

(English Translation of Financial Report Originally Issued in Chinese)

**CHINA PETROCHEMICAL DEVELOPMENT
CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT ACCOUNTANTS' AUDIT REPORT**

DECEMBER 31, 2016 AND 2015

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(English Translation of Consolidated Financial Report Originally Issued In Chinese)
INDEPENDENT ACCOUNTANTS' AUDIT REPORT

To the Board of Directors of China Petrochemical Development Corporation:

Opinion

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

In our opinion, based on our audits and the reports of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit 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 Group 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.

Emphasis of Matter

As described in Notes 6.g and 6.l of the notes to the consolidated financial statements, the Tainan City Government and Environment Protection Administration, the Executive Yuan publicly announced that a portion of the land at the Anshun plant was polluted and designated it as under pollution control. As China Petrochemical Development Corporation (CPDC) never used the land since it took over from its merger with Taiwan Alkali Industrial Corporation (TAIC), CPDC still has a dissenting view on the government perception about the condition of pollution. Aside from cooperating with the government in its control and management procedure, CPDC is seeking a way to define its responsibilities. In addition, CPDC submitted for approval a remediation project proposal to the Tainan City Government in accordance with the related regulations and accrued relevant remediation project expenses in June 2008. This remediation project proposal was approved in May 2009. CPDC also performed related remediation work according to the remediation project proposal. The first phase of remediation project was completed in September 2014. The management of CPDC is expecting that the second phase of remediation project will be completed in the next decade. Likewise, CPDC has accrued relevant remediation project expenses for the second phase of remediation project in December 2014.

Other Matter

The financial statements as of and for the year then ended December 31, 2015 of Chung Hua Shuang Tzu Hsing Kai Fa Co., Ltd., one of the subsidiaries of the Group, were audited by other auditors, whose reports have been furnished to us, and our opinion in so far as it relates to the amounts for the said consolidated subsidiary were based solely on the reports of other auditors. Chung Hua Shuang Tzu Hsing Kai Fa Co., Ltd. had total assets representing 2.81% of consolidated total assets as of December 31, 2015, and the total operating revenue representing 0% of consolidated total operating revenue for the year ended December 31, 2015.

Moreover, we have not audited certain investments, which were accounted for under the equity method. The financial statements as of and for the years then ended December 31, 2016 and 2015 of those of the investees accounted for under the equity method were audited by other auditors, whose reports have been furnished to us, and our opinion in so far as it relates to the amounts for the equity method investees were based solely on the reports of other auditors. These investments accounted for under the equity method represented 1.91% and 2.01% of consolidated total assets as of December 31, 2016 and 2015, respectively. The related shares of investment income from these investees including subsidiaries, associates and joint ventures accounted for using equity method represented (9.54)% and 154.45% of consolidated net income before income tax for the years ended December 31, 2016 and 2015, respectively. CPDC 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 unmodified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were significant in our audit of the consolidated financial statements as of and for the year then 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. Revenue recognition

Operating revenue is the most important source of cash flow for the Group, and it is a significant risk accounting subject in the consolidated financial statements. So revenue recognition is one of the key audit matters for our audit. Please refer to Note 4 “Revenue Recognition” and Note 6 “Revenue” in the consolidated financial statements.

How the matter was addressed in our audit

Our key audit procedures included:

- Testing the Group's internal accounting controls surrounding revenue recognition and key manual and systems-based controls in the order-to-cash transaction cycle. In addition, checking and reconciling the sales data recorded between the sales systems and general ledger; selecting samples to assess whether appropriate revenue recognition policies are applied through comparison with accounting standards;
- Analyzed and compared the sales amounts and volumes for the major customers of the Group. Based on samples selected, vouched significant transactions from both internal and external documents, to verify the authenticity of the transactions.

2. Impairment assessment of property, plant, and equipment

The book value of property, plant, and equipment of the Group represented 20% of consolidated total assets as of December 31, 2016, which is deemed to be significant. The overall economic trend, market competition and fluctuations in the price of petroleum and petrochemical products may affect the future operation of the Group, and also affect the estimated economic benefits and recoverable amounts of these assets that the management of the Group may estimate and determine in the future of the cash generating unit of the assets, and to evaluate whether there are signs of impairment. The recoverable amounts of these assets have been determined based on the discounted cash flow forecasted by the Group management which involved significant uncertainties and professional judgments. Therefore, we consider the assessment for impairment of property, plant, and equipment as one of the key audit matters for our audit, because of the uncertainties involved on assessment assumptions. Please refer to Note 4 "Impairment of non-financial assets", Note 5 "Significant Accounting Judgments, Estimation, Assumptions, and Sources of Estimation Uncertainty", and Note 6.f "Property, plant and Equipment" of the consolidated financial statements for details of the information about impairment assessment on property, plant, and equipment.

How the matter was addressed in our audit

Our key audit procedures included:

- Obtain from Group management the results of their valuation of fixed assets and understand the significant assumptions used in their valuation model.
- Review both the calculations of the value in use and the present value of the discounted cash flow forecasted. Evaluate the CGU, and external and internal impairment indicators identified by management, and ascertain that all fixed assets requiring annual impairment test are covered in the assessment made by management. Likewise, evaluate the reasonableness of the method used in measuring the recoverable amount of the assets (including the realization on the financial forecast, the calculation of recoverable amount and the assumptions considered for the cash flow forecast).

3. Assessment of the fair value of investment property

The book value of investment property of the Group represented 50% of consolidated total assets as of December 31, 2016, which is deemed to be significant. The Group evaluate the fair value of investment property according to IAS40, and re-measure such fair value on the reporting date. Because the valuation of investment property at fair value demands significant professional judgments, the assessment of fair value of investment property is considered one of the key audit matters. Please refer to Note 4 “Investment Property”, Note 5 “Significant Accounting Judgments, Estimation, Assumptions, and Sources of Estimation Uncertainty”, and Note 6.g “Investment Property” of the consolidated financial statements for details of the information about fair value information on investment property.

How the matter was addressed in our audit

Our key audit procedures included:

- Obtain from the Group management the real estate appraisal report on investment property;
- Engage another appraiser to review such real estate appraisal report, and to evaluate the propriety of the evaluation method used, and the reasonableness of its main assumptions or input values (ex. discount rate and final rate of return);
- Evaluate the propriety of the disclosure of fair value of investment property.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, interpretations 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 Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

We also provide those charged with governance with 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. The engagement partners on the audit resulting in this independent accountants' audit report are Chen Chun Kuang and Chung Tan Tan.

KPMG

Taipei, Taiwan (Republic of China)
March 28, 2017

Notes to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows 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"), interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

The independent accountants' audit 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 financial statements, the Chinese version shall prevail.

(English Translation of the Report Originally Issued in Chinese)
CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015
(Expressed in thousands of New Taiwan Dollars)

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
ASSETS				
Current assets				
Cash and cash equivalents (Notes 4 and 6 a.)	\$ 9,678,066	13	8,887,290	12
Financial assets at fair value through profit or loss— current (Notes 4 and 6 b.)	1,197,373	1	1,130,019	1
Available-for-sale financial assets— current (Notes 4 and 6 b.)	184,972	-	176,813	-
Notes and accounts receivable, net (Notes 4 and 6 c.)	1,923,697	3	1,576,721	2
Accounts receivable— related parties, net (Notes 4, 6 c. and 7)	54,019	-	67,116	-
Other receivables (Notes 4 and 6 c. and 7)	149,849	-	128,472	-
Inventories (Notes 4 and 6 d.)	1,581,018	2	1,918,429	3
Prepayments	845,297	1	741,591	1
Other current assets	468,242	1	491,951	1
Total current assets	16,082,533	21	15,118,402	20
Non-current assets				
Available-for-sale financial assets— non-current (Notes 4 and 6 b.)	1,285,468	2	1,175,127	2
Financial assets carried at cost— non-current (Notes 4 and 6 b.)	2,504,078	3	1,459,907	2
Investments accounted for using equity method (Notes 4 and 6 e.)	2,117,311	3	2,911,478	4
Property, plant and equipment (Notes 4 and 6 f.)	15,669,918	20	16,279,497	21
Investment property, net (Notes 4 and 6 g.)	38,152,353	50	38,263,477	50
Intangible assets (Notes 4 and 6 h.)	31,256	-	21,451	-
Deferred tax assets (Notes 4 and 6 p.)	9,372	-	9,372	-
Other non-current assets	602,976	1	516,092	1
Total non-current assets	60,372,732	79	60,636,401	80
TOTAL ASSETS	\$ 76,455,265	100	75,754,803	100

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
LIABILITIES AND EQUITY				
Current liabilities				
Short-term loans (Note 6 i.)	\$ 2,895,982	4	2,009,719	3
Financial liabilities at fair value through profit or loss—current (Notes 4, 6 b. and 6 k.)	20,866	-		
Accounts payable	1,710,267	2	1,139,678	2
Accounts payable— related parties (Note 7)	10,703	-	6,280	-
Other payables (Note 7)	502,907	1	672,593	1
Current tax liabilities (Notes 4 and 6 p.)	47,432	-	43,133	-
Provisions— current (Notes 4, 6 l. and 6 o.)	289,031	1	310,227	1
Long-term liabilities-current portion (Notes 4, 6 i. and 6 k.)	4,700,840	6	872,500	-
Other current liabilities, others	284,941	-	224,629	-
Total current liabilities	10,462,969	14	5,278,759	7
Non-current liabilities				
Financial liabilities at fair value through profit or loss— non-current (Notes 4, 6 b. and 6 k.)	-	-	16,044	-
Bonds payable (Note 6 k.)	-	-	4,151,514	5
Long-term bank loans (Note 6 i.)	2,921,953	4	722,500	2
Provisions— non-current (Notes 4, 6 l. and 6 o.)	2,443,402	3	2,427,455	3
Deferred tax liabilities (Notes 4 and 6 p.)	8,721,801	11	8,463,557	11
Long-term bills payable (Note 6 j.)	769,581	1	1,128,828	2
Other non-current liabilities, others	72,893	-	308,128	-
Total non-current liabilities	14,929,630	19	17,218,026	23
Total liabilities	25,392,599	33	22,496,785	30
Equity attributable to shareholders of the parent				
Share capital				
Common stock (Note 6 q.)	23,199,897	31	23,199,897	31
Capital surplus (Note 6 q.)	18,141	-	18,141	-
Retained earnings: (Note 6 q.)				
Legal reserve	1,099,137	2	1,091,591	2
Special reserve	29,981,970	39	29,914,066	39
Unappropriated earnings (Accumulated deficit)	(1,958,584)	(3)	75,450	-
	<u>29,122,523</u>	<u>38</u>	<u>31,081,107</u>	<u>41</u>
Others (Notes 4 and 6 q.)				
Exchange differences arising on translation of foreign operations	(293,769)	-	(66,811)	-
Changes in fair value of available-for-sale financial assets	(1,228,183)	(2)	(1,190,947)	(2)
	<u>(1,521,952)</u>	<u>(2)</u>	<u>(1,257,758)</u>	<u>(2)</u>
Non-controlling interests	244,057	-	216,631	-
Total equity	51,062,666	67	53,258,018	70
TOTAL LIABILITIES AND EQUITY	\$ 76,455,265	100	75,754,803	100

The accompanying notes are an integral part of the consolidated financial statements.
(With KPMG audit report dated March 28, 2017)

(English Translation of the Report Originally Issued in Chinese)
CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2016 and 2015
(Expressed in thousands of New Taiwan Dollars)

	For the Years Ended December 31,			
	2016		2015	
	Amount	%	Amount	%
Operating revenue (Notes 4 and 6 s.)	\$ 25,376,683	100	26,155,995	100
Operating costs (Notes 4 and 6 d.)	25,466,664	100	26,598,992	102
	(89,981)	-	(442,997)	(2)
Less: Unrealized (profit) loss on intercompany transactions	(562)	-	(682)	-
Add: Realized profit (loss) on intercompany transactions	682	-	931	-
Gross loss	(89,861)	-	(442,748)	(2)
Operating expenses				
Selling expenses	567,336	2	618,840	2
Administrative expenses	539,608	2	515,420	2
Research and development expenses	198,273	1	216,793	1
	1,305,217	5	1,351,053	5
Loss from operations	(1,395,078)	(5)	(1,793,801)	(7)
Non-operating income and expenses				
Other income (Notes 6 u. and 7)	449,392	1	411,153	2
Other gains and losses (Notes 6 k. and 6 u.)	(1,091,014)	(4)	948,711	4
Finance costs (Notes 6 m. and 6 u.)	(228,592)	(1)	(188,782)	(1)
Share of profit of associates and joint ventures accounted for using equity method (Notes 4 and 6 e.)	461,196	2	764,950	3
Total non-operating income and expenses	(409,018)	(2)	1,936,032	8
(Loss) income before income tax	(1,804,096)	(7)	142,231	1
Less: Income tax expense (Notes 4 and 6 p.)	74,049	-	59,461	-
Net (loss) income	(1,878,145)	(7)	82,770	1
Other comprehensive income (loss):				
Items that will not be reclassified subsequently to profit or loss:				
Actuarial loss from defined benefit plans (Note 6 o.)	(67,544)	-	(15,705)	-
Share of other comprehensive loss of associated and joint ventures	(13,994)	-	-	-
Allocation of income tax to the above items	-	-	-	-
	(81,538)	-	(15,705)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of foreign operations	(226,958)	(1)	(19,570)	-
Changes in fair value of available-for-sale financial assets	(77,058)	-	(208,563)	(1)
Share of other comprehensive income (loss) of associates and joint ventures	40,567	-	(20,169)	-
Allocation of income tax to the above items	-	-	-	-
	(263,449)	(1)	(248,302)	(1)
Other comprehensive loss for the year, net of income tax	(344,987)	(1)	(264,007)	(1)
Total comprehensive loss for the year	\$ (2,223,132)	(8)	(181,237)	-
Net (loss) income attributable to :				
Shareholders of the parent	\$ (1,869,721)	(7)	95,531	2
Non-controlling interests	(8,424)	-	(12,761)	-
	\$ (1,878,145)	(7)	82,770	2
Comprehensive loss attributable to :				
Shareholders of the parent	\$ (2,215,453)	(8)	(167,715)	2
Non-controlling interests	(7,679)	-	(13,522)	-
	\$ (2,223,132)	(8)	(181,237)	2
Earnings per share (NTD) (Notes 4 and 6 r.)				
Basic earnings per share	\$ (0.81)		0.04	
Diluted earnings per share	\$ (0.81)		(0.08)	

The accompanying notes are an integral part of the consolidated financial statements.
(With KPMG audit report dated March 28, 2017)

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2016 and 2015
(Expressed in thousands of New Taiwan Dollars)

	Equity Attributable to Shareholders of the Parent									
	Retained earnings					Others		Total	Non-controlling interests	Total Equity
						Exchange differences arising on translation of foreign operations	Changes in fair value of available-for-sale financial assets			
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated earnings					
Balance – January 1, 2015	\$ 23,199,897	-	1,062,727	29,654,282	288,648	(31,944)	(982,649)	53,190,961	228,330	53,419,291
Net income for the year ended December 31, 2015	-	-	-	-	95,531	-	-	95,531	(12,761)	82,770
Other comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	(20,081)	(34,867)	(208,298)	(263,246)	(761)	(264,007)
Total comprehensive income (loss)	-	-	-	-	75,450	(34,867)	(208,298)	(167,715)	(13,522)	(181,237)
Appropriations and distribution of 2014 earnings :										
Legal reserve	-	-	28,864	-	(28,864)	-	-	-	-	-
Special reserve	-	-	-	259,784	(259,784)	-	-	-	-	-
Redemption of preferred shares of stock	-	18,141	-	-	-	-	-	18,141	1,823	19,964
Balance – December 31, 2015	23,199,897	18,141	1,091,591	29,914,066	75,450	(66,811)	(1,190,947)	53,041,387	216,631	52,258,018
Net loss for the year ended December 31, 2016	-	-	-	-	(1,869,721)	-	-	(1,869,721)	(8,424)	(1,878,145)
Other comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	(81,538)	(226,958)	(37,236)	(345,732)	745	(344,987)
Total comprehensive income (loss)	-	-	-	-	(1,951,259)	(226,958)	(37,236)	(2,215,453)	(7,679)	(2,223,132)
Appropriations and distribution of 2015 earnings :										
Legal reserve	-	-	7,546	-	(7,546)	-	-	-	-	-
Special reserve	-	-	-	67,904	(67,904)	-	-	-	-	-
Effects of not subscribing to capital increase of a subsidiary proportionally	-	-	-	-	(7,325)	-	-	(7,325)	35,105	27,780
Balance – December 31, 2016	\$ 23,199,897	18,141	1,099,137	29,981,970	(1,958,584)	(293,769)	(1,228,183)	50,818,609	244,057	52,062,666

The accompanying notes are an integral part of the consolidated financial statements.
(With KPMG audit report dated March 28, 2017)

(English Translation of the Report Originally Issued in Chinese)
CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2016 and 2015
(Expressed in thousands of New Taiwan Dollars)

	For the years ended December 31,	
	2016	2015
Cash flows from operating activities:		
(Loss) Income before income tax	\$ (1,804,096)	142,231
Adjustments to reconcile income before income tax to net cash provided by operating activities:		
Depreciation expense	1,750,731	1,744,307
Amortization expense	14,625	14,344
Net loss on financial assets or liabilities at fair value through profit or loss	87,132	85,718
Loss (profit) on reassessment of embedded derivatives at fair value through profit or loss	4,822	(690,505)
Interest expense	228,592	188,782
Interest income	(144,605)	(177,269)
Shares of gain of subsidiaries and associates accounted for using equity method	(461,196)	(764,950)
Effect of exchange rate changes on bonds payable	(77,880)	160,380
(Gain) Loss on disposal of property, plant and equipment	(376)	4,879
Gain on disposal of investments	(2,149)	(5,608)
Impairment loss on financial assets	28,671	-
(Reversal of) impairment loss on non-financial assets	(177,834)	118,335
Unrealized profit or loss on intercompany transactions	562	682
Realized gain or loss on intercompany transactions	(682)	(931)
Loss (gain) arising from adjusting fair value of investment property	370,672	(872,962)
Amortization of bond issued expense	27,383	26,018
Total adjustments to reconcile income before income tax	1,648,468	(168,780)
Change in operating assets and liabilities :		
Change in operating assets :		
Decrease (increase) in financial assets held for trading	2,746	(448,635)
(Increase) decrease in accounts receivable	(346,976)	728,461
Decrease in receivables — related parties	13,097	35,368
Increase in other receivables	(19,351)	(44,486)
Decrease in inventories	515,245	159,949
(Increase) decrease in prepayments	(103,706)	481,982
Decrease in other current assets	13,953	221,068
Total changes in operating assets	75,008	1,133,707
Change in operating liabilities :		
(Increase) decrease in accounts payable	570,589	(398,079)
(Increase) decrease in payables — related parties	4,423	(3,069)
(Decrease) increase in other payables	(256,931)	180,357
Decrease in provisions	(5,249)	(513,880)
Increase in other current liabilities	60,312	5,567
Total changes in operating liabilities	373,144	(729,104)
Total changes in operating assets and liabilities	448,152	404,463
Total adjustments	2,096,620	235,823
Cash provided by operations	292,524	378,054
Interest received	142,579	197,036
Interest paid	(99,386)	(66,588)
Income taxes paid	(73,802)	(18,456)
Net cash provided by operating activities	261,915	490,046
Cash flows from investing activities:		
Acquisition of current financial assets at fair value through profit or loss	(628,864)	(403,760)
Proceeds from current financial assets at fair value through profit or loss	473,781	584,981
Acquisition of available-for-sale financial assets	(195,558)	-
Proceeds from disposal of non-current assets held for sale	-	500
Acquisition of financial assets carried at cost	(434,000)	(286,000)
Return of capital of financial assets under cost method due to capital reduction	2,860	-
Acquisition of property, plant and equipment	(1,206,622)	(1,054,637)
Proceeds from disposal of property, plant and equipment	4,549	3
Acquisition of intangible assets	(12,216)	-
Increase in other non-current assets	(99,098)	(497,427)
Dividend received	596,329	546,136
Net cash used in investing activities	(1,498,839)	(1,110,204)
Cash flows from financing activities:		
Decrease in short-term loans	11,185,480	8,840,419
Increase in short-term loans	(10,299,217)	(9,395,633)
Increase in long-term bank loans	5,655,825	2,860,000
Repayment of long-term bank loans	(3,856,372)	(2,965,000)
Decrease in long-term bills payable	(360,000)	-
Repayment of preferred share liabilities	-	(156,509)
Decrease in other non-current liabilities	(235,235)	(8,742)
Changes in non-controlling interests	35,105	1,823
Net cash provided by (used in) financing activities	2,125,586	(823,642)
Effect of exchange rate changes on cash and cash equivalents	(97,886)	(81,100)
Net increase (decrease) in cash and cash equivalents	790,776	(1,524,900)
Cash and cash equivalents, beginning of the year	8,887,290	10,412,190
Cash and cash equivalents, end of the year	\$ 9,678,066	8,887,290

The accompanying notes are an integral part of the consolidated financial statements.
(With KPMG audit report dated March 28, 2017)

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Amounts expressed in thousands of New Taiwan Dollars,
except for per share information or unless otherwise specified)

1. HISTORICAL HIGHLIGHTS AND SCOPE OF BUSINESS

China Petrochemical Development Corporation (hereinafter referred to as the Company) was founded on July 8, 1969 under the approval of Ministry of Economic Affairs, R.O.C. Its registered address is 11th floor, No.12, Dongxing Rd., Songshan Dist., Taipei City 105, Taiwan (R.O.C.). The Company migrated to No.1, Jingjian Rd., Dashe Dist., Kaohsiung City 815, Taiwan (R.O.C.) on July 18, 2016. The Company and its subsidiaries (hereinafter referred to as the "Consolidated Company") primarily engage in the production of petroleum, alkali-chlorine, phosphoric acid and other petrochemical products and by-products and the storage, transportation, purchase and sale of these products, related chemicals and their raw materials. The primary products are acrylonitrile, caprolactam, acetic acid and nylon.

2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements for the years ended December 31, 2016 and 2015 were authorized for issue by the Board of Directors on March 16, 2017.

3. NEW ACCOUNTING 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 in preparing their financial statements effective January 1, 2017. The related new standards, interpretations and amendments are as follows:

New standards and amendments	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

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<u>New standards and amendments</u>	<u>Effective date per IASB</u>
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
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 results of the Group assessment disclosed 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

The following are the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Group should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Group's financial statements were issued, the FSC has yet to announce the effective dates of the other IFRSs.

<u>New standards and amendments</u>	<u>Effective date per IASB</u>
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
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 Investment Property	January 1, 2018

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The Group is still currently determining the potential impact of the accounting standards listed below:

Issuance/ Release Date	Standard or Interpretation	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: ● 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Issuance/ Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: ● 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
September 11, 2014	Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
January 29, 2016	Amendments to IAS 7 "Disclosure Initiative"	The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

The Group is evaluating the impact on its financial position and financial performance of the initial adoption of the above-mentioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, which have been applied consistently to all periods presented in these consolidated financial statements, except when otherwise indicated, are as follows:

a. Statement of compliance

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

b. Basis of Preparation

1. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following material items in the balance sheets:

- (1) Financial instruments at fair value through profit or loss are measured at fair value (including derivative financial instruments);
- (2) Available-for-sale financial assets are measured at fair value;
- (3) The net defined benefit liability (assets) is recognized as the present value of the defined benefit obligation less the fair value of plan assets and the effect of the asset ceiling (please see note 6 o.);
- (4) Investment properties are measured at fair value.

