates may occur in the year. The provision was recognized as a reduction of operating income in the periods of the related goods sold.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Bonds payable

The information of the bonds payable of the Consolidated Company was as follows:

	December 31, 2016	December 31, 2015
Unsecured convertible bonds	\$ 142,579	140,314
Translation effect	<u>(6,112)</u>	<u>(4,295)</u>
Bonds payable of ending balance	<u>\$ 136,467</u>	<u>136,019</u>
Equity component— conversion options (non-controlling interests)	<u>\$ 10,519</u>	<u>10,519</u>
	2016	2015
Interest Expenses (financial costs)	<u>\$ 2,396</u>	<u>2,343</u>

- i) On August 20, 2014, Draco PCB Public Co., Ltd. issued 6,000,000 units of unsecured convertible bonds, with a par value of THB100 per unit. The total value of the convertible bonds was \$564,540 thousand (approximately THB600,000 thousand). The Company purchased 4,417,944 units of convertible bonds on August 20, 2014, with a total cost of \$415,905 thousand (approximately THB441,794 thousand). On January 14, 2015, the Company converted 1,750,000 units of convertible bonds to 31,328 thousand shares of common stocks of Draco PCB Public Co., Ltd. with an additional cash proceed amounting to \$5,650 thousand. The converted price was THB5.4 per unit. As of December 31, 2016 and 2015, the Company acquired 2,667,944 and 2,667,944 units of convertible bonds of Draco PCB Public co., Ltd., with the total values of \$239,928 thousand and \$243,343 thousand, respectively, (approximately THB266,794 thousand and THB266,794 thousand, respectively).

When a company holds the convertible bonds issued by its subsidiary, the bonds held shall be viewed as redeemed bonds of the issuer.

- ii) The information of the outstanding bonds were as follows:

	December 31, 2016	December 31, 2015
Total amount of convertible bonds	\$ 564,540	564,540
Accumulated amount of converted bonds	(168,367)	(168,367)
Translation effect	<u>(13,971)</u>	<u>(8,530)</u>
	382,202	387,643
Redemption value of convertible bonds held by the Company	(239,928)	(243,343)
Bonds payable	<u>\$ 142,274</u>	<u>144,300</u>

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- iii) When the convertible bonds were issued, the call options and put options embedded in bonds payable were separated and recognized as equity and liability as follows:

	Issuance (August 20, 2014)	
Present value under compound interest of convertible bonds	\$	524,646
Equity component—conversion option		<u>39,894</u>
	\$	<u><u>564,540</u></u>

- iv) The underwriting processing fee was \$4,215 thousand for the issuance. Terms of the bonds are as follows:

- i. Coupon rate: 5.19%
- ii. Effective rate: 7.20%, interest is paid on June 30, and December 31, yearly.
- iii. Period: 5 years (August 20, 2014 to August 19, 2019)
- iv. Conversion period: From December 31, 2014, the bondholders have the right to ask for conversion of the bonds on June 30, December 31 and the expiry date.
- v. Conversion price: The price has been set as THB\$5.4 per share at initial issuance. During the convertible period, the price for conversion of the bonds is THB\$5.40 (face value THB\$100 per bond) into 17.901852 shares and paid the supplementary cash THB\$3.33 per share. The total amount of the shares to the conversion shall not be over 107,411 thousand shares.
- vi. Draco PCB Co., Ltd. has no right to repurchase the bonds in advance and the bondholders have no right to redeem the bonds.

(j) Operating leases

Non-cancellable rental payables of operating leases for the Consolidated Company were as follows:

	December 31, 2016	December 31, 2015
Less than one year	\$ 35,919	26,579
Between one and five years	82,832	66,073
Over five years	<u>-</u>	<u>3,074</u>
	\$ <u><u>118,751</u></u>	<u><u>95,726</u></u>

The Consolidated Company leases factory facilities and parking space under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the lease. The lease payment will be adjusted to reflect market price when renewing the contract.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015, lease costs and expenses were \$48,115 thousand and \$35,829 thousand, respectively.

(k) Employee benefits

i) Defined benefit plans

The present value of the defined benefit obligations and the fair value adjustments of the plan assets for the Consolidated Company were as follows:

	December 31, 2016	December 31, 2015
Present value of the defined benefit obligations	\$ 481,378	439,741
Fair value of plan assets	<u>(451,491)</u>	<u>(434,775)</u>
Net defined benefit liability	<u>\$ 29,887</u>	<u>4,966</u>

The Consolidated Company makes defined benefit plan contributions to the pension fund account at Bank of Taiwan and Chunghwa Post Co., Ltd. that provides pensions for employees and managers upon retirement. The plans (covered by the Labor Standard) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

i. Composition of plan assets

The Consolidated Company allocates pension funds in accordance with the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund", and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from the two-year time deposits with the interest rates offered by local banks.

The Consolidated Company's Bank of Taiwan and Chunghwa Post Co., Ltd labor pension reserve account balance amounted to \$404,297 thousand and \$47,194 thousand, respectively, as of December 31, 2016. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. Movements in present value of the defined benefit obligations

The movements in present value of the Consolidated Company's defined benefit obligations for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Defined benefit obligation at January 1	\$ 439,741	462,321
Current service costs and interest	14,644	15,208
Remeasurements of the net defined benefit liability (asset)		
— Actuarial gains and losses arising from changes in financial assumptions	32,527	(25,113)
Benefits paid	<u>(5,534)</u>	<u>(12,675)</u>
Defined benefit obligation at December 31	\$ <u><u>481,378</u></u>	<u><u>439,741</u></u>

iii. Movements in fair value of plan assets

The movements in the fair value of the Consolidated Company's plan assets for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Fair value of plan assets at January 1	\$ 434,775	417,795
Remeasurements of the net defined benefit liability (asset)		
— The return on plan assets (excluding amounts included in the interest during this period)	8,028	6,796
— Actuarial gains and losses arising from changes in financial assumptions	(4,695)	3,698
Contributions made	17,527	17,405
Benefits paid	<u>(4,144)</u>	<u>(10,919)</u>
Fair value of plan assets at December 31	\$ <u><u>451,491</u></u>	<u><u>434,775</u></u>

iv. Expenses recognized in profit or loss

The Consolidated Company's expenses recognized on profit or loss for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Current service costs	\$ 6,574	7,471
Net interest on the defined benefit liability	<u>42</u>	<u>941</u>
	\$ <u><u>6,616</u></u>	<u><u>8,412</u></u>

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

	2016	2015
Operating costs	\$ 4,414	5,288
Selling expenses	328	224
Administration expenses	1,770	2,860
Research and development expenses	<u>104</u>	<u>40</u>
	<u>\$ 6,616</u>	<u>8,412</u>

- v. Remeasurement of the net defined benefit liability and asset recognized in other comprehensive income

The Consolidated Company's remeasurements of the net defined benefit liability and asset recognized in other comprehensive income for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Cumulative amount at January 1	\$ (23,680)	5,131
Recognized during the period	<u>37,222</u>	<u>(28,811)</u>
Cumulative amount a December 31	<u>\$ 13,542</u>	<u>(23,680)</u>

- vi. Actuarial assumptions

Assumptions used on calculating the present value of the defined benefit obligation at the reporting date were as follows:

	2016.12.31	2015.12.31
Discount rate	1.125%~2.570%	1.625%~2.65%
Future salary increases rete	1.00%~5.00%	1.00%~5.00%

The expected contribution to be made by the Consolidated Company to the defined benefit plans for the next annual reporting period is \$17,167 thousand.

