TYCOONS GROUP ENTERPRISE CO., LTD.

AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AND INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

ADD: No.79-1, Sinle St., Gangshan Dist., Kaohsiung City 820,

Taiwan (R.O.C.)

TEL: (07) 621-2191

INDEPENDENT AUDITORS' REPORT

NO.11351050ECA

To the Board of Directors of Tycoons Group Enterprise Co., Ltd.:

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained, inclusive of the reports from other auditors, 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. Inventories Valuation

Refer to Note 4(6) and 6(7) to the consolidated financial statements for the accounting policies and the details of the information about inventories.

Description of the key audit matter

In the consolidated financial report, the inventory is measured at the lower of cost or realizable value. The Group is principally engaged in the production of metal products such as screws, nuts and wales. The value of inventories is susceptible to fluctuations in the price of the demand market and the speed of change of the respective industries. The sales of products may fluctuate violently, resulting in inventories obsolescence losses and expired losses, there is a risk that inventory costs may exceed the net realizable value.

How the matter was addressed in our audit

- Review the aging schedule of inventories and analysis the changes.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
- Obtain the inventory data at the end of the period and compare it with the inventory and actually observe the inventory to verify the existence and completeness of inventory.
- By understanding the sale price made by management and the situation of market price after the accounting period to evaluate the reasonableness of inventory net realizable value and compare the recent sales price or purchase cost of the inventories with the cost of the book to confirm that the inventories has been evaluated at the lower of cost or realizable value.
- Evaluate the fairness of the disclosure of allowance for inventories valuation.

2. Impairment of Property, Plant and Equipment

Refer to Note 4(10) and 6(9) to the consolidated financial statements for the accounting policies and the details of the information about the impairment of Property, Plant and Equipment.

Description of the key audit matter

The value of property, plant and equipment means the management measure assets which has not depreciated or amortized and expected recoverable amount in the future period, the management should assess at balance sheet date whether there is any indication of an impairment. If there is any indication of impairment, management should measure the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of individual assets, the management should estimate the recoverable amount of the cash generating unit to which the asset belongs. Due to the calculation of whether if arising impairment loss and the amount of the impairment loss involved many assumptions and estimates, we focus on compliance with the International Accounting Standards 36 to confirm that the book value of the assets whether if not exceed its recoverable amount.

How the matter was addressed in our audit

- Obtain the self-assessed asset impairment document that was prepared by the management to see if there are indication of an impairment.
- Review the expected future cash flows, estimate whether the average net cash inflow of the current year is significantly different from the estimated net cash inflow per annum by the Group net profit last five years.
- Review the expected growth rate used compared with historical results, economic and industrial forecasts, whether if there is any unreasonable situation.
- Review discount rate used compared with the capital cost of cash generating unit, whether if there is any unreasonable situation

3. Revenue recognition

Refer to Note 4(16) and 6(18) to the consolidated financial statements for the accounting policies and the details of information about revenue recognition.

Description of the key audit matter

Revenue recognition when the product transfer of risks and rewards and recorded amount directly affects the annual profit and loss of the Group.

The Group and its clients have different trading conditions , we should identify the transfer of risks and rewards in accordance with trading conditions to recognize revenue. There is therefore a risk of revenue being recognized at an inappropriate amount or earlier than appropriate.

How the matter was addressed in our audit

- Understand and test the company's internal control related of revenue recognition.
- Understand the income type and trading conditions of the Group, to assess whether the accounting policy of revenue being recognized at the time is appropriate.
- By the sampling method, examine supporting documents for actual sales transactions occurring during the year and near the end of the accounting period.

Other Matter

Making reference to the audits of component auditors

We did not audit the financial statements of certain subsidiaries of the Group. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the subsidiaries, is based solely on the report of other auditors. The total assets of the subsidiaries amounted to NT$355,274 thousand and NT$4,224,214 thousand, representing 3% and 32% of consolidated total assets as December 31, 2016 and 2015, respectively. And the total revenues of the subsidiaries amounted to NT$390,303 thousand and NT$384,246 thousand, representing 6% and 5% of consolidated total revenues for the years ended December 31, 2016 and 2015, respectively.

We did not audit the financial statements of Hurco Automation Ltd., an associates and joint ventures accounted for under the equity method, whose statements are based solely on the report of another auditor. The associates and joint ventures accounted for under the equity method amounted to $114,497 thousand and $104,520 thousand, both representing 1% as of December 31, 2016 and 2015. And the related share of profit from the associates and joint ventures accounted for under the equity method amounted to $ 10,869 thousand and $17,917 thousand, representing (8)% and (2)% of the consolidated comprehensive loss for the year ended December 31, 2016 and 2015.

Parent company only financial statements

We have also audited the parent company only financial statements of Tycoons Group Enterprise Co., Ltd 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 the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including independent directors and supervisors, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Baker Tilly Clock & Co

March 13,2017

The accompanying consolidated financial statements are intended only to present the consolidated 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 (or review) 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.

TYCOONS GROUP ENTERPRISE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

(Expressed in thousands of New Taiwan Dollars)

ASSETS	NOTES	December 31,2016		December 31,2015	
		Amount	%	Amount	%
CURRENT ASSETS					
Cash and cash equivalents	4,6(1)	$ 776,855	6	$ 932,754	7
Financial assets at fair value through profit or loss-current	4,6(2)	61,475	—	55,208	—
Debt investments with no active market-current	4,6(5),8	266,103	2	299,873	2
Notes receivable, net	4,6(6)	21,274	—	20,186	—
Accounts receivable, net	4,6(6),7	469,443	4	550,907	5
Other receivables		23,167	—	91,789	1
Current tax assets	4,6(22)	908	—	810	—
Inventories	4,6(7)	1,976,662	15	1,932,905	15
Prepayments		236,570	2	123,431	1
Other current assets		26,883	—	9,921	—
Total current assets		3,859,340	29	4,017,784	31
NONCURRENT ASSETS					
Available-for-sale financial assets-noncurrent	4,6(3)	188,656	1	188,985	1
Held-to-maturity financial assets-noncurrent	4,6(4)	—	—	4,000	—
Debt investments with no active market- noncurrent	4,6(5),8	24,600	—	—	—
Investments accounted for using equity method	4,6(8)	130,949	1	119,516	1
Property, plant and equipment	4,6(9),8	8,137,420	62	8,368,963	64
Intangible assets		8,065	—	10,537	—
Deferred tax assets	4,6(22)	94,753	1	172,332	1
Prepayments for equipment		564,993	5	79,331	1
Refundable deposits		3,115	—	2,932	—
Long-term prepayments for lease		89,498	1	73,764	1
Other noncurrent assets-other	6(10)	5,329	—	6,862	—
Total noncurrent assets		9,247,378	71	9,027,222	69
TOTAL		$ 13,106,718	100	$ 13,045,006	100

(Continued)

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

TYCOONS GROUP ENTERPRISE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

(Expressed in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	NOTES	December 31,2016		December 31,2015	
		Amount	%	Amount	%
CURRENT LIABILITIES					
Short-term borrowings	6(11),8	$ 3,190,598	24	$ 2,696,012	21
Short-term bills payable	6(12)	—	—	69,820	1
Financial liabilities at fair value through profit or loss- current		4,283	—	1,179	—
Notes payable	4,6(2)	158,975	1	129,810	1
Accounts payable		432,049	3	596,146	5
Other payables		203,196	2	185,174	1
Current tax liabilities	4,6(22)	9,057	—	3,923	—
Receipts in advance		244,529	2	121,435	1
Current portion of long-term borrowings	6(14),8	788,504	6	323,748	2
Other current liabilities-other		7,232	—	7,485	—
Total current liabilities		5,038,423	38	4,134,732	32
NONCURRENT LIABILITIES					
Bonds Payable	4,6(13)	300,000	2	300,000	2
Long-term borrowings	6(14),8	2,023,555	15	2,742,600	21
Deferred tax liabilities	6(22)	54,009	1	69,766	1
Long-term account payable		1,945	—	2,869	—
Net defined pension liabilities-noncurrent	4,6(15)	24,030	—	25,592	—
Guarantee deposits	7	7,072	—	9,644	—
Other noncurrent liabilities-other		134	—	—	—
Total noncurrent liabilities		2,410,745	18	3,150,471	24
Total liabilities		7,449,168	56	7,285,203	56
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY					
Capital stock	6(16)	5,470,911	42	5,470,911	42
Capital surplus	6(16)	76,760	1	39,824	—
Retained earnings	6(16)				
Legal reserve		16,248	—	16,248	—
Accumulated deficits		(1,581,836)	(12)	(1,494,622)	(11)
Other equity	6(16)	279,006	2	301,061	2
Total equity attributable to shareholders of the parent company		4,261,089	33	4,333,422	33
NONCONTROLLING INTERESTS		1,396,461	11	1,426,381	11
Total equity		5,657,550	44	5,759,803	44
TOTAL		$ 13,106,718	100	$ 13,045,006	100

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

TYCOONS GROUP ENTERPRISE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED ON DECEMBER 31, 2016 AND 2015

(Expressed in thousands of New Taiwan Dollars)

DESCRIPTION	NOTE	For the Year Ended December 31			
		2016		2015	
		Amount	%	Amount	%
OPERATING REVENUES	4,6(18),7	$ 6,966,068	100	$ 7,488,160	100
OPERATING COSTS	6(23)	(6,258,644)	(90)	(7,310,138)	(98)
GROSS PROFIT		707,424	10	178,022	2
OPERATING EXPENSES	6(23)				
Selling and marketing expenses		(212,301)	(3)	(207,367)	(3)
General and administrative expenses		(324,819)	(5)	(352,060)	(4)
Total operating expenses		(537,120)	(8)	(559,427)	(7)
PROFIT (LOSS) FROM OPERATIONS		170,304	2	(381,405)	(5)
NON-OPERATING INCOME AND EXPENSES					
Other income	6(9)	6,327	—	9,740	
Other gains and losses	6(20)	59,903	1	(186,335)	(2)
Finance costs	6(21)	(183,752)	(2)	(151,305)	(2)
Share of the profit of associates and joint ventures	6(8)	16,901	—	18,212	—
Total non-operating income and expenses		(100,621)	(1)	(309,688)	(4)
INCOME (LOSS) BEFORE INCOME TAX		69,683	1	(691,093)	(9)
INCOME TAX (EXPENSE) BENEFIT	4,6(22)	(108,983)	(2)	421	—
NET LOSS		(39,300)	(1)	(690,672)	(9)
OTHER COMPREHENSIVE (LOSS) INCOME					
Items that may be reclassified subsequently to profit or loss					
Exchange differences arising from the translation of the foreign operations		(171,570)	(2)	(398,858)	(5)
Unrealized (loss) gain on available-for-sale financial assets		53,714	1	(43,172)	(1)
Share of other comprehensive gain of subsidiaries and associates		2,448	—	—	—
Income tax relating to the components of other comprehensive income(loss)	4,6(22)	15,519	—	38,716	—
Other comprehensive loss, net of income tax		(99,889)	(1)	(403,314)	(6)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		$ (139,189)	(2)	$ (1,093,986)	(15)
NET (LOSS) INCOME ATTRIBUTABLE TO：					
Shareholders of the parent		$ (89,662)	(1)	$ (581,093)	(8)
Noncontrolling interests		50,362	—	(109,579)	(1)
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO：					
Shareholders of the parent		$ (109,269)	(2)	$ (813,287)	(11)
Noncontrolling interests		(29,920)	—	(280,699)	(4)
(LOSS) EARNING PER SHARE					
Basic	6(17)	$ (0.16)		$ (1.06)	