2. Functional and presentation currency

The functional currency of the Consolidated Company is determined based on the primary economic environment in which the entities operate. The consolidated financial statements are presented in New Taiwan Dollar, which is the Company's functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

c. Basis of Consolidation

1. Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the 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.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

2. List of subsidiaries in the consolidated financial statements

The subsidiaries included in the consolidated financial statements were as follows:

Name of investors	Name of subsidiaries	Nature of business	Shareholding ratio		Notes
			2016.12.31	2015.12.31	
The Company	Chemax International Corp. (CIC)	Announcement energy products besides petroleum chemical products, electronic chemicals variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading.	100.00%	100.00%	CIC was established on September 1, 1995. As of December 31, 2016 and 2015 CIC's issued capital amounted to \$160,000.
The Company	Tsou Seen Chemical Industries Corporation (TSCIC)	Manufacture of chemical products and their derivatives of phosphoric acid and fertilizer storage, transport, purchase, marketing business.	100.00%	100.00%	TSCIC was established on June 16, 1998. As of December 31, 2016 and 2015, TSCIC's share capital amounted to \$750,000.
The Company	CPDC Engineering Co., Ltd. (CPDC EC)	Water treatment works, plumbing works, apparatus and instrument installation work, refrigeration and air conditioning engineering and tank car repair and other services.	100.00%	100.00%	CPDC EC was established on May 31, 1999. As of December 31, 2016 and 2015, CPDC EC's TSCIC's share capital amounted to \$150,000.
The Company	CPDC Investment (BVI) Co Ltd. (CPDC (BVI))	Holding company	100.00%	100.00%	CPDC (BVI) was established on January 9, 1998, registered in the British Virgin Islands, and is an international investment company. As of December 31, 2016 and 2015, CPDC (BVI)'s issued capital amounted to US\$ 26,580.
The Company	Chung Hua Shuang Tzu Hsing Kai Fa Co.,Ltd. (CHSTH)	Real estate investment and development	90.87%	90.87%	The Company invested in Chung Hua Shuang Tzu Hsing Kai Fa Co.,Ltd. on June 21, 2013. As of December 31, 2016 and 2015, Chung Hua Shuang Tzu Hsing Kai Fa Co.,Ltd.'s issued capital amounted to \$2,201,000.
The Company	Unichem Development Limited (UDL)	Holding company	100.00%	100.00%	UDL was established on May 20, 2008. As of December 31, 2016 and 2015, UDL's issued capital amounted to US\$96,144 and US \$94,239, respectively.

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Name of investors	Name of subsidiaries	Nature of business	Shareholding ratio		Notes
			2016.12.31	2015.12.31	
The Company	Jiangsu Weiming Petrochemical Corporation (Weiming)	Petrochemical supporting facility construction	1.41%	1.41%	Weiming was established on May 16, 2013. As of December 31, 2016 and 2015, the paid in capital of Weiming amounted to RMB \$426,000.
Chemax International Corp.	Weihua (Rudong) Trade Co., Ltd (Weihua)	Engaged in trading of petroleum chemical products, electronic chemicals variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading	4.02%	4.02%	Weihua was established on December 10, 2012. As of December 31, 2016 and 2015, the paid in capital of Weihua amounted to RMB \$156,289.
Chemax International Corp.	Weiqiang International Trade (Shanghai) Co., Ltd. (Weiqiang)	Engaged in trading of petroleum chemical products, electronic chemicals variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading	100.00%	100.00%	Weiqiang was established on May 9, 2013. As of December 31, 2016 and 2015, the paid in capital of Weiqiang amounted to US \$4,000.
Tsou Seen Chemical Industries Corporation	Taivex Therapeutics Inc. (Taivex)	Engaged in biotechnology, pharmaceutical research and development and marketing	91.10%	79.51%	Taivex was established on February 11, 2010. TSCIC invested in Taivex on August 18, 2010. Taivex capital reduction resolution on June 16, 2016, reduction record date on June 22, 2016. Cash injection resolution on October 18, 2016, reduction record date on December 12, 2016. As of December 31, 2016 and 2015, Taivex's share capital amounted to \$507,399 and \$307,500, respectively.
Unichem Development Limited (UDL)	Jiangsu Weiming Petrochemical Corporation (Weiming)	Petrochemical supporting facility construction	98.59%	98.59%	Weiming was established on May 16, 2013. As of December 31, 2016 and 2015, the paid in capital of Weiming amounted to RMB \$426,000.
Unichem Development Limited(UDL)	Weihua (Rudong) Trade Co., Ltd (Weihua)	Engaged in trading of petroleum chemical products, electronic chemicals variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading	95.98%	95.98%	Weihua was established on December 10, 2012. As of December 31, 2016 and 2015, the paid in capital of Weihua amounted to RMB \$156,289.
Unichem Development Limited(UDL)	Weida (Zhangzhou) Consultant Service Co., Ltd. (Weida)	Consultancy	100.00%	100.00%	Weida was established on November 26, 2012. As of December 31, 2016 and 2015, the paid in capital of Weida amounted to US \$450.
Unichem Development Limited(UDL)	Zhangzhou Weida Petrochemical Co., Ltd (Weida PC)	Engaged in trading of petroleum chemical products, electronic chemicals variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading	100.00%	100.00%	Weida PC was established on December 23, 2014. As of December 31, 2016 and 2015, the paid in capital of Weida PC amounted to RMB 6,000.
Unichem Development Limited(UDL)	Kunshan Weiqin Management consultant Co., Ltd (Weiqin)	Management consultant	100.00%	-	Weiqin was established on April 29, 2016. As of December 31, 2016, the paid in capital amounted of Weiqin to RMB 6,000.
Unichem Development Limited(UDL)	Zhejiang Wedge new material Co., Ltd (Wedge)	Engaged in trading of Synthetic fiber material	100.00%	-	Wedge PC was established on July 25, 2016. As of December 31, 2016, the paid in capital of Wedge amounted to RMB 6,500.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

3. Subsidiaries not included in the consolidated financial statements

Name of investors	Name of subsidiaries	Nature of business	Shareholding ratio		Notes
			2016.12.31	2015.12.31	
The Company	Tao Zhu Construction & Development Co., Ltd.	Commissioned to create a vendor to build the housing, commercial buildings and plant rental business, management of land development and playgrounds and other related business investment	100.00%	100.00%	Tao Zhu Construction & Development Co., Ltd. was established on October 11, 1995. As of December 31, 2016 and 2015 and, its actual paid-in capital amounted to \$100,000 and its total assets represented 0.11% of the consolidated total assets.
The Company	Rich Eqrties Ltd.	Holding company	100.00%	100.00%	Rich Eqrties Ltd. was established on March 21, 2007. As of December 31, 2016 and 2015, its actual paid-in capital amounted to USD\$180 and its total assets represented 0.01% of consolidated total assets.
Tao Zhu Construction & Development Co., Ltd.	Da-ying Construction Ltd.	Engineering, construction contracting business	100.00%	100.00%	Da-ying Construction Ltd. was established on November 24, 1972. As of December 31, 2016 and 2015, its actual paid-in capital amounted to \$22,500 and its total assets represented 0.03% of consolidated total assets.

d. Foreign currency

1. Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of the Consolidated Company entities at 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 remeasured 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 remeasured using the exchange rate at the date of transaction.

Foreign currency differences arising on remeasurement are recognized in profit or loss, except for the following differences which are recognized in other comprehensive income:

- available-for-sale equity investment;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedge is effective.

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2. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Company's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and are presented as exchange differences arising on translation of foreign operations in equity.

However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Company disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. If the Company disposes of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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 exchange differences arising on translation of foreign operations in equity.

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

An asset is classified as current if:

1. It is expected to be realized the asset, or intended to be sold or consumed, during the normal operating cycle;
2. It is held primarily for the purpose of trading;
3. It is expected to be realized within twelve months after the reporting period; or
4. The asset is cash and cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current if:

1. It is expected to be settled during the in its normal operating cycle;
2. It is held primarily for the purpose of trading;

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3. The liability is due to be settled within twelve months after the reporting period (even if under the condition that it completes long-term re-financing or reschedules repayment agreement in the period from the balance sheet date to the date the financial statements are approved); or
4. It does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

All other liabilities are classified as non-current.

f. Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to cash at the known amounts and subject to insignificant risk of value changes. Time deposits that fit the definition above and are used by the Group in the management of its short-term commitments are comprised in cash equivalents.

Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Company, are recorded in cash and cash equivalents in statements of cash flows.

g. Construction contracts

Construction contracts in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction contracts in progress is presented in the balance sheets as the amount due from customers for contract work for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as amount due to customers for contract work in the balance sheets.

h. Financial instruments

Financial assets and financial liabilities are initially recognized when the Consolidated Company becomes a party to the contractual provisions of the instruments.

1. Financial assets

The Consolidated Company classifies financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

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(1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is held-for-trading or is designated as such on initial recognition. Financial assets classified as held-for-trading if it is acquired principally for the purpose of selling in the short term. The Consolidated Company designates financial assets, other than ones classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- A. Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.
- B. Performance of the financial asset is evaluated on a fair value basis.
- C. Hybrid instrument contains one or more embedded derivatives.

At initial recognition, financial assets classified under this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend and interest income, are recognized in profit or loss, under other income of non-operating income and expense. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured at cost deducted by impairment loss, and are measured at amortized cost, and are included in financial assets measured at cost.

(2) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated available-for-sale or are not classified in any of the other categories of 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 monetary financial assets, are recognized in other comprehensive income and presented in the unrealized gains or losses on available for sale financial assets in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, under other gains and losses of non-operating income and expense. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost deducted by impairment loss, and are included in financial assets measured at cost.

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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 other income account in statements of comprehensive income.

Interest income from investment in bond security is recognized in profit or loss, under other income of non-operating income and expenses.

(3) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables and other receivables. At initial recognition, these assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses, other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Interest income is recognized in profit or loss, under other income.

(4) Impairment of financial assets

The impairment loss of financial assets not measured at fair value is assessed on the report date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a loss event) that occurred subsequent to the initial recognition of the asset and that a loss event (or events) has an impact on the future cash flows of the financial assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, 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 accounted for as 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 losses are likely to be greater or lesser than the one suggested by historical trends.

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An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is reduced from the carrying amount, except for trade receivables, in 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 accounts are recognized into 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.

If, in a subsequent period, the amount of the impairment loss of a financial assets measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses recognized on 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.

Bad debt losses and recoveries of receivables are recognized in profit or loss as administrative expense. Impairment losses and recoveries of financial assets other than receivables are recognized in profit or loss under non-operating revenues and expenses.

(5) 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.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses from available for sale financial assets is recognized in profit or loss, under other income of non-operating income and expenses.

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On partial derecognition of a financial assets, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity account as unrealized gains or losses from available for sale financial assets is reclassified to profit or loss, under other gains and losses of non-operating income and expenses.

2. Financial liabilities and equity instruments

(1) Classification of debt or equity instruments

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

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

Compound financial instruments issued by the Consolidated Company comprise convertible bonds payable that can be converted to share capital at the option of the holder, where 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 related to the financial liability is recognized in profit or loss, under other gains and losses of non-operating income and expenses.

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

(2) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held-for-trading or is designated as such on initial recognition. A financial liability is classified as held-for-trading if it is acquired principally for the purpose of selling in the short term. Financial liabilities, other than the ones classified as held-for-trading, are designated as at fair value through profit or loss at initial recognition under one of the following situations:

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- A. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;
- B. Performance of the financial liabilities is evaluated on a fair value basis;
- C. A hybrid instrument contains one or more embedded derivatives.

Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss, under other gains and losses of non-operating income and expenses.

Financial liabilities at fair value through profit or loss are measured at cost if it is a short sale of unquoted equity investment whose fair value cannot be reliably measured and that the short seller is obligated to deliver the equity instrument.

The Consolidated Company issues and designates financial guarantee contracts and loan commitments as at fair value through profit or loss. Any gains and losses are recognized in profit or loss, under other gains and losses of non-operating income and expenses.

(3) Other financial liabilities

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

(4) Derecognition of financial liabilities

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

(5) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when the Consolidated Company has the legally enforceable rights 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.

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3. Derivative financial instruments

The Group 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 included in statement of comprehensive income. When a derivative is designated as a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. 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.

For derivatives that are linked to investments in equity instruments that do not have a quoted market price in an active market and must be settled by delivery of such an unquoted equity instrument, those that are classified as financial assets are measured at amortized cost, and included in financial assets measured at cost; and those that are classified as financial liabilities are measured at cost, and included in financial liabilities measured at cost.

Embedded derivatives are separated from the host contract and accounted for separately when the economic characteristics and risk of the host contract and of the embedded derivatives are not closely related.

i. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

j. Investments in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill which is arising from the acquisition less any accumulated impairment losses.

The Consolidated Company's share of the profit or loss and other comprehensive income of investments accounted for using equity method are included, after adjustments to align the said investees' accounting policies with those of the Consolidated Company, in the consolidated financial statements from the date that significant influence commences until the date that significant influence ceases.

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Unrealized profits resulting from the transactions between the Consolidated Company and an associate are eliminated to the extent of the Consolidated Company's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

If the Consolidated Company's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Consolidated Company has an obligation or has made payments on behalf of the investee.

k. Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently via cost less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life and residual value which are the same as those adopted for property, plant and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, and any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs. Investment property is subsequently measured at fair value, with any change therein recognized in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

l. Property, plant and equipment

1. 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.

The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that eligible for capitalization. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

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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 is depreciated separately, unless the useful life and the depreciation method of the significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

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

2. Reclassification to investment property

An item of property, plant and equipment is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment property. Any difference at the date of the change in use between the carrying amount of the property and its fair value is recognised as a revaluation of property, plant and equipment. Any existing or arising revaluation surplus previously recognised in OCI is not transferred to profit or loss at the date of transfer or on subsequent disposal of the investment property.

3. 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 is expensed as incurred.

4. Depreciation

The depreciable amount of an asset is determined after deducting its residual amount and is allocated using the straight line method over its useful life. The 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 is recognized in profit or loss.

If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

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

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

Land improvement	2~10 years
Buildings and constructions	2~60 years
Machine equipment	2~17 years
Transportation equipment	2~ 5 years
Other equipment	2~13 years

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

m. Intangible assets

1. Goodwill

(1) Initial recognition

The goodwill generated from the Consolidated Company is accounted for as an intangible asset. Please refer to Note 6 h. for details of the accounting policy on the initial recognition of goodwill.

(2) Subsequent measurement

Goodwill is measured at cost less accumulated impairment. In terms of investment under equity method, the carrying amount of goodwill is included in the investment amount. In addition, the impairment loss of such investment is not distributed to goodwill or any asset and is recognized as part of the carrying amount of the investment.

2. Research & Development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditures arising from development phase are recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they are recognized in profit or loss as incurred.

- (1) The technical feasibility of the intangible asset is completed so that it will be available for use or sale;

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- (2) It intends to complete the intangible asset and use or sell it;
- (3) It has ability to use or sell the intangible asset;
- (4) The intangible asset is more likely than not generate future economic benefits;
- (5) It has adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (6) The expenditure attributable to the intangible asset during its development can be measured reliably.

3. Other intangible asset

Other intangible assets that are acquired by the Consolidated Company are measured at cost less accumulated amortization and any accumulated impairment losses.

4. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

5. Amortization

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual values.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with indefinite useful life, from the date that they are made available for use. The estimated useful lives for the current and comparative periods are as follows:

Technology	5~13 years
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The residual value, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually at each financial year-end. Such change is accounted for as a change in accounting estimate.

n. Impairment — non-derivative financial assets

The Consolidated Company evaluates the impairment losses and estimates the recoverable amounts of the impaired assets on each reporting date in terms of inventories, deferred tax assets, assets arising from employee benefits and non-financial assets other than non-current assets held for sale. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Consolidated Company determines the recoverable amount for the asset's cash-generating unit (CGU).

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The recoverable amount for individual asset or a cash-generating unit is the higher of its fair value less costs to sell and 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 is reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss is 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 Consolidated Company estimates the recoverable amount of that asset.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use are tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units or group of units.

If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, the Consolidated Company recognizes the impairment loss and the impairment loss is allocated to reduce the carrying amount of each asset in the unit.

Reversal of an impairment loss for goodwill is prohibited.

o. 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 probably 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.

1. Site dismantling

The estimated obligation on the dismantling, relocation or restoration of property, plant and equipment is recognized as decommissioning cost and liability of property, plant and equipment. The relevant costs of assets are adjusted by subsequent price variation for dismantling and restoration. Depreciation is provided per the remaining useful life of the adjusted cost.

2. Site restoration

In accordance with the Consolidated Company's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognized when the land is contaminated.

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p. Preferred shares liability

Compound financial instruments issued by the Consolidated Company comprise preferred share capital whose components are classified as a financial liability and an equity on initial recognition based on the substance of the agreements and the definition of financial liabilities and equity instruments. The preferred shares contain an option which allows the holders of preferred shares to exchange fixed amount of Consolidated Company's equity instrument for fixed amount of cash or other financial assets; therefore, the option is accounted for as an equity instrument.

The liability component of a compound financial instrument is recognized initially at fair value of a similar liability that does not have an equity conversion option. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method before the conversion date or maturity date.

Effective interest method refers to the method which determines the amortized costs of debt instruments and attributes interests to relevant periods. Effective interest rate refers to the rate which is applied to discount future cash inflows or outflows (including all the charges, reward points, transaction cost and all other premium and discount which form an integral part of the overall effective interest rate) and the discounted amount will equal to the initial carrying amount.

q. Revenue

1. Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at 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. For an export transaction, usually it is via free on board shipping point, and the risk transfer occurs upon loading the goods onto the relevant carrier at the port; however, for an import transaction, risk transfer occurs upon receipt by the customer.

2. Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

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3. Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to the proportion that contract cost incurred for work performed to date bear to the estimated total contract cost; survey of work performed; or completion of a physical proportion of the contract work. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

4. Commissions

When the Consolidated Company acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Consolidated Company, and is recognized in proportion to the stage of completion of the transaction.

5. Rental income

Rental income from investment property is recognized in non-operating incomes and expenses on a straight-line basis over the lease term.

r. Employee benefits

1. 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.

2. 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 on (market yields of high quality corporate bonds or government bonds) 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.

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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.

Re-measurement of net defined benefit liability (asset) (including actuarial gains, losses and the return on plan asset and changes in the effect of the asset ceiling, excluding any amounts included in net interest) is recognized in other comprehensive income (loss). The effect of re-measurement of the defined benefit plan is charged to retained earnings.

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, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that had not previously been recognized.

3. Short term employee benefits

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

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group 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.

s. Income taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations, or are recognized directly in equity or other comprehensive income, all current and deferred taxes are 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 legislated tax rate; as well as tax adjustments related to prior years.

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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 are not recognized for the following:

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

Deferred taxes are measured based on the statutory tax rate on the reporting date; or the actual legislated tax rate, during the year of expected asset realization or debt liquidation.

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

1. if the Consolidated Company has the legal right to settle tax assets and liabilities on a net basis; and
2. the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - (1) levied by the same taxing authority; or
 - (2) levied by different taxing authorities, but where each such authority intend 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 is recognized for the carry-forward of 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 are also re-evaluated every year on the financial reporting date, and 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.

t. Earnings per share

The Consolidated Company discloses the Company basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholder of the Company divided by weighted average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as convertible bonds and employee bonus.

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u. Government Grants

A government grant receivable to the Consolidated Company as compensation for costs already incurred or for immediate financial support, with no future related costs, should be recognized as income in the period in which it is receivable.

v. Operating segments

An operating segment is a component of the Consolidated Company that engages in business activities from which it may incur 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 assess its performance. Each operating segment consists of stand-alone financial information.

5. MAJOR SOURCES OF SIGNIFICANT ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements in conformity with the IFRS as 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 continuously reviews the estimates and basic assumptions. Changes in accounting estimates are recognized in the period of change.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

(a) Impairment of property, plant and equipment

In evaluating the potential impairment, the Consolidated Company management make subjective judgments in estimating the independent cash flows, useful lives, expected future income and expenses related to the specific asset groups considering the nature of the industry. Any changes in these estimates based on changed economic conditions or business strategies and could result in significant impairment charges or reversal in future years.

(b) Fair valuation of investment property

The Group's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss.

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The Company's financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back-testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value. The Company strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

- (i) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- (ii) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- (iii) Level 3: inputs for the assets or liability that are not based on observable market data.

Information on valuation use hypothesis factors was as follows:

- (i) Note 6 g. - Investment property;
- (ii) Note 6 v. - Financial Instruments.

6. EXPLANATION TO SIGNIFICANT ACCOUNTS

a. Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand	\$ 8,619	1,329
Checking and demand deposits	2,979,208	2,508,452
Time deposits	5,680,270	5,617,570
Cash equivalents	1,009,969	759,939
Cash and cash equivalents	<u>\$ 9,678,066</u>	<u>8,887,290</u>

Time deposits which are held for the purpose of meeting short-term cash commitments, rather than for investment or other purposes, that are readily convertible to cash at the known amounts and subject to insignificant risk of value changes, are reported as cash equivalents.

Please refer to Note 6 v. for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Consolidated Company.

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b. Financial assets

1. The components of financial assets were as follows:

	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss — current		
Financial assets held for trading — current	\$ 519,931	597,172
Financial assets reported at fair value through profit or loss — current	677,442	532,847
Sub-total	<u>1,197,373</u>	<u>1,130,019</u>
Available-for-sale financial assets — current	184,972	176,813
Available-for-sale financial assets — non-current	1,285,468	1,175,127
Financial assets carried at cost — non-current	<u>2,504,078</u>	<u>1,459,907</u>
Total	<u>\$ 5,171,891</u>	<u>3,941,866</u>
Financial liabilities at fair value through profit or loss — current	<u>\$ 20,866</u>	<u>-</u>
Financial liabilities at fair value through profit or loss — non-current	<u>\$ -</u>	<u>16,044</u>

The convertible bond issued by the Company was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put option embedded in bonds payable were separated from bonds payable, and were recognized as “Financial liabilities at fair value through profit or loss.” For the years ended December 31, 2016 and 2015, the Company recognized a gain (loss) on financial liability reported at fair value through profit or loss of \$(4,822) and \$690,505, respectively.

Please refer to Note 6 u. for the gain or loss on financial assets recognized at fair value through profit or loss and other comprehensive income.

In 2016, the Company reclassified its investments accounted for using equity method of \$641,702 in Praxair Chemax Semiconductor Materials Co., Ltd., from investments accounted for using equity method to financial assets carried at cost — non-current. Please refer to Note 6 e for further information.

As of December 31, 2016, and 2015, the Consolidated Company provided as collateral portion of its financial assets. Please refer to Note 8 for details of the related assets pledged as collateral.

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2. Derivative instruments not used for hedging:

The Consolidated Company uses derivative financial instruments to hedge certain foreign exchange and interest risk the Consolidated Company is exposed to arising from its operating, financing and investing activities. The Consolidated Company held the following derivative financial instruments presented as held-for-trading financial assets as of December 31, 2015:

Forward exchange contracts:

	31 December 2015			
	Amount (in thousands)		Currency	Maturity date
Forward exchange purchased				
Contract1	USD	5,688	RMB to USD	2016.01.08
Contract2	USD	2,199	RMB to USD	2016.02.19

3. Sensitivity analysis—equity price risk:

If the equity price changes, and if it is based on the same basis for both years and assumes that all other variables remain the same, the impact to comprehensive income will be as follows:

Equity price at reporting date	For the Years Ended December 31,			
	2016		2015	
	After-tax other comprehensive income	After-tax Profit (loss)	After-tax other comprehensive income	After-tax Profit (loss)
Increase of 1%	\$ 14,704	11,974	13,519	11,300
Decrease of 1%	\$ (14,704)	(11,974)	(13,519)	(11,300)

c. Notes and accounts receivable, net

	December 31, 2016	December 31, 2015
Notes receivable	\$ 699,339	391,089
Accounts receivable	1,750,938	1,716,967
Other receivables	155,555	134,617
Less : Allowance for doubtful receivables	(478,267)	(470,364)
Net book value	<u>\$ 2,127,565</u>	<u>1,772,309</u>

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Movements of the allowance for doubtful receivables for the years ended December 31, 2016 and 2015 were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance – January 1, 2016	\$ 374,794	95,570	470,364
Impairment loss of accounts receivable	17,711	-	17,711
Foreign exchange gain (loss)	(9,808)	-	(9,808)
Balance – December 31, 2016	\$ 382,697	95,570	478,267
Balance – January 1, 2015	\$ 367,375	94,941	462,316
Impairment loss of accounts receivable	10,272	-	10,272
Foreign exchange gain (loss)	(2,853)	629	(2,224)
Balance – December 31, 2015	\$ 374,794	95,570	470,364

The consolidated subsidiaries, Weihua (Rudong) Trade Co., Ltd. and Weiqiang International Trade (Shanghai) Co., Ltd., filed civil complaints against Shanghai Tongye Coal Chemical Group Co. Ltd. in Shanghai to claim for the delay of payment of their accounts receivable from Shanghai Tongye Coal Chemical Group Co., Ltd. However, both of these consolidated subsidiaries have recognized impairment loss on the said accounts receivable as of December 31, 2016. Please refer to Note 9 p. for further details relating to litigation and evaluation of collectability

There are no notes and trade receivable and other receivables of the Group had been pledged as collateral for long-term borrowings as of December 31, 2016 and 2015.

d. Inventories

	December 31, 2016	December 31, 2015
Finished goods	\$ 278,432	\$ 311,569
Work-in-process	403,698	342,274
Raw materials	843,952	1,185,765
Fuel	18,684	30,620
Merchandise inventory	36,252	48,201
Total	\$ 1,581,018	1,918,429

For the years ended December 31, 2016 and 2015, the components of cost of goods sold were as follows:

	For the Years Ended December 31 2016	2015
Cost of goods sold	\$ 24,786,051	25,414,281
(Gain) loss on inventory market price decline and obsolescence	(177,834)	91,258
(Loss) gain on physical inventories, net	49,138	(39,696)
Unallocated fixed production overheads from idle facilities	835,919	1,151,346
Revenue from sale of scraps	(26,610)	(18,197)
Net amount	\$ 26,598,992	26,598,992

As of December 31, 2016 and 2015, the aforesaid inventories were not pledged as collateral.