The weighted average duration of the defined benefit obligation of employee and manager is 20.78 and 10.50 years, respectively.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

vii. Sensitivity analysis for actuarial assumption

As of December 31, 2016 and 2015, the effect of changes in actuarial assumptions on the present value of the defined benefit obligations was as follows:

	The impact of defined benefit obligation	
	Increase	Decrease
At December 31, 2016		
Discount rate (changes 0.25%)	\$ (18,699)	19,650
Future salary increase rate (changes 0.25%)	19,420	(18,579)
At December 31, 2015		
Discount rate (changes 0.25%)	(17,325)	18,213
Future salary increase rate (changes 0.25%)	18,090	(17,293)

The above sensitivity analysis is based on the effect of changes in a single assumption under the condition that other assumptions remain constant. In practice, many changes in assumptions may be linked together. The method used for the sensitivity analysis and calculation of the net defined benefit pension liability is the same.

The method used for sensitivity analysis for this year is the same as the method used in the previous year.

ii) Defined contribution plans

The Company contributes an amount equal to 6% of the employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

Chin-Poon (Changshu) Electronic Co., Ltd, the subsidiary of the company recognizes the amounts contributed in each period as current period pension expense under the defined contribution plans according to the local legislation.

The Consolidated Company's pension costs under the defined contribution method were \$192,166 thousand and \$180,223 thousand for the years ended December 31, 2016 and 2015, respectively.

iii) Short-term employee benefit

	December 31, 2016	December 31, 2015
Annual leave benefit	\$ <u>73,720</u>	<u>58,532</u>

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(l) Income taxes

i) Income tax expense

The amount of the Consolidated Company's income tax for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Current tax expense		
Current period	\$ 696,182	532,997
10% surtax on unappropriated retained earnings	77,188	72,151
Adjustment for prior periods	<u>23,208</u>	<u>15,945</u>
	<u>796,578</u>	<u>621,093</u>
Deferred tax expense		
Origination and reversal of temporary differences	<u>68,405</u>	<u>30,263</u>
Income tax expenses from continuing operations	<u>\$ 864,983</u>	<u>651,356</u>

The amounts of the Consolidated Company's income tax recognized under other comprehensive income for 2016 and 2015 were as follows:

	2016	2015
Items that may not be reclassified subsequently to profit or loss:		
Remeasurments of defined benefit liability (asset)	<u>\$ 6,355</u>	<u>(4,760)</u>

Reconciliations of the Consolidated Company's income tax and profit before tax for 2016 and 2015 were as follows:

	2016	2015
Income before income tax	<u>\$ 3,321,497</u>	<u>2,565,811</u>
Income tax using the Company's domestic tax rate	\$ 564,654	436,188
Effect of tax rates in foreign jurisdiction	173,985	102,352
Dividend income	150	150
Under estimate of prior years' income tax	23,208	15,945
Tax-exempt income	(2,483)	(6,880)
Recognition of previously unrecognized tax losses	-	10,030
10% surtax on unappropriated retained earnings	77,188	72,151
Current-year for which no deferred tax asset was recognized	26,221	21,538
Others	<u>2,060</u>	<u>(118)</u>
Total	<u>\$ 864,983</u>	<u>651,356</u>

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii) Deferred tax assets and liabilities

i. Unrecognized deferred income tax assets

The Consolidated Company's deferred tax assets have not been recognized in respect of the following items:

	December 31, 2016	December 31, 2015
Tax losses	\$ <u>57,291</u>	<u>31,568</u>

Deferred tax assets have not been recognized in respect of these items because it is not probable that the future taxable profit will be available against which the Consolidated Company can utilize the benefits therefrom.

The Consolidated Company's estimated unused loss carry-forwards up to December 31, 2016, were as follows:

Year of loss	Unused amount	Year of expiry
2014	\$ 50,150	2019
2015	107,690	2020
2016	<u>131,106</u>	2021
	\$ <u>288,946</u>	

ii. Recognized deferred tax assets and liabilities

Changes in the amount of recognized deferred tax assets and liabilities for 2016 and 2015 were as follows:

Deferred tax liabilities:

	Gain from investment using equity method	Unrealize exchange gain (loss)	Others	Total
Balance at January 1, 2016	\$ 564,108	(854)	-	563,254
Recognized in profit or loss	<u>77,368</u>	<u>854</u>	<u>384</u>	<u>78,606</u>
Balance at December 31, 2016	\$ <u>641,476</u>	<u>-</u>	<u>384</u>	<u>641,860</u>
Balance at January 1, 2015	\$ 501,250	14,113	-	515,363
Recognized in profit or loss	<u>62,858</u>	<u>(14,967)</u>	<u>-</u>	<u>47,891</u>
Balance at December 31, 2015	\$ <u>564,108</u>	<u>(854)</u>	<u>-</u>	<u>563,254</u>

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Deferred tax assets:

	Defined benefit plans	Allowance for inventory devaluation loss	Allowance for bad debts and sales discounts	Provisions	Other	Total
Balance at January 1, 2016	\$ 1,193	13,591	16,664	74,888	13,884	120,220
Recognized in profit or loss	(1,735)	1,755	4,805	9,135	(3,759)	10,201
Recognized in other comprehensive income	6,355	-	-	-	-	6,355
Balance at December 31, 2016	<u>\$ 5,813</u>	<u>15,346</u>	<u>21,469</u>	<u>84,023</u>	<u>10,125</u>	<u>136,776</u>
Balance at January 1, 2015	\$ 7,690	8,215	40,687	26,030	24,730	107,352
Recognized in profit or loss	(1,737)	5,376	(24,023)	48,858	(10,846)	17,628
Recognized in other comprehensive income	(4,760)	-	-	-	-	(4,760)
Balance at December 31, 2015	<u>\$ 1,193</u>	<u>13,591</u>	<u>16,664</u>	<u>74,888</u>	<u>13,884</u>	<u>120,220</u>

iii) Examination and approval

The ROC income tax authorities have examined the Company's income tax returns through 2014.

iv) Imputation tax information

Information related to the Company's unappropriated earnings and tax deduction ratio were summarized below:

	December 31, 2016	December 31, 2015
Unappropriated earnings of 1997 and before	\$ 330,898	330,898
Unappropriated earnings of 1998 and after	<u>8,269,175</u>	<u>7,089,705</u>
	<u>\$ 8,600,073</u>	<u>7,420,603</u>
	December 31, 2016	December 31, 2015
Balance of imputation credit account (ICA)	<u>\$ 1,416,573</u>	<u>1,169,119</u>

After the Company filed the income tax return to the tax authorities, the imputation tax credit ratio of earnings to be distributed in 2017 is estimated at 20.79%. The actual imputation tax credit ratio of earnings distributed in 2016 was 20.56%.