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

TYCOONS GROUP ENTERPRISE CO., LTD. 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)

DESCRIPTION	Equity attributable to the shareholders of the parent Company							Noncontrolling interests	Total equity
	Capital Stock		Retained earnings		Other equity				
	Common stock	Capital surplus	Legal reserve	Unappropriated earnings (Accumulated deficits)	Exchange differences arising from the translation of the foreign operations	Unrealized gain (loss) on available-for-sale financial assets	Subtotal		
BALANCE, JANUARY 1, 2015	$ 5,470,911	$ 13,445	$ 16,248	$ (913,529)	$ 520,974	$ 12,281	$ 5,120,330	$ 1,707,080	$ 6,827,410
Actual disposal or acquisition of interest in subsidiaries	–	26,379	–	–	–	–	26,379	–	26,379
Net income for 2015	–	–	–	(581,093)	–	–	(581,093)	(109,579)	(690,672)
Other comprehensive (loss) income for 2015, net of income tax	–	–	–	–	(189,022)	(43,172)	(232,194)	(171,120)	(403,314)
Total comprehensive income for 2015	–	–	–	(581,093)	(189,022)	(43,172)	(813,287)	(280,699)	(1,093,986)
BALANCE, DECEMBER 31, 2015	5,470,911	39,824	16,248	(1,494,622)	331,952	(30,891)	4,333,422	1,426,381	5,759,803
Actual disposal or acquisition of interest in subsidiaries	–	36,936	–	–	–	–	36,936	–	36,936
Net loss for 2016	–	–	–	(89,662)	–	–	(89,662)	50,362	(39,300)
Other comprehensive loss for 2016, net of income tax	–	–	–	2,448	(75,769)	53,714	(19,607)	(80,282)	(99,889)
Total comprehensive income for 2016	–	–	–	(87,214)	(75,769)	53,714	(109,269)	(29,920)	(139,189)
BALANCE, DECEMBER 31, 2016	$ 5,470,911	$ 76,760	$ 16,248	$ (1,581,836)	$ 256,183	$ 22,823	$ 4,261,089	$ 1,396,461	$ 5,657,550

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

TYCOONS GROUP ENTERPRISE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED ON DECEMBER 31, 2016 AND 2015

(Expressed in thousands of New Taiwan Dollars)

DESCRIPTION	For the Year Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before income tax	$ 69,683	$ (691,093)
Adjustments for:		
Depreciation expense	477,497	378,752
Amortization expense	21,197	21,777
Reversal or recognization of impairment loss on notes and accounts receivable	(9,433)	(2,253)
Impairment loss on financial assets	—	57,789
Reversal or recognization of impairment loss on Property, plant and Equipment	(106,953)	51,211
Valuation gain financial instruments at fair value through profit or loss, net	9,581	(14,542)
(Gain) loss from the valuation of inventory	(90,887)	65,796
Interest expense	169,207	143,539
Interest income	(4,591)	(6,067)
Gain on disposal of investments	(7,153)	—
Share of the profit of associates and joint ventures	(16,901)	(18,212)
Loss on disposal of property, plant and equipment	214,691	18,913
Changes in operating assets and liabilities		
Financial assets held for trading	(12,744)	(242)
Notes receivable	(1,088)	34,199
Accounts receivable	91,599	249,339
Other receivables	68,632	(62,368)
Inventories	48,143	1,451,531
Prepayments	(113,139)	198,812
Other current assets	(16,962)	25,455
Other noncurrent assets	1,533	21,556
Notes payable	29,165	(81,445)
Accounts payable	(164,097)	(233,979)
Other payables	(141,270)	(73,236)
Receipts in advance	123,094	11,924
Other current liabilities	(253)	466
Net defined benefit liabilities-noncurrent	(1,562)	1,167

(Continued)

TYCOONS GROUP ENTERPRISE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED ON DECEMBER 31, 2016 AND 2015

(Expressed in thousands of New Taiwan Dollars)

DESCRIPTION	For the Year Ended December 31	
	2016	2015
Cash generated from operations	$ 636,989	$ 1,548,789
Interest received	4,579	6,174
Interest paid	(163,814)	(125,229)
Income taxes paid	(27,857)	(3,694)
Net cash generated by operating activities	449,897	1,426,040
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in debt instrument investments with no active market	9,170	187,703
Disposal available-for-sale financial assets	59,877	—
Held-to maturity financial assets	4,000	—
Payments for property, plant and equipment	(358,664)	(528,565)
Proceeds from disposal of property, plant and equipment	72,695	5,191
Acquisition of intangible assets	(864)	(14,828)
Increase in prepayments for equipment	(493,979)	(1,812)
(Increase) decrease in refundable deposits	(183)	453
Increase in long-term prepayments for lease	(20,651)	(1,667)
Net cash used in investing activities	(728,599)	(353,525)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term bills payable	(69,820)	69,820
Increase (decrease) in short-term borrowings	494,586	(1,046,765)
Issuance of bonds	—	300,000
Repayment of bonds	—	(265,206)
(Decrease) increase in long-term borrowings	(254,289)	262,029
Increase in guarantee deposits received	1,116	568
(Decrease) increase in long-term account payable	(4,612)	3,855
Increase in other noncurrent liabilities	134	—
Decrease in non-controlling interests	(80,282)	(171,120)
Net Cash generated by (used in) Financing Activities	86,833	(846,819)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	35,970	259,132
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(155,899)	484,828
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	932,754	447,926
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 776,855	$ 932,754

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

TYCOONS GROUP ENTERPRISE CO., LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Amounts in thousands of New Taiwan dollars, unless otherwise stated)

1. HISTORY AND ORGANIZATION

Tycoons Group Enterprises Co., Ltd. (the “Company”) was incorporated under the Company Law on November 20, 1980. The main business of the Company and its subsidiaries (the “Group”) is to produce, process, commerce, export or lease screws, screw nuts, washer, steel thread, heat-processing of metal-blazed, mechanical parts, press-modeling machines as well as heat-processing equipment, and to manufacture, process and export various metal-models, and general international trade business excluding futures transactions.

In January 1995, the Company’s stocks were approved by the Financial Supervisory Commission, Executive Yuan, R.O.C for listing on the Taiwan Stock Exchange.

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

2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 13, 2017.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

None.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
JFRS 14, “Regulatory deferral accounts”	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortization (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, “Levies	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

The above standards and interpretations have no significant impact to the Group’s financial condition and operating result based on the Group’s assessment.

(3) New standards and interpretations issued by the IASB but not yet endorsed by the FSC

New Standards, Amendments and Interpretations	Effective Date by IASB
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 ‘Financial instruments’ with IFRS 4 ‘Insurance contracts’ (amendments to IFRS 4)	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Clarifications to IFRS 15, ‘Revenue from contracts with customers’ (amendments to IFRS 15)	January 1, 2018
IFRS 16, ‘Leases’	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealized losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRS 22, ‘Foreign currency transactions and advance consideration’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, ‘First-time adoption of international financial reporting standards’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, ‘Disclosure of interests in other entities’	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IAS 28, ‘Investments in associates and joint ventures’	January 1, 2018

Except for the followings, the above standards and interpretations have no significant impact to the Group’s financial condition and operating result based on the Group’s assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, ‘Financial instruments’

(a) Classification of debt instruments is driven by the entity’s business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortized cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

(b) The impairment losses of debt instruments are assessed using an ‘expected credit loss’ approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses (‘ECL’) or lifetime expected credit losses ECL (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

(c) The amended general hedge accounting requirements align hedge accounting more closely with an entity’s risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of ‘rebalancing’; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

B. IFRS 15, ‘Revenue from contracts with customers’

IFRS 15, ‘revenue from contracts with customers’ replaces IAS 11 ‘Construction Contracts’, IAS 18 ‘Revenue’ and relevant interpretations. According to IFRS 15, revenue is recognized when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step1: Identify contracts with customer

Step 2: Identify separate performance obligations in the contract(s)

Step 3: Determine the transaction price

Step 4: Allocate the transaction price.

Step 5: Recognize revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

C. IFRS 16, ‘Leases’

IFRS 16, ‘Leases’, replaces IAS 17, ‘Leases’ and related interpretations and SICs. The standard requires lessees to recognize a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, IFRSs, IASs, Interpretations as well as related guidance translated by the ARDF endorsed by the FSC with the effective dates.

(2) Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(3) Basis of Consolidation

A. The basis for the consolidated financial statements

The consolidated financial statements incorporated the financial statements of Tycoons Group Enterprise Co., Ltd. and its controlled entities (the subsidiaries).

Income and expenses of subsidiaries acquired or disposed of are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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

All intra-company transactions, balances, income and expenses are eliminated in full on consolidation.

Total comprehensive income of subsidiaries is attributed to the shareholders of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in a parent’s ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are accounted for as equity transactions. The carrying amounts of the Company interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the Company.

When the Company loss control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between:

a. the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost; and

b. the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any noncontrolling interest.

The Company shall account for all amounts recognized in other comprehensive income in relation to the subsidiary on the same basis as would be required if the Company had directly disposed of the related assets and liabilities.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment in an associate.