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e. Investments accounted for using equity method

1. The Group's investments accounted for using the equity method at the reporting date were classified as follows:

	December 31, 2016	December 31, 2015
Subsidiaries	\$ 87,163	87,930
Associates	2,030,148	2,823,548
Total	\$ 2,117,311	2,911,478

2. The Group's investments accounted for using the equity method that are individually insignificant were as follows:

	December 31, 2016	December 31, 2015
Carrying value of insignificant subsidiaries	\$ 87,163	87,930
Carrying value of insignificant associates	\$ 4,782,471	6,465,093

	For the Years Ended December 31 2016	2015
Attribution to the Consolidated Company		
Net income	\$ 461,196	764,950
Other comprehensive income	40,567	(20,169)
Total comprehensive income	\$ 501,763	744,781

3. Share of profit (loss) of subsidiaries and associates for the years ended December 31, 2016 and 2015 was as follows:

	For the Years Ended December 31 2016	2015
Share of profit (loss) of subsidiaries and associates	\$ 461,196	764,950

4. The key financial information of subsidiaries and associates in which the Consolidated Company has equity investments was as follows (before adjustment for the Consolidated Company's proportionate share):

	December 31, 2016	December 31, 2015
Total assets	\$ 6,526,263	8,682,597
Total liabilities	(1,655,873)	(2,120,341)
	\$ 4,870,390	6,562,256

	For the Years Ended December 31 2016	2015
Revenue	\$ 6,856,913	9,537,220
Net income	\$ 1,167,597	1,853,211

The Consolidated Company does not guarantee any contingent liabilities of an associate jointly with other investors. Likewise, the Consolidated Company does not guarantee alone any other contingent liabilities of an associate.

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There are no significant restrictions to the ability of associates to transfer capital to the Company.

5. The director appointed by the Company to the board of Praxair Chemax Semiconductor Materials Co., Ltd. (hereinafter referred to as “PRAXAIR”) , was elected unanimously by the board as the new Chairman in the board meeting on Jan. 30th, 2013. However, Praxair Inc., the joint venture shareholder, afterwards refused to recognize the resolution adopted by the board of directors on Jan. 30th, 2013 of the newly elected Chairman, which resulted in the new Chairman being unable to exercise his authority. Moreover, PRAXAIR resisted the request of the supervisor, which was assigned by the Company, to audit the accounting books and records under the authority given by the Company Law. Therefore, the new Chairman and the designated supervisor representing PRAXAIR, instituted both civil and criminal actions against the vice chairman and general manager of PRAXAIR, appointed by Praxair Inc., of “Submission of accounting books”, “Returning of company’s seals” and “Embezzlement and breach of fiduciary duty”, and other lawsuits . The vice chairman appointed by Praxair Inc. claimed that she had legally delegated the power of the Chairman and filed legal actions declaring the non-existence of the new Chairman’s commission of authority and requesting to dissolve PRAXAIR, which was dismissed by the courts and the case was closed. The supervisor assigned by Praxair Inc. illegally convened a special shareholders’ meeting in 2013 and 2014 to propose the dissolution of the Company and reelection of directors and supervisors. Hence, the Company filed legal actions declaring the annulment of the resolution from the illegal special shareholders’ meetings and the resolutions from the special shareholders’ meeting was not established. Up to now, the civil case, “Submission of accounting books” filed by PRAXAIR’s supervisor assigned by the Company was remanded by the Supreme Court back to Taiwan High Court, but this was dismissed in 2015, the Company was not satisfied thus filed an appeal to the Supreme Court. Another civil filing, declaring the non-existence of the new Chairman’s commission of authority by the vice chairman appointed by Praxair Inc., was overruled by the Supreme Court and the decision was final. The whole case confirms the appointment relationship between the Chairman appointed by the Company and PRAXAIR exists. On Nov. 19th 2016, the letter from Ministry of Economic Affairs stated that Lin Ko-Ming, appointed by the Company, is the Chairman of PRAXAIR, and restored the representative duty per the judgment No. 2455 from the Supreme High Court in 2015. Other lawsuits are still on trial in the courts. In consideration of the rights and best interests of the shareholders, the Company is striving to find the best solutions to resolve all the conflicts between PRAXAIR, Praxair Inc. and the Company. In view of the differences between the Company and Praxair Inc. for the appointment of directors and supervisors, board meetings have not been able to be held properly. Although there are representatives appointed by the Company on the Board of PRAXAIR, but in fact, they’re not able to fully execute directors’ rights and also not be able to take part in the decision-making of PRAXAIR’s financial, business, and personnel by any general methods, due to the Company not having significant influence on PRAXAIR. Therefore, the Company reclassified its investments accounted for using equity method of \$641,702 in PRAXAIR in 2016 from investments accounted for using equity method to financial assets carried at cost - non-current, please refer to note 6 b. for the detail.

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6. Collateral

As of December 31, 2016 and 2015, the Consolidated Company provided as collateral portion of its investments in aforesaid equity-accounted investees. Please refer to Note 8 for details of the related assets pledged as collateral.

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		Machinery and equipment		Other facilities	Construction in progress	Accumulated impairment	Total
	Land	improvements	Buildings		Vehicles				
Cost or deemed cost:									
Balance as of January 1, 2016	\$ 5,730,777	267,889	2,576,261	41,102,800	72,253	165,144	968,257	-	50,883,381
Additions	-	-	6,515	56,884	2,239	1,374	1,149,376	-	1,216,388
Disposal	-	-	(150)	(552,907)	(4,452)	(2,988)	-	-	(560,497)
Reclassification	-	(1,190)	27,586	350,903	1,112	31,214	(409,625)	-	-
Effect of movements in exchange rate	-	-	(14,526)	(24,019)	(1,024)	(855)	(34,336)	-	(74,760)
Balance as of December 31, 2016	<u>\$ 5,730,777</u>	<u>266,699</u>	<u>2,595,686</u>	<u>40,933,661</u>	<u>70,128</u>	<u>193,989</u>	<u>1,673,672</u>	<u>-</u>	<u>51,464,512</u>
Balance as of January 1, 2015	\$ 5,730,777	267,889	2,354,137	40,491,025	66,868	174,307	863,011	-	49,948,014
Additions	-	-	207,107	313,582	4,155	11,492	527,958	-	1,064,564
Disposals	-	-	(2,568)	(104,078)	(279)	(2,008)	-	-	(108,933)
Reclassification	-	-	25,374	413,838	1,751	(18,251)	(422,712)	-	-
Effect of movements in exchange rate	-	-	(7,789)	(11,837)	(242)	(396)	-	-	(20,264)
Balance as of December 31, 2015	<u>\$ 5,730,777</u>	<u>267,889</u>	<u>2,576,261</u>	<u>41,102,800</u>	<u>72,253</u>	<u>165,144</u>	<u>968,257</u>	<u>-</u>	<u>50,883,381</u>
Depreciation and impairment loss:									
Balance as of January 1, 2016	\$ -	206,373	969,273	31,105,205	51,485	117,217	-	2,154,331	34,603,884
Depreciation for the period	-	3,840	76,150	1,653,432	5,913	11,396	-	-	1,750,731
Disposals	-	-	(150)	(549,568)	(3,559)	(2,971)	-	-	(556,248)
Reclassification	-	397	(21,667)	96	-	21,174	-	-	-
Gain on reversal of impairment	-	-	-	-	-	-	-	-	-
Effect of movements in exchange rate	-	1	(708)	(2,405)	(467)	(194)	-	-	(3,773)
Balance as of December 31, 2016	<u>\$ -</u>	<u>206,373</u>	<u>1,022,898</u>	<u>32,206,760</u>	<u>53,372</u>	<u>146,622</u>	<u>-</u>	<u>2,154,331</u>	<u>35,794,594</u>
Balance as of January 1, 2015	\$ -	206,577	878,312	29,555,091	46,301	123,333	-	2,157,993	32,967,607
Depreciation for the period	-	5,206	72,309	1,649,479	5,545	11,768	-	-	1,744,307
Disposals	-	-	(2,568)	(99,203)	(275)	(2,008)	-	-	(104,054)
Impairment loss	-	(5,410)	21,270	-	-	(15,860)	-	-	-
Effect of movements in exchange rate	-	-	(50)	(162)	(86)	(16)	-	-	(314)
Gain on reversal of impairment	-	-	-	-	-	-	-	(3,662)	(3,662)
Balance as of December 31, 2015	<u>\$ -</u>	<u>206,373</u>	<u>969,273</u>	<u>31,105,205</u>	<u>51,485</u>	<u>117,217</u>	<u>-</u>	<u>2,154,331</u>	<u>34,603,884</u>
Carrying amounts:									
Balance as of December 31, 2016	<u>\$ 5,730,777</u>	<u>56,088</u>	<u>1,572,788</u>	<u>8,726,901</u>	<u>16,756</u>	<u>47,267</u>	<u>1,673,672</u>	<u>(2,154,331)</u>	<u>15,669,918</u>
Balance as of January 1, 2015	<u>\$ 5,730,777</u>	<u>61,312</u>	<u>1,475,825</u>	<u>10,935,934</u>	<u>20,567</u>	<u>50,974</u>	<u>836,011</u>	<u>(2,157,993)</u>	<u>16,980,407</u>
Balance as of December 31, 2015	<u>\$ 5,730,777</u>	<u>61,516</u>	<u>1,606,988</u>	<u>9,997,595</u>	<u>20,768</u>	<u>47,927</u>	<u>968,257</u>	<u>(2,154,331)</u>	<u>16,279,497</u>

As of December 31, 2016 and 2015, the Consolidated Company provided as collateral portion of its property, plant and equipment, please refer to Note 8 for details of the related assets pledged as collateral.

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On November 26, 2013, the plan to invest in China was approved during the meeting of the board of directors of the Company. On March 25, 2014, the Investment Commission, MOEA approved the investment of the Company in JIANGSU WEIMING Petrochemical Corporation in China of RMB1,212,000 (equivalent to \$5,900,000) mainly to establish a manufacturing operations for petrochemical products (including hydrotreating crude benzol, cyclohexanone, nylon 6, etc.). As of December 31, 2016 and 2015, accumulated investment remittance from Taiwan to Mainland China was both RMB 426,000. The amount invested in manufacturing plant and machinery was RMB 187,799 and RMB 105,307, respectively.

g. Investment property

	Land	Buildings	Total
Cost or deemed cost:			
Balance as of January 1, 2016	\$ 38,213,888	49,589	38,263,477
Net gains and losses due to fair value adjustments	(65,394)	(45,730)	(111,124)
Balance as of December 31, 2016	<u>\$ 38,148,494</u>	<u>3,859</u>	<u>38,152,353</u>
Balance as of January 1, 2015	\$ 37,001,680	7,644	37,009,324
Net gains and losses due to fair value adjustments	1,212,208	41,945	1,254,153
Balance as of December 31, 2015	<u>\$ 38,213,888</u>	<u>49,589</u>	<u>38,263,477</u>
Carrying amounts:			
Balance as of December 31, 2016	<u>\$ 38,148,494</u>	<u>3,859</u>	<u>38,152,353</u>
Balance as of January 1, 2015	<u>\$ 37,001,680</u>	<u>7,644</u>	<u>37,009,324</u>
Balance as of December 31, 2015	<u>\$ 38,213,888</u>	<u>49,589</u>	<u>38,263,477</u>

1. Evaluation by income approach

The fair value of some investment properties of the Consolidated Company was determined using the income approach. Under this income approach, the key terms of the rental contracts for these investment properties and certain other factors considered were as follows:

December 31, 2016

Subject	Qianjin Dist., Kaohsiung City
Important contract terms	None.
The range of rental in the area where the investment property is located	\$360 ~ \$440(NT dollars)
The rental range of similar investment property	\$364 ~ \$436(NT dollars)
The current status of the investment property	Unused
Past earnings	\$0 ~ \$0
Income capitalization rate	3.700%
Discount rate	3.045%
Outsourcing or self-valuation	Outsourcing
Evaluation office	Euro-Asia Real Estate Appraisers Firm
Appraiser name	Shi-yuan, Chou
Evaluation date	December 31 , 2016
Outsourcing fair value	\$7,348

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December 31, 2015

Subject	Qianjin Dist., Kaohsiung City
Important contract terms	None.
The range of rental in the area where the investment property is located	\$350 ~ \$500(NT dollars)
The rental range of similar investment property	\$388 ~ \$432(NT dollars)
The current status of the investment property	Unused
Past earnings	\$0 ~ \$0
Income capitalization rate	3.700%
Discount rate	2.485%
Outsourcing or self-valuation	Outsourcing
Evaluation office	Euro-Asia Real Estate Appraisers Firm
Appraiser name	Shi-yuan, Chou
Evaluation date	December 14 , 2015
Outsourcing fair value	\$7,445

In accordance with Article 34 of the Regulations on Real Estate Appraisal, the income approach procedures include estimating the effective gross income and total expenses, computing the net operating income, determining the capitalization rate or discount rate, and computing the income. The attributes used by the Group for the estimations above were the last three years' data from the subject property and comparable properties which have similar characteristics, and these data were assessed and adjusted based on their persistency, stability, and growth to ensure the availability and reasonableness of these data. The movement of income (cash inflows) and expenditure (cash outflows) for future periods was based on the vacancies or losses, existing or future cash flow plans of the Group, and historical cash flows from the subject property, identical properties, or properties in the same industry. The estimation and computation of the net income were based on the highest and best use of the subject property and have taken into consideration the income generated from comparable properties in the same location based on their highest and best use.

External appraisers use the risk premium method to decide on the direct capitalization rate and discount rate. The fixed deposit interest rate, government bonds rate, real estate investment risk, money supply-demand variation, the trend of real estate value and etc. are taken into consideration to decide the likely rate of return on the most common investment as a basis in order to derive the capitalization rate or discount rate. The differences in individual characteristics between the above most common investment and the subject property are compared in terms of their liquidity, risk, appreciation, and management. As of December 31, 2016 and 2015, the discount rate was 3.045% and 2.3585%, respectively, based on 2-year time deposit of a small amount, as posted by the Chunghwa Post Co., Ltd., plus 0.75 percentage points (1.845%), adjusted for a risk premium of 1.2% and 0.5%, respectively, to reflect the status of operating income, liquidity, risk, appreciation, management and etc. As of December 31, 2016 and 2015, the weighted average capitalization rate was both 3.7%, derived as the ratio of annual net operating income of comparable properties divided by reasonable price.

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2. Evaluation through land development analysis

As the Consolidated Company's investment property is undeveloped, the income approach cannot be used for purposes of the evaluation. Consequently, the investment property was evaluated using the land development analysis, under which, the following factors were considered:

December 31, 2016

Subject	Annan Dist., Tainan City	Qianzhen Dist., Kaohsiung City	Others
Estimate total sales price	\$ 7,488,110	161,924,363	2,700,670
Rate of return	20%	20% ~ 40%	10% ~ 15%
Capital interest rate	1.53%	3.120% ~ 8.07%	1.49% ~ 1.92%
Evaluation office	CCIS Real Estate Joint Appraisers Firm	Euro-Asia Real Estate Appraisers Firm	Euro-Asia Real Estate Appraisers Firm, Colliers International Taiwan, and CCIS Real Estate Joint Appraisers Firm
Appraiser name	Jing-sheng, Huang	Shih-yuan, Chou	Shih-yuan, Chou ,Jian-hui,Gu and Jing-sheng, Huang
Evaluation date	December 31, 2016	December 31, 2016	Dec. 8, Dec. 10, Dec. 18 and Dec. 29, 2015
Outsourcing fair value	\$ 4,361,538	32,350,849	1,432,618

December 31, 2015

Subject	Annan Dist., Tainan City	Qianzhen Dist., Kaohsiung City	Others
Estimate total sales price	\$ 7,385,000	168,885,082	2,732,480
Rate of return	20%	20% ~ 40%	10% ~ 15%
Capital interest rate	1.61%	4.64% ~ 8.84%	1.77% ~ 2.28%
Evaluation office	CCIS Real Estate Joint Appraisers Firm	Euro-Asia Real Estate Appraisers Firm	Euro-Asia Real Estate Appraisers Firm, Colliers International Taiwan, and CCIS Real Estate Joint Appraisers Firm
Appraiser name	Jing-sheng, Huang	Shih-yuan, Chou	Shih-yuan, Chou, Jian-hui, Gu and Jing-sheng, Huang
Evaluation date	January 4, 2016	December 30, 2015	Dec. 8, Dec. 10, Dec. 18 and Dec. 29, 2015
Outsourcing fair value	\$ 4,789,107	32,019,107	1,447,818

The land development analysis included procedures such as identifying the content of land development and estimating the required period of development ; investigating individual cost and related expenses, collecting current market prices, etc.; on-site survey and investigating and analyzing the degree of development in the local environment; estimating the marketable area of land or building after construction or building; estimating the total sales price of properties after completion of construction or building; estimating individual cost and related expenses; deciding an appropriate rate of return and an overall capital interest rate; calculating land development analysis value.

As of December 31, 2016, and 2015, the Consolidated Company provided as collateral portion of its investment property. Please refer to Note 8 for details of the related assets pledged as collateral.

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In the era of pre-Taiwan Alkali Industrial Corporation (TAIC), TAIC had leased the lands located in Tainan and Chiayi area to the local peasants and fishermen, and the surviving tenants shall continue paying the rent to the Company according to the agreements. In the circumstance of the resumption for self- business use or the sale of the lands, the leases shall be terminated under the contractual agreements and Land Laws. If there is any redemption in some cases, the Company will recognize and evaluate the possible expenses and costs case by case.

The Company has terminated the some agreements with partial peasants and fishermen at the first quarter of 2014 by paying the redemption in the amount of \$50,425.

An Shun Land Located in Tainan City Annan District:

1. The land where the An-Shun Alkali plants located was originally established by Japanese company Kanegafuchi Soda “in 1938 under Japanese Colonial Rule.
2. The Government undertake the construction after the Retrocession of Taiwan, and established a state-owned company, Taiwan Alkali Industrial Corporation (TAIC) and operated at the An-Shun Site. In 1961, the competent authorities in charge of the relevant state-owned enterprises approved the investment plan and budget for producing Pentachlorophenol and sodium pentachlorophenol products used on herbicides and wood preservative fungicides.
3. Due to operational factors, the plant was ordered to be closed by Executive Yuan Department of Economic Affairs in early 1982.
4. In April 1983, Executive Yuan Department of Economic Affairs ordered China Petrochemical Development Corp., the state-owned Company, the subsidiary of CPC at the time, to merge with TAIC. The Company took charge of An-shun land of TAIC.
5. Since the said merger, the Company takeover the An-shun land, the Company itself has never had any act of production, operations, development, use or pollution occurred at the site. According to subsequent investigation and research, parts of the area has been detected dioxin and mercury contamination in soil. The land was designated by the Tainan City Government and the Environmental Protection Department of the Executive Yuan as a “Soil Pollution Control Site” and “Soil pollution remediation site” in April 2002 and March 2004 separately, per the Soil and Groundwater Pollution Remediation Act.
6. Tainan city government and other government authorities cited Article 75 of Taiwan’s Company Law that since the Company merged with TAIC, and was regarded as the surviving company, the Company should take all responsibilities for the rights and obligations of TAIC, and so are the treatment projects and remediation plan. As the Company never used the land of TAIC after being ordered to take charge by the Executive Yuan Department of Economic Affairs (MOEA), the Company thus objected and carried out the following administrative or judicial remedies to identify the government conception of the “Polluters” and the condition of pollution:
 - (1) The Company filed a plea of State Compensation claim to Ministry of Economic Affairs, Administration Yuan (MOEA), but MOEA refused.

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- (2) In January 2006, the Company filed a complaint against MOEA in the Taiwan Taipei District Court in the amount of \$10,077 to reimbursement for compensation, but the complaint was dismissed by the Supreme Court In February, 2008. Upon the application of Constitution Interpretation by the Company, J.Y. No.714 Interpretation of the Grand Justice was issued in November, 2013, and considered that Soil and Groundwater Pollution Remediation Act (SGPR Act)does not violate the principle of prohibition against retroactive law, or the principle of proportionality the retroactive rule; however, the holding didn't mention whether the successor of the Polluter entity should be responsible for the treatment projects and remediation plan under SGPR Act was not in the scope of the regulation. Therefore, the Company has filed series of complaint on those issues according to this Constitutional Interpretation.
7. (1) Tainan City Government issued the letter No. 09722004430 and requested the Company to pay \$88,786 to the Tainan City Government and Environmental Protection Administration of the Executive Yuan to reimbursement for investigation assessment measures and necessary response measures. If the Company failed to pay fees by the deadline, it would be transferred to the court for compulsory execution with, an overdue fine, which shall be assessed at a rate of 100% of the overdue amount. Based on the accounting principle of conservatism, the Company, as a concerned landowner recorded this fine as a non-operating cost in 2007 and paid the said fine by the end of July 2008.
- (2) The Company objected to the advanced payments and polluters, and filed a complaint for administrative remedies in July 2008 in the Kaohsiung High Administrative Court. The Kaohsiung High Administrative Court in January 2010 passed judgment that the company shall pay \$88,430. The Company appealed to the Supreme Administrative Court on March 2010. The Supreme Administrative Court remanded this case back to the Kaohsiung High Administrative Court for retrial in September 2011. Thereafter, the Kaohsiung High Administrative Court had decided to reduce the penalty to \$76,066. Both sides have appealed against the respective unfavorable parts in December 2013. After the verdict of the Supreme Administrative Court in April 2015, the original judgment that was more than \$203 that is part of the litigation costs were discarded and the case was sent back to Kaohsiung High Administrative Court and continued to be examined. The Company received a refund of \$356, the excess potion, from Tainan City Government. The Kaohsiung High Administrative Court rejected the Company's request in December 2016, but the Company was not satisfied with the judgment and filed an appeal for remedy in January 2017.
8. Tainan City Government separately issued the letter No. 09722000130 and No. 09722003360 in January and February 2008, and requested the Company to submit a remediation plan for the soil and groundwater pollution of the An-shun plant in accordance with the Soil and Groundwater Pollution Remediation Act.
- (1) The Company submitted the "Tainan City, CPDC former Taiwan Alkali An-shun site and 2nd class number nine road on the eastern side of the grass area of the site, soil pollution remediation pollution remediation plan" to Tainan City government for approval to comply with the law at the end of June 2008, and the plan was

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officially approved in May 2009, and the amendment was approved on July 2, 2012. In 2012, the Company had implemented the plan after approval and finished the first stage in September, 2014, and entered into the second phase of the remediation, which will last for 10 years. The Company submitted the second amendment of the remediation plan to the Tainan City Government for approval, and on December 24, 2014 Tainan City Government informed of its approval, and now is under public tender reviewing according to the regulations. Currently, the Tainan City Environmental Protection Bureau had issued a letter on April 14, 2015, requesting the Company to submit the final version of the remediation plan for approval.