Effective from January 1, 2015, the tax deduction ratio for earnings distribution to R.O.C. residents is reduced to half of the previously allowable ratio. Meanwhile, the 10% profit-seeking income tax surcharge paid by the Company could only offset half the amount of income tax for individual shareholders resident outside the R.O.C. which should be withheld from the payment of the net amount of such dividends.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(m) Share capital and other equity

i) Common stock

As of December 31, 2016 and 2015, the total value of nominal ordinary shares amounted to \$4,500,000 thousand, with par value of \$10 per share, of which 397,495 shares were issued.

ii) Capital surplus

The balance of capital surplus was as follows:

	December 31, 2016	December 31, 2015
Paid-in capital in excess of par value	\$ 630,382	630,382
Conversion of convertible bonds ordinary shares	937,936	937,936
Differences between consideration and carrying amounts of subsidiaries acquired	-	6,071
	<u><u>\$ 1,568,318</u></u>	<u><u>1,574,389</u></u>

In accordance with the ROC Company Act, realized capital surplus can be used to increase share capital or to distribute as cash dividends after offsetting losses. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to increase share capital shall not exceed 10 percent of the actual share capital amount.

iii) Retained earnings

i. Legal reserve

In accordance with the ROC Company Act, 10 percent of net income after tax should be set aside as legal reserve, until it is equal to authorized capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders' meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 percent of the paid-in capital.

ii. Special earnings reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of other shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. Distribution of earnings

According to the Company's Articles of Incorporation, when allocating the net profits for each fiscal year, the Company should first pay income tax, offset its prior years' losses, and appropriate 10% of net income to legal reserve. Legal reserve should be appropriated until the reserve equals to the Company's paid-in capital. The remainder, if necessary, is subject to special reserve. The distribution of remainder earning should be amounts directors' and supervisors' remuneration, employee bonuses and stockholders' dividends and bonuses in the percentage amounts of 0.5% to 5%, 2% to 10% and 20% to 80%. After the distribution, the remainder is unappropriate earnings.

According to the Company's Articles of Incorporation, the Company's dividend policy will consider its operating environment, steady profitability, sufficiency of its cash for future expansion, financial plan and the balance of dividends. The Board of Directors then proposes the appropriations and presents this proposal for approval at the shareholders' meeting. The Company stipulated a dividend policy that at least 20% of income after tax may be distributed as cash dividends, and if the Company has sufficient cash acquired from the outer, the ratio of distribution as cash dividends will be 50%. The actual appropriations are based on profit and the requirement of cash which are adjusted and approved by the stockholders' meeting.

The appropriations of 2015 and 2014 earnings have been approved by the Company's shareholders in its meetings held on June 14, 2016, and June 24, 2015, respectively. The appropriations and dividends per share were as follows:

	2015		2014	
	Amount per share (NT dollars)	Total Amount	Amount per share (NT dollars)	Total Amount
Dividends distributed to common stockholders:				
Cash	\$ 2.60	<u>1,033,488</u>	2.20	<u>874,490</u>

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CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv) Other equities (net of tax)

	Foreign exchange differences arising from foreign operation	Available- for-sale financial assets	Non- controlling interests	Total
Balance at January 1, 2016	\$ 564,866	32,977	(25,749)	572,094
Foreign exchange differences arising from foreign operation	(527,344)	-	18,606	(508,738)
Unrealized gains (losses) from available-for-sale financial assets	-	1,869	-	1,869
Balance at December 31, 2016	<u>\$ 37,522</u>	<u>34,846</u>	<u>(7,143)</u>	<u>65,225</u>
Balance at January 1, 2015	\$ 577,464	63,241	4,960	645,665
Foreign exchange differences arising from foreign operation	(12,598)	-	(30,709)	(43,307)
Unrealized gains (losses) from available-for-sale financial assets	-	10,209	-	10,209
Cumulative gain (losses) reclassified to profit or loss upon disposal of available-for-sale financial assets	-	(40,473)	-	(40,473)
Balance at December 31, 2015	<u>\$ 564,866</u>	<u>32,977</u>	<u>(25,749)</u>	<u>572,094</u>

(n) Earnings per share

The calculation of the Company's basic and diluted earnings per share for years ended December 31, 2016 and 2015 were as follows:

i) Basic EPS

	2016	2015
Net income attributable to common shareholders of the Company	<u>\$ 2,489,038</u>	<u>1,977,323</u>
Weighted-average number of common shares outstanding (thousand shares)	<u>397,495</u>	<u>397,495</u>
Basic EPS (New Taiwan dollars)	<u>\$ 6.26</u>	<u>4.97</u>

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

ii) Diluted EPS

	2016	2015
Net income attributable to common shareholders of the Company	\$ <u>2,489,038</u>	<u>1,977,323</u>
Weighted-average number of common shares outstanding (thousand shares)	397,495	397,495
Influence of potentially dilutive shares—		
Remuneration to employees	<u>3,081</u>	<u>3,062</u>
Weighted-average number of shares outstanding—diluted (thousand shares)	<u>400,576</u>	<u>400,557</u>
Diluted EPS (New Taiwan dollars)	\$ <u>6.21</u>	<u>4.94</u>

(o) Revenue

The details of the Consolidated Company's revenue for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Sale of goods	\$ 24,286,797	22,888,671
Income of processing	<u>12,307</u>	<u>43,637</u>
	24,299,104	22,932,308
Less: Sales return and discount	<u>359,405</u>	<u>288,203</u>
	\$ <u>23,939,699</u>	<u>22,644,105</u>

(p) Remuneration to employees, directors and supervisors

In accordance with the Company's articles of incorporation, the Company should contribute no less than 2%~10% of profit as employee remuneration and less than 3% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. Employees who are entitled to receive the above mentioned employee remuneration, in share or cash, include the employees of the subsidiaries of the Company who meet certain specific requirement.

For the years ended December 31, 2016 and 2015, the Company accrued and estimated the remuneration to employee amounting to \$163,782 thousand and \$105,196 thousand, respectively, and directors and supervisors amounting to \$16,200 thousand and \$14,850 thousand, respectively. These amounts are calculated by using the Company's pre-tax net profit for the period before deducting the amount of the remuneration to the employees and directors, multiplied by the distribution ratio of remuneration to the employees and directors under the Company's articles of association, and expensed under operating costs or expenses during 2016 and 2015. The related information can be accessed from Market Observation Post System website. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2016 and 2015.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(q) Non-operating income and expenses

i) Other income

The details of the Consolidated Company's other income for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Interest income	\$ 98,887	119,833
Compensation income	75,209	146,285
Dividend income	886	886
Others	<u>254,653</u>	<u>211,420</u>
	<u>\$ 429,635</u>	<u>478,424</u>

ii) Other gains and losses

The details of the Consolidated Company's other gains and losses for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Net on foreign exchange gain (loss)	\$ (71,775)	54,443
Gains on disposal of investments	9,863	40,473
Net loss on financial liabilities measured at fair value through profit or loss	-	(53)
Loss on disposal of property, plant and equipment	(17,815)	(21,635)
Impairment loss on property, plant and equipment	-	(14,718)
Others	<u>(10,075)</u>	<u>(3,284)</u>
	<u>\$ (89,802)</u>	<u>55,226</u>

iii) Finance costs

The details of the Consolidated Company's finance costs for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Interest expenses:		
Bank loan	\$ 35,063	29,181
Amortisation of bonds payable	<u>2,396</u>	<u>2,343</u>
	<u>\$ 37,459</u>	<u>31,524</u>

