

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

**CHENMING MOLD IND. CORP
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

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

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

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Representation Letter

The entities that are required to be included in the combined financial statements of CHENMING MOLD IND. CORP as of and for the year ended December 31, 2016 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, CHENMING MOLD IND. CORP and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: CHENMING MOLD IND. CORP
Chairman: Lin, Mu-Ho
Date: March 22, 2017



安侯建業聯合會計師事務所
KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Auditors' Report

To the Board of Directors of CHENMING MOLD IND. CORP:

Opinion

We have audited the consolidated financial statements of CHENMING MOLD IND. CORP("the Group"), which comprise the consolidated statement of financial position as of December 31, 2016 and 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our 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 Auditor's 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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. Inventory valuation

Please refer to Note (4)(h) for inventories, Note (5) for accounting estimate of inventory valuation, and Note (6)(d) for information regarding the inventory and related expenses of the consolidated financial statements.

Description of key audit matters:

Due to the impact of product life cycle and customized design, the price variability for the inventories of the Group are expected to change. Therefore, the test of inventory valuation is one of the significant evaluation in our audit procedures.

Our principal audit procedure included: testing the related controls of production cycle and assessing the allowance for loss due to price decline, as well as obsolete and slow moving inventories to determine whether they are in compliance with the Company's accounting policies; inspecting the inventory aging statement; analyzing the subsequent sales status, and assessing the adopted net realizable value basis for obsolete inventories to verify the rationality of assessment on allowance estimated by the management authority of the Group.

2. Valuation of Accounts Receivable

Please refer to note (4)(g) "Financial instruments" for accounting policies relating to valuation of accounts receivable, Note (5) for uncertainties in recovery of accounts receivable, and Note (6)(C) for the information on accounts receivable.

Description of key audit matters:

Payments from an overseas client have been postponed due to its financial difficulties, and its bankruptcy application has been approved by the overseas legal authorities. The management recorded the allowance in full and recognized the bad debt losses. The loss amount is significant, and as a result, it has been considered to be the key matter in our audit.

Our principal audit procedure included: acquiring the management's understanding in the financial status of the client, and the estimated amount of allowance for bad debt and its basis of assessment to evaluate the rationality of the management's estimation in the allowance for doubtful accounts.

3. Business Combination

Please refer to note (4)(s) "Business Combination" for accounting policies with respect to business combination, note (5) for the uncertainty in business combination, and note (6)(e) "Acquisition of subsidiaries" for the business combination.

Description of key audit matters:

CHENMING MOLD IND. CORP purchased 42.7% of the shareholdings of CHENMING ELECTRONIC (NINGBO)CO.,LTD. from a related party, increasing its holding proportion from 9.3% to 52%. Therefore, CHENMING MOLD IND. CORP obtained control over CHENMING ELECTRONIC (NINGBO)CO, LTD. The combination has been prepared by using the acquisition method and was included in the consolidated financial statements, as a result, it has been considered to be the key matter in our audit.

Our principal audit procedure included: inquiring and evaluating the judgement basis of the management in identifying the acquirer, as well as determining the acquisition date. Acquiring its basis of assessment for fair market value, including identifiable asset and non-controlling interests; evaluating the rationality of recognition and measurement made by the management; understanding and evaluating whether the management conducted and disclosed the business combination in accordance with the International Financial Reporting Standards.

Other Matter

CHENMING MOLD IND. CORP. has additionally 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.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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 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 communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partners on the audit resulting in this independent auditors' report are Hsin Fu Yen and Kuan-Ying Kuo.

KPMG

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

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in, New Taiwan Dollars)

| | December 31, 2016 | | December 31, 2015 | | December 31, 2016 | | December 31, 2015 | |
|---|---------------------|------------|-------------------|------------|-------------------|-----------|-------------------|------------|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Assets | | | | | | | | |
| Current assets: | | | | | | | | |
| 1100 Cash and cash equivalents (note 6)(a)) | \$ 604,885 | 15 | 333,278 | 10 | 2100 | 4 | 150,000 | 4 |
| 1110 Current financial assets at fair value through profit or loss (note 6)(b)) | - | - | 2,004 | - | 2170 | 19 | 500,865 | 15 |
| 1170 Notes and Accounts receivable, net (note 6)(c)) | 1,159,060 | 28 | 881,123 | 25 | 2200 | 7 | 191,367 | - |
| 1310 Inventories, net (note 6)(d)) | 629,934 | 15 | 500,881 | 15 | 2220 | 2 | - | 6 |
| 1476 Other current financial assets (notes 6)(e) and (7)) | 13,693 | - | 2,539 | - | 2230 | - | 31,660 | 1 |
| 1479 Other current assets | <u>50,665</u> | <u>1</u> | <u>67,881</u> | <u>2</u> | <u>2300</u> | - | <u>1,116</u> | - |
| | <u>2,458,237</u> | <u>59</u> | <u>1,787,706</u> | <u>52</u> | <u>2320</u> | - | <u>36,000</u> | <u>1</u> |
| | | | | | | <u>32</u> | <u>911,008</u> | <u>27</u> |
| Non-current assets: | | | | | | | | |
| 1523 Non-current available-for-sale financial assets (note 6)(b)) | - | - | 175,215 | 5 | | | | |
| 1600 Property, plant and equipment (notes 6)(f) and (8)) | 1,180,980 | 28 | 1,043,626 | 30 | 2540 | 6 | 280,000 | 8 |
| 1760 Investment property, net (notes 6)(g) and (8)) | 201,349 | 5 | 202,587 | 6 | 2570 | - | 6,063 | - |
| 1780 Intangible assets | 3,555 | - | 2,116 | - | 2645 | - | 9,362 | - |
| 1840 Deferred tax assets (note 6)(f)) | 1,248 | - | 16,157 | 1 | | | | |
| 1980 Other non-current financial assets (note 8)) | 15,455 | - | 6,139 | - | | | | |
| 1985 Long-term prepaid rents (note 6)(j)) | 270,009 | 7 | 169,723 | 5 | | | | |
| 1990 Other non-current assets (note 6)(k)) | <u>38,662</u> | <u>1</u> | <u>39,920</u> | <u>1</u> | 3100 | 41 | 1,779,350 | 52 |
| | <u>1,711,258</u> | <u>41</u> | <u>1,655,483</u> | <u>48</u> | 3200 | - | 15,415 | - |
| | | | | | 3300 | 13 | 431,080 | 13 |
| | | | | | 3410 | (1) | - | - |
| | | | | | 3425 | - | 10,911 | - |
| | | | | | 36XX | - | 2,236,756 | 65 |
| | | | | | | 9 | - | - |
| | | | | | | 62 | 2,236,756 | 65 |
| Total assets | <u>\$ 4,169,495</u> | <u>100</u> | <u>3,443,189</u> | <u>100</u> | | | <u>3,443,189</u> | <u>100</u> |
| | | | | | | | | |
| Liabilities and Equity | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Short-term loans (note 6)(h)) | | | | | | | | |
| Notes and Accounts payable | | | | | | | | |
| Other payables (notes 6)(b) and (7)) | | | | | | | | |
| Other payables-related parties (note 6)(e)) | | | | | | | | |
| Current tax liabilities (note 6)(l)) | | | | | | | | |
| Other current liabilities | | | | | | | | |
| Long-term loans, current portion (note 6)(i)) | | | | | | | | |
| | | | | | | | | |
| Non-Current liabilities: | | | | | | | | |
| Long-term loans (note 6)(i)) | | | | | | | | |
| Deferred tax liabilities (note 6)(l)) | | | | | | | | |
| Guarantee deposits received | | | | | | | | |
| | | | | | | | | |
| Total liabilities | | | | | | | | |
| Equity attributable to owners of parent: | | | | | | | | |
| Ordinary shares (note 6)(m)) | | | | | | | | |
| Capital surplus (note 6)(m)) | | | | | | | | |
| Retained earnings (note 6)(m)) | | | | | | | | |
| Exchange differences on translation of foreign financial statements | | | | | | | | |
| Unrealized gain or loss on available-for-sale financial assets | | | | | | | | |
| Total equity attributable to owners of parent: | | | | | | | | |
| Non-controlling interests | | | | | | | | |
| Total equity | | | | | | | | |
| Total liabilities and equity | | | | | | | | |

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

| | 2016 | | 2015 | |
|---|-------------------|------------|------------------|-----------|
| | Amount | % | Amount | % |
| 4000 Net sales revenue (notes 6(o) and (7)) | \$ 4,274,785 | 100 | 3,241,910 | 100 |
| 5000 Cost of sales (notes 6)(d), (7), and (12)) | <u>3,666,741</u> | <u>86</u> | <u>2,926,135</u> | <u>90</u> |
| 5900 Gross profit | <u>608,044</u> | <u>14</u> | <u>315,775</u> | <u>10</u> |
| 6000 Operating expenses (note (12)): | | | | |
| 6100 Selling expenses | 117,575 | 3 | 108,792 | 4 |
| 6200 Administrative expenses ⁷ | 188,516 | 4 | 127,780 | 4 |
| 6300 Research and development expenses | <u>40,737</u> | <u>1</u> | <u>41,037</u> | <u>1</u> |
| | <u>346,828</u> | <u>8</u> | <u>277,609</u> | <u>9</u> |
| 6900 Net operating income | <u>261,216</u> | <u>6</u> | <u>38,166</u> | <u>1</u> |
| 7000 Non-operating income and expenses: | | | | |
| 7050 Finance costs, net | (7,052) | - | (10,875) | - |
| 7100 Interest income | 1,305 | - | 1,431 | - |
| 7110 Rent revenue (note (7)) | 12,865 | - | 12,667 | - |
| 7190 Other expenses and losses | 9,339 | - | 991 | - |
| 7230 Foreign exchange gains (note (6)(q)) | 32,677 | 1 | 60,350 | 2 |
| 7590 Miscellaneous disbursements | <u>(12,011)</u> | <u>-</u> | <u>(7,199)</u> | <u>-</u> |
| | <u>37,123</u> | <u>1</u> | <u>57,365</u> | <u>2</u> |
| 7900 Profit before tax | 298,339 | 7 | 95,531 | 3 |
| 7950 Less: Income tax expenses (note (6)(l)) | <u>42,286</u> | <u>1</u> | <u>25,959</u> | <u>1</u> |
| Profit | <u>256,053</u> | <u>6</u> | <u>69,572</u> | <u>2</u> |
| 8300 Other comprehensive income: | | | | |
| 8310 Items that may not be reclassified subsequently to profit or loss | | | | |
| 8311 Gains (losses) on remeasurements of defined benefit plans (note (6)(k)) | (4,210) | - | 557 | - |
| 8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note (6)(l)) | <u>193</u> | <u>-</u> | <u>(95)</u> | <u>-</u> |
| | <u>(4,017)</u> | <u>-</u> | <u>462</u> | <u>-</u> |
| 8360 Other components of other comprehensive income that will not be reclassified to profit or loss | | | | |
| 8361 Other comprehensive income, before tax, exchange differences on translation of foreign financial statement | (57,650) | (1) | - | - |
| 8362 Unrealised gains (losses) on valuation of available-for-sale financial assets | (10,911) | - | 5,654 | - |
| 8399 Income tax relating to items that will be reclassified | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>(68,561)</u> | <u>(1)</u> | <u>5,654</u> | <u>-</u> |
| 8300 Other comprehensive income, net of tax | <u>(72,578)</u> | <u>(1)</u> | <u>6,116</u> | <u>-</u> |
| Comprehensive income | <u>\$ 183,475</u> | <u>5</u> | <u>75,688</u> | <u>2</u> |
| Profit belongs to : | | | | |
| Parent entity | \$ 197,801 | 5 | 69,572 | 2 |
| Non-controlling interests | <u>58,252</u> | <u>1</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 256,053</u> | <u>6</u> | <u>69,572</u> | <u>2</u> |
| Other comprehensive income belongs to : | | | | |
| Parent entity | \$ 152,895 | 4 | 75,688 | 2 |
| Non-controlling interests | <u>30,580</u> | <u>1</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 183,475</u> | <u>5</u> | <u>75,688</u> | <u>2</u> |
| Basic net income per share (note (6)(n)) | <u>\$ 1.14</u> | | <u>0.39</u> | |
| Dilution net income per share (note (6)(n)) | <u>\$ 1.13</u> | | <u>0.39</u> | |