B. Subsidiaries included in the consolidated financial statements:

Investing Company	The name of subsidiary	Nature of operations	
Tycoons Group Enterprise Co., Ltd.	Tycoons Group International Co., Ltd.	Investing industry	British Cayman Island
〃	Yuan Zhen Investment Co., Ltd.	Investing industry	Taiwan
〃	Tycoons Worldwide Group (Thailand) Public Co., Ltd.	Manufacturing industry	Thailand
Tycoons Group International Co., Ltd.	Tycoons Worldwide Group (Thailand) Public Co., Ltd.	Manufacturing industry	Thailand
〃	Baw-Heng Steel (Vietnam) Co., Ltd.	Manufacturing industry	Vietnam
〃	Kingford International Limited	Investing industry	Samoa
〃	TY Steel Co., Ltd.	Manufacturing industry	Thailand
〃	Tycoons Group (Brunei) Holding LTD.	Investing industry	Brunei
Tycoons Worldwide Group (Thailand) Public Co., Ltd.	All Manage International Limited	Investing industry	BVI
〃	TY Steel Co., Ltd.	Manufacturing industry	Thailand
Kingford International Limited	Huanghua Jujin Hardware Products Co., Ltd.	Manufacturing industry	China
Huanghua Jujin Hardware Products Co., Ltd.	Huanghua Jujin Trading Co., Ltd.	Trade	China
Tycoons Group (Brunei) Holding LTD.	Tycoons Vietnam Co., Ltd.	Manufacturing industry	Vietnam

The name of subsidiary	Shareholding %		Note
	December 31, 2016	December 31, 2015	
Tycoons Group International Co., Ltd.	100%	100%	
Yuan Zhen Investment Co., Ltd.	100%	100%	
Tycoons Worldwide Group (Thailand) Public Co., Ltd	75.24%	73.64%	
Baw-Heng Steel (Vietnam) Co., Ltd.	71.43%	71.43%	1
Kingford International Limited	100%	100%	
TY Steel Co., Ltd.	92.43%	92.88%	
All Manage International Limited	75.24%	73.64%	
Huanghua Jujin Hardware Products Co., Ltd.	60%	60%	
Huanghua Jujin Trading Co., Ltd.	100%	100%	
Tycoons Group (Brunei) Holding Ltd.	100%	100%	
Tycoons Vietnam Co., Ltd.	100%	100%	1

Note1: These subsidiaries for which the financial statements are audited by other auditors.

C. Details of subsidiaries that have material non-controlling interests :

Name of subsidiary	Principal place of business	Proportion of Ownership Interests and Voting Rights Held by Non-controlling Interests	
		December 31,2016	December 31,2015
Tycoons Worldwide Group (Thailand) Public Co., Ltd.	Thailand	24.76%	26.36%
TY Steel Co., Ltd.	Thailand	7.57%	7.12%

Name of subsidiary	(Loss) Profit Allocated to Non-controlling Interests		Accumulated non-controlling interest	
	For the Year Ended December 31, 2016	Fro the Year Ended December 31, 2015	December 31,2016	December 31,2015
Tycoons Worldwide Group (Thailand) Public Co., Ltd.	$ 19,222	$ (114,892)	$ 1,159,874	$ 1,230,367
TY Steel Co., Ltd.	$ (20,722)	$ (13,802)	$ 119,298	$ 84,184

Financial information of the Tycoons Worldwide Group (Thailand) Public Co., Ltd. and TY Steel Co., Ltd. that have material non-controlling interests is set out below：

The summarized financial information below represents amounts before intracompany eliminations.

<u>Tycoons Worldwide Group (Thailand) Public Co., Ltd.</u>

	December 31,2016	December 31,2015
Current asset	$ 1,692,181	$ 1,750,551
Noncurrent asset	4,653,972	4,872,196
Current liabilities	(1,474,693)	(1,755,083)
Noncurrent liabilities	(186,995)	(200,112)
Equity	$ 4,684,465	$ 4,667,552
Equity attributable to:		
Shareholders of the Company	$ 3,524,591	$ 3,437,185
Non-controlling interests	1,159,874	1,230,367
	$ 4,684,465	$ 4,667,552

	For the Years Ended December 31	
	2016	2015
Operating Revenues	$ 5,644,063	$ 6,553,265
Net (loss) income	77,635	(432,543)
Other comprehensive income	3,806	5,470
Total comprehensive (loss) income	$ 81,441	$ (427,073)
(Loss) income attributable to:		
Shareholders of the Company	$ 58,413	$ (317,651)
Non-controlling interests	19,222	(114,892)
	$ 77,635	$ (432,543)
Total comprehensive (loss) income attributable to：		
Shareholders of the Company	$ 61,276	$ (313,623)
Non-controlling interests	20,165	(113,450)
	$ 81,441	$ (427,073)

	For the Year Ended December 31	
	2016	2015
Cash flow		
Operation activities	$ 613,199	$ 864,638
Investing activities	(187,189)	10,710
Financing activities	(351,669)	(762,843)
Net increase in cash and cash equivalents	$ 74,341	$ 112,505

TY Steel Co., Ltd.

	December 31,2016	December 31,2015
Current asset	$ 851,721	$ 667,442
Noncurrent asset	3,865,825	3,237,142
Current liabilities	(1,974,618)	(1,249,039)
Noncurrent liabilities	(1,166,991)	(1,473,189)
Equity	$ 1,575,937	$ 1,182,356
Equity attributable to:		
Shareholders of the Company	$ 1,456,639	$ 1,098,172
Non-controlling interests	119,298	84,184
	$ 1,575,937	$ 1,182,356

	For the Year Ended December 31	
	2016	2015
Operating Revenues	$ 1,616,524	$ 191,267
Net loss	(273,737)	(193,854)
Other comprehensive income	—	—
Total comprehensive loss	$ (273,737)	$ (193,854)
Loss attributable to:		
Shareholders of the Company	$ (253,015)	$ (180,052)
Non-controlling interests	(20,722)	(13,802)
	$ (273,737)	$ (193,854)
Total comprehensive loss attributable to:		
Shareholders of the Company	$ (253,015)	$ (180,052)
Non-controlling interests	(20,722)	(13,802)
	$ (273,737)	$ (193,854)

(4) Classification of Current and Noncurrent Assets and Liabilities

Current assets are assets held for trading purposes and assets expected to be converted to cash, sold or consumed within one year from the end of the reporting period. Current liabilities are obligations incurred for trading purposes and obligations expected to be settled within one year from the end of the reporting period. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

(5) Foreign Currencies

In preparing the financial statements of each individual consolidated entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the closing rates. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are recognized in profit or loss for the year except for exchange difference arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including of the subsidiaries, associates and joint ventures operating in other countries or using currencies different from the Company's) are translated into New Taiwan dollars using exchange rates prevailing at each balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the shareholders of the Company and non-controlling interests as appropriate).

(6) Inventories

Inventories are stated at the lower of cost or net realizable value. Inventories are recorded at weighted-average cost. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale.

(7) Investments accounted for under the equity method

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

The operating results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group’s share of the profit or loss and other comprehensive income of the associate. The Group also recognize the changes in the share of equity of associates.

When the Group subscribe for additional new shares of the associate, at a percentage different from their existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group’s proportionate interest in the associate. The Group record such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Group’s ownership interest is reduced due to non-subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equal or exceed their interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, from part of the Group's net investment in the associate), the Group discontinue recognizing their share of further losses. Additional losses and liabilities are recognized only to the extent that the Group have incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss in the current year.

When impairment loss is evaluated, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. An impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment has subsequently increased.

When the Group cease to have significant influence over the associate, the Group will measure the retained investment at fair value at that date. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group account for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Group transact with their associates, profits and losses on these transactions are recognized in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

(8) Property, Plant, and Equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties in the course of construction for production, supply or administrative purposes are carried at cost. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use and depreciated accordingly.

Depreciation is computed by the straight-line method over the estimated useful lives. The estimated useful lives are as follows:

Land improvement	30	years
Buildings	3 ~ 50	years
Machinery and equipment	3 ~ 25	years
Transportation equipment	5 ~ 10	years
Furniture and fixtures	3 ~ 15	years
Leasehold improvements	1 ~ 25	years
Miscellaneous equipment	2 ~ 15	years

If each component of property, plant and equipment is significant, it is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss in the current year.

(9) Land use rights

The land of Vietnam is owned by the government and the subsidiary acquired the land use right of Vietnam which is classified under non-current assets. Amortization is computed by the straight-line method over the estimated used lives, which amounted to 50 years.

(10) Impairment of Tangible and Intangible Assets

At each balance sheet date, the Group review the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(11) Financial Instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

A. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a. Measurement category

Financial assets held by the Group include financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

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

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and reclassified in profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized when the Group right to receive the dividends is established.

(c) Held-to-maturity investments

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

(d) Loans and receivables

Loans and receivables (including accounts receivable, cash and cash equivalents and bond investments with no active market) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Deposits in banks consisted of highly liquid time deposits that were readily convertible to known amounts of cash and were subject to an insignificant risk of changes in value.

b. Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Financial assets carried at amortized cost, such as accounts receivable, other receivables and bond investments with no active market are assessed for impairment on a collective basis even if there is no objective evidence of impairment individually. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account.

c. Derecognition of financial assets

The Group derecognize a financial asset only when the contractual rights to the cash flows from the asset expire, or when they transfer the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

B. Equity Instruments

Debt and equity instruments issued by the Group as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

C. Financial liabilities

a. Subsequent measurement

Except the following situation, all the financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividend paid on the financial liability.

b. Derecognition of financial liabilities

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.

(12) Provision

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

(13) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost, past service cost, as well as gains and losses on settlements) and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company and its subsidiaries' defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

(14) Convertible Bonds

The component parts of compound instruments (convertible bonds) issued by the Company and its subsidiaries are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premium. When the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognized in equity will be transferred to capital surplus - share premium.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability components (included in the carrying amount of liabilities) and equity components (included in equity) in proportion to the allocation of the gross proceeds.

(15) Derivative financial instruments

The Company and its subsidiaries enter into a variety of derivative financial instruments to manage their exposure to foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately.

(16) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

A. Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

(a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) The amount of revenue can be measured reliably;

(d) It is probable that the economic benefits associated with the transaction will flow to the Group and

(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

B. Rent income, dividend income and interest income are recognized when it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured, recognized as follows:

(a) Rent income is recognized during the rental period at straight method.

(b) Dividend income is recognized when the shareholder’s right to receive payment has been established.

(c) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(17) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

A. The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Contingent rents are recognized as income in the year in which they are incurred.

B. The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents are recognized as income in the year in which they are incurred.

(18) Taxation

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

A. Current tax

Income tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) at a rate of 10% is expensed in the year the shareholders approved the appropriation of earnings which is the year subsequent to the year the earnings are generated.