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(r) Reclassification of components of other comprehensive income

The details of reclassification of components of other comprehensive were as follows:

	2016	2015
Available-for-sale financial assets		
Net change in fair value for current year	\$ 11,732	10,209
Net change in fair value reclassified to profit or loss	<u>(9,863)</u>	<u>(40,473)</u>
Net changes in fair value recognized in other comprehensive income	<u>\$ 1,869</u>	<u>(30,264)</u>

(s) Financial instruments

i) Credit risk

i. Credit risk exposure

The book value of financial assets represents the maximum risk exposure. The maximum risk exposure amounts were \$12,513,459 thousand and \$11,565,686 thousand as at December 31, 2016 and 2015, respectively.

ii. Concentration of credit risk

In 2016 and 2015, the Consolidated Company's counterparties of account receivables transaction mainly locate in China, Germany, and the United States. As of December 31, 2016 and 2015, the balance of account receivables from those region accounted for 55% and 68%, respectively, of the total balance.

ii) Liquidity risk

The following table showed the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within a year	1-2 years	2-5 years	Over 5 years
December 31, 2016						
Non-derivative financial liabilities						
Secured loans	\$ 98,430	101,014	101,014	-	-	-
Unsecured loans	1,541,734	1,567,481	1,567,481	-	-	-
Current portion of long-term loans	41,763	43,642	43,642	-	-	-
Notes payable	912,874	912,874	912,874	-	-	-
Accounts payable	2,735,380	2,735,380	2,735,380	-	-	-
Other payables	916,556	916,556	916,556	-	-	-
Bonds payable	136,467	142,274	-	-	142,274	-
Long-term loans	<u>49,668</u>	<u>56,373</u>	<u>-</u>	<u>-</u>	<u>56,373</u>	<u>-</u>
	<u>\$ 6,432,872</u>	<u>6,475,594</u>	<u>6,276,947</u>	<u>-</u>	<u>198,647</u>	<u>-</u>

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Carrying amount	Contractual cash flows	Within a year	1-2 years	2-5 years	Over 5 years
December 31, 2015						
Non-derivative financial liabilities						
Secured loans	\$ 591,732	598,145	598,145	-	-	-
Unsecured loans	1,242,355	1,262,357	1,262,357	-	-	-
Current portion of long-term loans	42,358	44,264	44,264	-	-	-
Notes payable	931,896	931,896	931,896	-	-	-
Accounts payable	2,394,744	2,394,744	2,394,744	-	-	-
Other payables	774,173	774,173	774,173	-	-	-
Bonds payable	136,019	144,300	-	-	144,300	-
Long-term loans	92,733	109,425	-	-	109,425	-
Derivative financial liabilities						
Other forward contracts:						
Outflow	53	53	53	-	-	-
	<u>\$ 6,206,063</u>	<u>6,259,357</u>	<u>6,005,632</u>	<u>-</u>	<u>253,725</u>	<u>-</u>

The Consolidated Company does not expect that the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

iii) Currency risk

i. Currency risk exposure

The Consolidated Company's financial assets and liabilities exposed to significant foreign currency risk were as follows:

	December 31, 2016			December 31, 2015		
	Foreign currency (in thousands)	Exchange rate	Amount	Foreign currency (in thousands)	Exchange rate	Amount
Financial assets:						
Monetary items:						
USD	\$ 169,486	32.2020	5,457,788	138,073	32.8740	4,539,012
JPY	962,890	0.2765	266,239	411,826	0.2733	112,552
EUR	11,831	33.9361	401,498	12,802	35.9908	460,754
THB	275,521	0.8993	247,776	59,547	0.9121	54,313
CNY	128,085	4.6358	593,776	171,396	5.0623	867,658
Financial liabilities:						
Monetary items:						
USD	65,020	32.2020	2,093,774	61,069	32.8740	2,007,582
JPY	115,453	0.2765	31,923	422,612	0.2733	115,500
EUR	7,748	33.9361	262,937	8,336	35.9908	300,019

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements**

ii. Sensitivity analysis

The Consolidated Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts and other receivables, loans and borrowings, and accounts and other payables that are denominated in foreign currency. A weakening or strengthening 1% appreciation or depreciation of the TWD against the USD, JPY, EUR, THB and CNY as of December 31, 2016 and 2015, would have increased or decreased the net profit after tax by \$38,001 thousand and \$29,973 thousand, respectively. The analysis is performed on the same basis for both periods.

iii. Foreign exchange gains and losses on monetary items

Due to the numerous type of functional currency of the Consolidated Company, the Consolidated Company disclose its exchange gains and losses of monetary items aggregately. The Consolidated Company's exchange gain (loss), including realized and unrealized, were \$(71,775) thousand and \$54,443 thousand for the years ended December 31, 2016 and 2015, respectively.

iv) Interest rate analysis

Please refer to the note on liquidity risk management for the interest rate exposure of the Consolidated Company's financial assets and liabilities.

The following sensitivity analysis is based on the risk exposure of the interest rate on derivative and non-derivative financial instruments on the reporting date. Regarding assets with variable interest rates, the analysis is on the basis of the assumption that the amount of assets outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 1% when reporting to management internally, which also represents the management of the Consolidated Company's assessment on the reasonably possible interval of interest rate change.

With all other variable factors remain constant. If the interest rate increases or decreases by 1%, the Consolidated Company's net income will have increased or decreased by \$14,372 thousand and \$16,344 thousand, respectively, for the years ended December 31, 2016, and 2015. This was mainly due from the Consolidated Company's loans on floating rates.

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CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

v) Fair value information

i. Categories and fair value of financial instruments

Except for the followings, carrying amount of the Consolidated Company's financial assets and liabilities are valued approximately to their fair value, and are not based on observable market date and the value measurements which are not reliable. No additional fair value disclosure is required in accordance to the Regulations.