- (2) The letter No. 1010382678 issued by the Tainan City Government on May 28th 2012 ordered the Company to complete the build-up of fences in buffer zones and set sign flags within a specified period and submit a buffer management plan per article 15 of the Soil and Groundwater Pollution Remediation Act. The Company was not satisfied with the previous sanction and proposed relevant administrative remedy procedures in June of the same year. The petition was rejected by the petition review committee of the Tainan City, the Company then filed administrative litigations following relevant regulations. The litigations were subsequently rejected by the Kaohsiung High Administrative Court and Supreme Administrative Court in April 2014 and in June 2015, the Company filed for retrial but was rejected. The Company appealed again due to the unsatisfied result, but the appeal was rejected and the case was closed as of December 2015.
- (3) Tainan City Government issued the letter No. 1030133470 on February 12th 2014 to order the Company to pay a penalty of \$200 before March 24th 2014 since the Company was deemed not to implement the content per the approved "Site soil pollution remediation pollution remediation plan" and violated the regulation subparagraph 3 of paragraph 2 of Article 38 and paragraph 1 of Article 22 of the Soil and Groundwater Pollution Remediation Act. However, the disposition authority determined that this was a factual error and it was clear that the punishment was illegal. Hence, the Company filed a petition for remedy in March 2014, but the petition was rejected by the Environmental Protection Administration of Executive Yuan in June 2014. The Company filed for administrative litigation remedy in August 2014, the litigation remedy were both overruled by the Summary Court of Tainan District court and Kaohsiung High Administrative Court in April and August 2015. The Company filed for retrial for remedy, which was rejected by the Kaohsiung High Administrative Court in April 2016. The Company will continue to file an appeal for remedy.
- (4) The Tainan City Government issued letter No. 1030439518 on June 13th, 2014 declaring that the Company didn't execute the plan according to the approved "Site soil pollution remediation pollution remediation plan" and violated the regulation subparagraph 3 of paragraph 2 of Article 38 and paragraph 1 of Article 22 of the Soil and Groundwater Pollution Remediation Act and ordered the Company to pay a penalty of \$1,000 before July 23th 2014. However, the disposition authority determined this being a factual error, and it was clear that the punishment was illegal. Hence, the Company filed the petition for remedy in July 2014, but the petition was rejected by the Environmental Protection

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Administration of Executive Yuan in November 2014. The Company filed the administrative litigation remedy in January 2015, the Supreme Court of Kaohsiung in October of the same year partly rescinded the order of \$1,000 and the compulsory attendance of environmental Education, but still sustained the restricted period. The Company filed an appeal for unfavorable part in November 2015 and received the confirmed jurisdiction in March 2016, the case was closed.

- (5) Tainan City Government issued the letter No. 1030815405 on August 28th, 2014 declaring that the Company didn't execute the plan according to the approved "Site soil pollution remediation pollution remediation plan" and didn't improve the completion of correction prior to March 31st, 2014, violating the regulation subparagraph 3 of paragraph 2 of Article 38 and paragraph 1 of Article 22 of the Soil and Groundwater Pollution Remediation Act and ordered the Company to pay a penalty of \$600 before Oct. 6th 2014. The disposition authority determined a factual error occurred, and it was clear that the fine was illegal. Hence, the Company filed a petition for remedy in September 2014, but the petition was rejected by the Environmental Protection Administration of Executive Yuan in December 2014. The Company filed an administrative litigation remedy in February 2015, the Supreme Court of Kaohsiung in November 2015 adjudicated the rejection, but the Company was not satisfied with the result and filed an appeal for remedy in December 2015, which was subsequently rejected by the Supreme Administrative Court in May 2016. The Company filed for retrial but received a confirmed retrial decision to reject the verdict, the case was closed.
- (6) Tainan City Government issued the letter No. 1030485131 on Oct. 15th, 2014 declaring that the Company didn't execute the plan according to the approved "Site soil pollution remediation pollution remediation plan" and ordered the Company to pay the penalty \$1,000 before Nov. 20th 2014 and complete the correction before Nov. 13th, 2014. The Company filed the legal action according to the law in Nov. 2014. The original punishment was revoked by the Environmental Protection Administration of Executive Yuan in April 2015 and Tainan City Government refunded the penalty \$1,000 to the Company in May 2015, the case was closed.
- (7) Tainan City Government issued the letter No. 1040225873 on March 6th, 2015 declaring that the Company didn't execute the plan according to the approved "Soil pollution remediation site pollution remediation plan - soil heat treatment (rotary kiln) treatment project construction plan book (finalized)", which violated the regulation subparagraph 3 of paragraph 2 of Article 38 and paragraph 1 of Article 22 of the Soil and Groundwater Pollution Remediation Act and ordered the Company to pay a penalty of \$1,000 before April 7th 2015, and complete corrections before March 31st, 2015. The Company filed a petition for remedy in April 2015. The original fine was withdrawn by the Environmental Protection Administration of Executive Yuan in July 2015 and Tainan City Government refunded the penalty of \$1,000 to the Company in May 2015, the case was closed.

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- (8) Tainan City Government issued the letter No. 104060004 on June 12th, 2015 declaring that the Company didn't execute the plan per the approved "Site soil pollution remediation pollution remediation plan", which violated the regulation subparagraph 3 of paragraph 2 of Article 38 and paragraph 1 of Article 22 of the Soil and Groundwater Pollution Remediation Act and ordered the Company to pay a penalty of \$1,000 before July 27th 2015. The Company filed a petition for remedy in August 2015, which was rejected by the Environmental Protection Administration of Executive Yuan. The Company then filed a complaint to the Kaohsiung High Administrative Court, the Company won the verdict in January 2017.
- (9) The Tainan City Government issued the letter No. 104060005 on June 26th, 2015 declaring that the Company didn't execute the plan per the approved "Soil pollution remediation site pollution remediation plan - soil heat treatment (rotary kiln) treatment project construction plan book (finalized)", which violated the regulation subparagraph 3 of paragraph 2 of Article 38 and paragraph 1 of Article 22 of the Soil and Groundwater Pollution Remediation Act and ordered the Company to pay a penalty of \$1,000 before August 10th 2015 and complete corrective actions within 15 days of receiving the letter. The Company filed a petition for remedy in July 2015. The punishment was revoked by Tainan City Government, the original authority, in October 2015 and the Company received a refund of \$1,000 penalty in November 2015, and the case was closed.
- (10) The Tainan City Government issued the letter No. 104070007 on July 16th, 2015 declaring that the Company didn't execute the plan per the approved "Site soil pollution remediation pollution remediation plan", which violated the regulation subparagraph 3 of paragraph 2 of Article 38 and paragraph 1 of Article 22 of the Soil and Groundwater Pollution Remediation Act and ordered the Company to pay a penalty of \$1,000 before August 31st 2015. The Company filed a petition for remedy in August 2015, and the Environmental Protection Administration of Executive Yuan withdrew the original administrative penalty in November 2015, and that the Tainan City Government shall make a new legal penalty within two months. The Tainan City Government issued another letter with the penalty of \$200 on January 21st 2016. The Company paid the penalty on March 7th 2016 and the case was closed.
- (11) Tainan City Government issued a letter No. 105050004 for administrative sanctions on May 23, 2016 and deemed that the Company didn't execute the plan according to the remedy plan since the reduction rate of dioxin pollution was less than 41% in the Soil and groundwater pollution inspection records, which violated the regulation paragraph 1 of Article 22 of the Soil and Groundwater Pollution Remediation Act (hereinafter referred to as the "Remediation Act") and ordered the Company to pay a penalty of \$2,000 according to subparagraph 3 of paragraph 2 of Article 38 of Remediation Act and the compulsory attendance of environmental education for 2 hours according to the provisions of Article 23, paragraph 2 of the Environmental Education Law. The Company filed a petition in June 2016 for reasons that the previous punishment content was not audited at the time point of the remediation plan, which violated the punishment principle. The Environmental Protection Administration of Executive Yuan rejected the petition in Oct. 2016, the Company thus filed an appeal against the judgment.

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9. (1) In 2008 and 2009, Mr. Wu and others, who lived in the An-Nan area, filed civil and national compensation lawsuits to the Ministry of Economic Affairs(MOEA), Tainan City Government, Environmental Protection Bureau of Tainan City and the Company (Hereinafter referred to as 1st case of Tainan An shun plant civil compensation) . They claimed that during 1942 and 1983, the previous TAIC An-shun plant, produced mercury and dioxins in its production procedure and polluted the living environment. The population consuming contaminated fish and shellfish over time, so TAIC should be liable for their poor health. Also, MOEA was the major employer of the Company at the state-run period, but failed to administrate and supervise TAIC, MOEA thus should be liable for the compensation. Moreover, Wu and others claimed that the Tainan City Government and Environmental Protection Bureau of Tainan City which failed to initiate any waste disposal action for the pollution produced by TAIC should also be among those parties who are negligent. Furthermore, Mr. Wu and others indicated that the Company did not take any removal action and remediation of pollutants after being ordered to merge with the previous TAIC plant, so they claimed the Company should also be liable for the compensation. Mr. Wu and others asked the MOEA, Tainan City Government, Tainan City Environmental Protection Bureau and the Company to jointly pay the medical expenses and compensation for mental injury in the amount of \$370,800, with the interest at the rate of 5 % from the date the complaint is rendered to the defendant until the day the payments of such expenses are paid. Tainan District Court dismissed the complaints of 17 out of 299 plaintiffs because their failing to pay the court fees and expense.
- (2) Mr. Chen filed another civil complaint in the Tainan District Court asking the Company to pay for the medication, health examination fee and reparations, at the amount of \$2,300. Due to the land pollution and this case is jointly being heard by the Tainan District Court with the above-mentioned case of Wu and others. The Court determined that the Company should compensate the plaintiffs jointly with MOEA in the amount of \$160,000. The Company had filed an appeal.
- (3) Mr. Chen and others filed civil and national compensation lawsuits to the Company and the MOEA on March 14th 2017 (Hereinafter referred to as 2nd case of the Tainan An-shun plant civil compensation), they claimed the Company and the MOEA had to jointly compensate the plaintiff for \$80,915. The statement of reasons cited the verdict of the 3rd national compensation in 2008 of the Tainan An-shun plant civil compensation 1st case. However, the 2nd case of the Tainan An-shun plant civil compensation has a misunderstanding of the theoretical and practical nature of epidemiology causality versus the verdict and set up a new type of conception in the tort of law. There were disputable factors on both factual and legal matters of the case. During the 1st and 2nd instance of the An-shun plant Civil Compensation litigation under hearing, the Company once again submitted the relevant academic articles to prove that there was no causality between pollution from Tainan An-shun plant and diabetes. Moreover, the plaintiffs in this case, despite the reasonableness of their claims, did not put forth any litigation before the expiry of the statutes of limitations. In this 2nd case of the Tainan An-shun plant civil compensation, the Company continued to seek for the jurisdiction remedies to protect the Company and shareholder interests.

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10. Other important matters:

- (1) On May 22nd 2009, Tainan City Government issued the letter No. 09822013680 ordered the Company to reimburse the site soil pollution remediation related work plan for the An-shun plant at the expenses of \$17,962, and in December 2009, issued the letter No. 09822035440 to ask for the Company to pay the fee before January 31, 2010. The Company accrued the expenses at the end of 2010 and filed for administrative remedies in January 2010, and paid the fee in advance before the deadline indicated by the Tainan City Government, according to the applicable law. The petition for remedies was rejected in March 2011. The Company filed a complaint for administrative litigations in the Kaohsiung High Administrative Court. In September 2012, the court reduced the total payment of expense to \$17,867. After appealing in the Supreme Court, the Supreme Court remanded the case to the Kaohsiung High Administrative Court in Sept. 2013. The verdict came that fines more than \$7,068 was revoked on Oct. 7th 2015, the Company has appealed for remedy; as for the revoked portion, \$95, of the fines, has been fully refunded by the Tainan City Government.
- (2) In September 2011, Tainan City Government issued the letter No. 1000700466 ordered the Company to reimburse the site soil pollution remediation related work plan for the An-shun plant, at the amount of \$16,095 and in March 2012, issued the letter No. 1010242670 to ask for the Company to pay the fees before April 30th 2012. According to the applicable law, the Company paid the fee in advance before the deadline indicated. The Company filed a petition for remedy in April 2012, which was rejected by the authority. The Company filed a complaint for administrative litigation in November 2012, and the Kaohsiung High Administrative Court decided that the petition decision should be revoked and the advanced payment for An-shun plant should reduce to \$119. Both parties appealed in September 2014, and was sent back to the Kaohsiung High Administrative Court to trial in November 2015.
- (3) In May 2013, Tainan City Government issued the letter No. 1020383681B ordered the Company to reimburse the site soil pollution remediation related work plan for An-shun plant, at the amount of \$26,530 and requested for the Company to pay the fee before June 30th 2013. The Company paid the fee in advance before the deadline requested by the Tainan City Government in accordance with the applicable laws. The Company filed a petition for remedy in July 2013, which was rejected. The Company then filed a complaint for administrative litigation in March 2014, which was under hearing by the Kaohsiung High Administrative Court, and the judgment was declared in April 2016. The Company will appeal for remedy for the unfavorable part.
- (4) In February 2014, the Tainan City Government, cited the judgment, No. 1953 which was pass down in 2007, holding that the Company is the polluters and ordered the Company to pay the advanced payment of supervision and management in 2011 for An-shun site, at the amount of \$27,444. The Company paid the fee in advance before the deadline given by the Tainan City Government according to the law and filed the petition for remedy in March 2014, which was rejected by the petition authorities. The Company filed an appeal for

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administrative litigation in September of same year. The Kaohsiung High Administrative Court made a judgment that the Company only need to pay \$154. However, Tainan City Government was not satisfied with the verdict and filed the appeal for remedy, the Company also filed an appeal based on the Company's rights and interests. Currently, the case is still on trial at the Supreme Administrative High Court.

- (5) In May 2016, Tainan City Government, issued the letter No. 10504498726, ordered the Company to pay a fee for the "supervision management and audit work plan of 2013 CPDC (Taiwan Alkali) An-shun plant site remediation", and per paragraph 4 of article 14, article 15 and paragraph 1 of article 43, at the amount of \$63,271 before July 20th 2016. According on applicable laws, the Company paid the fee before the requested deadline by the Tainan City Government. After the rejection of the petition for the remedy in June 2016, the Company filed for administrative litigation in December 2016.
11. (1) Since the Company still has objection to the government perception about the liability of polluted land in An-Shun area of Tainan City, we continue to seek possible administrative and legal remedies by all means.
- (2) In view of the Constitution Interpretation, J.Y. No.714, which indicated whether the general successors of polluters had to burden of remediation responsibilities, is not in the scope of the Soil and Groundwater Pollution Remediation Act. Also, considering the previous TAIC was a state-owned enterprise, and the An-shun plant was controlled, supervised, and assigned operations and earned profit by the MOEA, Taiwan Provincial Government and CPC, such actions should be deemed as a part of national behavior, yet, the resulting pollution and remediation was asked to be borne by the private legal person. The Company therefore applied to the Tainan city government to determine those above-mentioned concerned authorities are the actual polluters or potential pollutes, they are the responsible parties to pay all the relevant costs, and Tainan City Government should refund all the paid expenses and fees over the years to the Company. In November 2014, Tainan City Government issued a refusal of their determination. The Company filed a petition in December 2014 and the Tainan city Government revoked the original penalty in March 2014, hence, the Environmental Protection Administration of Executive Yuan made a decision not to proceed with the case. The Tainan City Government submitted another order to withdraw its refusal and replace its new decision which is the refusal of the Company's pleading. The Company then filed a petition to the new decision. The Company's petition was dismissed by the petition authorities in August 2015. The Company thus filed an administrative complaint to the Kaohsiung High Administrative Court, which is still on trial.
- (3) The cumulative fee of invested and estimated control & management cost and remediation fee of the relevant remediation projects were \$3,414,007 until Dec. 31st, 2016. The preceding remediation fee was recognized according to the current possible situations by the Company. However, if there was affected by any factors in future, which resulted in the possible bid differences on the whole remediation fee, it would be evaluated for adjustment.

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Land in Chian Jen Training Center:

1. In 1934, a portion of the land located at Chian Jen Training Center was originally used as a chemical factory of Japanese Asahi Denka Co., Ltd. (ADK) under Japanese Colonial Rule.
2. After retrocession of Taiwan, the Taiwan government took over and established the state-owned Taiwan Alkali Industrial Corporation (TAIC) continuing the operation. At the end of 1948, the alkali chloride production equipment of Tianjin Chemical Company were transported to Taiwan to expand the production operations.
3. In April 1983, MOEA ordered the state-owned Company which was also a subsidiary of CPC at that time to merge with the state-owned TAIC. After taking over TAIC's land and factory, the Company changed its factory name to "CPDC Chian Jen plant" and continue the operation of production. In cooperation with the government's environmental policy, it stopped producing in the year of 1988. After stopping production, the Company continued to carry out relevant pollution investigation and cleaning and other works. The finish of clean-up by the waste disposal company designated by the Company was done in 1992.
4. Because some inspected soils were found out the polluting mercury after the clean-up, Kaohsiung City Government declared the land as "Soil Polluted Control Site" in August 2006. Upon the request of the Kaohsiung City Government, the Company submitted an environmental control plan to the Kaohsiung City Government in November 2007 and relevant remediation fees were estimated. The Soil Pollution Control Plan was officially approved in July 2009. On July 30th, 2014, the Company has completed the soil remediation and self-inspection, and submitted a report of the completion of remediation to the Kaohsiung City Government. The competent authority arranged to proceed with verification during April 20 to April 24 in 2015. And in September 21st 2015, Kaohsiung City Government issued the letter No. 10439458701 declaring the Soil Pollution Control and the Soil Pollution Control Area has been cancelled.

The cumulative invested and estimated relevant control, processing fee and remediation cost until Dec 31st, 2016 was \$1,078,062. The preceding remediation fees were estimated by the Company per possible future scenarios. However, future internal and external factors may not be fully estimated, if there is a significant difference from the currently recognized remediation fee, the Company would then be evaluated for adjustment.

5. The other parts of the land of Chien Jen Training Center, originally owned by TAIC, was leased to Taiwan Vinyl Chloride Company (the Kaohsiung plant of Vinyl Chloride Company) to produce vinyl chloride monomer. In 1991, Taiwan Vinyl Chloride Company returned the land to the Company after removing its plants and equipment. Kaohsiung City Government inspected that the groundwater in the land was polluted by vinyl chloride and other related chemical substances producing by the Taiwan Vinyl Chloride company's factories and the land was declared as "Groundwater Pollution Control Site" by Kaohsiung City Government in October 2006. Kaohsiung City Government thus according to "the Soil and Groundwater Pollution Remediation Act",

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issued the letter No. 0960045049 deemed that the Taiwan Vinyl Chloride company was the polluters of the site's groundwater and ordered the Taiwan Vinyl Chloride company to proposed a control plan. The groundwater pollution control plan submitted by the Taiwan Vinyl Chloride company was officially approved in September 2009. On December 20, 2012, the Company filed a lawsuit to reimburse the expense paid by the Company, on behalf of Taiwan Vcm Corp. On Jan. 6 2015, the Shihlin District Court ruled that the Taiwan Vinyl Chloride Company shall pay the Company in the amount of \$14,885, and plus the interest calculated by annual interest at the rate of 5% from the date July 3rd 2012 until the compensation paid-off, the remaining litigations were rejected, and Taiwan Vinyl Chloride company shall burden 35% of the litigation fees. Both parties, the Company and the Taiwan Vinyl Chloride company, reached a settlement on the case, and decided not to appeal. The Company received the court's final verdict on February, 2015 and the case was closed.

Land of Taiwan Alkali Co., Ltd.:

1. In 1986, the Company signed an agreement with the residents in the neighborhood that the Company provided its land in Xin-jia section, Fongshan Dist., Kaohsiung City for public facilities without any consideration under the premise that all the residents in the neighborhood comply with the agreement made between the residents and the Company.
2. Later on, upon inspection, the said residents were noted to have built illegal constructions on provided land which was a breach of the said agreement. After communicating with the residents' multiple times, the situation still did not improve. To be responsible for asset management and reach the expectation of the Company's shareholders, the Company thus filed a civil lawsuit in February 2013 which requires for the removal of the illegal construction and return of the land. The Company thus filed a civil lawsuit in February 2013, required for the removal of the illegal construction and the return of the land, which was dismissed by the Kaohsiung District Court. The Company filed an appeal for remedy in September 2014, which was rejected by the Kaohsiung High Court in July 2016. The Company filed the appeal for remedy to Supreme Court in August of the same year.

h. Intangible assets

The components of the costs of intangible assets, amortization, and impairment loss thereon or the years ended December 31, 2016 and 2015 were as follows:

	Goodwill	Computer software	Patents and trademark	Total
Costs :				
Balance as of January 1, 2016	\$ 5,444	3,602	56,017	66,063
Acquisition in 2016	-	2,020	10,353	12,373
Effect of movement in exchange rates	-	(157)	-	(157)
Balance as of December 31, 2016	\$ 5,444	5,465	67,370	78,279
Balance as of January 1, 2015	\$ 5,444	-	56,700	62,144
Acquisition in 2015	-	3,602	317	3,919
Balance as of December 31, 2015	\$ 5,444	3,602	57,017	66,063

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	Goodwill	Computer software	Patents and trademark	Total
Amortization and Impairment Loss:				
Balance as of January 1, 2016	\$ -	834	43,778	44,612
Amortization for the period	-	417	1,957	2,374
Effect of movement in exchange rates	-	37	-	37
Balance as of December 31, 2016	<u>\$ -</u>	<u>1,288</u>	<u>45,735</u>	<u>47,023</u>
Balance as of January 1, 2015	\$ -	-	41,975	41,975
Amortization for the period	-	834	1,803	2,637
Balance as of December 31, 2015	<u>\$ -</u>	<u>834</u>	<u>43,778</u>	<u>44,612</u>
Carrying value:				
Balance as of December 31, 2016	<u>\$ 5,444</u>	<u>4,177</u>	<u>21,635</u>	<u>31,256</u>
Balance as of January 1, 2015	<u>\$ 5,444</u>	<u>-</u>	<u>14,725</u>	<u>20,169</u>
Balance as of December 31, 2015	<u>\$ 5,444</u>	<u>2,768</u>	<u>13,239</u>	<u>21,451</u>

As of December 31, 2016 and 2015, the aforesaid intangible assets were not pledged as collateral.

i. Short-term and long-term loans

December 31, 2016				
Currency	Interest Rate Range	Year of Expiration	Amount	
Secured bank loans	NTD	1.37~1.72%	2017	\$ 472,500
Secured bank loans	NTD	1.4368~2.0056%	2019~2021	2,700,500
Unsecured bank loans	NTD	1.4885~1.811%	2017	1,690,000
Letter of credit loans	NTD	1.3827~1.75%	2017	1,205,982
Secured bank loans	RMB	4.9%	2018	221,953
Total				<u>\$ 6,290,435</u>
Current				\$ 3,368,482
Non-current				2,921,953
Total				<u>\$ 6,290,435</u>

December 31, 2015				
Currency	Interest Rate Range	Year of Expiration	Amount	
Secured bank loans	NTD	1.51~1.69%	2016	\$ 872,500
Secured bank loans	NTD	1.58~1.81%	2017	722,500
Unsecured bank loans	NTD	1.489~2.066%	2016	1,090,000
Letter of credit loans	NTD	1.7~2.064%	2016	919,719
Total				<u>\$3,604,719</u>
Current				\$ 2,882,219
Non-current				722,500
Total				<u>\$3,604,719</u>

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On February 2, 2016, the Company signed a syndicated loan agreement for 5 years with Mega International Commercial Bank, the lead bank of the syndicated loan, and 7 other banks in order to raise funds to build the plant and accessory equipment and meet funding requirement. The aggregate amount of credit line of the syndicated loan was \$4,350,000.