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

B. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, net operating loss carryforwards and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. The deferred tax assets which originally not recognized is also reviewed at the end of each reporting period and recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

C. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

(1) Revenue Recognition

The Group recognizes revenue when the conditions described in Note 4 are satisfied. The Group also records a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provision for estimated sales returns and other allowances is generally made and adjusted at a specific percentage based on historical experience and any known factors that would significantly affect the allowance, and our management periodically reviews the adequacy of the estimation used.

(2) Valuation of Inventory

Inventories are stated at the lower of cost or net realizable value, and the Group use judgment and estimate to determine the net realizable value of inventory at the end of each reporting period.

Due to the rapid industrial changes, the Group estimates the net realizable value of inventory for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon.

(3) Impairment assessment on investments accounted for using equity method

The Group assesses the impairment of investments accounted for using the equity method whenever triggering events or changes in circumstances indicate that an investment may be impaired and carrying value may not be recoverable. The Group measures the impairment based on a projected future cash flow of the investees, including the underlying assumptions of sales growth rate and capacity utilization rate formulated by such investees' internal management team, to ensure the reasonableness of such assumptions.

(4) Estimated impairment of accounts receivable

When there is objective evidence of impairment loss, the Group take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(5) Impairment assessment of tangible and intangible assets

In the process of evaluating the potential impairment of tangible and intangible assets other than goodwill, the Group is required to make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups with the consideration of the nature of semiconductor industry. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges or reversal in future years.

(6) Recognition and measurement of defined benefit plans

Net defined benefit liability and the resulting defined benefit costs under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary increase rate. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

(7) Realization of deferred income tax assets

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Assessment of the realization of deferred income tax assets involves critical accounting judgments and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, tax exempt duration, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred income tax assets.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand	$ 1,670	$ 1,413
Bank deposits	734,713	909,986
Cash equivalent		
Time deposits	40,472	21,355
Total	$ 776,855	$ 932,754

(2) Financial assets and liabilities at fair value through profit or loss-current

A. Financial assets held for trading

	December 31, 2016	December 31, 2015
Derivative financial assets		
Forward exchange contracts	$ 47,054	$ 31,597
Non-derivative financial asset		
Mutual funds	14,421	23,611
	$ 61,475	$ 55,208

B. Financial liabilities held for trading

	December 31, 2016	December 31, 2015
Derivative financial liabilities		
Forward exchange contracts	$ 4,283	$ 1,179

The main purpose for the Group to engage in forward exchange contracts transactions is to evade the risk resulting from the fluctuation of currency exchange rate. However, those derivative assets and liabilities did not meet the criteria of hedge effectiveness and therefore were not accounted for by using hedge accounting.

The undue derivative financial products were as follows:

December 31, 2016	Currency	Maturity Period	Contracted Amount (in thousand)	
Buy forward exchange	United States dollars	2016.06.30~2017.01.05	USD	2
〃	〃	2016.10.17~2017.04.17	USD	500
〃	〃	2016.10.19~2017.04.19	USD	500
〃	〃	2016.11.02~2017.05.03	USD	500
〃	〃	2016.12.23~2017.06.27	USD	1,307
〃	〃	2016.12.26~2017.06.26	USD	500
〃	〃	2016.12.29~2017.07.05	USD	1,000
〃	〃	2016.12.29~2017.07.05	USD	5,596
〃	〃	2016.12.29~2017.07.05	USD	900
〃	〃	2016.12.30~2017.07.05	USD	1,000
〃	〃	2016.12.30~2017.07.05	USD	500
〃	〃	2016.12.30~2017.07.03	USD	500
Sell forward exchange	Euro	2016.12.30~2017.07.05	EUR	300
Buy forward exchange	United States dollars	2016.07.08~2017.01.04	USD	5,523
〃	〃	2016.07.11~2017.01.06	USD	2,000
〃	〃	2016.07.11~2017.01.06	USD	409
〃	〃	2016.07.20~2017.01.20	USD	500
〃	〃	2016.07.20~2017.07.17	USD	404
〃	〃	2016.07.21~2017.01.23	USD	500
〃	〃	2016.07.27~2017.01.27	USD	8,932
〃	〃	2016.08.02~2017.02.02	USD	500
〃	〃	2016.08.26~2017.02.27	USD	239
〃	〃	2016.09.01~2017.03.01	USD	1,495
〃	〃	2016.09.07~2017.03.07	USD	500
〃	〃	2016.09.12~2017.03.10	USD	999
〃	〃	2016.09.15~2017.03.14	USD	3,000
〃	〃	2016.09.16~2017.03.15	USD	3,000
〃	〃	2016.09.20~2017.03.20	USD	1,000
〃	〃	2016.09.23~2017.03.22	USD	5,131
〃	〃	2016.09.28~2017.03.28	USD	1,500
〃	〃	2016.10.14~2017.04.17	USD	500
〃	〃	2016.10.17~2017.04.17	USD	500
〃	〃	2016.10.17~2017.04.17	USD	500
〃	〃	2016.10.18~2017.04.18	USD	500
〃	〃	2016.10.19~2017.04.17	USD	500
〃	〃	2016.10.19~2017.04.19	USD	500
〃	〃	2016.10.19~2017.04.19	USD	5,994
〃	〃	2016.10.20~2017.04.20	USD	1,000
〃	〃	2016.10.20~2017.04.20	USD	1,000
〃	〃	2016.10.20~2017.04.20	USD	1,000
〃	〃	2016.10.20~2017.04.20	USD	1,000
〃	〃	2016.10.27~2017.04.27	USD	1,500
〃	〃	2016.11.08~2017.05.08	USD	1,000
〃	〃	2016.11.08~2017.05.08	USD	730
〃	〃	2016.11.14~2017.05.15	USD	1,000

December 31, 2016	Currency	Maturity Period	Contracted Amount (in thousand)	
〃	〃	2016.11.22~2017.05.19	USD	2,409
〃	〃	2016.11.22~2017.05.19	USD	2,000
Buy forward exchange	United States dollars	2016.11.22~2017.05.22	USD	2,000
〃	〃	2016.11.30~2017.06.02	USD	1,954
〃	〃	2016.12.07~2017.06.07	USD	2,000
〃	〃	2016.12.08~2017.06.08	USD	2,000
〃	〃	2016.12.14~2017.06.14	USD	2,000
〃	〃	2016.12.27~2017.06.27	USD	1,600
〃	〃	2016.12.28~2017.06.28	USD	1,000
〃	〃	2017.01.04~2017.07.03	USD	1,000
〃	〃	2017.01.04~2017.07.03	USD	1,000
〃	〃	2017.01.04~2017.07.03	USD	1,000
〃	〃	2017.01.04~2017.07.05	USD	1,000
〃	〃	2017.01.05~2017.07.05	USD	1,000
〃	〃	2017.01.05~2017.07.05	USD	1,000
〃	〃	2017.01.05~2017.07.05	USD	500
Buy forward exchange	Japanese yen	2016.09.02~2017.03.02	JPY	20,000
〃	〃	2016.10.11~2017.04.11	JPY	20,000
〃	〃	2016.09.06~2017.03.06	JPY	20,000
〃	United States dollars	2016.08.11~2017.01.16	USD	2,000
〃	〃	2016.09.06~2017.01.16	USD	1,000
〃	〃	2016.09.07~2017.01.16	USD	1,000
〃	〃	2016.11.15~2017.04.13	USD	1,000
〃	〃	2016.12.08~2017.04.13	USD	1,700

December 31, 2015	Currency	Maturity Period	Contracted Amount (in thousand)	
Buy forward exchange	United States dollars	2015.08.10~2016.02.16	USD	1,000
〃	〃	2015.08.13~2016.02.16	USD	1,000
〃	〃	2015.08.18~2016.02.23	USD	1,000
〃	〃	2015.08.18~2016.02.23	USD	89
〃	〃	2015.08.24~2016.02.26	USD	1,000
〃	〃	2015.09.18~2016.03.22	USD	1,613
〃	〃	2015.09.21~2016.03.23	USD	2,000
〃	〃	2015.10.06~2016.04.08	USD	2,000
〃	〃	2015.10.07~2016.04.11	USD	2,000
〃	〃	2015.10.12~2016.04.18	USD	500
〃	〃	2015.10.15~2016.04.19	USD	500
〃	〃	2015.11.16~2016.05.18	USD	1,029
〃	〃	2015.11.20~2016.05.24	USD	2,000
〃	〃	2015.12.24~2016.06.28	USD	2,197
〃	〃	2015.12.28~2016.06.30	USD	1,000
〃	〃	2015.08.13~2016.02.17	USD	764
〃	〃	2015.08.20~2016.02.24	USD	1,000
〃	〃	2015.08.26~2016.02.29	USD	4
〃	〃	2015.08.27~2016.02.29	USD	552

December 31, 2015	Currency	Maturity Period	Contracted Amount (in thousand)	
〃	〃	2015.09.01~2016.03.03	USD	320
〃	〃	2015.09.18~2016.03.22	USD	1,000
Buy forward exchange	United States dollars	2015.10.29~2016.05.03	USD	1,390
〃	〃	2015.11.26~2016.05.31	USD	333
〃	〃	2015.10.09~2016.04.08	USD	747
〃	〃	2015.10.12~2016.04.11	USD	1,000
〃	〃	2015.07.03~2016.01.07	USD	5,720
〃	〃	2015.07.10~2016.01.14	USD	416
〃	〃	2015.09.04~2016.03.08	USD	1,376
〃	〃	2015.09.04~2016.03.08	USD	3,000
〃	〃	2015.09.04~2016.03.08	USD	2,000
〃	〃	2015.09.11~2016.03.11	USD	2,000
〃	〃	2015.09.14~2016.03.14	USD	1,581
〃	〃	2015.09.15~2016.03.15	USD	3,000
〃	〃	2015.09.17~2016.03.17	USD	3,000
〃	〃	2015.09.17~2016.03.17	USD	1,000
〃	〃	2015.09.17~2016.03.17	USD	3,000
〃	〃	2015.09.17~2016.03.17	USD	6,000
〃	〃	2015.09.22~2016.03.22	USD	1,000
〃	〃	2015.09.22~2016.03.22	USD	1,000
〃	〃	2015.09.22~2016.03.22	USD	2,000
〃	〃	2015.09.23~2016.03.23	USD	5,148
〃	〃	2015.10.08~2016.04.08	USD	1,000
〃	〃	2015.10.07~2016.01.11	USD	476
〃	〃	2015.10.09~2016.01.11	USD	2,000
〃	〃	2015.10.09~2016.04.11	USD	1,000
〃	〃	2015.10.09~2016.04.11	USD	1,000
〃	〃	2015.10.14~2016.04.18	USD	1,000
〃	〃	2015.11.06~2016.05.06	USD	3,000
〃	〃	2015.11.16~2016.05.18	USD	58
〃	〃	2015.11.16~2016.05.18	USD	1,000
〃	〃	2015.11.16~2016.05.18	USD	2,000
〃	〃	2015.11.18~2016.05.18	USD	1,000
〃	〃	2015.11.20~2016.05.24	USD	2,000
〃	〃	2015.11.20~2016.05.24	USD	600
〃	〃	2015.11.20~2016.05.24	USD	1,000
〃	〃	2015.11.20~2016.05.24	USD	2,000
〃	〃	2015.11.20~2016.05.24	USD	3,976
〃	〃	2015.11.30~2016.06.02	USD	2,000
〃	〃	2015.12.29~2016.06.29	USD	1,300
〃	〃	2015.12.30~2016.06.30	USD	1,300
〃	〃	2015.08.13~2016.01.21	USD	2,000
〃	〃	2015.08.18~2016.01.21	USD	1,000
〃	〃	2015.08.20~2016.02.15	USD	2,000
〃	〃	2015.08.20~2016.02.15	USD	2,000
〃	〃	2015.08.20~2016.02.15	USD	1,300
〃	〃	2015.10.07~2016.03.17	USD	1,700