	Carrying amount	December 31, 2016 Fair value			Total
		Level 1	Level 2	Level 3	
Available-for-sale financial assets					
Domestic beneficiary certification— open ended fund	\$ 1,101,307	1,101,307	-	-	1,101,307
Domestic OTC stocks	<u>11,755</u>	<u>11,755</u>	<u>-</u>	<u>-</u>	<u>11,755</u>
Subtotal	<u>1,113,062</u>	<u>1,113,062</u>	<u>-</u>	<u>-</u>	<u>1,113,062</u>
Loans and receivables					
Cash and cash equivalents	4,827,194	-	-	-	-
Notes and accounts receivable	4,957,708	-	-	-	-
Other receivables	96,508	-	-	-	-
Other financial assets	<u>1,518,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>11,400,397</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 12,513,459</u>	<u>1,113,062</u>	<u>-</u>	<u>-</u>	<u>1,113,062</u>
Financial liabilities measured at amortized cost					
Short-term loans	\$ 1,640,164	-	-	-	-
Long-term loans (including current portion)	91,431	-	-	-	-
Notes and accounts payable	3,648,254	-	-	-	-
Other payables	916,556	-	-	-	-
Bonds payable	<u>136,467</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,432,872</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Carrying amount	December 31, 2015 Fair value			Total
		Level 1	Level 2	Level 3	
Available-for-sale financial assets					
Domestic beneficiary certification— open ended fund	\$ 1,098,770	1,098,770	-	-	1,098,770
Domestic OTC stocks	<u>13,286</u>	<u>13,286</u>	<u>-</u>	<u>-</u>	<u>13,286</u>
Subtotal	<u>1,112,056</u>	<u>1,112,056</u>	<u>-</u>	<u>-</u>	<u>1,112,056</u>
Loans and receivables					
Cash and cash equivalents	3,909,412	-	-	-	-
Notes and accounts receivable	4,867,450	-	-	-	-
Other receivables	120,456	-	-	-	-
Other financial assets	<u>1,556,312</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>10,453,630</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 11,565,686</u>	<u>1,112,056</u>	<u>-</u>	<u>-</u>	<u>1,112,056</u>
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	\$ <u>53</u>	<u>-</u>	<u>53</u>	<u>-</u>	<u>53</u>
Financial liabilities measured at amortized cost					
Short-term loans	1,834,087	-	-	-	-
Long-term loans (including current portion)	135,091	-	-	-	-
Notes and accounts payable	3,326,640	-	-	-	-
Other payables	774,173	-	-	-	-
Bonds payable	<u>136,019</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>6,206,010</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,206,063</u>	<u>-</u>	<u>53</u>	<u>-</u>	<u>53</u>

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements**

ii. Valuation techniques and assumptions used in fair value determination

1) Non-derivative financial instruments

If financial instrument have quoted price in an active market, using the quoted price as fair value.

The fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (included OTC stocks and open-ended funds).

2) Derivative financial instrument

The forward exchange contract is usually priced by the forward exchange rate from financial institutions.

iii. Fair value hierarchy

The Consolidated Company used the fair value that can be observed in the market to measure the value of assets and liabilities. Fair values levels are based on the degree in which the fair value can be observed and grouped in to Levels 1 to 3 as follows:

- 1) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- 2) Level 2: inputs other than the 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).
- 3) Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

iv. Transfers from Level 1 financial instrument to Level 2 financial instrument

There was no significant transfer from level 2 financial instrument to level 1 financial instrument as of December 31, 2016 and 2015.

(t) Financial risk management

i) Overview

The Consolidated Company has exposure to the following risks arising from financial instruments:

- i. Credit risk
- ii. Liquidity risk
- iii. Market risk

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements**

This note discloses information about the Consolidated Company's exposure to each of the above risks, the objectives, policies and processes for measuring and managing risks, and the Consolidated Company's management of capital. Please see other related notes for quantitative information.

ii) Risk management framework

The Board of Directors of the Consolidated Company is full responsible for the establishment and management of the Consolidated Company's risk management framework and policies. It is developed and managed by the committee which is authorized by the Board of Directors and the committee reports to the Board of Directors regarding the frameworks operations regularly.

The Consolidated Company's risk management policies are established to identify and analyze the risks faced by the Consolidated Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Consolidated Company's activities. The Consolidated Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Consolidated Company's Board of Directors oversees how management monitors compliance with the Consolidated Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Consolidated Company. The supervisors are assisted in its oversight role by Internal Audit with undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors and supervisors.

iii) Credit risk

Credit risk is the risk of financial loss to the Consolidated Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Consolidated Company's receivables from customers and investment securities.

i. Trade and other receivables

The Consolidated Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Consolidated Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly during deteriorating economic circumstances.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements**

The Consolidated Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Consolidated Company's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval; these limits are reviewed on a periodic basis. Customers that fail to meet the Consolidated Company's benchmark creditworthiness may transact with the Consolidated Company only on a prepayment basis.

The Consolidated Company has established an allowance of doubtful accounts to reflect actual and estimated potential losses resulting from uncollectible account and trade receivables. The allowance of doubtful accounts consists primarily of specific losses regarding individual customers and estimates of potential losses based on statistics from payment histories of similar customer groups.

ii. Investments

The credit risk exposure in the bank deposits, fixed income investment and other financial instruments are measured and monitored by the Consolidated Company's finance department and reported to the management by authority. Since those who transact with the Consolidated Company are banks and other external parties with good credit standing, financial institutions with a credit rating above investment grade, and government agencies, there are no non-compliance issues.

Hence, there is no significant credit risk.

iii. Guarantees

The Consolidated Company's policy allows it to provide financial guarantees to the wholly owned subsidiaries. Financial guarantees provided by the Consolidated Company as of December 31, 2016 and 2015, are disclosed in note 13.

iv) Liquidity risk

Liquidity risk is the risk that the Consolidated Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Consolidated Company's approach to managing liquidity is to ensure, as far as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Company's reputation.

The Consolidated Company uses activity-based costing to estimate the cost of its products and services, which assists it in monitoring cash flow requirements and optimizing its cash return on investments. The Consolidated Company aims to maintain the level of its cash and cash equivalents at an amount in excess of the expected cash flows on operating expenses and financial liabilities. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Consolidated Company has unused short term bank facilities of \$4,368,059 thousand and \$4,885,045 thousand, respectively, as of December 31, 2016 and 2015.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

v) Market risk

Market risk represents the potential loss arising from the decrease in the value of a financial instrument caused primarily by changes in interest rates, foreign exchange rates, or the price of financial produces. The Consolidated Company maintains its foreign currency positions within prescribed limits and signs the forward exchange contracts in order to manage market risk from changes in foreign exchange rates.

Financial assets available-for-sale financial assets—current and non-current are listed stocks and mutual funds, which may fluctuate with changes in equity price. In order to manage market risk, the Consolidated Company carefully selects trust companies with good reputations to engage in financial instrument transactions.

The Consolidated Company' bank balances and financial liability—short-term and long-term borrowings are exposed to the cash flow risk arising from changes in interest rates. However, the impact of the cash flow risk arising from changes in interest rate is not expected to be significant.

(u) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, retained earnings, and non-controlling interests of the Consolidated Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Consolidated Company's debt-to-capital ratio at the end of the reporting period was as follows:

	December 31, 2016	December 31, 2015
Total liabilities	\$ 9,177,102	8,677,589
Less: cash and cash equivalents	<u>4,827,194</u>	<u>3,909,412</u>
Net debt	<u><u>\$ 4,349,908</u></u>	<u><u>4,768,177</u></u>
Total equity	<u><u>\$ 16,208,077</u></u>	<u><u>15,797,411</u></u>
Debt-to-capital ratio	<u><u>27 %</u></u>	<u><u>30 %</u></u>

As of December 31, 2016 and 2015, there were no changes in the Consolidated Company's approach of capital management.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(7) Related-party Transactions

(a) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Consolidated Company.

(b) Management personnel compensation

Key management personnel compensation comprised:

	2016	2015
Short-term employee benefits	\$ 82,917	78,764
Post-employment benefits	916	916
Termination benefits	1,658	517
Other long-term benefits	101	20
	<u>\$ 85,592</u>	<u>80,217</u>

In both 2016 and 2015, the Consolidated Company provided six vehicles at cost of \$3,778 thousand for key management personnel.