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
CHENMING MOLD IND. CORP AND ITS 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 owners of parent | | | | | | | | | | |
|--|---|-------------------|---------------|-----------------|----------------------------------|-----------------------------|---|--|-----------------|---------------------------|--------------|
| | Share capital | Retained earnings | | | | Total other equity interest | | | Treasury shares | Non-controlling interests | Total equity |
| | Ordinary shares | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Total retained earnings | Exchange differences on translation of foreign financial statements | Unrealized gains (losses) on available-for-sale financial assets | Treasury shares | Non-controlling interests | Total equity |
| Balance at January 1, 2015 | \$ 1,800,000 | 15,594 | 212,454 | 9,730 | 160,831 | 383,015 | - | 5,257 | - | - | 2,203,866 |
| Earning distribution: | | | | | | | | | | | |
| Legal reserve appropriated | - | - | 13,005 | - | (13,005) | - | - | - | - | - | - |
| Reversal of special reserve | - | - | - | (9,730) | 9,730 | - | - | - | - | - | - |
| Profit for the nine year ended December 31, 2015 | - | - | - | - | 69,572 | 69,572 | - | - | - | - | 69,572 |
| Other comprehensive income | - | - | - | - | 462 | 462 | - | 5,654 | - | - | 6,116 |
| Comprehensive income | - | - | - | - | 70,034 | 70,034 | - | 5,654 | - | - | 75,688 |
| Other changes in capital surplus: | | | | | | | | | | | |
| Purchase of treasury stock | - | - | - | - | - | - | - | - | (42,798) | - | (42,798) |
| Retirement of treasury stock | (20,650) | (1,799) | - | - | (21,969) | (21,969) | - | - | 42,798 | - | - |
| Balance at December 31, 2015 | 1,779,350 | 15,415 | 225,459 | - | 205,621 | 431,080 | - | 10,911 | - | - | 2,236,756 |
| Earning distribution: | | | | | | | | | | | |
| Cash dividends of ordinary share | - | - | - | - | (53,381) | (53,381) | - | - | - | - | (53,381) |
| Legal reserve appropriated | - | - | 6,957 | - | (6,957) | - | - | - | - | - | - |
| Profit for the year ended December 31, 2016 | - | - | - | - | 197,801 | 197,801 | - | - | - | - | 197,801 |
| Other comprehensive income | - | - | - | - | (4,017) | (4,017) | (29,978) | (10,911) | - | - | (44,906) |
| Comprehensive income | - | - | - | - | 193,784 | 193,784 | (29,978) | (10,911) | - | - | 152,895 |
| Purchase of treasury stock | - | - | - | - | - | - | - | - | (117,651) | - | (117,651) |
| Retirement of treasury stock | (80,000) | (693) | - | - | (36,958) | (36,958) | - | - | 117,651 | - | - |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | 349,382 | 349,382 |
| Balance at December 31, 2016 | \$ 1,699,350 | 14,722 | 232,416 | - | 302,109 | 534,525 | (29,978) | - | - | 379,962 | 2,598,581 |

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
CHEENMING MOLD IND. CORP AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

| | 2016 | 2015 |
|---|------------|-----------|
| Cash flows from (used in) operating activities: | | |
| Profit (loss) before tax | \$ 298,339 | 95,531 |
| Adjustments: | | |
| Adjustments to reconcile profit (loss): | | |
| Depreciation expense | 265,020 | 260,636 |
| Amortization expense | 2,389 | 3,256 |
| Provision (reversal of provision) for bad debt expense | 696 | 3,512 |
| Interest expense | 7,052 | 10,875 |
| Interest income | (1,305) | (1,431) |
| Loss on abandonment of property, plant and equipment, net | 5,240 | 7,109 |
| Loss (gain) on disposal of investment properties | 11,402 | 7,287 |
| Total adjustments to reconcile profit (loss) | 290,494 | 291,244 |
| Decrease (increase) in financial assets held for trading | 1,889 | (2,000) |
| Decrease (increase) in notes receivable, net | 84,954 | 25,005 |
| Decrease (increase) in inventories, net | (45,792) | (99,406) |
| Decrease (increase) in prepayments | 33,734 | (16,878) |
| Decrease (increase) in other financial assets | (10,068) | 1,915 |
| Increase (decrease) in notes payable | 137,458 | 15,763 |
| Increase (decrease) in other current liabilities | (18,666) | 19,570 |
| Total changes in operating assets and liabilities | 183,509 | (56,031) |
| Total adjustments | 474,003 | 235,213 |
| Cash inflow (outflow) generated from operations | 772,342 | 330,744 |
| Interest received | 1,317 | 1,566 |
| Income taxes refund (paid) | (40,981) | (2,289) |
| Net cash flows from (used in) operating activities | 732,678 | 330,021 |
| Cash flows from (used in) investing activities: | | |
| Acquisition of non-current assets classified as held for sale | 35,762 | - |
| Acquisition of property, plant and equipment | (177,584) | (164,844) |
| Proceeds from disposal of property, plant and equipment | 3,632 | 2,656 |
| Acquisition of intangible assets | (3,828) | (1,271) |
| Decrease in prepayments for business facilities | (13,927) | (8,643) |
| Decrease (increase) in other current financial assets | - | 21,000 |
| Other | (9,316) | (4,960) |
| Net cash flows from (used in) investing activities | (165,261) | (156,062) |
| Cash flows from (used in) financing activities: | | |
| Increase in short-term loans | (10,000) | (100,000) |
| Decrease in other borrowings | 50,000 | 190,000 |
| Increase in notes and bonds issued under repurchase agreement | (128,000) | (183,000) |
| Cash dividends paid | (53,381) | - |
| Payments to acquire treasury shares | (117,651) | (42,798) |
| Interest paid | (7,146) | (10,640) |
| Other | 190 | 550 |
| Net cash flows from (used in) financing activities | (265,988) | (145,888) |
| Effect of exchange rate changes on cash and cash equivalents | (29,822) | - |
| Net increase (decrease) in cash and cash equivalents | 271,607 | 28,071 |
| Cash and cash equivalents at beginning of period | 333,278 | 305,207 |
| Cash and cash equivalents at end of period | \$ 604,885 | 333,278 |

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

CHENMING MOLD IND. CORP (the "Company") was incorporated on June 1976. The business activities of the "Company are the production of computer case, the manufacture and the development of mobile devices.

The consolidated financial statements of the Company as of and for the years ended December 31, 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). Please refer to note (4) (c) ii. for related information of the Group primarily business activities.

(2) Approval date and procedures of the consolidated financial statements:

These consolidated financial statements were authorized for issuance by the board of directors on March 17, 2017.

(3) New standards, amendments and interpretations adopted:

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

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

| <u>New, Revised or Amended Standards and Interpretations</u> | <u>Effective date per IASB</u> |
|--|--------------------------------|
| Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" | January 1, 2016 |
| Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| IFRS 14 "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendment to IAS 1 "Disclosure Initiative" | January 1, 2016 |
| Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" | January 1, 2016 |
| Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants" | January 1, 2016 |
| Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions" | July 1, 2014 |
| Amendment to IAS 27 "Equity Method in Separate Financial Statements" | January 1, 2016 |
| Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" | January 1, 2014 |
| Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

| <u>New, Revised or Amended Standards and Interpretations</u> | <u>Effective date per IASB</u> |
|--|--------------------------------|
| 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 Group assessed that the initial application of the above IFRSs would not have any material impact on the consolidated financial statements.

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

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC is set out below. 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 not yet announced the effective dates of the other IFRSs.

| <u>New, Revised or Amended Standards and Interpretations</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" (Applicable for IFRS 9 "Financial Instruments" and 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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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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

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

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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

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

(4) Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for those specifically indicated, the following accounting policies were applied consistently throughout the presented periods in the financial statements.

The financial statements have been translated into English. The translated information is consistent with the Chinese language financial statements from which it is derived.

(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 IFRSs endorsed by the FSC.

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the consolidated annual financial statements have been prepared on the historical cost basis:

- 1) Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
- 2) Hedging derivative financial instruments measured at fair value;

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

- 3) The defined benefit asset (liability) is recognized as the fair value of plan assets less the present value of the defined benefit obligation.

(ii) Functional and presentation currency

The functional currency of each Group entities is determined based on the primary economic environment in which the entities operate. The Group 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.

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Losses applicable to 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.

Accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group's share of net assets before and after the change, and any considerations received or paid, are adjusted to or against the Group reserves.

(ii) List of subsidiaries in the consolidated financial statements.

| Name of investor | Name of subsidiary | Principal activity | Shareholding | | Description |
|--------------------------------|---------------------------------------|---|-------------------|-------------------|-------------|
| | | | December 31, 2016 | December 31, 2015 | |
| The Company | TOP CITY INTERNATIONAL LIMITED | Investment | 100 % | 100 % | |
| TOP CITY INTERNATIONAL LIMITED | PEAK SHREWD INC. | Investment | 100 % | 100 % | |
| " | GERSHWIN INTERNATIONAL LIMITED | Computer case and production of relative components | 100 % | 100 % | |
| GERSHWIN INTERNATIONAL LIMITED | Dongguan Chenming Electronic Co., Ltd | Computer case and production of relative components | 100 % | 100 % | |
| PEAK SHREWD INC. | CHENMING ELECTRONIC (NINGBO) CO., LTD | Computer case and production of relative components | 52 % | 9.3 % | Note |

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Note: Since the Company acquired 52% interests of CHENMING (Ningbo) in April 2016, the related information is required to be disclosed in its consolidated financial statements commencing on the date of its acquisition.

(d) Foreign currencies

(i) Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary items 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 the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising from retranslation are recognized in profit or loss, except for the translation differences of the following, which are recognized in other comprehensive income:

- 1) Available-for-sale financial asset;
- 2) Hedge of a net investment in a foreign operation; and Qualified cash flow hedge.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group'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 Group's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

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. When the Group 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. When the Group 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.

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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

(e) Classification of current and non-current assets and liabilities

An entity shall classify an asset as current when:

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

An entity shall classify a liability as current when:

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability 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 the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities 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 known amounts of cash and which are subject to an insignificant risk of changes in value.

The time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are reclassified as cash equivalents.

(g) Financial Instruments

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

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(i) Financial assets

The Group 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.

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling in the short term.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

2) 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, other receivables, and investment in debt security with no active market. Such assets are recognized initially 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 shall be recognized and derecognized as applicable using trade-date accounting.