December 31, 2015	Currency	Maturity Period	Contracted Amount (in thousand)	
〃	〃	2015.10.15~2016.04.19	USD	1,000
Sell forward exchange	Euro	2015.12.25~2016.06.29	EUR	450

(3) Available-for-sale financial assets – noncurrent

	December 31, 2016	December 31, 2015
Listed shares	$ 146,516	$ 148,613
Unlisted shares	42,140	40,372
Total	$ 188,656	$ 188,985

(4) Held-to-maturity financial assets – noncurrent

	December 31, 2016	December 31, 2015
Taichung Bank Junior Bank	$ —	$ 4,000

(5) Debt investments with no active markets

	December 31, 2016	December 31, 2015
Pledge deposits	$ 70,352	$ 110,109
Certificate deposits	3,591	—
Restricted deposits	216,760	189,764
Total	$ 290,703	$ 299,873
Current	$ 266,103	$ 299,873
Noncurrent	$ 24,600	$ —
Rate	0.05%～1.75%	0.02%～1.75%

Refer to Note 8 for information relating to debt investments with no active markets pledged as security.

(6) Notes and accounts receivable- net

	December 31, 2016	December 31, 2015
Notes and accounts receivable	$ 559,115	$ 649,626
Less: Allowance for doubtful accounts	(68,398)	(78,533)
Net	$ 490,717	$ 571,093

A. The Group’s sale agreements typically provide that the payment is due 30 days from the invoice date for a majority of the customers and 30 to 45 days after the end of the month in which sales occur for some customers.

The allowance for doubtful receivables is assessed by reference to the collectability of receivables by performing the account aging analysis, historical experience and current financial condition of customers.

B. Notes and accounts receivable include amounts that are past due but for which the Group has not recognized an allowance for doubtful receivables after the assessment since there has not been a significant change in the credit quality of its customers and the amounts are still considered recoverable.

C. Aging analysis of notes and accounts receivable

	December 31, 2016	December 31, 2015
Past due but not impaired		
Less than 90 days	$ 41,035	$ 114,127
91-180 days	22,812	5,400
181-365 days	—	116
Total	$ 63,847	$ 119,643

D. Movements of the allowance for doubtful accounts were as follows:

	For the Years Ended December 31	
	2016	2015
	Collectively Assessed for Impairment	Collectively Assessed for Impairment
Balance, beginning of the year	$ 78,533	$ 85,354
Impairment losses reversed	(9,433)	(2,253)
Effect of exchange rate changes	(702)	(4,568)
Balance, end of the year	$ 68,398	$ 78,533

(7) Inventories

	December 31, 2016	December 31, 2015
Goods	$ —	$ 43,900
Finished goods	493,355	397,980
Work in process	178,280	245,558
Raw materials	761,570	767,296

Supplies	371,397	398,918
Goods in transit	172,060	79,253
Total	$ 1,976,662	$ 1,932,905

A. The operating cost of the Group includes unallocated overhead amounted to $4,092 thousand and $10,787 thousand for the year ended December 31, 2016 and 2015, respectively.

Write-down of inventories to net realizable value was included in operating cost, which was as follows:

	For the Year Ended December 31	
	2016	2015
Inventory (recovery) impairment	$ 90,887	$ (65,796)

B. The insurance coverage as of December 31, 2016 and 2015, were both of $310,000 thousand, respectively.

C. In July 2008, Tycoons Worldwide Group (Thailand) Public Co., Ltd. ("TWGPCL") entered into forward raw material purchase contracts with two overseas companies, and made advance payments to these companies amounting to THB 572 million (approximately NTD 520,695 thousand). On November 30, 2009, however, TWGPCL did not receive the raw material deliveries from the suppliers as requested. Thus, TWGPCL terminated the contracts and request the return of advance payments based on the current market price for the outstanding raw materials, which amounted to THB 288 million. TWGPCL also wrote off THB 282 million (approximately NTD 257,607 thousand) of the advance payments for goods as bad debt expenses in the 2009 profit and loss account, representing the excess of the value of the raw materials at the contract prices over their value at the market price as at the end of November 2009.

For the year ended December 31, 2010, the counterparty repaid approximately THB 39 million (approximately NTD35,627 thousand) through TWGPCL's overseas related company, and TWGPCL reversed allowance for doubtful debt in the same amount. Currently, Tycoons Group International Co., Ltd. is in the process of taking legal action on behalf of the TWGPCL.

D. TWGPCL had entered into a non-cancellable raw material purchase contract. During the year ended December 31, 2016, TWGPCL reversed a loss on purchase commitment of THB 6,164 thousand (approximately NTD 5,609 thousand).

(8) Investments accounted for using equity method

A. Investments in associates consisted of the following.

	Carrying Amount		Percentage of Ownership and Voting Rights Held by the Group	
Investor	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Hurco Automation Co., Ltd.	$ 114,497	$ 104,520	35%	35%
Joint Force International Company Limited	16,452	14,996	30%	30%
	$ 130,949	$ 119,516		

B. Financial information of the Group's associates was summarized as follows:

	December 31, 2016	December 31, 2015
Total assets	$ 525,631	$ 502,741
Total liabilities	(143,657)	(150,042)
Net assets	$ 381,974	$ 352,699
The Group's share of net assets of associate	$ 130,949	$ 119,516

	For the Year Ended December 31	
	2016	2015
Net revenue	$ 700,610	$ 684,303
Net income	$ 49,108	$ 52,657
The Group's share of the profit of associate	$ 16,901	$ 18,212

The investments accounted for using equity method and the share of profit or loss and other comprehensive income of investment in Hurco Automation Co., Ltd. was calculated based on the financial statements for the year ended Oct. 31, that have been audited by another auditor; In 2016 and 2015, the investments accounted for using equity method and the share of profit or loss and other comprehensive income of investment in Joint Force International Co., Ltd. was calculated based on the financial statements that have not been audited.

(9) Property, plant and equipment

Item	Balance, Beginning of Year	Additions	Disposals	Reclassification	Effect of Exchange Rate changes	Balance, End of Year
	For the Year Ended December 31, 2016					
Cost						
Land	$ 864,198	$ —	$ (22,574)	$ (214)	$ (5,730)	$ 835,680
Land improvements	164,637	445	—	42	(1,787)	163,337
Buildings	2,916,607	15,949	(992)	65,569	(37,245)	2,959,888
Machinery and equipment	7,520,681	42,057	(435,593)	109,795	(98,542)	7,138,398
Transportation equipment	324,790	8,719	(6,713)	129	(4,018)	322,907
Furniture and fixtures	141,493	2,305	(10,863)	127	(4,331)	128,731
Leasehold improvements	78,186	423	—	11	(821)	77,799
Other equipment	479,901	39,982	(38,193)	3,317	(4,805)	480,202
Construction in progress	201,801	403,017	—	(174,138)	(2,329)	428,351
Total	12,692,294	512,897	(514,928)	4,638	(159,608)	12,535,293
Accumulated depreciation and impairment						
Land improvements	62,679	5,566	—	—	(760)	67,485
Buildings	1,140,394	98,254	(464)	—	(15,820)	1,222,364
Machinery and equipment	2,371,254	315,652	(280,488)	280	(40,185)	2,366,513
Transportation equipment	268,277	21,635	(6,465)	—	(3,470)	279,977
Furniture and fixtures	101,310	10,757	(10,566)	—	(3,064)	98,437

Leasehold improvements	4,939	2,954	—	—	(76)	7,817
Other equipment	374,478	22,679	(37,881)	—	(3,996)	355,280
Total	4,323,331	477,497	(335,864)	280	(67,371)	4,397,873
Net	$ 8,368,963	$ 35,400	$ (179,064)	$ 4,358	$ (92,237)	$ 8,137,420

	For the Year Ended December 31, 2015					
Item	Balance, Beginning of Year	Additions	Disposals	Reclassification	Effect of Exchange Rate changes	Balance, End of Year
Cost						
Land	$ 892,518	$ —	$ (683)	$ 2,840	$ (30,477)	$ 864,198
Land improvements	149,277	1,595	—	21,916	(8,151)	164,637
Buildings	2,955,866	81,175	(1,848)	17,302	(135,888)	2,916,607
Machinery and equipment	5,756,339	173,648	(80,560)	1,973,260	(302,006)	7,520,681
Transportation equipment	325,503	20,773	(6,701)	575	(15,360)	324,790
Furniture and fixtures	134,209	15,687	(4,479)	964	(4,888)	141,493
Leasehold improvements	78,717	3,418	—	232	(4,181)	78,186
Other equipment	483,588	30,006	(11,340)	(497)	(21,856)	479,901
Construction in progress	2,143,468	428,518	(1,827)	(2,253,295)	(115,063)	201,801
Total	12,919,485	754,820	(107,438)	(236,703)	(637,870)	12,692,294
Accumulated depreciation and impairment						
Land improvements	60,892	5,180	—	—	(3,393)	62,679
Buildings	1,093,816	97,771	(991)	—	(50,202)	1,140,394
Machinery and equipment	2,281,685	273,169	(62,572)	3,356	(124,384)	2,371,254
Transportation equipment	265,049	21,111	(4,741)	—	(13,142)	268,277
Furniture and fixtures	98,253	10,623	(3,809)	—	(3,757)	101,310

Leasehold improvements	2,096	2,923	—	—	(80)	4,939
Other equipment	382,867	20,079	(11,425)	—	(17,043)	374,478
Total	4,184,658	430,856	(83,538)	3,356	(212,001)	4,323,331
Net	$ 8,734,827	$ 323,964	$ (23,900)	$ (240,059)	$ (425,869)	$ 8,368,963

A. The significant part of the Group's buildings include main plants and affiliated equipment and the related depreciation is calculated using the estimated useful lives of 3 to 45 years, and 10 to 15 years, respectively.