(8) Pledged Assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2016	December 31, 2015
Property, plant and equipment			
Land	Short-term and long-term bank loan	\$ 29,757	51,198
Buildings	Short-term and long-term bank loan	199,673	159,339
Restricted deposit (recorded under other non-current assets)	Short-term bank loan	-	1,846
		<u>\$ 229,430</u>	<u>212,383</u>

(9) Significant Commitments and Contingencies

(a) As of December 31, 2016 and 2015, the Consolidated Company's had outstanding letters of credit for purchase of material and equipment amounting approximately to \$28,226 thousand and \$1,329 thousand, respectively, on which the Consolidated Company paid no deposits.

(b) As of December 31, 2016 and 2015, the Consolidated Company provided guarantee notes amounting to \$1,360,000 thousand and \$1,280,000 thousand, respectively, for usance letters of credits, domestic letters of credit and guarantees for the Consolidated Company's hiring of foreign labors. The customs duty guaranteed by the Consolidated Company for importing raw materials were \$30,000 thousand and \$15,000 thousand, respectively, as December 31, 2016 and 2015.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (c) For expanding the factory, the Consolidated Company entered contracts of construction and purchase of property, plant and equipment. The total contract amount was \$210,377 thousand and \$1,019,714 thousand as of December 31, 2016 and 2015, respectively, of which the Consolidated Company had paid \$126,365 thousand and \$901,567 thousand, respectively, included in the construction in progress and prepayments for equipment accounts.
- (d) DELTA NETWORK INC. filed a civil litigation against the Company to the Taoyuan District Court in 2012. DELTA NETWORK INC. stated that some of the products sold by the Consolidated Company were of inferior quality and demanded for a compensation of \$86,330 thousand (approximately USD2,973 thousand). Taoyuan District Court dismissed the litigation on August 26, 2016. DELTA NETWORK INC. did not file an appeal thereon. Therefore, the verdict on the first instance was affirmed by the Taoyuan District Court on September 29, 2016.

(10) Significant Losses from Calamity: None.

(11) Significant Subsequent Events: None.

(12) Others

A summary of employee benefit expenses, depreciation, depletion and amortization by function, were as follows:

By function	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	4,108,157	443,315	4,551,472	3,678,006	429,197	4,107,203
Labor and health insurance	319,120	22,665	341,785	301,509	23,694	325,203
Pension	178,396	20,386	198,782	164,578	24,057	188,635
Others	263,053	26,104	289,157	196,933	23,248	220,181
Depreciation	1,055,339	37,357	1,092,696	845,126	35,205	880,331
Amortization	-	-	-	-	-	-

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(13) Other Disclosures

(a) Information on significant transactions

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Consolidated Company in 2016:

i) Loans extended to other parties:

No.	Name of lender	Name of borrower	Financial statement account	Related party	Highest balance of financing to other parties during the year	Ending balance	Amount actually drawn (Note 4)	Range of interest rates	Purposes of fund financing for the borrowers (Note 3)	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Financing limit for each borrowing company	Maximum financing limit for the lender
													Item	Value		
0	CHIN-POON INDUSTRIAL CO., LTD.	Chin Poon Japan Co., Ltd.	Other receivables from related parties	Yes	7,855	6,912	6,912	1.5%	2	-	Operating capital	-	-	-	4,034,063 (Note 1)	4,034,063 (Note 1)
1	Chin Poon Holdings Cayman Limited	Chin-Poon (Changshu) Electronic Co., Ltd.	Other receivables from related parties	Yes	1,102,464	966,060	966,060	1.8627%-2.10367%	2	-	Operating capital	-	-	-	3,318,246 (Note 2)	3,318,246 (Note 2)

Note 1: The total amount lending to the Company's subsidiaries and a company shall not be over 25% of the net worth of the Company.

Note 2: The total amount lending to the subsidiaries and each borrowing company shall not be over 50% of the net worth of Chin Poon Holdings Cayman Limited.

Note 3: Nature of financing activities as follows:

- (1) if there are transactions between these two parties, the number is "1".
- (2) if it is necessary to loan to other parties, the number is "2".

Note 4: The transaction has already been written off in the consolidated financial statements.

ii) Guarantees and endorsements for other parties:

No.	Name of company	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for one party (Note 2)	Highest balance for guarantees and endorsements during the year	Ending balance of guarantees and endorsements (Note 2)	Amount actually drawn	Property pledged on guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum allowable amount for guarantees and endorsements (Note 2)	Parent company endorsement / guarantees to third parties on behalf of subsidiary	Subsidiary endorsement / guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of company in Mainland China
		Name	Relationship with the company (Note 1)										
0	CHIN-POON INDUSTRIAL CO., LTD.	Chin Poon Holdings Cayman Limited	3	3,227,250	501,120	483,030	483,030	-	3.06 %	4,034,063	Y	N	N
0	CHIN-POON INDUSTRIAL CO., LTD.	Chin-Poon (Changshu) Electronic Co., Ltd.	3	3,227,250	400,896	-	-	-	- %	4,034,063	Y	N	Y

Note 1: The guarantee's relationship with the guarantor is as follows:

- (1) Ordinary business relationship.
- (2) A subsidiary whose common stock is more than 50% directly owned by the guarantor.
- (3) An investee whose common stock is more than 50% owned by the parent company and its subsidiary in aggregate.
- (4) The parent company owns, directly or indirectly via subsidiaries, more than 50% of the guarantor's common stock.
- (5) A company in the same trade that is mutually guaranteed pursuant to the covenants of a construction contract upon contracting a project.
- (6) A company that is guaranteed proportionately according to the guarantor's ownership percentage due to co-investment by various investors.

Note 2: The total amount of guarantee shall not exceed 25% of the Company's net worth. The total amount of guarantee provided by the Company to any individual entity shall not exceed 20% of the Company's net worth.

iii) Securities held as of December 31, 2016 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	Ending balance			Market value	Maximum investment in 2016	Remarks
				Number of shares	Book value	Holding percentage			
The Company	Convertible bonds: Draco PCB Public Co., Ltd. - 198A	Subsidiaries	Available-for-sale financial assets - current	2,667,944	233,374	- %	233,374	244,811	Note 1
The Company	Stocks: SIMPLO TECHNOLOGY CO., LTD.	-	Available-for-sale financial assets - non-current	126,536	11,755	- %	11,755	14,615	
The Company	Beneficiary Certificate: Jih Sun Money Market	-	Available-for-sale financial assets - current	24,546,621	360,099	- %	360,099	360,099	
The Company	Mirae Asset Solomon Money Market Fund	-	Available-for-sale financial assets - current	253,096	3,164	- %	3,164	3,164	
The Company	Capital Money Market	-	Available-for-sale financial assets - current	3,182,301	50,853	- %	50,853	50,828	
The Company	Mega Diamond Money Market Fund	-	Available-for-sale financial assets - current	12,517,404	155,466	- %	155,466	155,466	
The Company	Franklin Templeton Sinoam Money Market	-	Available-for-sale financial assets - current	29,043,331	297,113	- %	297,113	297,113	
The Company	Allianz Gbl Inv Global Bd A	-	Available-for-sale financial assets - current	2,516,420	30,826	- %	30,826	31,380	
The Company	Allianz Gbl Investors Taiwan Money Mkt	-	Available-for-sale financial assets - current	16,421,100	203,786	- %	203,786	203,786	