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

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as 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 available-for-sale debt instruments are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

4) Impairment of financial assets

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

The objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group 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. When Available-for sale financial assets occur impairment, the primitive other comprehensive income's accumulate profit and loss will reclassify into income.

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 the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

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

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements**

If, in a subsequent period, the amount of the impairment loss of a financial asset 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 an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

Impairment losses and recoveries are recognized in profit or loss. Recovery and loss on doubtful debts of account receivables is included in operating expense, others are included in non-operating income and expense.

5) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the group 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 profit or loss and it is included in non-operating income and expenses.

The Group separates the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss, and is included in non-operating income or expenses.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity 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 as the amount of consideration received, less, the direct cost of issuing. Interest related to the financial liability is recognized in profit or loss, and included in non-operating income and expenses. On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements**

2) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if acquired principally for the purpose of selling in the short term. This type of financial liability is measured at fair value at the time of initial recognition, and 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, and are included in non-operating income or expenses.

The amount of changes which generated by credit risk should recognized in other comprehensive income except for avoiding inappropriate accounting assignment, if the financial liability is classified in this category.

3) Other financial liabilities

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

4) Derecognition of financial liabilities

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

5) Offsetting of financial assets and liabilities

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

(iii) Derivative financial instruments

The 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 are included in non-operating income and expenses.

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.

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(h) Inventories

Inventories' primitive cost are the necessity of costs that make the inventories arrive to the sale or produce-situation. The fix manufacture cost is allocate by the finished good and the work in process, only when the differences between the actual production and the normal capacity of production are small could use actual production to allocate; Variable production overheads allocation is based on the actual production. Inventories are measured at the lower of cost and net realizable value and compare by individual; net realizable value is based on the deduction of estimate selling price and the selling cost.

(i) 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, for 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. The depreciation is computed along with the depreciable amount. The method, the useful life and the residual amount are the same with those of property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

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

(j) Property, plant and equipment

(i) Recognition and measurement

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as 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 shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other profit and losses.

(ii) Reclassification to investment property

The property is reclassified to investment property at its carrying amount when the use of the property changes from internal use to investment use.

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(iii) Subsequent cost

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

(iv) Depreciation

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

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. 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.

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

- 1) Buildings: 4 ~ 51 years
- 2) Machinery: 1 ~6 years
- 3) Other equipment: 1 ~11 years
- 4) Building and equipment constitutes mainly building, mechanical and electrical power equipment and its related facilities. Each such part depreciates based on its useful life.

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

(k) Lease

(i) The Group as lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(ii) The Group as lessee

Operating leases are not recognized in the Group's balance sheet.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Long-term prepaid rents of land leasehold rights (accounted for under other non-current assets) are recognized periodically as rent expenses based on the shorter of the lease term and the statutory period on a straight-line basis.

(I) Intangible assets

(i) 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 the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

- 1) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- 2) Its intention to complete the intangible asset and use or sell it.
- 3) Its ability to use or sell the intangible asset.
- 4) How the intangible asset will generate probable future economic benefits.
- 5) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- 6) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Other intangible assets

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

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(iii) 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.

(iv) Amortization

The amortizable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives of computer software is 1~3 years.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

(m) Impairment – non-derivative financial assets

Non-derivative financial assets except for inventories, deferred tax assets and assets arising from employee benefits are assessed at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group shall estimate the recoverable amount of the asset. 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 Group will have to determine the recoverable amount for the asset's cash-generating unit.

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

The Group 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. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(n) Treasury stock

Repurchased shares are recognized under treasury shares (a contra-equity account) based on its repurchase price (including all directly accountable costs). Gains on disposal of treasury shares should be recognized under Capital Reserve – Treasury Shares Transactions; Losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings. The carrying amount of treasury shares should be calculated using the weighted average different types of repurchase.

During the cancellation of treasury shares, Capital Reserve – Share Premiums and Share Capital should be debited proportionately. Gains on cancellation of treasury shares should be recognized under existing capital reserves arising from similar types of treasury shares; Losses on cancellation of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings.

(o) Revenue

(i) Goods sold

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

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

(ii) Rent Revenue

The rent from investment property is recognize by the straight-line method during the lease period, the rent incentive is part of the whole lease revenue and the recognition of the straight-line method is the reduction of rent revenue. The profit from the rent of investment property is recognize on the rent revenue.

(p) Employee benefits

(i) Defined contribution plans

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

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of the 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. The fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

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

When the benefits of a plan are improved, the expense of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings or other equity. If the amounts recognized in other comprehensive income are transferred to other equity, they shall not be reclassified to profit or loss or recognized in retained earnings in a subsequent period.

Net interest expense and other expenses related to the defined benefit plans are recognized in retained earnings.

The Group 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 and the change in the present value of the defined benefit obligation.

(iii) Termination benefits

The benefits from the Group terminate the employees' hiring contract before normal retirement date or encourage employee to accept paid-off. When the Group already commit the formal terminated contract and ensure that plan is impossible to withdraw, termination benefits need to recognize the expense. When termination benefits have to pay after twelve months, it need to be discounted.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(iv) 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.

(q) Share-based payment

The grant-date fair value of share-based payment awards granted to employees is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards which related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between expected and actual outcomes.

(r) Income taxes

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

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

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

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

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

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities 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 intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

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

(s) Business combination

Goodwill is measured at the consideration transferred less the amounts of the identifiable assets acquired and liabilities assumed (generally at fair value) at the acquisition date. If the amount of net assets acquired and liabilities assumed exceeds the acquisition price, the Group reassesses whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain for the excess.

All transaction costs relating to a business combination are recognized immediately as expenses when incurred, except for the issuance of debt or equity instruments.

The Group shall measure any non controlling interests in the acquiree either at fair value or at the non controlling interest's proportionate share of the acquiree's identifiable net assets if the non controlling interests are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other non controlling interests are evaluated by their fair value or by another basis permitted by the IFRSs endorsed by the FSC.

(t) Earnings (loss) per share

The Group discloses the 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 shareholders of the Company divided by the 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 the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise employee bonuses not yet resolved by the shareholders and approved by the board of directors.

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(u) Operating segments

An operating segment is a component of the Group 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 Group). Operating results of the operating segment are regularly reviewed by the Group'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 standalone financial information.

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

The preparation of the consolidated financial statements in conformity with IFRSs 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.

Management continued to monitor the accounting assumptions, estimates and judgments. Management recognized the changes in the accounting estimates during the period and the impact of the changes in the accounting estimates in the next period.

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

Also, there are no assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

Besides, for those uncertainties due to accounting assumptions and estimations, information about the significant risk of resulting in a material adjustment within the next financial year is stated below:

(a) Inventory valuation

Inventories are supposed to be measured based on the lower of cost or net realizable value. Due to the impact of product life cycle and customized design in electronics industry, which tends to devalue the inventories, the Group evaluates the costs of inventories using the net realizable value. Inventory valuation is based on the demand of the products during the specific period, therefore, the value of inventories may be variable due to the nature of fast-paced industry. Please refer to Note (6)(d) of the consolidated financial statement for inventory valuation.

(b) Evaluation of accounts receivable.

Due to the application for bankruptcy by the overseas client, the management recorded the allowance in full and recognized the bad debt losses.

Please refer to note (6)(c) for valuating accounts receivable.

(c) Business Combination

The business combination has been prepared using the acquisition method, therefore, the management identified the net identifiable assets and recognized them as non-controlling interests at fair value through profit or loss. Please refer to note (6)(e)

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---------------------------------------|--------------------------|------------------------------|
| Cash on hand | \$ 1,009 | 1,044 |
| Checking accounts and demand deposits | 603,876 | 245,176 |
| Time deposits | - | 87,058 |
| | <u>\$ 604,885</u> | <u>333,278</u> |

Please refer to note 6(q) for the interest rate risk and the fair value sensitivity analysis of the financial assets and liabilities of the Group.

(b) Financial assets and liabilities at fair value through profit or loss

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|------------------------------|------------------------------|
| Financial assets at fair value through profit or loss | | |
| Current financial asset at fair value through profit or loss- mutual fund | \$ - | 2,004 |
| Financial assets held for trading | | |
| Non current available-for-sale financial assets- non listed stocks | - | 175,215 |
| | <u>\$ -</u> | <u>177,219</u> |
| Current | <u>\$ -</u> | <u>2,004</u> |
| Non-current | <u>\$ -</u> | <u>175,219</u> |
| Financial liabilities as at fair value through profit and loss | | |
| Derivative instruments not used for hedging(recorded in other payables) | <u>\$ 153</u> | <u>-</u> |

Please refer to note 6(q) for the exposure to interest rate risk.

(i) Derivative instruments not used for hedging

The Company uses derivative instruments to hedge foreign currency risk the Company is exposed to arising from its operating, activities. The Company held the following derivative instruments not designated as hedging instruments presented as held-for-trading financial assets as of December 31, 2016 (foreign currencies were expressed in thousands) :

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

| | December 31, 2016 | | |
|---|-----------------------------------|------------|---------------------|
| | Contract amount (in thousands) | Currency | Maturity date |
| Derivative financial liabilities | | | |
| Forward exchange contract: | | | |
| Forward exchange sold | USD 600 | USD to TWD | 2017.1.16~2017.1.26 |

(ii) Sensitivity Analysis-Risk of equity price

When the price of equity securities changes over 5% in the report date, other comprehensive income increased \$0 and decrease \$8,761 in 2016 and 2015. The two period base on the same-based and assume other variety factors unchanged.

(iii) Information of foreign investment

The related information of significant foreign currency equity instruments and debt instruments as follow:

| | December 31, 2016 | | | December 31, 2015 | | |
|-----|---------------------|------------------|-----|---------------------|------------------|---------|
| | Foreign currency | Exchange rate | NTD | Foreign currency | Exchange rate | NTD |
| USD | \$ - | 32.250 | - | 5,338 | 32.83 | 175,215 |

(c) Notes and accounts receivable and other receivables

| | December 31, 2016 | December 31, 2015 |
|--|----------------------|----------------------|
| Notes receivable | \$ - | - |
| Accounts receivable | 1,184,583 | 885,481 |
| Other receivables | 13,693 | 2,539 |
| | 1,198,276 | 888,020 |
| Less: allowance for uncollectible accounts | (25,523) | (4,358) |
| | <u>\$ 1,172,753</u> | <u>883,662</u> |
| Notes and account receivable | <u>\$ 1,159,060</u> | <u>881,123</u> |
| Other receivables – current | <u>\$ 13,693</u> | <u>2,539</u> |

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

- (i) The aging analysis of accounts receivable and other receivables which were past due but not impaired were as follows:

| | December 31, 2016 | December 31, 2015 |
|----------------------|------------------------------|------------------------------|
| Past due 0-30days | \$ 4,964 | 8,333 |
| Past due 31-150 days | 953 | 6,019 |
| Past over 150 days | 313 | 765 |
| | <u>\$ 6,230</u> | <u>15,117</u> |

Overseas client have been process the bankruptcy application on November, 2016, the management recorded the allowance in full and recognized \$20,669 thousands for the bad debt losses.