B. The insurance coverage as of December 31, 2016 and 2015 were $7,997,904 thousand and $7,453,117 thousand, respectively.

C. The capitalized interest of the Group for the year ended December 31, 2016 and 2015 were $1,690 thousand and $93,852 thousand, with capitalization rates between 2.52% ~ 3.14% and 2.01% ~ 2.33% respectively.

D. The Group recognized (gain on reversal of impairment loss) impairment loss amounted to $(106,953) thousand and $51,211 thousand for the year ended December 31, 2016 and 2015.

E. Mortgaged or pledged property, plant and equipment, see Note 8.

(10) Long-term prepayments for lease

Movements of the long-term prepayments for lease was as follows:

	For the Year Ended December 31	
	2016	2015
Balance, beginning of the year	$ 73,764	$ 75,809
Add: Additions	20,658	1,667
Less: Amortization	(3,006)	(3,483)
Effect of exchange rate changes	(1,918)	(229)
Balance, end of the year	$ 89,498	$ 73,764

(11) Short-term borrowings

	December 31, 2016	December 31, 2015

Bank loans for purchasing materials	$ 2,331,063	$ 2,398,461
Unsecured loans	720,797	147,620
Mortgage loans	138,738	149,931
Total	$ 3,190,598	$ 2,696,012
Rate	1.47%～7.395%	1.36%～7.395%

(12) SHORT-TERM BILLS PAYABLE

	December 31, 2015
Commercial paper	$ 70,000
Less: Discount on short-term bills payable	(180)
Net	$ 69,820
Interest Rate	1.68%
Period	2015.12.31～2016.2.26

(13) BONDS PAYABLE

A. On September 30, 2013, the Company issued secured, domestic convertible bonds with a face value of $300,000 thousand. The details of the convertible bonds payable are as follows:

	December 31, 2016	December 31, 2015
Bonds payable	$ —	$ —
Less: Discount on bonds payable	—	—
Current portion	—	—
Total	$ —	$ —

The main terms of the secured domestic convertible bonds are as follow:

a. Total price: $ 300,000 thousand.

b. Stated interest rate and payment term: Stated rate is 0%, principal shall be redeemed at 100% of the face value when due.

c. Issue type: Domestic secured convertible bonds issued in registered form, in denomination of $100 thousand or the exact multiple thereof, issued at 100% of principal amount.

d. Issue period: Three years.

e. Redemption at the option of the Company:

(A)Unless previously converted or repurchased, the bonds will be redeemed at the face value at maturity.

(B) The withdraw price before maturity

(a) The Company may redeem all of the bonds with prior notice (actual number of days after one month of issuing till the 40th day before redemption) at any time, provided that the closing price of the Company's shares on the TSE reaches 30% of the conversion price for 30 consecutive trading days.

(b) When over 90% of the bonds had been redeemed, bought back or converted, the Company may redeem the remaining bonds with prior notice.

f. Put option of the bondholders

The Issuer will, on the second anniversary of the Issue Date, at the option of any bondholders by giving prior notice to the Issuer, redeem all or any portion of the Bonds at 102.01% of the face value.

g. Conversion price and adjustment

(A) The conversion price was originally NT$ 6 per share. The conversion price will be subject to adjustments upon. The occurrence of certain events set out in the indenture.

(B) For the convertible corporate bonds, the conversion right is being separated from the liabilities and list as "additional paid-in capital-warrants were $ 0 thousand as December 31, 2016 and 2015. And the embedder, redemption option and put option doesn't have direct relationship with the economic attributes and risk of primary liabilities contract. Thus, they are to be separately recognized and accounted, and the net amount were recognized as "financial liabilities at fair value through profit or loss", and "financial assets at fair value through profit or loss" amounting to $0 thousand, as of December 31, 2016 and 2015, respectively.

h. Secured

The bonds were secured by First Commercial Bank.

i. As December 31, 2015, the Amount $ 40,000 thousand of the convertible corporate bond has be converted into the 6,666 shares of the Company.

j. In September and November 2015, the Company redeemed outstanding bonds of $260,000 thousand in the consideration of $265,206 thousand and resulted in $834 thousand redemption gain and thereafter additional paid-in capital-warrants of $7,722 thousand was reclassified to additional paid-in capital-issuance of common shares.

B. On November 20, 2015, the Company issued secured, domestic bonds with a face value of $300,000 thousand. The details of the convertible bonds payable are as follows:

	December 31, 2016	December 31, 2015
Bonds payable	$ 300,000	$ 300,000

The main terms of the secured domestic bonds are as follow:

a. Total price: $ 300,000 thousand.

b. Face value: $1,000 thousand.

c. Issue price: Issue at 100% of principal amount.

d. Issue period: Three years.

e. Coupon interest rate: 0.9%

f. Payment of interest and principal:

The interest is paid once a year and the principal is paid on Maturity day.

g. Secured

The bonds were secured by First Commercial Bank.

(14) <u>Long-term borrowings</u>

	December 31, 2016				
Creditors	Due Date	Interest Rate (%)	Amount	Payable Within One Year	Description No.
Bank					
First Commercial Bank	06/10/2020	2.65	$ 470,000	$ 60,000	A

Taiwan Business Bank	03/02/2020	2.55	282,000	36,000	B
Hwatai Bank	08/18/2019	2.36	50,000	16,800	C
Kasikorn Bank	01/31/2019	5.5～6.13	177,565	83,825	D
Kasikorn Bank	09/30/2021	5.5～6.13	87,430	10,816	E
First Commercial Bank	08/22/2019	2.12～2.36	1,445,996	542,573	F
First Commercial Bank	11/01/2023	3.01～3.10	260,578	—	G
Other					
Jigan Hong Kong Holding Co., Ltd.	09/11/2017	4	38,490	38,490	H
Total			2,812,059	$ 788,504	
Less: amounts payable within one year			(788,504)		
Net			$ 2,023,555		

	December 31, 2015				
Creditors	Due Date	Interest Rate (%)	Amount	Payable Within One Year	Description No.
Bank					
First Bank	06/10/2020	2.80～2.87	$ 800,000	$ 30,000	A
Taiwan Business Bank	03/02/2020	2.716	300,000	18,000	B
Kasikorn Bank	01/31/2019	6.13	233,263	53,760	D
First Commercial Bank	08/22/2019	1.82～2.10	1,693,980	221,988	F
Other					
Jigan Hong Kong Holding Co., Ltd.	09/11/2017	4	39,105	—	H
Total			3,066,348	$ 323,748	
Less: amounts payable within one year			(323,748)		
Net			$ 2,742,600		

Description of bank borrowings:

A. In the duration of the loan contract, repayable starting on the 18th month after the date of credit drawing in six-monthly installments for a total of 8 installments, repayments of 6% of the principal are due on the first to the third installments, 13% of the principal are due on the fourth to the seventh installments and 30% of the principal for the final installment.

In the duration of the loan contract, the consolidated financial statements, audited by independent auditors, of the borrower are to satisfy the covenants set out below.

a. Current ratio: The ratio of current assets to current liabilities shall not be lower than 100%.

b. Debt ratio: The ratio of debts to tangible net value shall not be higher than 150%.

c. Interest and current liability cover: The ratio of the sum of earnings before interest and tax, depreciation and amortization expenses (EBITDA) to the interest of the current period shall be more than 200%.

d. Net tangible asset value: It shall not be lower than $6 billion.

The company was unable to maintain financial ratios stipulated in an agreement and has received a confirmation from the lender to waive in 2016.

B. Repayable starting after the date of credit drawing in six-monthly installments for a total of 8 installments, repayments of 6% of the principal are due on the first to the third installments, 8% of the principal are due on the fourth to the seventh installments and 50% of the principal for the final installment.

C. Repayable starting on the 6th month after the date of credit drawing in three-monthly installments for a total of 11 installments, repayments of NTD 4,200 thousand per three months, rest of all for the final installment.

D. 48 annual repayments started from 28 Feb., 2015. Repayments of THB 4,000 per month of the principal are due on the first year, THB 5,000 per month on the second year and THB 8,000 per month for the third to the fourth years. A syndication loan arranged by Kasikornbank Public Limited Company for Tycoons Worldwide Group (Thailand) Public Company Limited (“TWGPCL”), a consolidated subsidiary. The loan contract stipulated that the reviewed/ audited financial statements of TWGPCL must satisfy the following financial ratio covenants throughout the term of the contract.

a. Quick Ratio: ratio of cash, cash equivalent, short-term investment and account receivable divided by total current liabilities not lower than 1.1 times;

b. Debt to Equity Ratio: ratio of (a) sum of interest bearing debt and all outstanding contingent liability, to (b) the total equity not higher than 1.25:1;

c. Debt Service Coverage Ratio: for the first two years, the ratio of (a) EBITDA to (b) sum of scheduled debt service of principal and interest not lower than 1.10:1 and after that not lower than 1.25:1.

TWGPCL was unable to maintain financial ratios stipulated in an agreement and has received a confirmation from the lender to waive in 2016 and 2015.

E. 60 annual repayments started from 31 Oct, 2016. Repayments of THB 1,000 per month of the principal are due on the first two years, THB 2,000 per month on the third year until to the last two months pay THB 4,000 per month.

A syndication loan arranged by Kasikornbank Public Limited Company for Tycoons Worldwide Group (Thailand) Public Company Limited ("TWGPCL"), a consolidated subsidiary. The loan contract stipulated that the reviewed/ audited financial statements of TWGPCL must satisfy the following financial ratio covenants throughout the term of the contract.

a. Quick Ratio: ratio of cash, cash equivalent, short-term investment and account receivable divided by total current liabilities not lower than 1.1 times;

b. Debt to Equity Ratio: ratio of (a) sum of interest bearing debt and all outstanding contingent liability, to (b) the total equity not higher than 1.25:1;

c. Debt Service Coverage Ratio: for the first two years, the ratio of (a) EBITDA to (b) sum of scheduled debt service of principal and interest not lower than 1.10:1 and after that not lower than 1.25:1.