- I. Syndicated loan A: The credit line is \$2,900,000 consisting of medium-term secured loans and non-revolving credit facility, which were used to finance the building of the plant and purchase of accessory equipment.
- II. Syndicated loan B: The credit line is \$1,450,000 consisting of medium-term loans and revolving credit facility, which were used to meet funding requirement.
- III. The financial covenants under the loan agreement include the requirement to maintain certain financial ratios based on the reviewed semi-annual consolidated financial report and audited annual consolidated financial reports. If the Company breaches these financial covenants, the syndicated banks may determine to declare the unpaid principal, interest, fees and other sums payable by the Company under the loan agreement to be immediately due and payable. These financial ratios are as follows:
 - i. Current Ratio (total current assets divided by total current liabilities): not lower than 100%.
 - ii. Leverage Ratio (total liabilities plus contingent liabilities to tangible net worth): not higher than 100%.
 - iii. Times Interest Earned (income before tax plus depreciation expense plus amortization expense divided by interest expenses): not lower than 2 times.

Based on its 2016 reviewed semi-annual consolidated financial report, the Company did not meet its financial covenant with regard to time interest earned as prescribed in its loan agreement. Therefore, the Company paid extra interest at the rate of 0.05%, in addition to the normal interest as defined in the loan agreement commencing from August 15, 2016. As of December 31, 2016, the Company was in compliance with its financial covenant.

As of December 31, 2016, the unused credit line amounted to \$2,050,000. Please refer to Note 8 for details of the related assets pledged as collateral.

The Company signed a contract for secured bank credit facilities totaling \$1,700,000 in order to finance its operating requirement. As of December 31, 2016 and 2015, credit facilities of \$1,450,000 and \$1,700,000 were used, of which \$577,500 and \$105,000, respectively, have been repaid. The current portion of the long-term bank loans obtained from such credit facilities amounted to \$472,500 and \$872,500, respectively. Please refer to Note 8 for details of the related assets pledged as collateral.

As of December 31, 2016 and 2015, the Company was granted by banks short-term credit lines of \$5,454,000, and \$5,418,000, of which \$973,615 and \$2,117,349, respectively, were unused.

As of December 31, 2016 and 2015, the short-term credit lines of the subsidiaries amounted to \$ 130,000, US\$ 18,000, RMB\$ 180,000 and \$ 130,000, US\$ 18,500, respectively, of which \$ 130,000, US\$ 18,000, RMB\$ 132,000 and \$ 130,000, US\$ 16,489, respectively, were unused. Please refer to Note 8 for details of the related assets pledged as collateral.

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j. Long-term bills payable

The components of long-term bills payable were as follows:

December 31, 2016			
	Acceptance institution	Period	Amount
Bills payable	China Bills Finance Corporation	2016.11.18~2017.02.16	\$ 300,000
Bills payable	Mega Bills Finance Co., Ltd.	2016.12.23~2017.02.21	100,000
Bills payable	Taching Bills Finance Co., Ltd.	2016.10.04~2017.01.03	250,000
Bills payable	Taching Bills Finance Co., Ltd.	2016.12.13~2017.03.13	70,000
Bills payable	International Bills Finance Co., Ltd.	2016.11.21~2017.02.17	50,000
			770,000
Less: Discount on long-term bills payable			(419)
Total			\$ 769,581

December 31, 2015			
	Acceptance institution	Period	Amount
Bills payable	China Bills Finance Corporation	2015.11.27~2016.02.25	\$ 350,000
Bills payable	Mega Bills Finance Co., Ltd.	2015.12.25~2016.02.23	250,000
Bills payable	Taching Bills Finance Co., Ltd.	2015.12.07~2016.03.07	250,000
Bills payable	Taching Bills Finance Co., Ltd.	2015.11.16~2016.02.15	80,000
Bills payable	International Bills Finance Co., Ltd.	2015.11.05~2016.02.03	50,000
Bills payable	International Bills Finance Co., Ltd.	2015.12.14~2016.03.11	150,000
			1,130,000
Less: Discount on long-term bills payable			(1,172)
Total			\$ 1,128,828

The Company had revolving commercial promissory note agreements with bills finance companies in order to finance its operating requirement. The bills payable bear interest at annual rates ranging from 0.38%~0.75% and 0.54%~1.16% for the years ended December 31, 2016 and 2015, respectively.

Please refer to Note 8 for details of the related assets pledged as collateral.

k. Bonds payable

	December 31, 2016	December 31, 2015
Total amount of convertible bonds issued	\$ 4,127,904	4,127,904
The amount of unamortized discount bonds payable	(204,274)	(271,246)
Interest payable refund from bonds conversion	174,294	86,560
Valuation adjustment of interest payable from bonds payable	130,416	208,296
Balance of bonds payable	4,228,340	4,151,514
Less: corporate bonds payable – current portion	(4,228,340)	-
Ending balance of bonds payable	\$ -	4,151,514
Embedded derivative-call option 、 put option and Conversion Right	\$ 20,866	16,044

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	For the Year Ended December 31,2016	For the Year Ended December 31,2015
Gain(loss) on fair value measurement of embedded derivatives such as buy back right, sell back right and Conversion Right	\$ 4,822	(690,505)
Interest expense	\$ 127,323	121,445
Amortization of issuance cost	\$ 27,383	26,018

On December 17, 2014, the Company issued Credit Enhanced Zero Coupon Convertible Bonds with aggregate principal amount of US\$132,000, which are due in 2019. These bonds bear effective interest rate of 3.2082%. On conversion of the Bonds to the Company's common shares of stock, the conversion price is \$10.80 (NT dollars) per share with a fixed exchange rate of NT\$31.222 = US\$1.00. If the price for the conversion of the Bonds is adjusted as defined in the issuance terms, the conversion price adjustment is made according to a definite formula. The bonds bear no conditions. Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will mature, and are redeemable on December 17, 2019 at 109.10% of the unpaid principal amount thereof.

The Company will redeem the Bonds in whole or in part early under the following conditions:

1. The Company may redeem the Bonds, in whole or in part, at the early redemption amount on the date of redemption if the Market Price (translated into US Dollars at the Prevailing Rate) for 20 out of 30 consecutive Trading Days, the last of which occurs not more than five trading days prior to the date on which notice of such redemption is given, is at least 125% of the quotient of the Early Redemption Amount divided by the Conversion Ratio.
2. If more than 90% in principal amount of the Bonds originally outstanding has been redeemed, repurchased and cancelled or converted, the Company can redeem the remaining outstanding bonds.
3. If, as a result of certain changes relating to the tax laws in the ROC or such other jurisdiction in which the Company are then organized or resident for tax purposes, the Company becomes obligated to pay Additional Amounts. The Bonds, may be redeemed at the option of the Company, in whole but not in part, at the Early Redemption Amount Bondholders may elect not to have their Bonds redeemed but with no entitlement to any Additional Amounts or reimbursement of additional tax.
4. Upon the occurrence of an LC Redemption Event and to the extent permitted by applicable law, the Company shall redeem all and not some only of the outstanding Bonds at the Early Redemption Amount to such date, subject to the right of each holder of the Bonds to elect that such holder's Bonds shall not be redeemed, but shall remain outstanding without the benefit of the Letters of Credit.

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Except for the following circumstances, a Bondholder should not request the Company to redeem the bond, in whole or in part, before maturity date.

1. Unless the Bonds have been previously redeemed, repurchased and cancelled, or converted, each Bondholder shall have the right, at such Bondholder's option, to require the Company to repurchase, in whole or in part (being US\$200,000 in principal amount and integral multiples thereof), of such Bondholder's Bonds on December 17, 2017 at 105.37% of their principal amount
2. In the event that the Common Shares cease to be listed or admitted to trading on the TWSE, each Bondholder shall have the right, at such Bondholder's option, to require the Company to repurchase, in whole or in part.
3. Upon the occurrence of an LC Redemption Event and to the extent permitted by applicable law, each Bondholder shall have the right, at such Bondholder's option, to require the Company to repurchase, in whole or in part.

Payments of (i) the principal of and premium on the Bonds at maturity or upon redemption or repurchase; or (ii) the principal of and premium and default interest (if any) on the Bonds in the case of an Event of Default will have the benefit of irrevocable standby letters of credit (the "Letters of Credit") issued severally but not jointly by CTBC Bank Co., Ltd. and Taiwan Cooperative Bank, Ltd. in accordance with their respective committed percentage to the total principal amount of the Bonds.

During the period when Bonds are outstanding, the Company is required to comply with the following financial covenants:

1. Current ratio (current assets/current liabilities): should not be less than 120%.
2. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 70%.
3. Interest coverage ratio (EBITDA/interest expense): should not be less than 3%.
4. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$25,000,000.

Based on its 2016 reviewed semi-annual consolidated financial report, the Company did not meet its financial covenant with regard to time interest earned as prescribed in its agreement. Therefore, the Company deposited USD time deposits to the compensation bank account as defined in the agreement. The Company negotiated with the banks continuously. The Company got exemption of the financial ratio of time interest earned violation on November 1, 2016, and took the USD time deposits back from the compensation bank account. As of December 31, 2016, the Company did not meet its financial covenant with regard to time interest earned as prescribed in its agreement. The Company are negotiating with the banks for exemption.

Please refer to Note 8 for details of the related assets pledged as collateral.

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I. Provisions

	Decommissioning	Remediation project	Employee benefits	Total
Balance as of January 1, 2016	\$ 1,218,945	1,300,244	218,493	2,737,682
Provisions made during the year	51,139	-	92,283	143,422
Provisions paid during the year	-	(107,317)	(41,354)	(148,671)
Balance as of December 31, 2016	\$ 1,270,084	1,192,927	269,422	2,732,433
Current	\$ -	279,436	9,595	289,031
Non-current	1,270,084	913,491	259,827	2,443,402
	\$ 1,270,084	1,192,927	269,422	2,732,433
Balance as of January 1, 2015	\$ 1,218,945	1,826,359	206,258	3,251,562
Provisions made during the year	-	-	40,468	40,468
Provisions paid during the year	-	(526,115)	(28,233)	(554,348)
Balance as of December 31, 2015	\$ 1,218,945	1,300,244	218,493	2,737,682
Current	\$ -	300,585	9,642	310,227
Non-current	1,218,945	999,659	208,851	2,427,455
	\$ 1,218,945	1,300,244	218,493	2,737,682

1. The Environmental Bureau of Kaohsiung City Government inspected the partial soils of the Company's land located at Chian Jen Training Center and found out the polluting mercury after the clean-up, therefore, in November 2007, the Company submitted a pollution remediation plan to the Kaohsiung City Government for reviewing and evaluated relating remediation expense of \$740,000. The Company's pollution remediation plan of "Soil Polluted Control Site" was officially adopted and approved in July 2009 (Note 6 g). The Company further added the relevant remediation expenses of \$207,600 on November 30, 2012.
2. To comply with the Order of the Tainan City Government, the Company submitted a remediation plan proposal and accrued relevant remediation plan for approval before June 30, 2008 and evaluated the relating remediation expense of \$ 1,647,200. In May 2009 and on July 2, 2012, the Company was granted official approval of its remediation proposal and amended remediation proposal, respectively. In September 2014, the Company has completed the first phase of the implementation of its plan. It is expected to launch the second phase of the implementation of its remediation plan during the next. The Company has submitted the second phase of its amended remediation plan to the Tainan City Government for approval. On December 24, 2014, Tainan City Government notified the Company its approval and now is under public tender review.

The aforementioned remediation costs of the Company were recognized in the total amount of \$ 1,647,200 for the first stage before September, 2014. With the launch of the subsequence of the second remediation stage, the Company estimated the cost based on the situation of December, 2014 is \$1,356,000. (Note 6 g for more details)

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3. (1) The Company's four parcels of land at Dongshan section, Shulin district, New Taipei City were the original location of TAIC's Shulin plants, but then sold to the Taiwan Chinese Petroleum Corporation (CPC). On August 16, 2010, the Environmental Protection Department of New Taipei City Government has declared that such land as "Soil Pollution Control Site". In March 2011, the Environmental Protection Department of New Taipei City Government has issued its letter No. 1000010000. In that letter, the Company is deemed to be the surviving entity, which assumed the rights and obligations of TAIC following its merger with TAIC and TAIC ceased to exist. As the surviving entity from this merger, the Company was therefore declared as the polluter and was required to submit a remedial measuring plan.
- (2) In August 2011, the Environmental Protection Department of New Taipei City Government has issued its Letter No. 1001001329 requiring the Company to complete its investigation and propose a pollution control plan to the Environmental Protection Department of New Taipei City Government for approval and then adopt its implementation. Following its said merger with Taiwan Alkali Company under the government's mandatory order, the Company itself has neither performed any act of production, operation, development, use nor initiated act to cause pollution. For this reason, the Company objected with being tagged as "the polluter" and filed a complaint for administration remedy in August 2011. In 2011, the Company estimated and accrued relevant remediation expenses-of \$273,750 in accordance with the relevant provisions of Financial Accounting Standards.

m. Non-current preferred share liabilities

On April 2, 2012, one of the subsidiaries, Chung Hua Shuang Tzu Hsing Kai Fa Co.,Ltd., decided to issue 20,000 thousand preferred shares through cash, with par value of \$10 (NT dollars) per share, totaling \$200,000. The aforesaid preferred shares were classified in its financial statements as preferred share liabilities of \$154,682 and capital surplus-share option of \$45,318. Based on a resolution passed and approved by the board of directors during their meeting held on April 2, 2015, and a resolution approved by the shareholders on April 28, 2015, Chung Hua Shuang Tzu Hsing Kai Fa Co., Ltd. reduced its capital, with May 5, 2015 as the effective date of its capital deduction. Chung Hua Shuang Tzu Hsing Kai Fa Co.,Ltd. redeemed its preferred share at par value of 10 NT dollars, and recognized \$18,141 as capital surplus, please refer to note 6 q for further information. As of December 31, 2015 and 2014, the preferred share liabilities were measured at amortized cost as \$0 and \$172,270, respectively. For the period from January 1 to May 5, and January 1 to December 31, 2014, the amortization cost amounted to \$2,376 and \$6,722, respectively, which was charged to profit or loss under finance costs of the statements of comprehensive income, please refer to Note 6 u. for further details.

The key issuance terms were as follows:

1. Unilaterally redeemable by Chung Hua Shuang Tzu Hsing Kai Fa Co.,Ltd. at the price equal to or higher than the par value.
2. Convertible to common stock during the period to be decided by Chung Hua Shuang Tzu Hsing Kai Fa Co., Ltd. or under the agreement between Chung Hua Shuang Tzu Hsing Kai Fa Co., Ltd. and preferred shareholders.

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3. The preferred shareholders have the priority over the distribution of residual property up to their original subscription amounts upon the dissolution or liquidation of the Company. The rest then is appropriated proportionally to other shareholders.
4. No dividends and earnings are to be distributed to preferred shareholders. Also, they do not bear rights to receive stock dividend when there is capital increase through capital surplus.
5. With the right to vote in shareholders' meeting.

The convertible preferred shares consist of liability component and equity component. The equity component is included as part of non-controlling interests in balance sheets. The initial effective interest rate is 4%.

n. Operating lease

The Consolidated Company leases out some of its property, plant and equipment under operating leases. Please refer to Note 6 g. and 6 h for further information. The future minimum lease receivable under these non-cancellable operating leases were as follows:

	December 31, 2016	December 31, 2015
Less than one year	\$ 16,076	15,502
Between one and five years	26,497	37,877
Over five years	43,100	46,548
	\$ 85,673	99,927

For the years then ended December 31, 2016 and 2015, the income from the rental of property, plant and equipment amounted to \$17,587 and \$17,456, respectively.

o. Employee benefits

1. Defined benefit plans

The Consolidated Company's defined benefit obligations and fair value of plan assets were as follows:

	December 31, 2016	December 31, 2015
Present value of funded defined benefit obligation	\$ 845,083	915,866
Fair value of plan assets	(585,256)	(707,015)
Net defined benefit liabilities	\$ 259,827	208,851

The Consolidated Company makes defined benefit plans contributions to the pension fund account with Bank of Taiwan that provides pension benefits for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for six months prior to retirement.

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(1) Composition of plan assets

The Company and its subsidiaries in Taiwan set aside 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 Labor Pension Fund Supervisory Committee. Under these regulations, the minimum earnings from these pension funds shall not be less than the earnings from two-year time deposits with the interest rates offered by local banks.

As of December 31, 2016, the balance of the Consolidated Company's contributions to the pension funds in Bank of Taiwan was \$580,743. 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 Labor Pension Fund Supervisory Committee.

(2) Movements in present value of the defined benefit obligations

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

	2016	2015
Defined benefit obligation, January 1	\$ 915,866	1,002,812
Benefits paid from plan assets	(167,268)	(158,779)
Current service costs and interest	35,319	41,833
Service costs	-	6,093
Settlements	-	-
Re-measurements of the net defined benefit liability (assets)	61,166	23,907
Defined benefit obligation, December 31	\$ 845,083	915,866

(3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit assets for the year ended December 31, 2016 and 2015 were as follows:

	2016	2015
Fair value of plan assets, January 1	\$ 707,015	808,228
Employer contributions	31,395	28,372
Benefits paid by the plan	(157,683)	(151,453)
Expected return on plan assets	10,907	13,663
Settlements	-	-
Re-measurements of the net defined benefit liability	(6,378)	8,205
Fair value of plan assets, December 31	\$ 585,256	707,015

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(4) Expenses recognized in profit or loss

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

	For the Years Ended December 31	
	2016	2015
Current service cost	\$ 21,248	25,044
Service cost	-	6,093
Net interest on net defined benefit liability	3,164	3,125
	\$ 24,412	34,262
Operating costs	\$ 22,178	26,253
Selling expenses	324	320
Administrative expenses	1,715	7,795
Research and development expenses	172	178
Loss on work stoppages	23	37
	\$ 24,412	34,583
Actual return on plan assets	\$ 4,529	21,284

The defined benefits plans included additional expenses paid to those who met the criteria of special preferential plan of the Company. The expenses thereon for the years ended December 31, 2016 and 2015 amounted to \$0 and \$321, respectively.

(5) Re-measurement of net defined benefit liability recognized in other comprehensive income

The Consolidated Company's net defined benefit liability recognized in other comprehensive income was as follows:

	For the Years Ended December 31	
	2016	2015
Accumulated balance, January 1	\$ (100,926)	(85,221)
Recognized during this year	(67,545)	(15,705)
Accumulated balance, December 31	\$ (168,471)	(100,926)

(6) Actuarial assumptions

The following are the key actuarial assumptions at the reporting date:

	For the Years Ended December 31	
	2016	2015
Discount rate	1~1.25%	1.375~1.75%
Future salary increases	0.3~2%	0.3~2%

Base on the actuarial report, the Consolidated Company is expected to make a contribution payment of \$22,743 to the defined benefit plans for the one year period after the reporting date. The weighted-average duration of the defined benefit plans is between 8.85 to 11.88 years.

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(7) Sensitivity analysis

In determining the present value of the defined benefit obligation, the Consolidated Company's management makes judgments and estimates in determining certain actuarial assumptions on the balance sheet date, which includes employee turnover rate and future salary changes. Changes in actuarial assumptions may have significant impact on the amount of defined benefit obligation.

As of December 31, 2016 and 2015, the changes in the principal actuarial assumptions will impact the present value of defined benefit obligation as follows:

	Impact on the present value of defined benefit obligation	
	Increase by 0.25%	Decrease by 0.25%
December 31, 2016		
Discount rate	\$ (18,070)	18,842
Increase in future wage	18,368	(17,714)
December 31, 2015		
Discount rate	(17,310)	18,037
Increase in future wage	17,650	(17,021)

The sensitivity analysis assumed all other variables remain constant during the measurement. This may not be representative of the actual change in defined benefit obligation as some of the variables may be correlated in the actual situation. The model used in the sensitivity analysis is the same as the defined benefit obligation liability.

The analysis is performed on the same basis for prior year.

2. Defined contribution plans

The Consolidated Company contributes an amount at the rate of 6% of the employee's monthly wages to the Labor Pension personal account with the Bureau of the Labor Insurance and Council of Labor Affairs in R.O.C. in accordance with the provisions of the Labor Pension Act. The Company's contributions to the Bureau of the Labor Insurance and Social Security Bureau for the employees' pension benefits require no further payment of additional legal or constructive obligations.

The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2016 and 2015 amounted to \$34,693 and \$31,554, respectively.

3. Short-term compensated absences liabilities

As of December 31, 2016 and 2015, the Consolidated Company's short-term compensated absences liabilities amounted to \$9,595 and \$9,642, respectively.

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p. Income Tax

The components of income tax expense for the years ended December 31, 2016 and 2015 were as follows:

	For the Years Ended December 31,	
	2016	2015
Current income tax expense		
Currently incurred	\$ (74,326)	(63,781)
Adjustment to prior year's income tax charged to current income tax	277	4,320
	<u>(74,049)</u>	<u>(59,461)</u>
Deferred tax expense		
The origination and reversal of temporary differences	167,987	294,990
Unrecognized changes of deductible temporary differences	<u>(167,987)</u>	<u>(294,990)</u>
	-	-
Income tax expense	<u>\$ (74,049)</u>	<u>(59,461)</u>

For the years ended December 31, 2016 and 2015, income tax expenses recognized under other comprehensive income were both \$0.

Income tax calculated on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2016 and 2015 as follows:

	For the Years Ended December 31	
	2016	2015
Profit before income tax	<u>\$ (1,804,096)</u>	<u>142,231</u>
Income tax on pre-tax financial income calculated at the domestic rate	285,285	(51,274)
Changes of unrecognized temporary differences	905	1,097
Unrecognized deferred tax assets	(194,482)	(294,990)
Changes of permanent differences	(180,248)	304,442
Prior years income tax adjustment	277	4,320
10% surtax on undistributed earnings	(683)	(18,389)
Tax-free income	13,593	(4,667)
Deferred tax liabilities reversal	1,304	-
Income tax expense	<u>\$ (74,049)</u>	<u>(59,461)</u>

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1. Unrecognized deferred tax assets and (liabilities)

	December 31, 2016	December 31, 2015
Decommissioning liabilities	\$ 48,220	39,747
Remediation project	240,676	241,261
Extraordinary loss	952,234	1,058,983
Allowance for doubtful receivables	319,484	319,484
Property, plant and equipment, investment property	1,041,788	1,341,357
Pension	1,191	1,156
Tax loss	9,754,251	8,172,275
Others	95,417	309,755
	\$ 12,453,261	11,484,018

The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority. Tax loss ratified by Tax Administration could be carried forward for ten consecutive years in accordance with Income Tax Act. The Consolidated Company did not recognize aforesaid tax loss as deferred tax assets because it is not expecting enough taxable profit in the near future.

As of December 31, 2016, the expiration years of tax loss unrecognized as deferred tax assets were as follows:

(1) The Company

Year incurred	Amount	Effective Period
2012	\$ 426,187	2013-2022
2013	2,525,639	2014-2023
2014	2,311,155	2015-2024
2015	2,132,251	2016-2025
2016(estmated)	1,886,963	2017-2026

(2) Taivex Therapeutics Inc.

Year incurred	Amount	Effective Period
2010	\$ 14,388	2011-2020
2011	16,878	2012-2021
2012	29,657	2013-2022
2013	50,227	2014-2023
2014	27,419	2015-2024
2015	43,032	2016-2025
2016(estmated)	40,515	2017-2026

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(3) Chung Hua Shuang Tzu Hsing Kai Fa Co.,Ltd.

Year incurred	Amount	Effective Period
2011	107	2012-2021
2012	2,461	2013-2022
2013	14,143	2014-2023
2014	44,139	2015-2024

(4) Weihua (Rudong) Trade Co., Ltd

Year incurred	Amount	Effective Period
2013	3,517	2014-2018
2015	37,285	2016-2020
2016(estimated)	65,840	2017-2021

(5) Weiqiang International Trade (Shanghai) Co., Ltd.

Year incurred	Amount	Effective Period
2013	19,096	2014-2018
2014	9,375	2015-2019
2015	18,158	2016-2020
2016(estimated)	22,340	2017-2021

(6) Weida (zhangzhou) Consultant Service Co., Ltd.