- (ii) The changes of allowance for notes and accounts receivable and other receivables were as follow :

| | Loss from Individual- Estimated | Loss from Group- Estimated | Total |
|---------------------------------|--|---|----------------------|
| Balance on January 1, 2016 | \$ 3,591 | 767 | 4,358 |
| Acquired from the merge | - | 20,469 | 20,469 |
| Impairment loss recognized | 16,497 | - | 16,497 |
| Reversal of impairment loss | - | (15,060) | (15,060) |
| Influence from foreign exchange | - | (741) | (741) |
| Balance on December 31, 2016 | <u>\$ 20,088</u> | <u>5,435</u> | <u>25,523</u> |
| Balance on January 1, 2015 | \$ - | 846 | 846 |
| Impairment loss recognized | 3,591 | - | 3,591 |
| Reversal of impairment loss | - | (79) | (79) |
| Balance on December 31, 2015 | <u>\$ 3,591</u> | <u>767</u> | <u>4,358</u> |

Allowance doubtful debts is based on the historical payment behavior and the analysis of customer's credit rating. The group believes that the doubtful debts past due over 30 Days still receivable.

Due to December 31, 2016 and 2015, the group do not pledge account receivable as collateral.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(d) Inventories

| | December 31, 2016 | December 31, 2015 |
|------------------|------------------------------|------------------------------|
| Raw materials | \$ 291,120 | 207,815 |
| Work in progress | 132,692 | 131,140 |
| Finished goods | 206,122 | 161,926 |
| | \$ 629,934 | 500,881 |

The Group Composition details of operating cost on December 31, 2016 and 2015 as follow:

| | December 31, 2016 | December 31, 2015 |
|---|------------------------------|------------------------------|
| Cost of good sold | \$ 3,565,434 | 2,718,270 |
| Revenue from sale of scraps | (22,987) | (21,518) |
| Inventory valuation and obsolescence losses | (35,466) | 4,550 |
| Loss on scrapping of inventory | 159,760 | 224,974 |
| Loss and gain on taking inventory | - | (141) |
| | \$ 3,666,741 | 2,926,135 |

Due to December 31, 2016 and 2015, the Group do not pledge inventory as collateral.

(e) CHENMING ELECTRONIC (NINGBO)

Considering the future development strategy, on March 23, 2016, the board of directors decided to purchase 42.7% shares of CHENMING ELECTRONIC (NINGBO) amounting to \$203,175 (US\$6,300), in which the contract was signed on March 27; 2016. The Group increased its shareholding from 9.3% to 52% and acquired the controlling right of CHENMING ELECTRONIC (NINGBO) in April 2016. As of December 31, 2016, the Company still has a remaining balance of \$74,175 (USD \$2,300), which was recognized as other payables-related parties. According to the share transaction agreement, the remaining balance will have to be paid periodically if CHENMING ELECTRONIC (NINGBO) has reached a specific earning target. Otherwise, the Company has the right to cancel or revise the contract. Recognized assets and liabilities were as follow:

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

| | | |
|---|----|-----------------------|
| Cash and cash equivalents | \$ | 164,762 |
| Notes receivable and net account receivable | | 363,587 |
| Inventories | | 83,261 |
| Other financial assets-current | | 1,098 |
| Other current assets | | 19,463 |
| Property, Plant and Equipment | | 252,979 |
| Long-term prepayment rent | | 118,032 |
| Notes and account payable | | (170,787) |
| Other payables | | (104,517) |
| Identifiable fair value of net assets | \$ | <u><u>727,878</u></u> |
| | | |
| Bargain purchase profit from recognized acquisition | | |
| Transfer pricing | \$ | 203,175 |
| Add: non-controlling interest | | 349,381 |
| Add: fair value of acquired company | | 175,215 |
| Less: Recognized fair value of net assets | | <u>727,878</u> |
| Bargain purchase profit | \$ | <u><u>(107)</u></u> |

CHENMING ELECTRONIC (NINGBO) contributed the operating revenue and after-tax profit to the Group amounting to \$558,151 and \$121,360, respectively, since the acquisition date, which was on April 1, 2016. However, if the management assumed that the acquisition occur on January 1, 2016, it would have estimated the net operating revenue and net after-taxed profit to be \$983,757 and \$27,203 in Q1, respectively, wherein the fair value would have been the same to that of April, 1, 2016.

(f) Property, Plant and Equipment

| | | <u>Land</u> | <u>Property</u> | <u>Machinery and Equipment</u> | <u>Office equipment and others</u> | <u>Total</u> |
|-------------------------------------|----|-----------------------|-----------------------|--|--|-------------------------|
| Cost | | | | | | |
| Balance on January 1, 2016 | \$ | 210,897 | 681,287 | 592,696 | 119,139 | 1,604,019 |
| Acquired from merge | | - | 203,230 | 42,475 | 7,274 | 252,979 |
| Additions | | - | - | 135,796 | 31,734 | 167,530 |
| Disposal | | - | (33,778) | (374,443) | (31,118) | (439,339) |
| Reclassifications | | - | - | 8,455 | 2,975 | 11,430 |
| Effect of changes in exchange rates | | - | (15,116) | (4,646) | (536) | (20,298) |
| Balance on December 31, 2016 | \$ | <u><u>210,897</u></u> | <u><u>835,623</u></u> | <u><u>400,333</u></u> | <u><u>129,468</u></u> | <u><u>1,576,321</u></u> |

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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| | <u>Land</u> | <u>Property</u> | <u>Machinery and Equipment</u> | <u>Office equipment and others</u> | <u>Total</u> |
|-------------------------------------|-------------------|-----------------|--|--|------------------|
| Balance on January 1, 2015 | \$ 210,897 | 694,308 | 670,366 | 77,380 | 1,652,951 |
| Additions | - | - | 103,268 | 66,979 | 170,247 |
| Reclassifications | - | - | 15,752 | 578 | 16,330 |
| Disposal | - | (13,021) | (196,690) | (25,798) | (235,509) |
| Balance on December 31, 2015 | <u>\$ 210,897</u> | <u>681,287</u> | <u>592,696</u> | <u>119,139</u> | <u>1,604,019</u> |
| Depreciation | | | | | |
| Balance on January 1, 2016 | \$ - | 210,693 | 309,316 | 40,384 | 560,393 |
| Depreciation of the period | - | 36,389 | 190,658 | 36,735 | 263,782 |
| Disposal | - | (33,705) | (366,698) | (27,399) | (427,802) |
| Effect of changes in exchange rates | - | (525) | (446) | (61) | (1,032) |
| Balance on December 31, 2016 | <u>\$ -</u> | <u>212,852</u> | <u>132,830</u> | <u>49,659</u> | <u>395,341</u> |
| Balance on January 1, 2015 | \$ - | 193,965 | 293,016 | 38,528 | 525,509 |
| Depreciation of the period | - | 29,664 | 203,541 | 26,194 | 259,399 |
| Disposal | - | (12,936) | (187,241) | (24,338) | (224,515) |
| Balance on December 31, 2015 | <u>\$ -</u> | <u>210,693</u> | <u>309,316</u> | <u>40,384</u> | <u>560,393</u> |
| Book Value | | | | | |
| Balance on December 31, 2016 | <u>\$ 210,897</u> | <u>622,771</u> | <u>267,503</u> | <u>79,809</u> | <u>1,180,980</u> |
| Balance on December 31, 2015 | <u>\$ 210,897</u> | <u>470,594</u> | <u>283,380</u> | <u>78,755</u> | <u>1,043,626</u> |

The Group bought land leasehold right and buildings from its related parties in July 2007. Since there was only a part of the contract that had yet to be realized, the related parties agreed that the Group need not have to pay for the remaining amount. As of December 31, 2016, the transferring of the deed has not yet been completed. However, the land leasehold and buildings mentioned above were already deemed as properties of the Group according to the contract.

As of December 31, 2016 and 2015 the Group had provided parts of the property, plant and equipment at collateral for its long-term loans and credit lines. Please refer to notes 8 for details.

(g) Investment Property

| | <u>Land</u> | <u>Properties</u> | <u>Total</u> |
|------------------------------|-------------------|-------------------|----------------|
| Cost | | | |
| Balance on January 1, 2016 | <u>\$ 152,640</u> | <u>63,116</u> | <u>215,756</u> |
| Balance on January 1, 2015 | <u>\$ 152,640</u> | <u>63,116</u> | <u>215,756</u> |
| Depreciation | | | |
| Balance on January 1, 2016 | \$ - | 13,169 | 13,169 |
| Depreciation of the year | - | 1,238 | 1,238 |
| Balance on December 31, 2016 | <u>\$ -</u> | <u>14,407</u> | <u>14,407</u> |
| Balance on January 1, 2015 | \$ - | 11,932 | 11,932 |
| Depreciation of the year | - | 1,237 | 1,237 |
| Balance on December 31, 2015 | <u>\$ -</u> | <u>13,169</u> | <u>13,169</u> |

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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| | <u>Land</u> | <u>Properties</u> | <u>Total</u> |
|------------------------------|-------------------|-------------------|-------------------|
| Book Value | | | |
| Balance on December 31, 2016 | \$ <u>152,640</u> | <u>48,709</u> | <u>201,349</u> |
| Balance on December 31, 2015 | \$ <u>152,640</u> | <u>49,947</u> | <u>202,587</u> |
| Fair Value | | | |
| Balance on December 31, 2016 | | | \$ <u>397,962</u> |
| Balance on December 31, 2015 | | | \$ <u>441,215</u> |

The Group classify non-operating assets into investment properties, and investment properties was evaluated by market value. As of December 31, 2016 and 2015, the Group pledge investment properties as collateral. (refer to note (8))

(h) Short-term loan

The short-term loans were summarized as follows:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|------------------------------|------------------------------|
| Credit Loan | \$ <u>140,000</u> | <u>150,000</u> |
| Unused credit line for short-term loans | \$ <u>643,400</u> | <u>663,675</u> |
| Annual interest rates | <u>1.0%~1.5%</u> | <u>1.0%~1.5%</u> |

(i) The information of rate, foreign currency and liquidity risk exposure please refer to note 6 (q).

(i) Long-term loans

The long-term loans were summarized as follows:

| | <u>December 31, 2016</u> | | | |
|-----------------------------------|--------------------------|------------------------------------|-------------------|-------------------|
| | <u>Currency</u> | <u>Range of interest rates</u> | <u>Expiration</u> | <u>Amount</u> |
| Secured bank loans | TWD | <u>1.0%~2.0%</u> | 2018~2025 | \$ 168,000 |
| Unsecured bank loans | TWD | <u>1.0%~1.7%</u> | 2017~2018 | 70,000 |
| Less: current portion | | | | - |
| Total | | | | \$ <u>238,000</u> |
| Current | | | | \$ - |
| Non-current | | | | <u>238,000</u> |
| Total | | | | \$ <u>238,000</u> |
| Unused for long-term credit lines | | | | \$ <u>270,000</u> |

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

| December 31, 2015 | | | | |
|-----------------------------------|----------|----------------------------|------------|-------------------|
| | Currency | Range of interest rates | Expiration | Amount |
| Secured bank loans | TWD | <u>1.5%~2.2%</u> | 2016~2025 | \$ 216,000 |
| Unsecured bank loans | TWD | <u>1.5%~1.9%</u> | 2016~2018 | 100,000 |
| Less: current portion | | | | <u>(36,000)</u> |
| Total | | | | <u>\$ 280,000</u> |
| Current | | | | \$ 36,000 |
| Non-current | | | | <u>280,000</u> |
| Total | | | | <u>\$ 316,000</u> |
| Unused for long-term credit lines | | | | <u>\$ 270,000</u> |

- (i) The main management are the guarantor of long-term loan, Please refer to note 7.
- (ii) The information of annual interest rate and liquidity risk can refer to note 6(q).
- (iii) As of December 31, 2016 and 2015, the Group provided part of its assets as collateral for long-term loans. Please refer to note 8 for details.
- (j) Operating lease
- (i) The Group as leasee

The book value of land leasehold right, case-processing factory located at NO.442 ZhenAN Middle Road Chang AN Town DongGuan City Guangdong, China, were as follows.

| | December 31, 2016 | December 31, 2015 | Lease period |
|--------------------------|----------------------|----------------------|-----------------|
| Acquired in July,2001 | \$ 135,876 | 140,908 | 2001.07~2146.07 |
| Acquired in October,2007 | <u>27,786</u> | <u>28,815</u> | 2007.10~2146.07 |
| | <u>\$ 163,662</u> | <u>169,723</u> | |

Due to the business combination, the Group acquired the land leasehold rights, case-processing factory located at Ningbo City, China. The land leasehold rights recorded as long-term prepaid rents. The details were as follows:

| | December 31, 2016 | December 31, 2015 | Lease period |
|------------------------------------|----------------------|----------------------|----------------|
| Acquired from merge in March, 2016 | \$ <u>106,347</u> | <u>-</u> | 2001.12~2144.5 |

The operating lease expense were \$7,392 and 6,062 in 2016 and 2015.