TWGPCL was unable to maintain financial ratios stipulated in an agreement and has received a confirmation from the lender to waive in 2016.

F. A syndication loan arranged by First Commercial Bank for TY Steel Co., Ltd. ("TY") a consolidated subsidiary. In the duration of the loan contract, repayable starting on the 30th month after the date of credit drawing in six-monthly installments for a total of 10 installments, repayments of 7% of the principal are due on the first to the sixth installments, 12% of the principal are due on the seventh to the ninth installments, rest of all for the final installment. The loan contract stipulated that the reviewed/audited financial statements of TY must satisfy the following financial ratio covenants throughout the term of the contract.

a. Current ratio: The ratio of current assets to current liabilities shall not be lower than 100%.

b. Debt ratio: The ratio of debts to tangible net value shall not be higher than 120%.

c. Interest and current liability cover: The ratio of the sum of earnings before interest and tax (EBIT), depreciation and amortization expenses to the sum of the liabilities of the current period which shall be repaid in one year plus interest expenses shall not be lower than 400%.

d. Net tangible asset value: It shall not be lower than $6 billion.

TY was unable to maintain consolidated financial ratios required by loan agreement and has received a confirmation from the lender to waive in 2016 and 2015.

G. A syndication loan arranged by First Commercial Bank for TY Steel Co., Ltd. ("TY") a consolidated subsidiary. Repayable starting on the 12th month after the date of credit drawing in three-monthly installments for a total of 24 installments, repayments of NTD$ 22,843,750 per three months, rest of all for the final installment.

The loan contract stipulated that the reviewed/audited financial statements of TY must satisfy the following financial ratio covenants throughout the term of the contract.

a. Current ratio: The ratio of current assets to current liabilities shall not be lower than 100%.

b. Debt ratio: The ratio of debts to tangible net value shall not be higher than 120%.

c. Interest and current liability cover: The ratio of the sum of earnings before interest and tax (EBIT), depreciation and amortization expenses to the sum of the liabilities of the current period which shall be repaid in one year plus interest expenses shall not be lower than 400%.

d. Net tangible asset value: It shall not be lower than $6 billion.

TY was unable to maintain consolidated financial ratios required by loan agreement and has received a confirmation from the lender to waive in 2016.

H. The loan arranged by Jigan Hong Kong Holding Co., and the interest rate is 4%, expired in September, 2017.

I. Mortgaged or pledged property, plant and equipment, see Note 8.

(15) <u>Retired benefit plans</u>

A. Defined contribution plans

The Company adopted a pension plan according to the Labor Pension Act (the “LPA”), which is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages. Accordingly, the Company recognized expenses of NT$3,961 thousand and NT$4,007 thousand in the consolidated statements of comprehensive income for the years ended December 31, 2016 and 2015, respectively.

B. Defined benefit plans

The Company adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement.

Tycoons worldwide Group (Thailand) Public Company Limited adopted the defined benefit plans.

The amount arising from the defined benefit obligations of the Group in the consolidated balance sheets were as follows:

	December 31, 2016	December 31, 2015
Present value of defined benefit obligation (Net defined benefit liability)	$ (24,030)	$ (25,592)

Movements in the present value of the defined benefit obligations were as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
BALANCE, JANUARY 1, 2016	$ (25,592)	$ —	$ (25,592)
Service cost			
Current service cost	(2,799)	—	(2,799)
Interest expense (income)	(588)	—	(588)
Recognized in profit or loss	(3,387)	—	(3,387)
Remeasurement			
Demography changes in estimates	5,722	—	5,722
Experience adjustments	(1,010)	—	(1,010)
Recognized in other comprehensive income	4,712	—	4,712
Effect of exchange rate changes	237	—	237
BALANCE, DECEMBER 31, 2016	$ (24,030)	$ —	$ (24,030)

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
BALANCE, JANUARY 1, 2015	$ (24,425)	$ —	$ (24,425)
Service cost			
Current service cost	(1,537)	—	(1,537)
Interest expense (income)	(546)	—	(546)
Recognized in profit or loss	(2,083)	—	(2,083)
Effect of exchange rate changes	916	—	916
BALANCE, DECEMBER 31, 2015	$ (25,592)	$ —	$ (25,592)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31, 2016	December 31, 2015
Discount rate	1.25%～3.30%	1.25%～4.30%
Expected rate of salary increase	2.00%～4.50%	2.00%～5.00%

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

	Effect of the present value of the defined benefit obligation	
December 31, 2016	Actual assumptions Increase 0.25%~0.50%	Actual assumptions Decrease 0.25%~0.50%
Discount rate	$ (1,000)	$ 1,001
Expected rate of salary increase	$ 1,008	$ (1,007)

	Effect of the present value of the defined benefit obligation	
December 31, 2015	Actual assumptions Increase 0.25%~1%	Actual assumptions Decrease 0.25%~1%
Discount rate	$ (1,001)	$ 1,913
Expected rate of salary increase	$ 1,920	$ (1,919)

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

(16) Equity

A. Capital stock

	December 31, 2016	December 31, 2015
Numbers of shares authorized (in thousands)	640,000	640,000
Shares issued (in thousands)	547,091	547,091

The movement of shares for the years ended December 31, 2016 and 2015 were as follows:

	Numbers of shares issued (in thousands)	Capital	Capital surplus
January 1, 2016	547,091	$ 5,470,911	$ 39,824
Actual disposal or acquisition of interest in subsidiaries	—	—	36,936
December 31, 2016	547,091	$ 5,470,911	$ 76,760

	Numbers of shares issued (in thousands)	Capital	Capital surplus
January 1, 2015	547,091	$ 5,470,911	$ 13,445
Actual disposal or acquisition of interest in subsidiaries	—	—	26,379
December 31, 2015	547,091	$ 5,470,911	$ 39,824

B. Capital surplus

	December 31, 2016	December 31, 2015
Adjusting of resell bonds	$ 7,722	$ 7,722
Actual disposal or acquisition of interest in subsidiaries	69,038	32,102
Total	$ 76,760	$ 39,824

The capital surplus from share issued in excess of par(additional paid-in capital from issuance of common shares etc.) and the part of accepted donation is able to offset the deficit; in addition, when the company has no deficit, such capital surplus may be distributed as cash dividends or stock dividends up to a certain percentage of Company's paid-in capital.

C. RETAINED EARNINGS AND DIVIDEND POLICY

	Legal reserve	Unappropriated earnings	Total
January 1, 2016	$ 16,248	$ (1,494,622)	$ (1,478,374)
Actuarial loss on defined benefit plans	–	2,448	2,448
Net loss attributable to the shareholders of the Company	–	(89,662)	(89,662)
December 31, 2016	$ 16,248	$ (1,581,836)	$ (1,565,588)

	Legal reserve	Unappropriated earnings	Total
January 1, 2015	$ 16,248	$ (913,529)	$ (897,281)
Net loss attributable to the shareholders of the Company	–	(581,093)	(581,093)
December 31, 2015	$ 16,248	$ (1,494,622)	$ (1,478,374)

a Based on the Company's Articles of Incorporation, the current year's earnings, if any, shall be distributed in the following order:

(A) Payment of all taxes.

(B) Making up loss for preceding years.

(C) Setting aside 10% for legal reserve, except for when accumulated legal reserve has reached the Company's paid-in capital.

(D) Appropriating or reversing special reserve by government officials or other regulations.

(E) The remaining, plus the previous year's unappropriated earnings, shall be distributed according to the distribution plan proposed by the Board of Directors according to the dividend policy and submitted to the stockholders' meeting for approval. According to the Company's Articles of Incorporation, 50%~100% of the distributable retained earnings shall be distributed as stockholders' bonus, of which at most 10% is payable by cash.

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The consequential amendments to the Company's Articles of Incorporation will be subject to the resolution of the shareholders in their meeting to be held in 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to note 6(23).

b. The general shareholders' meeting held on June 14, 2016 has approved to offset a deficit. Information about the meeting is available on the Market Observation Post System website of the TSE.

c. The general shareholders' meeting held on June 23, 2015 has approved to offset a deficit. Information about the meeting is available on the Market Observation Post System website of the TSE.

d. The Company appropriates and reverses special reserves under Rule No. 1010012865 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs". Distributions can be made out of any subsequent reversal of the debit to other equity item.

e. The Board of Directors' meeting held on March 13, 2017 has approved to offset a deficit. Information on the Board of Directors' recommendations and shareholders' approval can be obtained from the Market Observation Post System website of the TSE.

D. Other equity items

	Exchange differences arising from the translation of the foreign operations	Unrealized gain (loss) on available-for-sale financial assets	Total
January 1, 2016	$ 331,952	$ (30,891)	$ 301,061
Exchange differences on translating foreign operations	(91,288)	(1,319)	(92,607)
Change in fair value of available-for-sale financial assets	—	330	330
Share of other comprehensive income of associates and joint ventures	—	54,703	54,703
Income tax effects	15,519	—	15,519
December 31, 2016	$ 256,183	$ 22,823	$ 279,006

	Exchange differences arising from the translation of the foreign	Unrealized gain (loss) on available-for-sale financial assets	Total

	operations		
January 1, 2015	$ 520,974	$ 12,281	$ 533,255
Exchange differences on translating foreign operations	(227,738)	(1,744)	(229,482)
Change in fair value of available-for-sale financial assets	—	(1,234)	(1,234)
Share of other comprehensive income of associates and joint ventures	—	(40,194)	(40,194)
Income tax effects	38,716	—	38,716
December 31, 2015	$ 331,952	$ (30,891)	$ 301,061

The exchange differences arising on translation of foreign operation's net assets from its functional currency to Company's presentation currency are recognized directly in other comprehensive income and also accumulated in the foreign currency translation reserve.

Unrealized gain/loss on available-for-sale financial assets represents the cumulative gains or losses arising from the fair value measurement on available-for-sale financial assets that are recognized in other comprehensive income.