Year incurred	Amount	Effective Period
2014	1,165	2015-2019
2015	1,078	2016-2020
2016(estimated)	1,673	2017-2021

(7) Juangsu Weiming Petrochemical Corporation

Year incurred	Amount	Effective Period
2015	579	2016-2020
2016(estimated)	2,074	2017-2021

(8) Kunshan Weiqin Management consultant Co., Ltd

Year incurred	Amount	Effective Period
2016(estimated)	1,952	2017-2021

(9) Zhejiang Wedge new material Co., Ltd

Year incurred	Amount	Effective Period
2016(estimated)	3,780	2017-2021

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2. Deferred tax liabilities:

	Reserve for Land Revaluation Increment Tax	Defined benefit plans	Total
Balance, January 1, 2016	\$ 8,462,253	1,304	8,463,557
Recognized in profit or loss	259,554	(1,304)	258,250
Balance, December 31, 2016	\$ 8,721,807	-	8,721,807
Balance, January 1, 2015	\$ 8,081,062	1,300	8,082,362
Recognized in profit or loss	381,191	4	381,195
Balance, December 31, 2015	\$ 8,462,253	1,304	8,463,557

3. Deferred tax assets:

	Taxable Loss	Defined benefit plans	Total
Balance, December 31, 2016(equal to January 1)	\$ 9,358	14	9,372
Balance, January 1, 2015	\$ 9,358	7	9,365
Recognized in profit or loss	-	7	7
Balance, December 31, 2015	\$ 9,358	14	9,372

4. Stockholders' imputation tax credit account and tax rate:

	December 31, 2016	December 31, 2015
Undistributed earnings arising from earnings generated from January 1, 1998 when corporate and personal income taxes were integrated.	\$ (1,958,584)	75,450
Stockholders' imputation tax credit account	\$ 1,061,061	894,503

The undistributed earnings stated above, including comparative information, were determined in accordance with "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the International Financial Reporting Standards, International Accounting Standards, interpretation as well as related guidance translated by Accounting Research and Development Foundation endorsed by the Financial Supervisory Commission of the Republic of China.

	For the Years Ended December 31 2016(Expect)	2015(Actual)
Tax deduction ratio for earnings distributable to R.O.C. residents	- %	- %

The aforesaid imputation tax related information was prepared in accordance with Decree No.10204562810 issued by the Taxation Administration, Ministry of Finance, R.O.C. on October 17, 2013.

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q. Capital and reserves

As of December 31, 2016 and 2015, the authorized, issued and outstanding capital of the Company both amounted to \$23,199,897, divided into 2,319,990 thousand shares, with par value of \$10 (NT dollars) per share.

	(In thousands of shares)	
	Common Stock	
	2016	2015
Ending balance, December 31(equal to January 1)	2,319,990	2,319,990

1. Capital Surplus

	December 31,2016	December 31,2015
Other	18,141	18,141

In accordance with the ROC Company Act, as amended in January 2012, capital surplus cannot be used to distribute cash dividends or be used to increase capital unless it offsets the deficit first. The realized capital surplus includes those arising from donation and the excess of the issuance price over the par value of capital stock issued. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, if capital surplus is capitalized in batches, the combined amount of capital surplus capitalized in batches in any one year cannot exceed 10 % of paid-in capital.

2. Retained earnings

The Company distributes dividends depending on the level of earnings of each year, funding needs, industrial environment, and status of competition, long-term operating plan and interests of shareholders. Under such circumstances, the Company may appropriate for special reserve either in whole or in part to assure financial stability and sustainability. The Company may distribute dividends in cash or stock. If the earnings distribution is made in the form of by stock dividend, the ratio for the stock dividend shall not exceed 50% of the total distribution unless the ratio of the Company's total liabilities to total assets is equivalent or above 50% or otherwise prescribed in relevant laws and regulations.

(1) Legal reserve

In accordance with the Amended Company Act 2012, 10 percent of net income is set aside as legal reserve, until it is equal to share capital. If the Company experiences profit for the year, the meeting of shareholders decides on the distribution of the statutory earnings reserve either by issuing new shares or by cash, of up to 25 percent of the actual share capital.

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(2) Special reserve

By adopting the exemptions allowed under IFRS 1 First-time Adoption of International Financial Reporting Standards during the Company's first-time adoption of the International Financial Reporting Standards approved by the Financial Supervisory Commission (IFRSs), unrealized asset revaluation gains in shareholders' equity of \$5,281,790 was reclassified to retained earnings. The net increase in retained earnings due to the first-time adoption of IFRSs amounted to \$4,235,076. In accordance with Ruling No. 1010012865 issued by the Financial Supervisory Commission on 6 April 2012, a special reserve is appropriated from the distribution of retained earnings as a result of an increase in retained earnings due to the first-time adoption of IFRSs. When the related assets are used, disposed of, or reclassified, this special reserve is reversed as distributable earnings proportionately. The carrying amount of special reserve amounted to \$4,235,076 as of December 31, 2016 and 2015.

In 2014, the Consolidated Company changed the subsequent measurement of investment properties from cost model to fair value model. In accordance with Ruling No. 1030006415 issued by the Financial Supervisory Commission on 18 March 2014, on the first-time adoption of fair value model for the subsequent measurement of investment properties, the Consolidated Company set aside an equal amount of special reserve when the fair value increment of investment properties is transferred to retained earnings. The Consolidated Company appropriated to the special reserve an amount of \$21,224,233 as of December 31, 2013. The carrying amount of such special reserve amounted to \$21,224,233 as of December 31, 2016 and 2015, respectively.

For every year the Company distributes earnings, a special reserve is appropriated in the following order:

- ① Each year, a special reserve is appropriated from current year's net income and prior years' undistributed earnings for the same amount as the net increase in the fair value of investment property using the fair value model. A special reserve is also appropriated for the same amount as the cumulated net increase in the fair value for the year when the undistributed earnings are not distributed. When the investment property is disposed of, this special reserve is reverted proportionately to distributable earnings. As of December 12, 2016 and 2015, the Company appropriated to the special reserve an amount of \$327,688 and \$259,784, respectively.
- ② In accordance with Ruling No. 1010047490 issued by the Financial Supervisory Commission on 21 November 2012, a special reserve is appropriated by the parent company for the difference between market value and book value of parent company shares being held by a subsidiary times the percentage of the parent company's equity investment in the said subsidiary, if the stock price of the parent company is lower than the its value. If the market value recovers subsequently, this special reserve is reverted proportionately to distributable earnings.

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③ In accordance with Ruling No. 1010012865 issued by the Financial Supervisory Commission on 6 April 2012, a portion of current-period earnings and undistributed prior-period earnings is appropriated as a special reserve during earnings distribution. Such appropriation of special reserve is based on the difference between the total net amount of contra accounts in the shareholders' equity and the carrying amount of special reserve. Similarly, a portion of undistributed prior period earnings (which does not qualify for earnings distribution) is likewise appropriated as a special reserve on account of cumulative changes to other shareholders' equity pertaining to prior periods. The subsequent reversals of the contra accounts in the shareholders' equity shall qualify for additional earnings distributions

(3) Earnings Distribution

On June 24, 2016 and June 25, 2015, the Company's shareholders resolved during their meeting, not to distribute dividend to shareholders out of the earnings.

3. Other equity accounts

	Exchange differences on foreign operation	Available-for-sale financial assets
Balance, January 1, 2016	\$ (66,811)	(1,190,947)
Exchange differences on foreign operation	(204,316)	-
Exchange difference on associates accounted for using equity method	(22,642)	-
Unrealized gain for available-for-sale financial assets	-	(77,803)
Unrealized gain for available-for-sale financial assets for subsidiary accounted for using equity method	-	40,400
Unrealized gain for available-for-sale financial assets for affiliated companies accounted for using equity method	-	167
Balance, December 31, 2016	<u><u>\$ (293,769)</u></u>	<u><u>(1,228,183)</u></u>
Balance, January 1, 2015	\$ (31,944)	(982,649)
Exchange differences on foreign operation	(19,573)	-
Exchange difference on associates accounted for using equity method	(15,294)	-
Unrealized gain for available-for-sale financial assets	-	(190,654)
Unrealized gain for available-for-sale financial assets for subsidiary accounted for using equity method	-	(17,149)
Unrealized gain for available-for-sale financial assets for affiliated companies accounted for using equity method	-	(495)
Balance, December 31, 2015	<u><u>\$ (66,811)</u></u>	<u><u>(1,190,947)</u></u>

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r. Earnings per share

The basic earnings per share and diluted earnings per shares for the years ended December 31, 2016 and 2015 were calculated as follows:

	For the Years Ended December 31	
	2016	2015
Basic earnings per share (NT dollars)		
Profit attributable to ordinary shareholders	\$ (1,869,721)	95,531
Weighted-average number of ordinary shares	2,319,990	2,319,990
	\$ (0.81)	0.04
Diluted earnings per share (NT dollars)		
Profit attributable to ordinary shareholders (basic)	(1,869,721)	95,605
After-tax effect of convertible bonds' interest expense and other profit and other expenses	-	(317,609)
Profit attributable to ordinary shareholders (diluted)	\$ (1,869,721)	(222,004)
Weighted-average number of ordinary shares (basic)	2,319,990	2,319,990
Effect of convertible bonds	-	381,602
Effect of potentially dilutive ordinary shares of Employee stock bonus	-	380
Weighted-average number of ordinary shares (diluted)	2,701,972	2,701,972
	(0.81)	(0.08)

The weighted-average number of ordinary shares (diluted) excluded the 381,602 thousand shares and 375 thousand shares from the conversion of convertible bonds and employee bonus, respectively, for the year ended December 31, 2016, which are not potentially dilutive.

s. Revenue

	For the Years Ended December 31	
	2016	2015
Sales of goods	\$ 25,376,683	26,155,995

t. Remuneration of employees and directors

In accordance with the Articles of incorporation, the Company should contribute no less than 3% of the profit as employee compensation and less than 2% 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. The amount of remuneration of each director and supervisor and of compensation for employees entitled to receive the abovementioned employee compensation is approved by the board of directors. The recipients of shares and cash may include the employees of the Company's affiliated companies who meet certain conditions.

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For the years ended December 31, 2016 and 2015, remuneration of employees of \$0 and \$ 3017, respectively, and directors of \$0 and \$2,011, respectively, were estimated and recognized as current expense. These amounts were calculated using the Company's profit before tax before remuneration of employees and directors for the years ended December 31, 2016 and 2015. These benefits were charged to profit or loss under operating costs or operating expenses for the years ended December 31, 2016 and 2015. Related information would be available at the Market Observation Post System website. The amounts, as stated in the individual financial statements, are identical to those of the actual distributions for 2016 and 2015.

u. Non-operating income and expense

1. Other income

	For the Years Ended December 31	
	2016	2015
Interest income		
Repurchase agreement	\$ 3,154	6,112
Imputed interests of security deposits	8	9
Bank deposits	141,443	169,233
Interest income from indemnity	-	1,915
Dividends income	71,511	74,608
Rental income	17,587	17,456
Government grants	155,823	
Other income	59,866	141,820
	\$ 449,392	411,153

2. Other gains and losses

	For the Years Ended December 31	
	2016	2015
Foreign exchange gains (losses)	\$ (182,550)	(191,262)
Gain on disposal of investments	2,149	5,608
Gain(Loss) on disposal of property, plant and equipment	376	(4,879)
Gain on evaluation of investment property	(370,672)	872,962
Asset impairment loss	(28,671)	(30,739)
Net gains (losses) on evaluation of financial assets (liabilities) measured at fair value through profit or loss	(87,132)	(85,718)
Embedded Derivatives- Gain(loss) on fair value	(4,822)	690,505
Measurement of buy back right 、sell back right and Conversion Right		
Gain on reversal of impairment loss	-	3,693
Bank fees	(147,494)	(135,323)
Other losses	(272,198)	(176,136)
	\$ (1,091,014)	948,711

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3. Finance costs

	For the Years Ended December 31	
	2016	2015
Interest expenses		
Bank loans	\$ 96,014	56,312
Imputed interests of security deposits	18	21
Amortization of bonds payable, discount	39,589	37,617
Interest compensation of bonds payable	87,734	83,828
Others	5,237	11,004
	\$ 228,592	188,782

v. Financial Instruments

1. Categories of financial instruments

(1) Financial assets

	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss	\$ 1,197,373	1,130,019
Available-for-sale financial assets	1,470,440	1,351,940
Financial assets carried at cost	2,504,078	1,459,907
Cash and cash equivalents	9,678,066	8,887,290
Notes receivable, accounts receivable and other receivables	2,127,565	1,772,309
Other assets	39,893	89,827
Total	\$ 17,017,415	14,691,292

(2) Financial liabilities

	December 31, 2016	December 31, 2015
Financial liabilities at fair value through profit or loss	\$ 20,866	16,044
Short-term loans	2,895,982	2,009,719
Long-term bank loans-current portion	4,700,840	872,500
Payables	2,080,930	1,673,782
Long-term bank loans	2,920,953	722,500
Long-term bills payable	769,581	1,128,828
Bonds Payable	4,228,340	4,151,514
Other liabilities	324,005	507,831
Total	\$ 17,942,497	11,082,718

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2. Credit risk

(1) Exposure to credit risk

The carrying amount of financial assets represents the Company's maximum credit exposure. As of December 31, 2016 and 2015, the maximum exposures to credit risk amounted to \$17,017,415 and \$14,691,292 respectively.

(2) The concentration of credit risk

The sales of the Consolidated Company are significantly concentrated in a small number of customers. For the years ended December 31, 2016 and 2015, 84% and 77%, respectively, of the total amount of accounts receivable is composed of 7 customers and 9 customers, respectively. Under the Consolidated Company's credit policy, customers are requested to provide the Consolidated Company certain financial information like audited financial report, or other related documents for purposes of evaluating their credit worthiness. Credits are granted to these customers according to the result the Consolidated Company's credit evaluation.

(3) Impairment losses

Aging analysis of the receivables on the reporting date was as follows:

	December 31, 2016		December 31, 2015	
	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 2,218,820	(95,570)	1,855,309	(95,570)
Over 0~30	4,315	-	345	-
Over 31~120 days	-	-	149,429	(137,204)
Over 121~365 days	17,711	(17,711)	-	-
Past due more than 1 year	364,986	(364,986)	237,590	(237,590)
	\$ 2,605,832	(478,267)	2,242,673	(470,364)

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3. Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
December 31, 2016							
Non-derivative financial liabilities							
Accounts payable	\$ 1,720,970	1,720,970	1,720,970	-	-	-	-
Other payables	358,905	358,905	356,476	-	-	2,429	-
Other financial liabilities — current	213,835	213,835	213,835	-	-	-	-
Other non-current liabilities — other	68,616	68,616	40,112	22,589	667	94	5,154
Floating-rate loans	2,718,678	2,811,312	1,675,142	-	-	1,136,170	-
Fixed-rate loans	3,571,758	3,662,520	1,703,442	-	-	1,652,473	306,605
Long-term bills payable	769,581	770,000	-	-	770,000	-	-
Bonds Payable	4,228,340	4,645,827	-	-	4,645,827	-	-
Derivative financial liabilities			-	-	-	-	-
Financial liabilities at fair value through profit or loss (convertible bonds-conversion right .et)	20,866	20,866			20,866	-	
	<u><u>\$ 13,671,549</u></u>	<u><u>14,272,851</u></u>	<u><u>5,709,977</u></u>	<u><u>22,589</u></u>	<u><u>11,082,718</u></u>	<u><u>11,980,650</u></u>	<u><u>311,759</u></u>
December 31, 2015							
Non-derivative financial liabilities							
Accounts payable	\$ 1,145,958	1,145,958	1,145,958	-	-	-	-
Other payables	527,824	827,824	827,824	-	-	-	-
Other financial liabilities — current	203,981	203,981	203,981	-	-	-	-
Other non-current liabilities — Other	303,850	303,850	-	-	303,850	-	-
Floating-rate loans	995,000	1,009,036	-	-	1,009,036	-	-
Fixed-rate loans	2,609,719	2,617,707	1,643,323	772,705	201,678	-	-
Long-term bills payable	1,128,828	1,130,000	200,000	350,000	580,000	-	-
Bonds Payable	4,151,514	4,730,794	-	-	-	4,730,794	-
Derivative financial liabilities							
Financial liabilities at fair value through profit or loss (convertible bonds-conversion right .et)	16,044	16,044	-	-	-	16,044	-
	<u><u>\$ 11,082,718</u></u>	<u><u>11,980,650</u></u>	<u><u>4,021,086</u></u>	<u><u>1,122,705</u></u>	<u><u>12,292,077</u></u>	<u><u>13,038,391</u></u>	<u><u>-</u></u>

The Consolidated Company is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

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4. Currency risk

(1) Currency risk exposure

The Consolidated Company's exposures to significant currency risk were those from its foreign currency denominated financial assets and liabilities as follows:

	December 31, 2016			December 31, 2015		
	Foreign Currency	Exchange rate	NTD	Foreign Currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 74,109	32.260	2,390,768	23,011	32.850	755,884
JPY	-	-	-	314,230	0.270	85,722
HKD	4,882	4.163	20,324	4,069	4.236	17,237
EUR	1	33.940	33	-	-	-
RMB	787,402	4.624	3,617,699	741,668	4.980	3,693,507
<u>Long-term share investment using equity method</u>						
USD	35,141	32.260	1,133,685	36,833	32.850	1,178,825
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$ 134,494	32.260	4,338,790	137,420	32.850	4,514,234
RMB	-	-	-	-	-	-

(2) Sensitivity analysis

The Consolidated Company's exposure to foreign currency risk arises from the foreign currency exchange rate fluctuations on cash and cash equivalents, receivables and payables, which are denominated in foreign currency. A 1% of appreciation of NTD against USD, EUR, HKD, RMB and JPY would have increased (decreased) net income after tax by (\$14,027) and (\$316) for the years ended December 31, 2016 and 2015, respectively; other comprehensive income would have decreased \$11,337 and decreased \$12,100 for the years ended December 31, 2016 and 2015, respectively. The analysis between these two periods was based on the same criteria.

5. Interest rate analysis

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date. For financial instruments bearing floating-rate, the sensitivity analysis assumes the floating-rate liabilities are outstanding for the whole year on the reporting date. The Consolidated Company's internal management reported the increases/decreases in the interest rates and the exposure to changes in interest rates of 1% is considered by management to be a reasonable change of interest rate.

If the interest rate increases by 1%, the Consolidated Company's net income will decrease by \$27,187 and \$9,950 for the years ended December 31, 2016 and 2015, respectively, assuming all other variable factors remain constant. This is due mainly to the fact that the Consolidated Company's borrowings bear floating interest rate.

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6. Fair value information

Consolidated companies use their market observations as much as possible when measuring their assets and liabilities. The level of fair value is based on the input value of the evaluation technique as follows:

- (1) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- (2) Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (3) Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

(A) Fair value of financial instruments

The fair value of financial assets and liabilities were as follows (including information on fair value hierarchy, but excluding measurements that have similarities to fair value but are not fair value and those fair value cannot be reliably measured or inputs are unobservable in active markets):

		Fair value			
	Book value	Level 1	Level 2	Level 3	Total
<u>December 31, 2016</u>					
Financial Assets					
Cash and cash equivalent	\$ 9,678,066	-	-	-	-
Current financial assets at fair value through profit or loss	1,197,373	1,040,157	-	157,216	1,197,373
Current available-for-sale financial assets	1,470,440	1,470,440	-	-	1,470,440
Current financial assets at cost	2,504,078	-	-	-	-
Note receivables, accounts receivable and other accounts receivable	2,127,565	-	-	-	-
Other assets	39,893	-	-	-	-
Non-financial Assets					
Investment property	38,152,353	-	-	38,152,353	38,152,353
	<u>\$ 55,169,768</u>	<u>2,510,597</u>	<u>-</u>	<u>38,309,569</u>	<u>40,820,166</u>
Financial Liabilities					
Current financial liabilities at fair value through profit of loss	\$ 20,866	-	20,866	-	20,866
Short-term loans	2,895,982	-	-	-	-
Long-term liabilities , current portion	472,500	-	-	-	-
Long-term loans	2,921,953	-	-	-	-
Long-term accounts payable	2,080,930	-	-	-	-
Long-term notes payable	769,581	-	-	-	-
Bonds payable	4,228,340	-	-	-	-
Other liabilities	324,005	-	-	-	-
	<u>\$ 13,714,157</u>	<u>-</u>	<u>20,866</u>	<u>-</u>	<u>20,866</u>
<u>December 31, 2015</u>					
Financial Assets					
Cash and cash equivalent	\$ 8,887,290	-	-	-	-
Financial assets reported at fair value through profit or loss	1,130,019	1,127,524	-	2,495	1,130,019
Available-for-sale financial assets	1,351,940	1,351,940	-	-	1,351,940
Current financial assets at cost	1,459,907	-	-	-	-
Note receivables, accounts receivable and other accounts receivable	1,772,309	-	-	-	-
Other assets	89,827	-	-	-	-
Non financial assets					
Investment property	38,263,477	-	-	38,263,477	38,263,477
	<u>\$ 52,954,769</u>	<u>2,479,464</u>	<u>-</u>	<u>38,265,972</u>	<u>40,745,436</u>

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	Book value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities					
Current financial liabilities at fair value through profit of loss	\$ 16,044	-	16,044	-	16,044
Short-term loans	2,009,719	-	-	-	-
Long-term liabilities , current portion	875,500	-	-	-	-
Long-term loans	722,500	-	-	-	-
Long-term accounts payable	1,673,782	-	-	-	-
Long-term notes payable	1,128,828	-	-	-	-
Bonds payable	4,151,514	-	-	-	-
Other liabilities	507,831	-	-	-	-
	<u>\$ 11,082,718</u>	<u>-</u>	<u>16,044</u>	<u>-</u>	<u>16,044</u>

(B) Valuation techniques for financial instruments which is not measured at fair value:

The carrying amount of loans and receivables, financial assets carried at cost and financial liabilities measured after amortization cost in the consolidated financial statements of the Consolidated Company is close to its fair value.

(C) Valuation techniques for financial instruments measured at fair value:

The merger company determines the input value with reference to the analysis of the financial status and operating results, recent transaction price, related equity instruments are quoted in non-active markets, similar tools offer in the active market and comparable company evaluation multiplier of the investee company and periodically updates the input value and information and any other necessary fair value adjustments to ensure that the evaluation results are reasonable.

(i) Non-derivative financial instruments

Financial instruments, if there is a public market offer, then the public market offer for the fair value, Such as listing (cabinet) company stock and open-end fund beneficiary certification.

The fair value of the financial instruments held by the merging company in the case of a non-active market is as follows:

No public offer debt investment tools: The discounted cash flow model is used to estimate fair value, it is mainly assumed that it is measured by discounting the expected future cash flows of the investee by the rate of return of the monetary time value and the investment risk.

No public offer equity instruments: Use the net asset value method, The main assumptions are based on the net per share of the investor.

(ii) Derivative financial instruments

Is evaluated according to the evaluation model accepted by the market users, such as the discount method and the option pricing model.

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(D) There have been no transfers from each level for the years ended December 31, 2016 and 2015.

(E) Statements of changes in fair value measurements of financial assets in Level 3

	Financial assets reported at fair value through profit or loss		
	Investment Property	Designated at initial recognition	Derivative financial assets
January 1, 2016	\$ 38,263,477		2,495
Gain on Revaluation of investment property	(370,672)	-	-
Effects on deferred income tax liabilities	259,548	-	-
Purchase	-	628,864	-
Disposal	-	(473,781)	-
Total gain and losses recognized in profit or loss	-	2,133	(2,495)
December 31, 2016	<u>\$ 38,152,353</u>	<u>157,216</u>	<u>-</u>
January 1, 2015	\$ 37,009,324	175,674	-
Gain on Revaluation of investment property	872,962	-	-
Effects on deferred income tax liabilities	381,191	-	-
Purchase	-	403,760	-
Disposal	-	(579,434)	-
Total gain and losses recognized in profit or loss	-	-	2,495
December 31, 2015	<u>\$ 38,263,477</u>	<u>-</u>	<u>2,495</u>

w. Financial risk management

1. Overview

The Consolidated Companies are exposed to the following risks due to the use of financial instruments:

(1) Credit Risk

(2) Liquidity risk

(3) Market risk

The following discusses the Consolidated Company's objectives, policies and processes for measuring and managing the risks mentioned above. For more quantitative information about the financial instruments, please refer to other related notes of the notes to the financial statements.