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) The Group as lessor

The Group rents its investment property through operating lease, which refer to note 6 (g). Non-cancellable operating lease rentals that were receivable were as follows:

| | December 31, 2016 | December 31, 2015 |
|----------------------------|------------------------------|------------------------------|
| Less than one year | \$ 14,092 | 6,383 |
| Between two and five years | 50,336 | - |
| | \$ 64,428 | 6,383 |

The lease revenue from investment property are \$14,103 and \$12,950 in 2016 and 2015, respectively. Moreover, the relative depreciation expense are \$1,238 and \$1,237, respectively.

(k) Employee benefits

(i) Defined benefit plans

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

| | December 31, 2016 | December 31, 2015 |
|--|------------------------------|------------------------------|
| Present value of defined benefit obligations | \$ 35,458 | 31,278 |
| Fair value of plan assets | (60,192) | (59,769) |
| Recognized liabilities(assets) for defined benefit obligations | \$ (24,734) | (28,491) |

The Group makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for its employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on the years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

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

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$60,192 at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the Group were as follows:

| | <u>2016</u> | <u>2015</u> |
|---|------------------|---------------|
| Defined benefit obligation at January 1 | \$ 31,278 | 30,715 |
| Current service costs and interest | 668 | 726 |
| Remeasurement in net defined benefit liability (assets) | <u>3,512</u> | <u>(163)</u> |
| Defined benefit obligation at December 31 | <u>\$ 35,458</u> | <u>30,715</u> |

3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Group were as follows:

| | <u>2016</u> | <u>2015</u> |
|---|--------------------|-----------------|
| Fair value of plan assets at January 1 | \$ (59,769) | (58,211) |
| Expected return on plan assets | (1,121) | (1,164) |
| Remeasurement in net defined benefit liability (assets) | <u>698</u> | <u>(394)</u> |
| Fair value of plan assets at December 31 | <u>\$ (60,192)</u> | <u>(59,769)</u> |
| Actual return on plan assets | <u>\$ (423)</u> | <u>(1,558)</u> |

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group were as follows:

| | <u>2016</u> | <u>2015</u> |
|--|-----------------|----------------|
| Service cost | \$ 82 | 112 |
| Interest cost | 586 | 614 |
| Expected rate of return on plan assets | <u>(1,121)</u> | <u>(1,164)</u> |
| | <u>\$ (453)</u> | <u>(437)</u> |
| Management expense | <u>\$ (453)</u> | <u>(438)</u> |

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

- 5) Remeasurement in net defined benefit liability (asset) recognized in other comprehensive income

The Group's remeasurement in net defined benefit liability (assets) recognized in other comprehensive income for the years ended December 31, 2016 and 2015 were as follows:

| | <u>2016</u> | <u>2015</u> |
|----------------------------------|-----------------|--------------|
| Cumulative amount at January 1 | \$ 1,134 | 1,691 |
| Recognized during the period | <u>4,210</u> | <u>(557)</u> |
| Cumulative amount at December 31 | <u>\$ 5,344</u> | <u>1,691</u> |

- 6) Actuarial assumptions

- a) The following are the Company's principal actuarial assumptions:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---------------------------------|------------------------------|------------------------------|
| Discount rate as of December 31 | 1.375 % | 1.88 % |
| Future salary increasing rate | 1.00 % | 1.00 % |

The discount rate was based on the life of the related obligation, and was used as a reference to the return rate on bonds issued by the government, which was declared by GreTai Securities Market.

The department of labor from Taipei City Government has approved the Group to suspend the contribution of pension in 2016 and 2015.

The expected allocation payment made by the Group to the defined benefit plans for the one year period after the reporting date was \$0.

The weighted-average duration of the defined benefit obligation is 18.22 years

- 7) Sensitivity Analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

| | <u>Influences of defined benefit obligation</u> | |
|-------------------------------|---|------------------------|
| | <u>Increased 0.25%</u> | <u>Decreased 0.25%</u> |
| December 31, 2016 | | |
| Discount rate | (1,381) | 1,450 |
| Future salary increasing rate | 1,435 | (1,374) |

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

| | <u>Influences of defined benefit obligation</u> | |
|-------------------------------|---|------------------------|
| | <u>Increased 0.25%</u> | <u>Decreased 0.25%</u> |
| December 31, 2015 | | |
| Discount rate | (1,282) | 1,340 |
| Future salary increasing rate | 1,335 | (1,280) |

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions remain constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for both periods.

(i) Defined contribution plans

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

The Company recognized the pension costs under the defined contribution method amounting to \$62,944 and \$48,598 for the years ended December 31, 2016 and 2015, respectively.

(l) Income taxes

(i) Income tax expenses

1) The amount of income tax for 2016 and 2015 was as follows:

| | <u>2016</u> | <u>2015</u> |
|--|------------------|----------------|
| Current tax expense | | |
| Recognized during the period | \$ 24,442 | 23,197 |
| 10% surtax on unappropriated earnings | - | 10,460 |
| Adjustment to the prior period | <u>1,588</u> | <u>(738)</u> |
| | <u>26,030</u> | <u>32,919</u> |
| Deferred tax expense | | |
| Recognition and reversal of temporary differences | 14,464 | (4,394) |
| Movement of unrecognized deductible temporary difference | <u>1,792</u> | <u>(2,566)</u> |
| | <u>16,256</u> | <u>(6,960)</u> |
| Income tax expense | <u>\$ 42,286</u> | <u>25,959</u> |

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

- 2) The amount of income tax recognized in other comprehensive income for 2016 and 2015 was as follows:

| | 2016 | 2015 |
|---|----------------------|------------------|
| Items that may not be reclassified subsequently to profit or loss | | |
| Remeasurement in defined benefit plan | \$ <u>193</u> | <u>95</u> |

- 3) Reconciliation of income tax and profit before tax for 2016 and 2015 is as follows:

| | 2016 | 2015 |
|--|-------------------------|----------------------|
| Profit excluding income tax | \$ <u>298,339</u> | <u>95,531</u> |
| Income tax using the Company's domestic tax rate | 40,815 | 17,274 |
| Under (over) provision in prior periods | 1,588 | (738) |
| 10% surtax on unappropriated earnings | - | 10,460 |
| Others | <u>(117)</u> | <u>(1,037)</u> |
| | <u>\$ 42,286</u> | <u>25,959</u> |

(ii) Deferred tax assets and liabilities

- 1) Unrecognized deferred tax liabilities: None
- 2) Unrecognized deferred tax assets:

Details of unrecognized deferred tax assets as follow:

| | December 31, 2016 | December 31, 2015 |
|------------------------------------|------------------------------|------------------------------|
| Unrecognized temporary differences | \$ 1,792 | - |
| Unrecognized tax losses | <u>71,126</u> | <u>34,287</u> |
| | <u>\$ 72,918</u> | <u>34,287</u> |

According to the Income Tax Act, the loss in the previous five years can be compensated by using the profits incurred by the Company in the current year; and the income tax shall be evaluated by using the net amount. Dongguan CHENMING Electronic Co., Ltd and CHENMING ELECTRONIC (NINGBO) did not have sufficient taxable profit to cover for its temporary differences, therefore, they cannot be classified to deferred tax assets.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

As of December 31, 2016, tax loss from unrecognized deferred tax asset in Dongguan Chenming Electronic Co., Ltd:

| <u>Year of loss</u> | <u>Unutilized business loss</u> | <u>Expiration date of the deficit</u> |
|---------------------|-------------------------------------|---|
| 2014 | \$ <u><u>61,954</u></u> | 2019 |

As of Dec 31, 2016, tax loss from unrecognized deferred tax asset in CHENMING ELECTRONIC (NINGBO):

| <u>Year of loss</u> | <u>Unutilized business loss</u> | <u>Expiration date of the deficit</u> |
|---------------------|-------------------------------------|---|
| 2012 | \$ 99,127 | 2017 |
| 2013 | <u>123,421</u> | 2018 |
| | \$ <u><u>222,548</u></u> | |

3) Recognized deferred tax assets and liabilities

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

| | <u>Defined benefit Plans</u> | <u>Others</u> | <u>Total</u> |
|--|--------------------------------------|---------------------|---------------------|
| Deferred tax liabilities: | | | |
| Balance on January 1, 2016 | \$ 4,423 | 1,640 | 6,063 |
| Recognized in (profit) or loss | 270 | 1,077 | 1,347 |
| Recognized in other comprehensive income | (193) | - | (193) |
| Balance on December 31, 2016 | \$ <u><u>4,500</u></u> | <u><u>2,717</u></u> | <u><u>7,217</u></u> |
| Balance on January 1, 2015 | \$ 4,255 | 6,081 | 10,336 |
| Recognized in (profit) or loss | 73 | (4,441) | (4,368) |
| Recognized in other comprehensive income | 95 | - | 95 |
| Balance on December 31, 2015 | \$ <u><u>4,423</u></u> | <u><u>1,640</u></u> | <u><u>6,063</u></u> |

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

| | Exchange differences on translation of foreign financial statements | Others | Total |
|--------------------------------|--|-----------------|-----------------|
| Deferred tax assets: | | | |
| Balance on January 1, 2016 | \$ - | 16,157 | 16,157 |
| Recognized in profit or (loss) | <u>-</u> | <u>(14,909)</u> | <u>(14,909)</u> |
| Balance on December 31, 2016 | <u>\$ -</u> | <u>1,248</u> | <u>1,248</u> |
| Balance on January 1, 2015 | \$ - | 13,565 | 13,565 |
| Recognized in profit or (loss) | <u>-</u> | <u>2,592</u> | <u>2,592</u> |
| Balance on December 31, 2015 | <u>\$ -</u> | <u>16,157</u> | <u>16,157</u> |

- (iii) The ROC tax authorities have examined the Company's income tax returns through 2014.
- (iv) Information related to the unappropriated earnings and tax deduction ratio was summarized below:

| | December 31, 2016 | December 31, 2015 |
|---|--------------------------------|------------------------------|
| Unappropriated earnings of 1998 and after | <u>\$ 302,109</u> | <u>205,621</u> |
| Balance of imputation credit account | <u>\$ 67,497</u> | <u>40,856</u> |
| | <u>2016 (Estimated)</u> | <u>2015 (Actual)</u> |
| Creditable ratio for earnings distribution to ROC residents | <u>25.28 %</u> | <u>29.31 %</u> |

The above stated information was prepared in accordance with the information letter No.10204562810 announced by the Ministry of Finance of R.O.C. on October 17, 2013.