Note 1: The transaction has already been written off in the consolidated financial statements.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- iv) The accumulated purchase or sale of securities for the period exceeding \$300 million or 20% of paid-in capital:

Name of company	Name of security	Account name	Counterparty	Relationship with the Company	Beginning balance		Purchases		Sales				Ending balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Disposal gain	Shares	Amount
Chin-Poon (Changshu) Electronic Co., Ltd	CR Yuanta Cash Earning	Available-for-sale financial assets—current	CR Yuanta Fund	-	-	-	-	1,312,250	-	1,322,113	1,312,250	9,863	-	-
The Company	Draco PCB Public Co., Ltd.	Investments accounted for under equity method	Draco PCB Public Co., Ltd.	Subsidiaries	29,982,641	467,826	106,120,969	474,624	-	-	-	-	236,103,610	942,450

- v) Information on the disposal of real estate which exceeds \$300 million or 20% of the paid-in capital for the year ended December 31, 2016: None.
- vi) Information on the disposal of real estate which exceeds \$300 million or 20% of the paid-in capital for the year ended December 31, 2016: None.
- vii) Information regarding related parties purchase and sale transactions which exceed \$100 million or 20% of the paid-in capital:

Name of company	Counter-party	Relationship	Transaction details				Status and reason for deviation from arm's-length transaction		Account / note receivable (payable)		Remarks
			Purchase / Sale	Amount	Percentage of total purchases / sales	Credit period	Unit price	Credit period	Balance	Percentage of total accounts / notes receivable (payable)	
Chin Poon Holdings Cayman Limited	The Company	Parent company	Purchase	506,771	26.81 %	Note 1	-		(115,946)	(34.76) %	
The Company	Chin Poon Holdings Cayman Limited	Subsidiaries	(Sale)	(506,771)	(2.74) %	Note 1	-		115,946	3.22 %	
The Company	Chin-Poon (Changshu) Electronic Co., Ltd	Subsidiaries	Purchase	1,562,680	17.01 %	Note 1	-		(293,864)	(10.77) %	
Chin-Poon (Changshu) Electronic Co., Ltd	The Company	Ultimate parent company	(Sale)	(1,562,680)	(26.92) %	Note 1	-		293,864	19.00 %	
Chin Poon Holdings Cayman Limited	Chin-Poon (Changshu) Electronic Co., Ltd	Subsidiaries	Purchase	1,298,008	68.67 %	Note 1	-		(205,253)	(61.53) %	
Chin-Poon (Changshu) Electronic Co., Ltd	Chin Poon Holdings Cayman Limited	Parent-company	(Sale)	(1,298,008)	(22.36) %	Note 1	-		205,253	13.27 %	
Chin Poon Japan Co., Ltd.	The Company	Parent-company	Purchase	277,739	99.93 %	Note 1	-		(167,726)	(100.00) %	
The Company	Chin Poon Japan Co., Ltd.	Subsidiaries	(Sale)	(277,739)	(1.50) %	Note 1	-		167,726	4.66 %	
Draco PCB Public Co., Ltd.	Chin-Poon (Changshu) Electronic Co., Ltd	Parent-subsiidiaries	Purchase	137,117	8.53 %	Note 1	-		(140,286)	(30.56) %	
Chin-Poon (Changshu) Electronic Co., Ltd	Draco PCB Public Co., Ltd.	Parent-subsiidiaries	(Sale)	(137,117)	(2.36) %	Note 1	-		140,286	9.07 %	

Note 1: The sales and purchase prices are based on the market prices. The terms of collection and payment are not significantly different from those to third parties.

Note 2: The transaction has already been written off in the consolidated financial statement.

- viii) Receivables from related parties in excess of \$100 million or 20% of the paid-in capital:

Name of related party	Counter-party	Relationship	Balance of receivables from related party	Turnover rate	Overdue amount		Amounts received in subsequent period	Allowances for bad debts
					Amount	Action taken		
The Company	Chin Poon Holdings Cayman Limited	Subsidiaries	115,946	3.87	-		95,266 (As of March 22, 2017)	-
The Company	Chin Poon Japan Co., Ltd.	Subsidiaries	167,726	2.83	-		61,379 (As of March 22, 2017)	-
Chin-Poon (Changshu) Electronic Co., Ltd	The Company	Ultimate parent company	293,864	8.38	-		291,792 (As of March 22, 2017)	-
Chin-Poon (Changshu) Electronic Co., Ltd	Chin Poon Holdings Cayman Limited	Parent-subsiidiary	205,253	8.40	-		197,844 (As of March 22, 2017)	-
Chin Poon Holdings Cayman Limited	Chin-Poon (Changshu) Electronic Co., Ltd	Subsidiaries	969,827 (Note 2)	-	-		- (As of March 22, 2017)	-
Chin-Poon (Changshu) Electronic Co., Ltd	Draco PCB Public Co., Ltd.	Parent-subsiidiaries	140,286	1.77	-		- (As of March 22, 2017)	-

Note 1: The transaction has already been written off in the consolidated financial statement.

Note 2: Included principle \$966,060 thousand and other receivable of interest \$3,767 thousand.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

ix) Derivative financial instrument transactions:

The loss recognized for forward contracts conducted by Draco PCB Public Co., Ltd. in 2016 was \$0 thousand, recorded as net exchange loss. As of December 31, 2016, there was no outstanding forward contract.

x) Business relationships and significant intercompany transactions:

No. (Note 1)	Name of company	Name of counter-party	Existing relationship with the counter-party (Note 2)	Transaction details			
				Account name	Amount (Note 5)	Trading terms	Percentage of the total consolidated revenue or total assets (Note 4)
0	The Company	Chin-Poon (Changshu) Electronic Co., Ltd	1	Cost of goods sold	1,562,680	Note 3	6.43 %
0	The Company	Chin Poon Holdings Cayman Limited	1	Sales revenue	506,771	Note 3	2.09 %
0	The Company	Chin Poon Japan Co., Ltd.	1	Sales revenue	277,739	Note 3	1.14 %
0	The Company	Chin-Poon (Changshu) Electronic Co., Ltd	1	Accounts payable-related parties	293,864	Note 3	1.16 %
1	Chin Poon Holdings Cayman Limited	Chin-Poon (Changshu) Electronic Co., Ltd	3	Cost of goods sold	1,298,008	Note 3	5.34 %
1	Chin Poon Holdings Cayman Limited	Chin-Poon (Changshu) Electronic Co., Ltd	3	Other receivable-related parties	969,827	The rate of interests are determined in accordance with mutual agreement	3.82 %

Note 1: Company numbering is as follows:

- (1) Parent company - 0.
- (2) Subsidiary starts from 1.

Note 2: The number of the relationship with the transaction counterparty represents the following:

- (1) 1 represents downstream transactions.
- (2) 2 represents upstream transactions.
- (3) 3 represents sidestream transactions.

Note 3: The sales and purchase prices are based on the market prices. The terms of collection and payment are not significantly different from those to third parties.

Note 4: For balance sheet items, over 1% of total consolidated assets, and for profit or loss items, over 1% of total consolidated revenue were selected for disclosure.

Note 5: The transactions have already been written off in the consolidated financial statements.