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2. Risk management framework

The Board of Directors has overall responsibility for the oversight of the risk management framework in order to develop and monitor the Consolidated Company's risk management policies and to report regularly on its activities.

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 their 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 Audit Committee of the Consolidated Company 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 Audit Committee of the Consolidated Company is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

3. Credit Risk

Credit risk means the potential loss of the Consolidated Company if the clients or counterparties involved in that transaction default. The primary potential credit risk is from cash and accounts receivable.

(1) Accounts receivable 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 in the current deteriorating economic circumstances.

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. The Consolidated Company's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the Risk Management Committee; these limits are reviewed quarterly. Customers that fail to meet the Consolidated Company's benchmark creditworthiness may transact with the Consolidated Company only on a prepayment basis.

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The Consolidated Company establishes an impairment allowance that represents its estimate of incurred losses in respect of trade receivables. The two components of this impairment allowance are specific loss component that relates to individually significant exposure and collective loss component which the loss was incurred but not identified. The collective component is based on historical payment experience of similar financial assets.

(2) Bank deposits

The credit risk exposure in the bank deposits is measured and monitored by the Consolidated Company's finance department. As the Consolidated Company deals with the banks and other external parties with good credit standing and financial institutions, corporate organization and government agencies which are graded above investment level, management believes that the Consolidated Company do not have compliance issues and significant credit risk.

4. 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 management believes that the Consolidated Company do not have significant liquidity risk.

5. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Consolidated Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Consolidated Company buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Committee.

(1) Currency risk

The Consolidated Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Consolidated Company's entities, primarily the New Taiwan Dollars (NTD). The currencies used in these transactions are denominated in NTD, USD and RMB.

The Consolidated Company's currency risk is not hedged as some of the currencies of the Consolidated Company's foreign currency receivables and payables are the same, producing a natural hedge effect.

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(2) Interest rate risk

The Consolidated Company's Interest rate risk comes from long-term and short-term bank loans. The long-term bond issued by our company is fixed-rate loan, so there is no risk caused by the fluctuations of interest rates and fair value interest rate. The long-term and short-term bank loans calculated in floating-rate were made our company suffered cash flow interest rate risk, but most of risk were covered by cash and cash equivalents holding in floating-rate.

(3) Other market price risk

The Consolidated Company does not enter into any commodity contracts other than to meet the Consolidated Company's expected usage and sales requirements; such contracts are not settled on the net basis.

x. Capital management

The Consolidated Company meets its objectives for managing capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders, interest of other related parties and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Consolidated Company may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares or sell assets to settle any liabilities. The Consolidated Company and other entities in the similar industry use the debt-to-equity ratio to manage capital. This ratio is determined using the total net debt and divided by the total capital. The net debt from the balance sheet is derived from the total liabilities less cash and cash equivalents. The total capital and equity include share capital, capital surplus, retained earnings, other equity and non-controlling interest plus net debt.

The Consolidated Company's debt to equity ratios at the end of the reporting period as of December 31, 2016 and 2015 were as follows:

	December 31, 2016	December 31, 2015
Total liabilities	\$ 25,329,599	22,496,785
Less: cash and cash equivalents	(9,678,066)	(8,887,290)
Net debt	\$ 15,714,533	13,609,495
Total equity	\$ 51,062,666	53,258,018
Total liabilities and equity	\$ 66,777,199	66,867,513
Debt to equity ratio	23.53%	20.35%

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7. RELATED PARTY TRANSACTIONS

- a. The ultimate parent company

The Company is the ultimate parent company.

- b. Significant Transactions with related parties

1. Sale of Goods and Services to Related Parties

		For the Year Ended December 31	
		2016	2015
Associates		\$ 561,185	768,150
Other related parties		1,455	-
		\$ 563,640	768,150

The terms for related party sale transactions were the same as those of other unrelated customers.

2. Purchase of Goods from Related Parties

		For the Year Ended December 31	
		2016	2015
Associates		\$ 197,159	197,254

The terms for related party purchase transactions were the same as those of other unrelated vendors.

3. Receivables

Accounts	Types of related parties	December 31, 2016	December 31, 2015
Accounts receivable	Associates	\$ 53,961	67,116
Accounts receivable	Other related parties	58	-
Other receivables	Associates	8,617	11,424
Other receivables	Other related parties	236	-
		\$ 62,872	78,540

4. Payables

Accounts	Types of related parties	December 31, 2016	December 31, 2015
Accounts payable	Associates	\$ 10,703	6,280
Other payables	Associates	4,482	4,740
Other payables	Other related parties	4,953	-
		\$ 20,138	11,020

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5. Other

	For the Year Ended December 31	
	2016	2015
Associates		
Rental income	\$ 5,187	15,433
Other revenues	22,446	30,472
Security service fees	(22,258)	(19,717)
Other related parties		
Rental income	10,814	26
Other revenues	4,742	713
Other expense	(5,594)	(2,800)
Rental expense	(2,407)	-

Please refer to Note 6 g. for lease of land and buildings to related parties.

The refundable deposit from related party at December 31, 2016 and 2015 all amounted to \$1,500.

6. The Company had contracts with one of other related parties, for mechanical engineering services projects and paid commission on the basis of actual construction. As of December 31, 2016 and 2015, the construction project in-progress amounted to \$267,969 and \$13,500, respectively. As of December 31, 2016 and 2015, the unpaid fee amounted to \$19,485 and \$13,500, respectively.

c. Key management personnel compensation

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	\$ 72,804	72,999
Post-employment benefits	780	2,601
	\$ 73,584	75,600

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8. PLEDGED ASSETS

The Consolidated Company pledged assets are as follows:

As of December 2016 and December 31, 2015, the consolidated Company provided the following assets and other items as a comprehensive credit contract and other purposes of the collateral.

Asset	Purpose of pledge	December 31, 2016	December 31, 2015
Time deposits	Guarantee for purchases, collateral for long-term and short-term financial credit	\$ 10,040	57,979
Property, plant and equipment	Collateral for long-term and short-term financial credit, United guarantee amount of convertible Bond, lawsuits	5,118,186	2,026,694
Investment property	United guarantee amount of convertible Bond	7,090,642	8,065,355
Investments accounted for using equity method	Long-term bills payable	567,413	655,671
Available-for-sale financial assets – non-current	Long-term bills payable	779,340	852,580
Financial assets reported at fair value through profit or loss	Long-term bills payable	370,800	357,210
		\$ 14,157,414	12,015,489

As of December 31, 2016 and 2015, 4,000 thousand shares of a subsidiary of the Consolidated Company were pledged as collateral for long-term bills payable.

9. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

- a. As of December 31, 2016 and 2015, the Consolidated Company had the following unused letters of credit:

	December 31, 2016	December 31, 2015
USD	\$ 14,412	19,595
EUR	43	117
NTD	1,068,000	792,000
SGD	90,000	-

- b. As of December 31, 2016 and 2015, the Consolidated Company had issued guaranty notes for bank loans, issued Euro-Convertible Bond (ECB), sales and purchases, and development plan aggregating to \$11,104,700 US\$169,000 and \$6,600,955, US\$ 197,500, respectively.
- c. At December 31, 2016 and 2015, the Consolidated Company had contracts for various construction projects in-progress amounting to \$2,665,216 and \$2,727,357, respectively. As of December 31, 2016 and 2015, the remaining future obligations under these contracts amounted to \$2,626,377 and \$2,310,939, respectively.
- d. As of December 31, 2016 and 2015, the Company signed an agreement to purchase raw materials such as benzene, hydrogen and methylbenzene from Chinese Petroleum Corporation (CPC). Under this contract, the Company may purchase specified monthly volume of these raw materials at current month prices announced by the Chinese Petroleum Corporation with prepayment or domestic letter of credit.

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- e. The Company signed total three areas of land lease contracts with Kaohsiung branch of Taiwan International Ports Corporation, Ltd. In December 2013 and February 2014. The leased lands are located at the Kaohsiung Port Intercontinental Container Center Phase II Project Petrochemical Oil Storage and Transportation Center S12-S15 Pier Post line Land, and the Company planned to invest and build the construction of petrochemical oil storage and transportation facilities for the purpose of import and export and transport of petrochemical oil handling, storage and transportation etc... According to the aforementioned agreement, the Kaohsiung branch of Taiwan International Ports Corporation, Ltd. shall deliver these lands to the Company before Dec. 2017. The term of the lease would be 25 years from the date of delivery and the Company has the renewal option. From the time Port of Kaohsiung Taiwan International Ports Corporation perform its contractual obligation to deliver the leased lands to the Company, the Company is obligated to pay the rent of \$1,650, \$2,565, and \$1,493 for each land per year. Moreover, after 3 years 6 months from the land delivery date, the Company is obligated to pay management fees in the amount of, \$10,654, \$24,605 and \$12,329 for each land per year. In December 2013 and February 2014, the Company rendered the certificate of deposit in the amount of \$5,000 and \$13,000 as security bond. But due to the adjustment of investment plan in August 2015, the Company, downscaled the operation plan, by terminating the lease of one parcel of land so that a security bond of \$8,000 was forfeited by the Kaohsiung branch of Taiwan International Ports Corporation, Ltd.
- f. 1. In September, 2005, The Company was ordered by Revenue Service office in Kaohsiung city to change the levy level of the land value tax's rate from the year of 2000. As the Company questioned the statutes adopted by the Revenue Service office in deciding the said tax, the Company filed an administration appeal for tax reinvestigation under Article 35 of the Tax Collection Law, which was rejected by the Supreme Administrative Court. The land tax which was mentioned in previous and field for the administrative appeal, the Company paid fully in accordance with the law.
2. According to Article 24 paragraph 1 of Tax Collection Law, the Revenue Service office in Kaohsiung city ordered its prohibition on the disposition of part of the Company's said land, but its prohibition was cancelled in January, 2011.
3. All lands located in No.356, Xiande section, Qianzhen Dist., Kaohsiung City 806 including 20 parcels of land and No. 4 Xingbang section including 4 parcels of lands were announced as "Soil Pollution Control Site" and "Site soil pollution remediation" by Kaohsiung City Government pursuant to Soil and Groundwater Pollution Remediation Act (hereafter refer as Remediation Act), which prohibited the Company to use the lands. In accordance with article 12 of Land tax relief rules, the Company applied for land tax relief and review of 2009, 2010, 2011, 2012, 2013 and 2014 respectively. The application was rejected for the reason of not conforming to the regulation by Revenue Service office in Kaohsiung city. However, the Company filed a complaint for administrative remedy for those levy of land value taxes, the cases of the levy years 2009, 2010, 2012 were rejected The Company are preparing the relevant information to apply for the Interpretation of the grand justice of Judicial Yuan.

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- g. The Environmental Protection Administration of Executive Yuan inspected the land in Chian Jen Training Center and found that clean-up work of some portions of the land was not completed, portions of the land were polluted by Mercury and parts of the leased lands are polluted by the chemical substances which were produced by the lessee and those lands were declared as a "Soil and Groundwater Pollution Control Site" by the Kaohsiung City Government. Apart from the proceeding control, remediation and other necessary control management measures, the Company also submitted a control plan, according to the relevant regulations, to Kaohsiung City Government for review, the soil pollution control plan was officially approved in July 2009. In addition, the Kaohsiung City Government ordered the Taiwan vinyl chloride Company to submit a groundwater control plan as a polluter, the groundwater pollution control plan was officially approved in Sept. 2009. The Company filed a lawsuit to reimburse the expense paid by the Company, on behalf of the Taiwan vinyl chloride Company. On January 6, 2015, Shihlin District Court ruled that the Taiwan vinyl chloride company shall pay \$14,885 to the Company plus the interest calculated by annual interest rate 5% from the date July 3rd 2012 until the compensation paid-off, the remaining appeals were rejected, and the Taiwan Vinyl Chloride company shall pay for 35% of the litigation costs. Both sides reached a settlement on the case and decided not to appeal on January 26th, 2015. The final judgment was received in February 2015, the case was closed. Please refer to note 6 g. for the possible effect on the Company due to the land pollution.
- h. The land and groundwater of An Shun Located in Tainan City Annan District were polluted and was declared as "Soil Pollution Control Site" and "Site soil pollution remediation" by the Tainan City Government and Executive Yuan Environmental Protection Agency respectively. Currently, apart from coordinating with the relevant government units to proceed towards control, remediation and other necessary control and management measures, the Company actively seeks administrative and legal remedies. In the late of June 2008, the Company proposal for "The Tainan City, CPDC former Taiwan Alkali Co. Ltd. An-shun plant and 2nd class No.9 road on the eastern side of the grass area of the site soil pollution remediation pollution remediation plan" pursuant to the related regulations was submitted the plan to Tainan City Government for review. The Tainan City Government asked the Company to propose a modified remediation plan prior to October 18, 2008 since the proposed plan was regarded not to comply with the content of Soil and Groundwater Pollution Remediation Act. On October 17th 2008, pursuant to the conclusion of meeting record of letter No. 09700557030 "CPDC (Taiwan Alkali) An-shun plant soil pollution remediation plan review" which was issued by Environmental Protection Agency of Tainan City Government dated July 25th 2008, the Company has submitted the modified remediation plan book to the Tainan City Government for review, and the soil pollution remediation plan was officially approved in May 2009. Additionally, in 2012, the Company proposed a remediation alteration plan and the said plan has been approved on July 2, 2012. The 1st phase has been completed in September 2014 and has entered the 2nd phase of remediation, which will last 10 years. The 2nd remediation alteration plan was submitted to Tainan City Government for review, which was informed by the letter issued from Tainan City Government on Feb. 24, 2014 that it was approved in principle and it had to be displayed in public per the regulation. Please refer to note 6 g. for the possible effect on the Company due to the land pollution.

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- i. 1. 4 area of lands, No. 540, 541 and 543, Dongshan Section, Shulin District, Xinbei City and No. 498, Weiwang Section, Shulin Dist., New Taipei City originally belonged to Shulin plant of TAIC which. established in 1962 and closed in 1975, and then the plant was subsequently sold to CPC. The New Taipei City Government Environmental Protection Bureau, on August 16th, 2010, announced the land as “soil pollution control site”.
2. The Executive Yuan Department of Economic Affairs in April 1983 ordered the government-owned Company which at the time was also a subsidiary of CPC to merge with Taiwan Alkali Co. Ltd. The New Taipei City Government Environmental Protection Bureau issued the letter No. 1000010000 in March 2011 declaring that the Company merging with Taiwan Alkali Co. Ltd. was regarded as the survival company and shall take the responsibilities for the rights and obligations of Taiwan Alkali Co. Ltd. for soil pollution remediation according to article 75 of Company Act and was deemed as the polluter, who is required to propose the subsequent disposal and remediation.
3. The New Taipei City Government Environmental Protection Bureau issued the letter No. 1001001329 in August 2011 and required the Company to complete the investigation and proposed a pollution control plan and send to New Taipei City Government Environmental Protection Bureau for approval. The Company has never conducted any production operations, development, exploitation, or any polluting matters. The Company had a disagreement of the identification of the polluters and filed the administrative appeal in August 2011. The Taipei High Administrative Court judged to revoke the administrative punishment and the petition decision in August 2012. However, New Taipei City Government Environmental Protection Bureau appealed for retrial, the Supreme Administrative Court discarded the original judgment and remanded the case to the Taipei High Administrative Court. The judgment is claimed to be illegal, hence, the Company filed for appeal in December 2013, which was rejected by the Supreme Administrative Court in January 2015. The Company filed for retrial remedy in February 2015, which was rejected in June 2015, and the ruling on the parts where important evidence was missed and not considered was remanded to Taipei High Administrative Court. Moreover, in consideration of the No. 714 interpretation made by the grand justice of Judicial Yuan, the Company re-applied to New Taipei City Government Environmental Protection Bureau for the identification of polluters, but it was subsequently refused. The Company filed for the petition, which remains under hearing. The New Taipei City Government Environmental Protection Bureau issued the letter No. 1013081065 in December 2012 and ordered the Company to complete the investigation and propose a pollution control plan for approval before February 26th, 2013. The Company submitted a soil pollution control plan for the Shulin plant of part of the original TAIC plant to the New Taipei City Government Environmental Protection Bureau to comply with regulations. On the other hand, to clarify the disposition effect, the Company filed a lawsuit to stop the implementation, which was judged and rejected by the Taipei High Administrative Court and Supreme Administrative Court and this case was closed.

The Company estimated and accrued relevant remediation fees at the amount of, \$273,750 in 2011 according to the relevant provisions of Financial Accounting Standards. However, future internal and external factors may result in possible differences on the whole remediation fee, which would subsequently be evaluated for adjustment.

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- j. On May 28th 2016, the Tainan City Government issued the letter No. 1010382678 and ordered the Company to complete the buffer fence and sign flags, and propose a buffer management plan in accordance with article 15 of the Soil and Groundwater Pollution Remediation Act. The Company was not satisfied with the sanctions and filed complaints for relevant administrative remedy procedures in June of the same year, and rejected by the petition authorities. The Company then filed administrative litigations. While the litigations were rejected by Kaohsiung High Administrative Court and Supreme Administrative Court in April 2014 and in June 2015, the Company filed for retrial but was again rejected. However, the Company shall continue to appeal, but the appeal was rejected but the Supreme Administrative Court as a final verdict in December 2015. The case was closed.

- k. Land of Taiwan Alkali Co., Ltd

Under the Company's agreement with the Residents Service Committee of the Land of Taiwan Alkali Co., Ltd (the "TAIC"), the Company's land, located at Xin-jia section, Fongshan Dist., Kaohsiung City was intended for public use without any consideration. Now the land was occupied by the residents of 1st Floor with illegal constructions. After many time of communication, the situation didn't improve. In order to be responsible for asset management and reach the expectation of the Company's shareholders, the Company filed a lawsuit in February 2013 to ask for the removal of the illegal construction and for return the Company's land in breach of the contract, but was rejected by Taiwan Kaohsiung District Court. The Company filed an appeal for remedy in Sept. 2014, which was rejected by the Kaohsiung High Court in July 2016. The Company then filed the appeal for remedy to Supreme Court in August of the same year.

- l. Dashe Industrial Safety case

Mr. Huang, a technician of the Dashe plant of the Company, was doing the filling operations on May 12th 2014 and was exposed to propylene in the process of removing the pipelines, was sent to the hospital for emergency. But Mr. Huang passed away in the next day. The Company reached a settlement with Mr. Huang's family on June 10th, 2014. In return, Mr. Huang's family promised that they will not file any lawsuits against the Company on this matter. On December 3, 2014, the on-site managers agreed to Deferred Prosecution for one year. After the Prosecution Office of Kaohsiung High Court rescinded the original decision and remanded the case to the Prosecution Office of Kaohsiung District Court for further procedural investigation in May 2015, a Deferred Prosecution for one year was remained in August 2015. This case was closed

- m. Kaohsiung gas explosion and forced the pipeline to cut-off

On July 31st 2014, there was an underground pipeline explosion incident in Kaohsiung city. Due to the post - disaster reconstruction project, Kaohsiung City Government issued a penalty letter No. 10335137100 on August 18th 2014 and ordered the Company to cooperate with its work of pipeline cut-off and prohibited the Company to use all petrochemical pipelines in the incident-happened area. The Company filed a petition to the Administrative court for rescind the original ordered and claim for petition remedy in Sept. 2014. The case was under hearing by the Kaohsiung High Administrative Court.

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- n. Abolishment of the permission for Kaohsiung road and underground pipeline excavation and pipeline

Due to the August 1st Kaohsiung gas explosion, the Kaohsiung City Government Bureau of Water Resources issued the letter to Refining Division of CPC: abolishing the permission (letter No. 950129 issued on Dec. 15th, 1990 and permission letter No. 050076 issued on April 13, 1991), and prohibited the roads for underground pipeline excavation and pipeline use. Since the pipeline prohibited for use belonged to the Company and assigned CPC to construct, the Company, as the interested party, filed a petition to the Kaohsiung City Government to revoke the original punishment, which was rejected by Kaohsiung City Government Appeal Committee on Feb. 16th 2015. The Company filed a lawsuit for administrative action to the Kaohsiung High Administrative Court in April 2015.

- o. Disclosure Secret Case

The ex-managers, who left Company without Company's authorization, was suspected to be involve in business encroachment, theft of business secrets. To protect Company interests, the Company filed a criminal complaint. The case was concluded by the Taiwan Miaoli Local Court in January 2017 and the relevant defendants were prosecuted. The civil litigation derived from the case is still on trial at the Taipei District Court.

- p. Accusation of business negligence

On Jan. 28th 2013, a Gas explosion happened in Heng Yi chemical plant, which is next to the Toufen plant, and injured a worker, which evolved into accusations of business failures. Since the incident happened in the public discharged area of the industrial site, the sample in the said area had been identified of having excessive value substances, which was suspected to be the company's emission. The Company's manager was prosecuted as defendant per the victim's request. Miaoli District Prosecutors Office ruled for not to prosecute this case, but the victims apply for Reconsideration of the Ruling, and is now under re-investigation by Miaoli District Prosecutors Office. The victims of Heng Yi chemical plant only prosecuted the Company and managers in Feb. 2015 and asked for the joint damaged compensation \$6,920, which awaits hearing by Miaoli local court. In September of the same year, both sides agreed to stop the litigations. Trial procedure continued in Feb. 2016, the criminal litigation was determined not to be prosecuted in March 2016. The verdict of civil litigation was won in March 2016, with the formal decision awaiting final judgment. The Company will evaluate any further legal actions.

- q. Pension request from the senior manager case

The previous senior managers, Mr. Liu and Mr. Zhang, who left the Company without handing over their duties to the successor, and didn't perform their duties since July 1st 2013. The Company sent letters to them, requesting them to fulfill the agreement, but without any response from them. Therefore, the board of the Company decided to dismiss them in October 2013 for their failure of duties. The managers demanded the Company to pay their pensions as their qualification of labor pursuant to Labor Standards Act. After the failure of mediation, they respectively filed civil complaints in Taipei and Kaohsiung district court in January 2014. In August 2015, the Taipei District Court affirmed that the senior manager contract between Mr. Liu and the Company was terminated, and that this case was also applicable to the former Company's internal retirement regulations, Employee Retirement Policies, so the Company shall pay \$4,572 to Mr. Liu. The Company appealed for the 2nd sentence court.

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For the part of Mr. Zhang, Kaohsiung District Court considered that the contract of mandate between Mr. Zhang and the Company was not legally terminated, which means that the former Company's internal retirement regulations does not apply, so Mr. Zhang couldn't request for pension according to that regulations. However, according to the contract, the Company shall pay salaries at the amount of \$35, to Mr. Zhang. Mr. Zhang appealed to the 2nd sentence court, and the 2nd sentence court rejected the request from Mr. Zhang in July 2016. Mr. Zhang then appealed to the 3rd sentence in August of the same year.

r. An-shun dormitory designated monuments case

The "Original Kagakude Negai O Ka Corporation's dormitories of Tainan plant" which owns by the Company, was designated by the Tainan City Government, under the letter No. 1031053448A issued on November 17, 2014, as a municipal historic site. The Company filed a petition against the order in December 2014. In August 2015, the Ministry of Culture made a decision of excluding the Company's 4 parcels of land from being designated. However, The Company still filed a complaint for the rest of lands to Kaohsiung High Administrative Court for administrative remedy, which is still on trial.