(m) Capital and other equities

(i) Ordinary shares

The Company's board of director decided to retire its treasury stock of 2,065 thousand shares on August. 5, 2015, the effective date was August 7, 2015, and the registration process was completed.

The Company's board of director decided to retire its treasury stock of 8,000 thousand shares on August 10, 2016, the effective date was August 11, 2016, and the registration process was completed.

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

As of December 31, 2016 and 2015, the authorized common stocks were \$2,472,000 with a par value of 10 New Taiwan dollars per share, and of which \$169,935 and 177,935 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

(ii) Capital surplus

The balances of capital surplus as of December 31, 2016 and 2015, were as follows:

| | December 31, 2016 | December 31, 2015 |
|----------------------------|------------------------------|------------------------------|
| Additional paid-in capital | \$ 14,722 | 15,415 |

The company retire its treasury stock and reduced the capital surplus \$693 and \$179 separately in 2016 and 2015.

In accordance with the ROC Company Act, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10 percent of the actual share capital amount.

(iii) Retained Earning

Based on the Group's articles of incorporation in June 17, 2016, 10% of annual net income after covering the accumulated deficit, if any, must be set up as a legal reserve. The remaining balance after special reserves that are appropriated in accordance with SFB regulations, if any, shall distribute prior year's un-distribution by board of shareholders. The Group should consider financial, business and operating factors to decide the distribution of earnings; which can be distributed by cash dividends or share dividends. Earning distribution should be cash dividends as priority, and the cash dividends cannot be lower than 10% of the total cash and stock dividends.

The Company's industry is currently in a gentle growth phase. Consider long-term financial planning and funding demand, the company use balance and stable dividend strategy; After preserve enough accommodation fund, the remain earnings will be distributed by cans dividend. The amount of cash dividends should not be lower than 10% of the total dividends.

1) Legal reserve

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

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

2) Special reserve

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

3) Earnings distribution

According to the shareholders' meeting held on June 17, 2016, the dividend amount of shareholders was \$53,381 by cash.

According to the shareholders' meeting held on June 11, 2015, in order to compensate the loss, the Company did not distribute employee and directors' remuneration. The final meeting result was same with the estimation of financial statement in December 31, 2014.

The related information about employee, bonuses and directors' and supervisors' remuneration in 2014 can be accessed from the Market Observation Post system after the stockholder's meeting for approval.

(iv) Treasury stock

Pursuant to Article 28-2 of the Securities and Exchange Act, in order to maintain the Company's credit and stock owners equity, the Company purchased treasury stock.

Movement of treasury share in 2016 and 2015

| | For the years ended December 31 | | | |
|------------------------|--|---------------|------------------------------|---------------|
| | 2016 | | 2015 | |
| | Share (thousands) | Amount | Share (thousands) | Amount |
| Balance on January 1 | \$ - | - | - | - |
| Additional | 80,000 | 117,651 | 2,065 | 42,798 |
| Retire treasury stock | (80,000) | (117,651) | (2,065) | (42,798) |
| Balance on December 31 | \$ - | - | - | - |

Pursuant to the Securities and Exchange Act, the number of treasury shares purchased cannot exceed 10% of the number of shares issued. The total purchase cost cannot exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus. The shares that the company bought for transferring to employees should be transferred within three years, if not, the shares would become non-public shares and be written down. Furthermore, treasury shares can't be pledge as collateral and do not have the obligation of stock holders.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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(n) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share at December 31, 2016 and 2015 were calculated as follows:

| | 2016 | 2015 |
|--|-------------------|----------------|
| Basic earnings per share | | |
| Profit attributable to ordinary shareholders of the Company | \$ <u>197,801</u> | <u>69,572</u> |
| Weighted-average number of ordinary shares | <u>173,858</u> | <u>178,822</u> |
| Diluted earnings per share: | | |
| Profit attributable to ordinary shareholder of the Company (after adjusted the influence of potential ordinary shares) | \$ <u>197,801</u> | <u>69,572</u> |
| Weighted-average number of ordinary shares with potential influence of ordinary shares | | |
| Weighted-average number of ordinary shares | 173,858 | 178,822 |
| Effect of employee stock remuneration | <u>549</u> | <u>373</u> |
| Weighted-average number of ordinary shares(after adjusted the influence of potential ordinary shares) | <u>174,407</u> | <u>179,195</u> |

(o) Revenue

| | 2016 | 2015 |
|--------------------------|---------------------|------------------|
| Computer and server case | \$ 2,903,166 | 1,669,316 |
| Mobile components | 1,114,656 | 1,332,426 |
| Mold revenue | <u>256,963</u> | <u>240,168</u> |
| | <u>\$ 4,274,785</u> | <u>3,241,910</u> |

(p) Employee bonuses, directors' and supervisor's remuneration

The Group's articles of incorporation, which were authorized by the board of directors but has yet to be determined by the stockholders, require that earnings shall first be offset against any deficit, then, no less than 2% will be distributed as employee remuneration and a maximum of 2% will be allocated as directors' and supervisors' remuneration. Employees who are entitled to receive the above mentioned employee remuneration, in shares or cash, include the employees of the subsidiaries of the Group who meet certain specific requirements.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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For the year ended December 31, 2016 and 2015, the Company estimated its employee remuneration amounting to 8,000 and 6,000, and directors' and supervisors' remuneration amounting to both 1,500 respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2016 and 2015. If remuneration to employees is resolved to be distributed in stock, the number of shares is determined by dividing the amount of remuneration by the closing price of the shares (ignoring ex-dividend effect) on the day preceding the board of directors' meeting. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions in 2016 and 2015.

(q) Financial Instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) Concentration to credit risk

The customers of the Group are mainly high-tech companies, account receivable have 55% and 71% are composed by five clients in December 31, 2016 and 2015. Thus, the company has concentration to credit risk situation.

(ii) Liquidity Risk

The following table shows the contractual maturities of financial liabilities, excluding estimated interest payments:

| | <u>Amount</u> | <u>Within a year</u> | <u>1 ~ 2 years</u> | <u>Over 2 years</u> |
|---|------------------|--------------------------|--------------------|-------------------------|
| December 31, 2016 | | | | |
| Secured loans | \$ 168,000 | - | 72,000 | 96,000 |
| Unsecured loans | 210,000 | 140,000 | 70,000 | - |
| Notes and accounts payable | 809,110 | 809,110 | - | - |
| Other payables (including relative parties) | 152,373 | 152,373 | - | - |
| Guarantee deposits | 9,552 | - | - | - |
| Other forward exchange contracts | 153 | | | |
| Outflow | - | (19,350) | - | - |
| Inflow | - | 19,181 | - | - |
| | <u>1,349,188</u> | <u>1,101,314</u> | <u>142,000</u> | <u>96,000</u> |

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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| | <u>Amount</u> | <u>Within a year</u> | <u>1 ~ 2 years</u> | <u>Over 2 years</u> |
|--|---------------------|--------------------------|--------------------|-------------------------|
| December 31, 2015 | | | | |
| Secured loans | \$ 216,000 | 16,000 | 28,000 | 172,000 |
| Unsecured loans | 250,000 | 170,000 | 70,000 | 10,000 |
| Accounts payable (including relative parties) | 500,865 | 500,865 | - | - |
| Other payables | 93,680 | 93,680 | - | - |
| Guarantee deposits | 9,362 | - | - | 9,362 |
| | <u>\$ 1,069,907</u> | <u>780,545</u> | <u>98,000</u> | <u>191,362</u> |

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

(iii) Currency risk

1) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follow:

| | <u>December 31, 2016</u> | | | <u>December 31, 2015</u> | | |
|-----------------------|-----------------------------|--------------------------|------------|-----------------------------|--------------------------|------------|
| | <u>Foreign currency</u> | <u>Exchange rate</u> | <u>TWD</u> | <u>Foreign currency</u> | <u>Exchange rate</u> | <u>TWD</u> |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD to TWD | \$ 31,708 | 32.250 | 1,022,583 | 27,201 | 32.83 | 892,873 |
| | 12,548 | 6.937 | 404,673 | - | | - |
| CNY to TWD | 65,100 | 4.617 | 300,567 | 58,872 | 4.995 | 294,066 |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| USD to TWD | 4,769 | 32.250 | 153,800 | 4,593 | 32.825 | 150,765 |
| | 1,803 | 6.937 | 58,147 | - | - | - |
| CNY to TWD | 112,427 | 4.617 | 519,075 | 86,493 | 4.995 | 432,033 |

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, account receivable, other receivables, accounts payable, and other payables that are denominated in foreign currency.

(Continued)

CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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A weakening (strengthening) 5% of each major foreign currency against Group entities' functional currency as of December 31, 2016 and 2015 would have affected the net profit before tax as followings:

| | <u>December 31,</u> <u>2016</u> | <u>December 31,</u> <u>2015</u> |
|-----------------------|------------------------------------|------------------------------------|
| USD (against the TWD) | | |
| Strengthening 5% | \$ 43,439 | 37,105 |
| Weakening 5% | (43,439) | (37,105) |
| USD (against the CNY) | | |
| Strengthening 5% | 17,326 | - |
| Weakening 5% | (17,326) | - |
| CNY (against the TWD) | | |
| Strengthening 5% | (10,925) | (6,898) |
| Weakening 5% | 10,925 | 6,898 |

3) Exchange gains and losses of monetary items

Foreign exchange profit or loss (including realized and unrealized) as follow:

| | <u>2016</u> | | <u>2015</u> | |
|-----|--|---------------------|--|---------------------|
| | <u>Exchange</u> <u>profit(loss)</u> | <u>Average rate</u> | <u>Exchange</u> <u>profit(loss)</u> | <u>Average rate</u> |
| TWD | \$ 4,377 | - | 60,350 | - |
| CNY | 5,918 | 4.782 | - | - |

(iv) Interest Rate analysis

The details of financial assets and liabilities exposed to interest rate risk were as follows:

| | <u>Carrying amount</u> | |
|----------------------------|------------------------------------|------------------------------------|
| | <u>December 31,</u> <u>2016</u> | <u>December 31,</u> <u>2015</u> |
| Variable rate instruments: | | |
| Financial assets | \$ 603,876 | 332,234 |
| Financial liabilities | 378,000 | 466,000 |

The following sensitivity analysis is based on the risk exposure to interest rate on the derivative and non-derivative financial instruments on the reporting date. Regarding the assets with variable interest rates, the analysis is on the basis of the assumption that the amount of assets outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 0.25% when reporting to management internally, which also represents management of the Group's assessment on the reasonably possible interval of interest rate change.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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If the interest rate had increased or decreased by 0.25%, the net profit before tax would have increased or decrease by \$565 and \$334 for the years ended December 31, 2016 and 2015, respectively, which would be mainly resulted from the bank savings and loans with variable interest rates.