(b) Information on investees:

The following is the information on investees for the year 2016 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Address	Scope of business	Original cost		Ending balance			Maximum investment amount in 2016	Net income of investee (Note 1)	Investment income (losses) (Note 1)	Remarks
				December 31, 2016	December 31, 2015	Shares	Percentage of ownership	Book value (Note 1)				
The Company	VEGA International Enterprise Co., Ltd.	British Virgin Islands	Investment	3,070,205	3,070,205	92,354,035	100.00 %	6,636,491	92,354,035	753,990	753,990	Subsidiary (Note 2)
The Company	Chin Poon Japan Co., Ltd.	Japan	Trading of printed circuit board	3,229	3,229	180	100.00 %	6,207	180	812	812	Subsidiary (Note 2)
The Company	Draco PCB Public Co., Ltd.	Thailand	Production and trading of printed circuit board	942,450	467,825	136,103,610	95.53 %	867,229	236,103,610	(145,143)	(111,965)	Subsidiary (Note 3)
VEGA International Enterprise Co., Ltd.	Chin-Poon Holdings Cayman Limited	Cayman Islands	Investment	2,756,306	2,756,306	92,354,035	100.00 %	6,636,491	92,354,035	753,990	753,990	Subsidiary (Note 2)

Note 1: The transaction has already been written off in the consolidated financial statements.

Note 2: The investment income (loss) was recognized under the equity method and based on the financial statements audited by the auditor of the Company.

Note 3: The financial statements was audited by an international accounting firm in cooperation with the R.O.C. accounting firm.

(c) Information on investment in Mainland China:

i) Information on investment in Mainland China:

Name of investee in Mainland China	Scope of business	Issued capital	Method of investment (Note 1)	Cumulative investment (amount) from Taiwan as of January 1, 2016	Investment flow during current period		Cumulative investment (amount) from Taiwan as of December 31, 2016	Net income of investee (Notes 2 and 3)	Direct / indirect investment holding percentage	Maximum investment in 2016 (Notes 2 and 3)	Investment income (loss) (Notes 2 and 3)	Book value	Accumulated reworkance of earnings in current period
					Repatriation amount	Reparitration amount							
Chin-Poon (Changshu) Electronic Co., Ltd	Production and trading of printed circuit board	2,536,825	(2)	2,536,825	-	-	2,536,825	716,372	100.00 %	2,536,825	716,372	5,235,738	844,755

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CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note 1: The method of investment is divided into the following three categories:

- (1) Invest directly in a company in Mainland China.
- (2) Through the establishment of third-region companies then investing in Mainland China. (The Company invests Chin-Poon (Changshu) Electronic Co., Ltd. through Chin Poon Holdings Cayman Limited.)
- (3) Other methods.

Note 2: The investment income was recognized under the equity method and based on the financial statements audited by the auditor of the Company.

Note 3: The transaction has already been written off in the consolidated financial statements.

ii) **Limitation on investment in Mainland China:**

Company name	Accumulated investment amount in Mainland China as of December 31, 2016	Investment (amount) approved by Investment Commission, Ministry of Economic Affairs	Maximum investment amount set by Investment Commission, Ministry of Economic Affairs
CHIN-POON INDUSTRIAL CO., LTD.	2,536,825	2,686,050	9,681,750 (Note 1)

Note 1: 60% of the net worth.

iii) **Significant transactions with investees in Mainland China:**

Related refer to note 13(a) for the indirect and direct business transactions in China. All transactions were eliminated upon consolidation.

(14) Segment Information

(a) **General information**

There are three service departments which should be reported: Taiwan, China and Others. Each department manufactures and sells related products respectively.

A reportable department is a strategic business unit providing different products and services. Because each strategic business unit requires different kinds of techniques and marketing tactics, it should be separately managed.

(b) **Information on income and loss, assets, liabilities, basis of measurement, and the reconciliation for reportable segments**

The Consolidated Company uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The measured amounts of the assets and liabilities of the reportable segments of the Consolidated Company are not provided to the chief operating decision maker. Because taxation is managed on a Consolidated Company basis, it is not able to be allocated to each reportable segment. In addition, all profit or loss from reportable segments includes significant non-cash items such as depreciation and amortization. The reportable amount is consistent with that in the report used by the chief operating decision maker.

The operating segment accounting policies are consistent with those described in note 4 "Significant Accounting Policies".

The Consolidated Company treated intersegment sales and transfers as third-party transactions. They are measured at market price.

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Information on reportable segments and reconciliation for the Consolidated Company is as follows:

	2016			Adjustments or elimination	Total
	Taiwan	China	Others		
Revenue:					
Revenue from external customers	\$ 17,419,356	2,772,608	3,747,735	-	23,939,699
Inter-segment revenues	<u>821,616</u>	<u>2,997,810</u>	<u>182,847</u>	<u>(4,002,273)</u>	-
Total revenue	<u>\$ 18,240,972</u>	<u>5,770,418</u>	<u>3,930,582</u>	<u>(4,002,273)</u>	<u>23,939,699</u>
Reportable segment profit or loss	<u>\$ 2,390,012</u>	<u>1,036,316</u>	<u>(104,831)</u>	<u>-</u>	<u>3,321,497</u>
	2015			Adjustments or elimination	Total
	Taiwan	China	Others		
Revenue:					
Revenue from external customers	\$ 16,484,804	3,039,235	3,120,066	-	22,644,105
Inter-segment revenues	<u>808,610</u>	<u>2,438,053</u>	<u>106,604</u>	<u>(3,353,267)</u>	-
Total revenue	<u>\$ 17,293,414</u>	<u>5,477,288</u>	<u>3,226,670</u>	<u>(3,353,267)</u>	<u>22,644,105</u>
Reportable segment profit or loss	<u>\$ 2,072,019</u>	<u>605,065</u>	<u>(111,273)</u>	<u>-</u>	<u>2,565,811</u>

In 2016 and 2015, inter-segment revenues of \$4,002,273 thousand and \$3,353,267 thousand respectively, should be eliminated from total revenue.

(c) Information on products and services

The Consolidated Company is engaged in one industry which manufactures and sells printed circuit boards. The revenues from outer customers are disclosed on the information of operating segments.

(d) Geographical information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, and segment non-current assets are based on the geographical location of the assets.

Geographical information	2016	2015
Revenue from external customers:		
Taiwan	\$ 3,453,427	872,298
Germany	3,318,335	2,927,210
China	1,552,729	4,337,601
United States	4,976,389	3,009,732
Hungary	1,872,373	1,729,110
Other countries	<u>8,766,446</u>	<u>9,768,154</u>
Total	<u>\$ 23,939,699</u>	<u>22,644,105</u>

(Continued)

CHIN-POON INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Geographical information	December 31, 2016	December 31, 2015
Non-current assets:		
Taiwan	\$ 5,139,058	5,252,485
United States	2,372,004	2,853,429
Thailand	<u>1,039,731</u>	<u>1,108,516</u>
Total	<u>\$ 8,550,793</u>	<u>9,214,430</u>

Non-current assets include property, plant and equipment, and other assets, but do not include financial instruments, and deferred tax assets.

(e) Information about major customers

There was no major customer whose revenue was more than 10% of operating revenue of the Consolidated Company in 2016 and 2015.