On December 17th of 2015, Tainan City Government issued a new ordered according to the above-mentioned decision. The Company filed a petition against this new order. The Ministry of Culture made a petition decision of excluding the Company's 4 parcels of land from being designated on August 14, 2015, and re-announced in accordance with this petition decision on Dec. 17th 2015. The Company was not satisfied with the 2nd announcement and re-filed a petition for remedy. The Company received the rejection of the petition in July 2016. The Company appealed for remedy within the statutory period, which was rejected by the court's verdict in January 2017. The Company examined the reasons for the refusal of the court, which reason complied with the required purpose of the Company. This case was closed without appeal for remedy.

s. Occupying real property at An shun historical site

The "Original Kagakude Negai O Ka Corporation's dormitories of Tainan plant" which owns by the Company, was designated by Tainan City Government as a municipal historic site. However, the defendant, Mr. Wu Ming, placed a lot of his own goods on the Company's land beside to the dormitories, which locates on No.15, Aly. 3, Ln. 661, Beishanwei 2nd Rd., Annan Dist., Tainan City. The Company filed for criminal action. This case was sent to the Tainan District Prosecutors Office for mediation but without success. The Company received an indictment from Prosecutors Office in May 2016 and received the verdict from the court in September of the same year. Mr. Wu was sentenced to a five months imprisonment punishment and had to pay \$5,973 for the recovery of money. However, the defendant appealed for remedy. The case is now proceeding at Tainan High Court.

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t. Managers leave dispute

The ex-manager forwarded and stored all the patent data and business secret data of the Company's subsidiaries to his personal email in specific period. These conduct violated the company's working regulations. The Company fired the ex-manager immediately after finding out her conduct, and filed a criminal action. The ex-manager further claimed for the Company to pay the severance pay at the amount of \$189, with the reason that the Company's dismissal was illegal. Taipei District Court rejected all request from the manager in March 2016. This case was closed.

u. Managers involved in the business encroachment

The previous managers involved in the business encroachment of the Company's property. Hence, the Company filed for criminal action. The Company received all the belonging properties afterwards and accepted a not-to-prosecute decision from the Prosecutor's Office in September 2015. The case was closed.

v. Equity trading dispute

The board of the Company adopted a resolution on April 21st 2016, of the implementation of the signed tripartite supplemental agreement between the Company, PPG and GGC (PPG and GGC now merge as Axiall company), to trade total 6,400,000 shares equities of Taiwan Chi chlorine Chemical Co., Ltd, , at a price of US\$100,000, which was equivalent to \$3,225,000. The approximate gain of disposal expected would be \$2,838,761. The Company instantly informed Axiall company to carry out the equity trading of Taiwan Chi chlorine Chemical Co., Ltd. The Company ask and request the Axiall company several times to urge them to implement the agreement, however, Axiall company kept delay to take any actions. Therefore, the Company filed an arbitration to American Arbitration Association in August 2016. Axiall submitted the pleadings in Sept. 2016 and requested PPG to intervene in the lawsuit. PPG's lawyers, in the Oct. of same year, replied that PPG is willing to negotiate the contract of equity trading. At the end of February 2017, PPG signed a contract with the Company, and both parties would carry on the equity transactions matters.

w. Contract Fraud of Shanghai industry

On August 6th 2014, the Company's subsidiaries, Weihua and Weiqiang, filed a civil complaint to Yangpu District Court to claim the Coal Chemical Group Co., Ltd of shanghai industry for all payments of all the contracts they owed. However, the Coal Chemical Group Co., Ltd of shanghai industry didn't perform the first phase of payment according to Court's mediation report, Weihua and Weiqiang, on Sept. 2nd 2014, applied to Yangpu District Court for compulsory execution and sealed all coal tar stock of the Coal Chemical Group Co., Ltd of shanghai industry, the total amount of the sealed coal tar was 5,216 tons, and had then sold out 4,777 tons of the stock coal tar. Subsequently, Weihua and Weijiang Company and Coal Chemical Group Co., Ltd of shanghai industry would continue to negotiate of the unrealized claims and would also request the Coal Chemical Group Co., Ltd of shanghai industry to propose a more specific repayment plan. Weihua and Weiqiang recognized impairment of the accounts receivable to be, RMB19,274 and RMB8,276, respectively. Moreover, Weihua and Weijiang Company reported to the police the relevant persons of the Coal Chemical Group Co., Ltd of shanghai industry that are suspected to be involve with the contract fraud and other criminal matters, which is now under criminal investigation by the relevant authorities.

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- x. The consolidated subsidiaries, China Twin Star Development Co. Ltd. and BES Engineering Inc. jointly applied the public tender for the Joint Development Investment Plan for C1- DI Zone in Taipei City. The Department of Rapid Transit System of Taipei City Government unexpectedly notified the said company the tender cancel in the unreasonable reviewing decision that the said company cannot provide a banks' credit guarantee in full amount of development fund within 30 days. Based on this issue, China Twin Star Development Co., Ltd. filed a petition and administrative litigation to the Ministry of Transportations and Communications and High Administrative Court, which are both pending.
- y. Petition for Violation of gender equality law

Ms. Wu was the employee of Chemax International Corporation (Chemax), the Company's subsidiary, and was assigned to perform her duties in China. Ms. Wu was in violation of Chemax's regulation by absenting from duty for over 3 days without taking any leave, the Company then terminated her employee contract. Ms. Wu claim to Taipei City Government for the labor dispute mediation as the reason that the Company violated the gender equality law. After the mediation, the Taipei City Government held that Chemax violated the gender equality law and had to pay the fine of NT\$300 on August 27th 2015. Chemex filed a petition to Labor Department of the Executive Yuan. The Labor Department of the Executive Yuan decided the original punishment withdrawn and did another punishment in March 2016. The Company was filing the administrative remedy to the new punishment.

10. LOSSES DUE TO MAJOR DISASTERS: None.

11. SUBSEQUENT EVENTS: None.

12. OTHER

- a. The nature of operating costs and expenses were as follows:

By function By nature	For the year ended December 31,2016				For the year ended December 31,2015			
	Operating cost	Operating expense	Non-Operating expense	Total	Operating cost	Operating expense	Non-Operating expense	Total
Employee benefit								
Salary	855,031	302,403	621	1,158,055	813,244	301,297	798	1,115,339
Health and labor insurance	89,645	31,056	59	120,760	89,283	29,381	89	118,753
Pension	47,630	11,452	23	59,105	49,041	17,058	38	66,137
Others	30,666	9,709	19	40,394	23,098	7,503	22	30,623
Depreciation	1,637,452	96,224	17,055	1,750,731	1,619,884	106,415	18,008	1,744,307
Depletion	-	-	-	-	-	-	-	-
Amortization	4,484	10,141	-	14,625	3,373	10,971	-	14,344

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13. OTHER DISCLOSURE

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 Group:

1. Loans to other parties: None.
2. Guarantees and endorsements for other parties: None.
3. Securities held as of December 31, 2016 (excluding investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
CPDC	Yuanta Financial Holdings	None	Financial assets at fair value through profit or loss — current	30,938,819	371,266	0.26	371,266	
	Yuanta/P-shares SSE50 ETF	None	"	9,091,000	236,184	-	236,184	
	Fubon SSE180 ETF	None	"	8,406,000	226,962	-	226,962	
	BES Engineering Co.	The Company is a director of the investee company	Available-for-sale financial assets — non-current	149,243,449	925,309	9.75	925,309	
	CHINA DEVELOPMENT FINANCIAL HOLDING CORP.	None	"	44,684,712	360,159	0.30	360,159	
	Handy Chemical Corporation .ltd	The Company is a director of an investee company	Financial assets carried at cost — non-current	429,000	1,540	4.77	-	note
	Overseas Investment & Development Corp	None	"	2,600,000	26,000	2.89	-	"
	Exhibition Venture Capital Co., Ltd	The Company is a director of the investee company	"	2,024,176	10,635	12.31	-	"
	Core Pacific City Co., Ltd.	"	"	229,090,000	1,102,514	11.95	-	"
	Praxair Chemax Semiconductor Materials	"	"	9,455,778	641,702	49.00	-	"
	Biological Development Fund	None	"	77,670	-	1.90	-	"
	ZOWIE Technology Corporation	None	"	8,815	358	0.03	-	"
	showroom	None	"	41,670	-	0.21	-	"
	Electronics Co., Ltd.	None	"	287,961	-	0.58	-	"
	Aetas Technology Inc.	None	"	287,961	-	0.58	-	"
Chung Hua Shuang Tzu Hsing Kai Fa Co.,Ltd	Taiwan Business Bank	None	Available-for-sale financial assets — current	22,696,005	184,972	-	184,972	"

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Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
Jiangsu Weiming Petrochemical Corporation	Core Pacific City Co., Ltd.	The Company is a director of an investee company	Available-for-sale financial assets — non-current	132,000,000	686,000	6.89	-	note
	Yuntong wealth increasing profits	None	Financial assets at fair value through profit or loss — current	-	157,216	-	157,216	
	Chemax International Corp.	None	Financial assets at fair value through profit or loss — current	4,572,703	56,785	-	56,785	
	TAIWAN TEA CORPORATION	The Company is a director of an investee company	Financial assets at fair value through profit or loss — current	10,640,000	148,960	1.48	148,960	
	Good Company	None	Financial assets carried at cost — non-current	750,000	1,329	-	-	note
	TaiRx, Inc. Total	None	"	850,000	34,000	-	-	"
					<u>5,171,891</u>		<u>2,667,813</u>	

Note: It's not a listing company, no fair value to be disclosed.'

4. Individual securities acquired or disposed of with accumulated amount exceeding the lower of TWD300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchase		Sales				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
The Company	Securities sold under repurchase agreements	Cash equivalents	Taching Bills Finance Co., Ltd.	None	-	350,007	-	12,930,907	-	12,900,894	12,900,894	-	-	380,020
			Mega Bills Finance Co., Ltd.	"	-	99,934	-	2,820,167	-	2,920,101	2,920,101	-	-	-
			International Bills Finance Co., Ltd.	"	-	89,972	-	4,378,491	-	4,318,514	4,318,514	-	-	149,949
			Grand Bills Finance Corp.	"	-	-	-	250,021	-	250,021	250,021	-	-	-
			China Bills Finance Corporation	"	-	220,026	-	14,285,490	-	14,025,516	14,025,516	-	-	480,000
			Taiwan Finance Corp.	"	-	-	-	400,008	-	400,008	400,008	-	-	-
			Taiwan Cooperative Bills Finance Corp.	"	-	-	-	1,680,055	-	1,680,055	1,680,055	-	-	-

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5. Acquisition of individual real estate with amount exceeding the lower of TWD300 million or 20% of the capital stock: None.
6. Disposal of individual real estate with amount exceeding the lower of TWD300 million or 20% of the capital stock: None.
7. Related-party transactions for purchases and sales with amounts exceeding the lower of TWD100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationships	Transaction Details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Taiwan Chlorine Industries LTD.	Affiliated company accounted for using equity method	Purchase	197,159	1%	Half Month	-	None	(10,703)	1%	(Note)
	Tsou Seen Chemical Industries Corporation (TSCIC)	Subsidiary	Sales	(1,007,476)	4%	3 Month	-	OA 90 days	57,022	3%	"
	Chemax International Corp. (CIC)	Subsidiary	Sales	(220,615)	1%	1 Month		None	18,033	1%	"
	Kaohsiung Monomer Company Ltd	Affiliated company accounted for using equity method	Sales	(562,185)	2%	"		"	53,961	3%	"

Note: The amounts of the transaction and the ending balance had been offset in the consolidated interim financial statements.

8. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of capital stock: None.
9. Trading in derivative instruments: None.
10. Business relationships and significant intercompany transactions:

(Amounts in Thousands of New Taiwan Dollars)

No. (Note 1)	Name of company	Name of counter-party	Nature of relationship	Intercompany Transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	Chemax International Corp. (CIC)	1	Sales revenue	220,615	OA 30 days	0.87%
0	The Company	Tsou Seen Chemical Industries Corporation(TSCIC)	1	Sales revenue	1,007,476	OA 90 days	3.97%
0	The Company	CPDC Engineering Co., Ltd. (CPDC EC)	1	Repair expense	237,350	Base on contract	0.93%
1	Chemax International Corp. (CIC)	The Company	2	Cost of goods sold	220,615	OA 30 days	0.87%
2	Tsou Seen Chemical Industries Corporation(TSCIC)	The Company	2	Cost of goods sold	1,007,476	OA 90 days	3.97%
3	CPDC Engineering Co., Ltd. (CPDC EC)	The Company	2	Sales revenue	237,350	Base on contract	0.93%
4	Weihua (Rudong) Trade Co., Ltd (Weihua)	Weiqiang International Trade	5	Cost of goods sold	309,920	OA 30 days	1.22%
5	Weiqiang International Trade	Weihua (Rudong) Trade Co., Ltd (Weihua)	5	Sales revenue	309,920	OA 30 days	1.22%

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Note 1: Company numbering as follows:

Parent company—0

Subsidiary starts from 1

Note 2: The numbering of the relationship between transaction parties as follows:

Parent company to subsidiary—1

Subsidiary to parent company—2

Subsidiary to subsidiary—3

Subsidiary to sub-subsidiary—4

Sub-subsidiary to sub-subsidiary—5

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b. Information on investees:

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

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2016			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2016	December 31, 2015	Shares (thousands)	Percentage of ownership	Carrying value			
The Company	Kaohsiung Monomer Company Ltd	1,Hsing Kung Road,Ta She P O Box 6-25 Nantze,Kaohsiung (815), Taiwan	Methyl Methacrylate Monomer	-	-	20,000,000	40.00%	567,413	724,365	289,746	Note 1
	Taiwan Chlorine Industries Ltd.	25 Chungchih Street, Hsiaokang District, Kaohsiung 812, Taiwan	Hydrogen, Caustic soda, Hydrochloric Acid	400	400	6,400,000	40.00%	316,775	531,015	212,406	"
	Zhong gong baoquan Ltd.	6F., No.12, Dongxing Rd., Taipei City 105, Taiwan	Security consultants	14,400	14,400	1,440,000	24.00%	17,773	4,631	1,190	"
	Tao Zhu Construction & Development Co., Ltd.	8F., No.12, Dongxing Rd., Taipei City 105, Taiwan	Commissioned to create a vendor to build the housing, commercial buildings and plant rental business, management of land development and playgrounds and other related business investment	100,000	100,000	10,000,000	100.00%	81,664	(664)	(664)	Note 2&3
	Chung Hua Shuang Tzu Hsing Kai Fa Co.,Ltd. (CHSTH)	8F., No.12, Dongxing Rd., Taipei City 105, Taiwan	Real estate investment and development	145,000	145,000	16,000,000	100.00%	291,597	2,835	2,835	Note 2&3&6
	CPDC Investment (BVI) Co Ltd. (CPDC (BVI))	Citco Building, Wickhams Cay, P.O. Box662	Holding company	904,946	904,946	26,580,000	100.00%	1,134,622	(41,571)	(41,571)	"
	Tsou Seen Chemical Industries Corporation (TSCIC)	No.1, Jingjin Rd., Fangliao Township, Pingtung County 940, Taiwan	Dicalcium phosphate	550,000	550,000	75,000,000	100.00%	1,234,322	164,947	164,947	"
	CPDC Engineering Co., Ltd. (CPDC EC)	14F.-16, No.61, Wufu 3rd Rd., Qianjin Dist., Kaohsiung City 801, Taiwan	Mechanical engineering	100,000	100,000	15,000,000	100.00%	214,516	(16,948)	(16,948)	"
	Rich Equrties Ltd.	Level3,Alexander House,35 Cybercity,Ebene, Mauritius	Holding company	5,996	5,996	180,000	100.00%	5,499	(35)	(35)	Note 2&3
	Unichem Development Limited (UDL)	Room 511, 5/F, Tower 1 Silvercord 30 Canton Road TSIM SHA TSUI KOWLOON		2,967,729	2,906,787	96,143,614	100.00%	2,580,117	(2,083)	(2,083)	Note 2&3&6
	Chung Hua Shuang Tzu Hsing Kai Fa Co.,Ltd. (CHSTH)	16F., No.12, Dongxing Rd., Taipei City 105, Taiwan	Real estate investment and development	2,000,000	2,000,000	200,000,000	90.87%	1,945,680	1,300	1,182	"
	CPDC Investment (BVI) Co Ltd. (CPDC (BVI))	Akra Bldg., 24 De Castro Street, Wickhams Cay I, Road Town,Tortola,British Virgin Islands	Holding company	808,564	808,564	26,580,000	45.19%	1,128,187	(91,715)	(41,446)	Note 3&5
	Tao Zhu Construction & Development Co., Ltd.	10F.-5, No.51, Fuxing Rd., Taoyuan Dist., Taoyuan City 330, Taiwan	Engineering, construction contracting business	22,500	22,500	-	100.00%	24,886	(137)	(137)	Note 3&4
	Tsou Seen Chemical Industries Corporation (TSCIC)	8F., No.12, Dongxing Rd., Taipei City 105, Taiwan	Engaged in biotechnology, pharmaceutical research and development and marketing	462,246	244,500	46,224,551	91.10%	502,583	(41,693)	(33,150)	Note 3&6
								10,045,634	1,234,247	536,272	

Note1: The Company adopts the equity method to evaluate the investment company.

Note2: The Company's subsidiary.

Note3: The Company has direct or indirect control of the invested company. If the invested company has direct or indirect control, it shall expose the relevant information of the following 2 to 10 transactions of the investee company.

Note4: Limited company expressed by the amount of capital, no shares issued.

Note5: The original investment amount is the foreign currency, at the prevailing exchange rate.

Note6: This transaction has been written off when the consolidated statement has been prepared.

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c. Information on investment in mainland China:

The Company

i) The names of investees in Mainland China, the main businesses and products, and other information:

(Amounts in Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment (Note1)	Accumulated outflow of investment from Taiwan as of January 1, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2016	Net income (losses) of the investee (Note 2)	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Out-flow	Inflow						
Weihua (Rudong) Trade Co., Ltd (Weihua)	Engaged in trading of petroleum chemical products, electronic chemicals variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading	763,460	(b) • (c)	763,460	-	-	763,460	(65,840)	100.00%	(65,840)	528,593	-
Weiqiang International Trade (Shanghai) Co., Ltd. (Weiqiang)	Engaged in trading of petroleum chemical products, electronic chemicals variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading.	119,300	(c)	119,300	-	-	119,300	(22,340)	100.00%	(22,340)	7,202	-
Weida (Zhangzhou) Consultant Service Co., Ltd. (Weida)	Consultancy	13,171	(b)	13,171	-	-	13,171	(1,673)	100.00%	(1,673)	4,875	-
Jiangsu Weiming Petrochemical Corporation (Weiming)	Petrochemical supporting facility construction	2,141,852	(a) • (b)	2,141,852	-	-	2,141,852	72,643	100.00%	72,643	1,996,960	-
Zhangzhou Weida Petrochemical Co., Ltd (Weida PC)	Engaged in trading of petroleum chemical products, electronic chemicals variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading	30,648	(b)	30,648	-	-	30,648	(2,074)	100.00%	(2,074)	25,015	-
Kunshan Weiqin Management consultant Co., Ltd (Weiqin)	Management consultant	29,664	(b)	-	29,664	-	29,664	(1,952)	100.00%	(1,952)	25,857	-
Zhejiang Wedge new material Co., Ltd (Wedge)	Engaged in trading of Synthetic fiber material	31,278	(b)	-	31,278	-	31,278	(3,780)	100.00%	(3,780)	26,333	-

ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
3,918,553	7,726,176	Note4

Note1: There are three ways to invest as follows:

- (a) The Company direct investment to China.
- (b) The Company through third regional company (UDL) investment to China.
- (c) Others. (The Company through subsidiary investment to China.)

Note2: In the field “net income (losses) of the investee”:

- (a) If it is in preparation, no investment profit or loss, should be explained.
- (b) There are three ways to identify the basis of investment profit or loss, should be explained.
 - (b.1) financial statements audit by international accounting firm with a relationship with Taiwan accounting firm.
 - (b.2) financial statements audit by the Company’s audit CPA.
 - (b.3) others.

Note3: The amount in this table should be presented in New Taiwan Dollar.

Note4: The cumulative investment amount or investment proportion to China cannot over the Company’s net value of 60%. The Company got certified documents of operating headquarters issued by Industrial Development Bureau, Ministry of Economic Affairs on October 29, 2015, so not subject to the above regulations. Valid period to October 12, 2018.

iii) Significant transactions: None

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14. SEGMENT INFORMATION

a. General Information

The Consolidated Company identifies Arylonitrile & acetic acid department and Caprolactam department as reportable segments based on factors such as product types, manufacturing procedure, customer types, and operating activities.

The reportable segments of the Consolidated Company are independent business units which offer different products and services. Each business unit needs different technologies, resources and marketing strategies, thus should administer separately. The operating segment has a segment manager who is directly accountable to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment.

b. Information for each segment's revenue / expense, asset, liability, measurement basis , and adjustment

Non-operating income and loss, income tax expense and non-recurring gain or loss is not allocated to reportable segments. In addition, not all of the profit or loss of the reportable segments include significant non-cash items other than depreciation and amortization. Total reportable segments' profit or loss is reconciled with the continuing operations' profit or loss before tax.

There was no material inconsistency between the accounting policies adopted for the operating segment and the accounting policies described in Note 2. The Consolidated Company use the operating profit as the measurement for segment profit and the basis of performance assessment. Operating segments' profit and loss and total assets exclude operating expenses and assets of the corporate management.

	Acrylonitrile & Acetic Acid	Caprolactam	Other	Adjustment and eliminations	Total
For the Year Ended December 31, 2016					
Revenue					
Revenues from external customers	\$ 7,741,861	13,542,941	4,091,881	-	25,376,683
Revenues from transactions with other operating segments of the same entity	-	-	237,432	(237,432)	-
Total segment revenue	\$ 7,741,861	13,542,941	4,329,313	(237,432)	25,376,683
Depreciation and amortization	\$ 133,548	1,474,847	156,961	-	1,765,356
Reported segment profit or loss	\$ 442,428	(1,319,174)	(927,350)	-	(1,804,096)
Assets					
Capital expenditure of non-current assets	\$ 96,161	484,954	625,507	-	1,206,622
Segment assets	\$ 5,229,680	14,169,438	57,056,147	-	76,455,265
Segment liabilities	\$ 2,588,746	4,979,402	17,824,451	-	25,392,599

(English Translation of Financial Report Originally Issued in Chinese)
CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

For the Year Ended December 31, 2015	Acrylonitrile & Acetic Acid	Caprolactam	Other	Adjustment and eliminations	Total
Revenue					
Revenues from external customers	\$ 9,002,967	12,821,522	4,331,506	-	26,155,995
Revenues from transactions with other operating segments of the same entity	-	-	241,959	(241,959)	-
Total segment revenue	<u>\$ 9,002,967</u>	<u>12,821,522</u>	<u>4,573,465</u>	<u>(241,959)</u>	<u>26,155,995</u>
Depreciation and amortization	<u>\$ 126,382</u>	<u>1,594,679</u>	<u>37,590</u>	<u>-</u>	<u>1,758,651</u>
Reported segment profit or loss	<u>\$ 324,526</u>	<u>(1,595,383)</u>	<u>1,413,088</u>	<u>-</u>	<u>142,231</u>
Assets					
Capital expenditure of non-current assets	<u>\$ 80,130</u>	<u>120,166</u>	<u>854,341</u>	<u>-</u>	<u>1,054,637</u>
Segment assets	<u>\$ 5,072,786</u>	<u>15,280,545</u>	<u>55,401,472</u>	<u>-</u>	<u>75,754,803</u>
Segment liabilities	<u>\$ 2,469,405</u>	<u>4,232,768</u>	<u>15,794,612</u>	<u>-</u>	<u>22,496,785</u>

c. Geographical Areas

The Consolidated Company's noncurrent assets located overseas are immaterial. Revenues from domestic and overseas customers for 2016 and 2015 were as follows:

Region	For the Years Ended December 31	
	2016	2015
Operating revenue from domestic sales	\$ 20,014,213	19,573,965
Asia	5,323,501	6,581,827
Other (individual area under 10%)	38,969	203
Total operating revenue	<u>\$ 25,376,683</u>	<u>26,155,995</u>

d. Major Customers

Customers generating over 10% of total revenue for 2016 and 2015 were as follows:

Customers	For the Years Ended December 31	
	2016	2015
1020	\$ 3,685,488	2,439,888
1001	3,275,311	3,310,221
1019	2,920,634	2,797,495
1011	2,554,617	2,468,736