(v) Fair value

1) Procedure of valuation

The Group's accounting policies and disclosure include fair value method on financial assets and financial liabilities. The Group's management is responsible in performing independent test on fair value by using independent source of information to obtain the fair value which is close to the market status. The management also confirms the independence, reliability and matching of the information source, and regularly test the valuation model, update the input and other information, and make necessary adjustment to ensure the output of valuation is reasonable.

2) Fair value hierarchy

The Group uses observable market data to evaluate assets and liabilities when it is possible. The different levels have been defined as follows:

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

3) The kinds of financial instruments and fair value

The fair value of financial assets and liabilities at fair value through profit or loss, derivative financial instruments used for hedging, and available for sale financial assets, are measured on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy are stated below; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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4) Fair value valuation technique of financial instruments not measured at fair value

The Group estimate instruments that are not measured at fair value, by method and presumption as follows:

a) Financial liability with amortized cost evaluation

Fair value measurement is based on the latest quoted price and agreed-upon price if these prices are available in an active market. When market value is unavailable, fair value of financial assets and liabilities are evaluated based on the discounted cash flow of the financial assets and liabilities.

5) Fair value valuation technique of financial instruments measured at fair value

a) Non-derivative financial instruments

Financial instruments trade in active markets are based on quoted market prices. The quoted price of a financial instrument obtained from main exchanges and on-the-run bonds from Taipei Exchange can be used as a basis to determine the fair value of the listed companies' equity instrument and debt instrument of the quoted price in an active market.

If the Group can frequently acquire financial instrument's open quotation from Stock exchange, Brokers, Underwriters, Industrial trade union or Authorities and the price is equal to that of fair market, then that financial instrument has active market value. On the other hand, if the condition above do not achieve, we defined that as non-active market value. Generally, the significant difference of bid-ask spread or the trading volume very small are the index of non-active market.

Except from active market, the Group also acquire its financial instrument value from valuation technic or reference to rival's quotation. The fair value through valuation technic and refer to other essentially prerequisite and similar financial instrument with current fair value, discount cash flow and other valuation method.

The financial instruments from non-active market are evaluated by discount cash flow model, the main assumption is according to time value of money and investment risk to evaluate future cash flow.

b) Derivative financial instruments

Measurement of fair value of derivative instruments is based on the valuation techniques that are generally accepted by the market participants. For instance, discount method or option pricing models. Fair value of forward currency exchange is usually determined by using the forward currency rate.

6) There were no transfers from one level to another in 2015 and 2014.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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- 7) The following table shows the reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy:

| | Equity instruments of non-active quotation |
|--|---|
| Balance on January 1, 2016 | \$ 175,215 |
| Total profit recognize in other comprehensive income | <u>(175,215)</u> |
| Balance on December 31, 2016 | <u>\$ -</u> |
| Balance on January 1, 2015 | \$ 169,561 |
| Total profit recognize in other comprehensive income | <u>5,654</u> |
| Balance on December 31, 2015 | <u><u>\$ 175,215</u></u> |

The above total gains are recognized in unrealized gain (loss) on available-for-sale financial assets, and the asset that the Group held as follow:

| | 2016 | 2015 |
|---|-------------|--------------|
| Total gains recognized: | | |
| In other comprehensive income (recorded as gain on available-for-sale financial assets) | \$ <u>-</u> | <u>5,654</u> |

- 8) The quantified information for significant unobservable inputs (Level 3) used in fair value measurement

The Group's financial instruments that use level 3 inputs to measure the fair values include available-for-sale- financial assets- equity securities.

Most of fair value measurements of the Group which are categorized as equity investment instruments into level 3 have several significant unobservable inputs. Significant unobservable inputs of equity instrument without quoted price are independent of each other.

The quantitative information about significant unobservable inputs was as follows:

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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Significant input of unobservable fair value in Dec 31, 2015 as follow:

| <u>Items</u> | <u>Valuation Technique</u> | <u>Significant input of unobservable</u> | <u>The relative between input and fair value</u> |
|--|----------------------------|---|--|
| Available-for-sale financial assets-equity instrument without quoted price | Discount Cash Flow Method | <ul style="list-style-type: none"> • Forecast annual revenue growth rate (10~12.5% on December 31, 2015) • Long-term pre-tax income (10.8~13.72% on December 31, 2015) • Lack-of-Marketability discount rate (21.5% on December 31, 2015) • Weighted average cost of capital(13.68% on December 31, 2015) | <ul style="list-style-type: none"> • The higher the long-term revenue growth and pre-tax income, the higher the fair value • The higher the WACC and Lack-of-Marketability discount is, the lower the fair value will be |

9) Sensitivity analysis for fair value of financial instruments using level 3 inputs

The Group's fair value measurement on financial instruments is reasonable. However, the measurement would be different if different valuation models or valuation parameters are used. For financial instruments using level 3 inputs, if the valuation parameters changed, the impact on other comprehensive income or loss are as follows:

| <u>December 31, 2016</u> | <u>Input</u> | <u>Variation</u> | <u>Impacts of fair value change on other comprehensive income</u> | |
|-------------------------------------|---------------|------------------|---|-------------------------------|
| | | | <u>Advantageous change</u> | <u>Disadvantageous change</u> |
| Available-for-sale financial assets | Discount rate | 1% | <u>17,119</u> | <u>14,105</u> |

The favorable and unfavorable changes reflect the movement of the fair value, in which the fair value is calculated by using the different unobservable inputs in the valuation technique. The table above shows the effects of one unobservable input, without considering the inter-relationships with another unobservable input for financial instrument, if there are one or more unobservable inputs.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(r) Financial risk management

(i) Briefings

The Group is exposed to the following risks arising from financial instruments :

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

In this note expressed the information on risk exposure and objectives, policies and process of risk measurement and management. For detailed information, please refer to the related notes of each risk.

(ii) Structure of risk management

The financial risks management can be separated into management and operating related financial risks, the risks including credit risk, liquidity risk and market risk. In order to reduce financial risk, the Group dedicate to recognize, evaluate and avoid the uncertainty in the market. The important financial activity need to review by auditors in the broad and the Group have to follow the regulation of financial management and the process of division responsibility.

(iii) Credit risk

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

1) Accounts receivable and other receivables

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, and these limits are reviewed periodically.

The Group constantly evaluate clients' financial situation, if necessary, the company will buy credit guarantee insurance contract. But the company usually won't ask clients offer collateral.

2) Guarantees

As of December 31, 2016 and 2015, the Group do not offer any endorsement and guarantees.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities which be settled by delivering cash or another financial asset. The Group manages and maintains sufficient cash and cash equivalents so as to cope with its operations and liabilities. Make an effort to avoid any unacceptable loss or any harmful on their reputation.

The loans and borrowings from the bank form an important source of liquidity for the Group. Please refer to note 6(h) and note 6(i) for unused short-term and long-term bank facilities as of December 31, 2016 and 2015.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices which will affect the Group'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.

1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the New Taiwan Dollars (TWD) and US Dollars (USD), Chinese Yuan (CNY). The currencies used in these transactions are denominated in TWD, USD, and CNY.

To avoid the fluctuation from foreign exchange, the Group use short-term loan and derivative (including forward exchange agreement) to avoid foreign rate risk. This kind of derivative can help the Group to reduce the influence of foreign currency exchange but can't exclude all the risk.

2) Interest rate risk

The Group borrows funds with variable interest rates, therefore there is risk of cash flows.

3) Other market value risk

The Group is exposed to equity price risk arising from listed stock investments. Since investment of foreign operation is strategy investment, the Group do not plan any hedge in this field.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(s) Capital management

The Group decides the optimized capital by maintain the capital based on the current operating characteristics of the industry, future development, and changes in external environment, to assure there is financial resource and operating plan to support working capital, research and development expense and dividend payment and so on. To maintain a strong capital base, the Group might adjust the stock dividend, issue new share or buy treasury share. The Group also scrutiny the asset-liability ratio regularly to monitor the fund.

Debt-to-equity ratio in December 31, 2016 and 2015 as follow:

| | <u>December 31,</u> <u>2016</u> | <u>December 31,</u> <u>2015</u> |
|----------------------|------------------------------------|------------------------------------|
| Total liabilities | \$ 1,570,914 | 1,206,433 |
| Total asset equity | 4,169,495 | 3,443,189 |
| Debt-to-equity ratio | 38 % | 35 % |

As of December 31, 2016, the capital management method do not change.

(7) Related-party transactions:

(a) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(b) Transaction among other relative parties

(i) The amounts of purchase transactions between the Group and its related parties were as follows:

| | <u>Purchase</u> | | <u>Account payable from relative parties</u> | |
|------------------------|-----------------|-------------|--|------------------------------------|
| | <u>2016</u> | <u>2015</u> | <u>December 31,</u> <u>2016</u> | <u>December 31,</u> <u>2015</u> |
| Other relative parties | \$ - | 8,923 | - | - |

The Group buys certain products manufactured by its related parties. The purchase prices for related parties are similar to those of the third-party vendors, and the collection period for related parties is 60 days.

(ii) Selling products to relative parties

| | <u>Sales</u> | |
|------------------------|---------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| Other relative parties | <u>\$ 351</u> | <u>190</u> |

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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The price and account receivable period are no different between relative parties and general supplier; the open account date is 60 days for relative parties. The account receivable above already have received.

(iii) Lease

The Group rents parts of its office and miscellaneous equipment to its related parties and collects monthly rental from them. Each rental for both years December 31, 2016 and 2015 amounted to \$3,429.

(iv) Technical service contact with relative parties

The technical service expense provided to the Group by its related parties amounted to \$17,431, which was recognized as operating cost. As of December 31, 2016, the Group has already paid off its payment.

(v) Equity trading

Considering future industry strategy, on March 27, 2016, the Group entered into an equity trading agreement with its related parties amounting to \$203,175(USD \$6,300). As of December 31, 2016, the Group has yet to pay the contract amount of \$74,175, which was recognized as other account payment- relative parties. Please refer to note 6(e) for related information.

(vi) Others

The Group has to pay the expenses for its related parties in accordance with the business contract. .As of December 31, 2016 and 2015, the related fees amounted to \$0 and \$556 which were recognized as current other financial assets.

(c) Key management personnel compensation

(i) Key management personnel compensation comprised:

| | <u>2016</u> | <u>2015</u> |
|------------------------------|------------------|---------------|
| Short-term employee benefits | \$ 14,265 | 14,031 |
| Post-employment benefits | 422 | 2,459 |
| | <u>\$ 14,687</u> | <u>16,490</u> |

(ii) Guarantee

The main management are guarantor of the syndication contract, and the amount of syndication are \$238,000 and \$316,000 in December 31, 2016 and 2015.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(8) Pledged assets:

The carrying values of pledged assets were as follows:

| <u>Assets</u> | <u>Subject</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-------------------------------------|--|------------------------------|------------------------------|
| PPE and investment properties- land | Long-term loans and loan within 1 year | \$ 347,804 | 347,804 |
| — properties | Long-term loans and loan within 1 year | 146,032 | 149,607 |
| Other financial asset-current | Customs deposits | 12,359 | - |
| | | <u>\$ 506,195</u> | <u>497,411</u> |

(9) Commitments and contingencies:None**(10) Losses Due to Major Disasters:None****(11) Subsequent Events:None****(12) Other:**

The followings are the summary statement of current period employee benefits, depreciation and amortization expenses by function:

| By function By item | 2016 | | | 2015 | | |
|----------------------------|---------------|--------------------|-----------|---------------|--------------------|---------|
| | Cost of sales | Operating expenses | Total | Cost of sales | Operating expenses | Total |
| Employee benefits | | | | | | |
| Salary | 906,662 | 181,431 | 1,088,093 | 773,851 | 135,913 | 909,764 |
| Labor and health insurance | - | 6,683 | 6,683 | - | 7,463 | 7,463 |
| Pension | 54,193 | 8,298 | 62,491 | 42,652 | 5,508 | 48,160 |
| Others | 25,509 | 14,332 | 39,841 | 21,332 | 4,745 | 26,077 |
| Depreciation | 251,573 | 12,209 | 263,782 | 246,419 | 12,980 | 259,399 |
| Amortization | 737 | 1,652 | 2,389 | 606 | 2,650 | 3,256 |

The depreciation expense, which subtract the depreciation expense from investment properties, are \$1,238 and \$1,237 in 2016 and 2015, and recognized in the subtraction of rent revenue.

(13) Other disclosures:**(a) Information on significant transactions:**

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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(i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

| No | Name of lender | Name of borrower | Account name | Related party | Highest balance of financing to other parties during the period | Ending balance | Actual usage amount during the period | Range of interest rates during the period | Purposes of fund financing for the borrower | Transaction amount for business between two parties | Reasons for short-term financing | Allowance for bad debt | Collateral | | Individual funding loan limits (note 2) | Maximum limit of fund financing (note 1) |
|----|--|---------------------------------------|--|---------------|---|----------------|---------------------------------------|---|---|---|----------------------------------|------------------------|------------|-------|---|--|
| | | | | | | | | | | | | | Item | Value | | |
| 1 | CITY INTERNATIONAL LIMITED | GERSHWIN INTERNATIONAL LIMITED | Accounts receivable due from related parties | Yes | 225,750 (RMB3,052) | 193,500 | 129,000 | 1.1162%~1.63417% | Demand for funding | - | Depending on demand for funding | - | - | - | 1,639,825 (note 1) | 1,639,825 (note 1) |
| 2 | CHENMING ELECTRONIC (NINGBO) CO., LTD. | Dongguan Chenming Electronic Co., Ltd | " | " | 69,255 | 69,255 | 46,170 | 4.5% | " | - | " | - | - | - | 79,159 (note 2) | 79,159 (note 2) |

Note 1 : The total amount of the guarantee provided by the Lender Company shall not exceed hundred percent (100%) of the Lender Company's net worth
Note2 The total amount of the guarantee provided by the Lender Company shall not exceed ten percent (10%) of the Lender Company's net worth
Note3 The transactions have been eliminated in the consolidated financial statement

- (ii) Guarantees and endorsements for other parties:None
- (iii) Securities held as of December 31, 2016 (excluding investment in subsidiaries, associates and joint ventures):None
- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

| Company Name | Counter party | Nature of relationship | 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 | Dongguan Chenming Electronic Co., Ltd | Subsidiaries of GERSHWIN INTERNATIONAL LIMITED | Purchases | 2,412,868 | 99 % | Depending on the demand for funding | Depending on price contract | Depending on the demand for funding | (522,051) | (98)% | Note |
| Dongguan Chenming Electronic Co., Ltd | The Company | Ultimate holding company | (Sale) | (2,412,868) | 71 % | Depending on the demand for funding | Depending on price contract | Depending on the demand for funding | 522,051 | 81 % | " |

Note: The transactions have been eliminated in the consolidated financial statements.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

| Name of company | Counter-party | Nature of relationship | Ending balance | Turnover rate | Overdue | | Amounts received in subsequent period | Allowance for bad debts | |
|---------------------------------------|---------------|------------------------|----------------|---------------|---------|--------------|---------------------------------------|-------------------------|--|
| | | | | | Amount | Action taken | | | |
| Dongguan Chenming Electronic Co., Ltd | The Company | Subsidiaries | 522,051 | 7.00 | - | | 522,051 | - | The transactions have been eliminated in the consolidated financial statement. |

Note1: The recoverd amounts of March 22, 2017

- (ix) Trading in derivative instruments: Please refer to note (6)(b).
- (i) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

| No. | 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 |
| 1 | TOP CITY INTERNATIONAL LIMITED | GERSHWIN INTERNATIONAL LIMITED | 2 | Other current financial assets | 129,000 | Rate 1.1162%~1.63417% | 3.00% |
| 2 | Dongguan Chenming Electronic Co., Ltd | The Company | 1 | Sales | 1,412,868 | The price is based on the fix retio of final sales price, and the credit period is depending on the demand for funding | 56.00% |
| 2 | Dongguan Chenming Electronic Co., Ltd | The Company | 1 | Accounts receivable | 522,051 | | 13.00% |

Note 1: The numbers filled in as follows:

- 1.0 represents the Company.
2. Subsidiaries are sorted in a numerical order starting from 1.

Note 2: Relationship with the transactions labeled as follows:

- 1 represents the transactions from the parent company to its subsidiaries.
- 2 represents the transactions between the subsidiaries and the parent company.
- 3 represents the transactions between subsidiaries.

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
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(b) Information on investees:

The following is the information on investees for the years ended December 31, 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 | | | The highest funding amount in the period (note 3) | Net income (losses) of the investment | Investment income (losses) | Note |
|------------------|---|----------|---|----------------------------|-------------------|---------------------------------|-------------------------|----------------|---|---------------------------------------|---|---------------------|
| | | | | December 31, 2016 | December 31, 2015 | Shares (thousands) | Percentage of ownership | Carrying value | | | | |
| The Company | TOP CITY INTERNATIONAL LIMITED | Samoa | Investment | 1,696,833 | 1,665,073 | 52,148 | 100 % | 1,639,825 | 1,696,833 | 103,607 | 103,607 | Subsidiaries (note) |
| | TOP CITY GERSHWIN INTERNATIONAL LIMITED | Samoa | Computer case and production of relative components | 1,471,994 | 1,471,994 | 45,988 | 100 % | 1,176,195 | 1,471,994 | 37,848 | The profit or loss on investments were recognized by TOP CITY INTERNATIONAL LIMITED | Subsidiaries (note) |
| " | PEAK SHREWD INC | Samoa | Investment | 332,655 | 203,835 | 10,000 | 100 % | 330,731 | 332,655 | 67,481 | " | " |

Note: The transactions have been eliminated in the consolidated financial statement

(c) Information on investment in mainland China:

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

(In Thousands of New Taiwan Dollars)

| Name of investee | Main businesses and products | Total amount of paid-in capital | Method of investment | 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 investment | Percentage of ownership | The highest funding amount in the period (note 3) | Investment income (losses) | Carrying amount as of December 31, 2016 (note 3) | Accumulated remittance of earnings as of December 31, 2016 |
|---------------------------------------|---|--------------------------------------|----------------------|---|-----------------------------|--------|---|---------------------------------------|-------------------------|---|----------------------------|--|--|
| | | | | | Outflow | Inflow | | | | | | | |
| CHENMING ELECTRONIC (NINGBO) CO., LTD | Computer case and production of relative components | 2,080,125 (USD64,500) | note 1 and 7 | 193,500 (USD6,000) | 129,000 (USD4,000) (note 6) | - | 322,500 (USD10,000) | 125,513 | 52 % | 322,500 (USD10,000) | 63,107 % | 411,626 | - |
| Dongguan Chenming Electronic Co. Ltd | " | 934,541 (note 4)(USD28,978) (note 5) | note 1 and 8 | 803,025 (USD24,900) | - | - | 803,025 (USD24,900) | 60,367 | 100 % | 803,025 (USD24,900) | 60,367 % | 800,797 | - |

Note 1: Investment in Mainland China through existing company at third region

(ii) Limitation on investment in Mainland China:

| Company Name | Accumulated Investment in Mainland China as of December 31, 2016 | Investment Amounts Authorized by Investment Commission of Ministry of Economic Affairs | Limitation on investment in Mainland China by Investment Commission of Ministry of Economic Affairs |
|--------------|--|--|---|
| The Company | 1,222,275 (USD 37,900) | 1,296,450 (USD 40,200) | 1,559,148 |

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CHENMING MOLD IND. CORP AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

- Note1: Investment in Mainland China through existing company from third region.
 Note2: The investment gains and losses of the current period are recognized according to the financial statements which have been audited and certified by the Company's independent external auditors.
 Note3: The USD was translated into New Taiwan Dollars at the exchange rate of \$32.25 as of December 31, 2016; gains and losses were translated into New Taiwan Dollars at the average exchange rate of \$32.263 for the year.
 Note4: Invested the amount of USD 3,000 in Dongguan Chenming Electronic Co., Ltd. through GERSHWIN INTERNATIONAL LIMITED by TOP CITY INTERNATIONAL LIMITED.
 Note5: Invested the amount of USD 1,078 on equipment in Dongguan Chenming Electronic Co., Ltd by GERSHWIN INTERNATIONAL LIMITED
 Note6: Investment through PEAK SHREWD INC by the Company and TOP CITY INTERNATIONAL LIMITED
 Note7: Investment in Mainland China through TOP CITY INTERNATIONAL LIMITED and PEAK SHREWD INC
 Note8: Investment in Mainland China through TOP CITY INTERNATIONAL LIMITED and GERSHWIN INTERNATIONAL LIMITED

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions".

(14) Segment information:

- (a) The Group is single industry department, which produce computer and mobile device component mainly. Operating segment information is constancy with balance sheet report, the profit and loss from segment refer to income statement and segment asset refer to balance sheet.
- (b) Overall information of the Group
- (i) Product information

| <u>Products</u> | <u>2016</u> | <u>2015</u> |
|--------------------------|---------------------|------------------|
| Computer and server case | \$ 2,903,166 | 1,669,316 |
| Mobile component | 1,114,656 | 1,332,426 |
| Mold revenue | 256,963 | 240,168 |
| | <u>\$ 4,274,785</u> | <u>3,241,910</u> |

(Continued)

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Notes to Consolidated Financial Statements

(ii) Geographic information

The Group's sales presented by customer location and non-current assets presented by location, the geographic information were as follows:

1) Revenue from external customers:

| <u>Country</u> | <u>2016</u> | <u>2015</u> |
|----------------|---------------------|------------------|
| Taiwan | \$ 650,711 | 401,999 |
| Mainland China | 2,496,004 | 1,503,300 |
| Other Country | <u>1,128,070</u> | <u>1,336,611</u> |
| | <u>\$ 4,274,785</u> | <u>3,241,910</u> |

2) Non-current Assets:

| <u>Country</u> | <u>2016</u> | <u>2015</u> |
|----------------|---------------------|------------------|
| Taiwan | \$ 523,657 | 533,362 |
| Mainland China | <u>1,146,163</u> | <u>896,119</u> |
| | <u>\$ 1,669,820</u> | <u>1,429,481</u> |

Non-current assets include property, plant and equipment, intangible assets, investment property, and other assets, excluding available-for-sale financial assets, prepaid pension, cost deferred tax assets, and guarantee deposit.

(iii) Important clients information

The sales revenue from clients with account for more than 10% revenue in Income statement as follow:

| | <u>2016</u> | <u>2015</u> |
|-----------|--------------|-------------|
| H company | \$ 1,159,734 | 1,086,022 |
| B company | 976,347 | 667,676 |
| D company | 708,799 | 163,784 |
| C company | 459,346 | 293,882 |