E. Noncontrolling interests

	2016	2015
Balance, beginning of year	$ 1,426,381	$ 1,707,080
Attributable to noncontrolling interests：		
Share of (loss) income for the year	50,362	(109,579)
Exchange differences on translating foreign operations	(80,282)	(171,120)
Balance, end of year	$ 1,396,461	$ 1,426,381

(17) <u>(Loss) Earnings per share</u>

BASIC (LOSS) EARNINGS PER SHARE

For the Years Ended December 31

	2016	2015
(Loss) profit for the years attributable to shareholders of the Company	$ (89,662)	$ (581,093)
Weighted average number of ordinary shares outstanding (in thousand shares)	547,091	547,091
Basic EPS	$ (0.16)	$ (1.06)

(18) Operating revenues

The analysis of the Group's operating revenues was as follows:

	For the Years Ended December 31	
	2016	2015
Revenue from the sale of goods	$ 6,885,166	$ 7,369,839
Revenue form processing	80,902	118,321
Total	$ 6,966,068	$ 7,488,160

(19) Other income

	For the Years Ended December 31	
	2016	2015
Interest income	$ 4,591	$ 6,067
Dividends	1,736	3,673
Total	$ 6,327	$ 9,740

(20) Other gains and losses

	For the Years Ended December 31	
	2016	2015
Loss on disposal of property, plant and equipment	$ (214,691)	$ (18,913)
Foreign exchange gain (loss)	8,307	(89,042)
(Loss) gain on financial assets and liabilities at fair value through profit or loss	(9,581)	14,542

Gain on reversal of doubtful debts		9,433		2,253
Reversal (recognization) of impairment loss of Property, Plant and Equipment		106,953		(51,211)
Impairment loss on financial assets		—		(57,789)
Gain on disposal financial asset		7,153		—
Others		152,329		13,825
Total	$	59,903	$	(186,335)

(21) Finance costs

	For the Years Ended December 31			
	2016		2015	
Interest expense	$	169,207	$	143,539
Other finance expense		14,545		7,766
Total	$	183,752	$	151,305

(22) Income tax

A. The components of income tax in the years 2016 and 2015 were as follows:

	For the Years Ended December 31			
	2016		2015	
Current tax expenses				
Current period	$	32,895	$	5,797
Adjustment for prior period		(3)		—
		32,892		5,797
Deferred tax expenses (benefit)				
Origination and reversal of temporary differences		16,206		(3,934)
Recognition of previously unrecognized tax losses		59,885		(2,284)
		76,091		(6,218)
Income tax expense (benefit)	$	108,983	$	(421)

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

	For the Years Ended December 31	
	2016	2015
Profit before tax	$ 69,683	$ (691,093)
Income tax using the statutory rate	52,046	25,458
Tax credits	(19,151)	(19,661)
Loss carryforwards	59,885	(2,284)
Other	16,203	(3,934)
Income tax expense (benefit)	$ 108,983	$ (421)

The applicable tax used above is the corporate tax rate of 17% payable by the Company in ROC, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other subsidiaries operating in other jurisdictions are based on the tax laws in those jurisdictions.

B. Income tax recognized in other comprehensive income

	For the Years Ended December 31	
	2016	2015
Exchange differences arising from the translation of the foreign operations	$ 15,519	$ 38,716

C. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2016

Deferred Tax Assets	Balance, beginning of year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Effect of foreign currency exchange differences	Balance, end of year
Temporary differences					
Exchange difference on foreign operations	$ (67,989)	$ –	$ 15,519	$ –	$ (52,470)
Exchange gain(loss)	729	(1,380)	–	–	(651)
Unrealized gain on the transactions with subsidiaries and associates	491	(80)	–	–	411
Unrealized gain/loss on financial assets and liabilities	(972)	84	–	–	(888)

Unrealized gain/loss on available-for-sale financial assets	363	—	—	—	363
Unrealized gain on the disposal of property, plant and equipment	178	—	—	—	178
Cost of goods sold-unallocated overhead	497	116	—	—	613
Interest expenses	(805)	805	—	—	—
Unrealized loss on inventories	8,704	(6,169)	—	(81)	2,454
Impairment loss	11,565	(11,105)	—	(165)	295
Provisions-employee benefits	3,038	(559)	—	(8)	2,471
Provisions-onerous contracts	1,169	1,128	—	17	2,314
Loss carryforwards	145,598	(59,885)	—	(59)	85,654
Total	$ 102,566	$ (77,045)	$ 15,519	$ (296)	$ 40,744
Deferred tax assets	$ 172,332	$ (77,283)	$ —	$ (296)	$ 94,753
Deferred tax liabilities	$ 69,766	$ (238)	$ (15,519)	$ —	$ 54,009

For the year ended December 31, 2015

Deferred Tax Assets	Balance, beginning of year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Effect of foreign currency exchange differences	Balance, end of year
Temporary differences					
Exchange difference on foreign operations	$ (106,705)	$ —	$ 38,716	$ —	$ (67,989)
Exchange gain(loss)	347	382	—	—	729
Unrealized gain on the transactions with subsidiaries and associates	624	(133)	—	—	491
Unrealized gain/loss on financial assets and liabilities	(1,827)	855	—	—	(972)
Unrealized gain/loss on available-for-sale financial assets	363	—	—	—	363
Unrealized gain on the disposal of property, plant and equipment	178	—	—	—	178
Cost of goods sold-unallocated overhead	227	270	—	—	497
Interest expenses	627	(1,432)	—	—	(805)
Unrealized loss on inventories	5,061	3,595	—	48	8,704
Impairment loss	11,565	—	—	—	11,565
Provisions-employee benefits	2,634	397	—	7	3,038
Provisions-onerous contracts	1,169	—	—	—	1,169
Loss carryforwards	147,753	2,284	—	(4,439)	145,598
Total	$ 62,016	$ 6,218	$ 38,716	$ (4,384)	$ 102,566
Deferred tax assets	$ 170,548	$ 6,167	$ —	$ (4,383)	$ 172,332

Deferred tax liabilities	$ 108,532	$ (51)	$ (38,716)	$ 1	$ 69,766

D. The information of unrecognized deferred income tax

	December 31, 2016	December 31, 2015
Loss carryforwards	$ 1,073,785	$ 907,392
Deductible temporary differences	$ 40,743	$ 77,093

E. As of December 31, 2016, the balances of income tax deductible from the losses carried forward from previous operating years for the Group are as follows:

December 31, 2016

Loss making year	Loss carry forwards	Expiry year
2006	$ 48,307	2016
2007	92,938	2017
2009	150,978	2018
2009	369,290	2019
2010	113,459	2018
2011	24,971	2016
2012	216	2017
2012	77,065	2018
2012	23,715	2022
2013	252,285	2018
2013	26,334	2023
2014	183,442	2019
2014	39,285	2024
2015	571,467	2020
2015	47,348	2025
2016	284,868	2031
Total	$ 2,305,968	

F. Integrated income tax information：

	December 31, 2016	December 31, 2015
Imputation credits accounts	$ 7,108	$ 7,108

	2016	2015
Estimated/actual creditable ratio for the distribution of earnings	—	—

G. Unappropriated earnings information：

	December 31, 2016	December 31, 2015
Unappropriated earnings generated on and after January 1, 1998	$ (1,581,836)	$ (1,494,622)

H. The Tycoons Group International Co., Ltd. a consolidated subsidiary of the Company, is registered in British Cayman Islands. Foreign source income is exempt from income tax in British Cayman Islands. The Company has no business activities in British Cayman Island.

Tycoons Worldwide Group (Thailand) Public Co., Ltd. a consolidated subsidiary of the Company, was granted promotional privileges on October 11, 1996, to manufacture steel wire rods and screws under category 2.15 manufacture of steel wire, round bars or steel billets and category 4.7 manufacture of metal wire or wire product. In accordance with promotional privileges, the company must export over 30% of annual gross sales at F.O.B. price. The promotional privileges includes exemption of import duty and business tax on machinery imported or manufactured locally, exemption of import duty and business tax on raw materials and supplies imported for its manufacture for a period of 5 years. From the first revenue making year, the company is exempted from corporate income tax for a period of 8 year; and an additional 5% deduction of the taxable export income, for the amount in excess of the taxable export income from the year before, for a period of 10 years.

Tycoons Worldwide Group (Thailand) Public Co., Ltd. was granted promotional privileges on April 9, 2003, to manufacture bolt & nut and screws under category 4.7 manufacture of metal wire or wire product. The promotional privilege entitles the company to exemption of import duty on machinery and raw materials and other essential materials imported for export sale for a period of 5 years. From the first revenue making year, the company is also exempted from corporate income tax on income derived from the business promoted for a period of 8 years, and 50% corporate income tax deduction upon the expiration of the complete corporate income tax exemption for an additional 5 years. The company is also entitled to an additional 5% deduction of the taxable export income, for the amount in excess of the taxable export income from the year before, for a period of 10 years. These privileges are subjected to the regulation set forth by the local government.

Kingford International Ltd., a subsidiary of the Company, is registered in Samoa. Foreign source income is exempt from local income tax. The subsidiary has no business activities in Samoa.

Baw-Heng Steel (Vietnam) Co., Ltd., a subsidiary of the Company, has received promotional privilege from the local government. Under such privilege, the subsidiary would be exempt from certain taxes and duties, including 15% corporate income tax for 12 years from the date when revenue is first earned and 28% afterward, exemption of corporate income tax for 3 years from the first profitable year and 50% exemption for the 7 years after. The year 2007 is the first year the subsidiary began business and made profit. Consequently, the subsidiary is currently 50% exempt from taxation.

Tycoons Vietnam Co., Ltd., a subsidiary of the Parent Company, has received promotional privilege from the local government. Under such privilege, the subsidiary would be exempt from certain taxes and duties, including 20% corporate income tax for 10 years from the date when revenue is first earned and 22% afterward, exemption of corporate income tax for 2 years from the first profitable year and 50% exemption for the 4 years after. The year 2013 is the first year the subsidiary began business and made profit. Consequently, the subsidiary is currently 50% exempt from taxation.

TY Steel Company Limited, a subsidiary of the Parent Company, has received promotional privileges on June 6, 2011. From the first revenue making year, the company is exempted from corporate income tax for a period of 3 years and 50% exemption for the 5 years after. The year 2014 is the first year the subsidiary began business and made profit. Consequently, the subsidiary is currently 100% exempt from taxation.

I. Income tax assessments

The Company's income tax returns through 2011 have been assessed by the tax authorities.

(23) <u>The personnel, depreciation and amortization expenses of the group</u>

A. A summary of current-period employee benefits, depreciation and amortization by function is as follows:

	For the Year Ended December 31, 2016			For the Year Ended December 31, 2015		
	Classified as operating cost	Classified as operating expenses	Total	Classified as operating cost	Classified as operating expenses	Total
Personnel expenses						
Payroll expense	$ 285,548	$ 175,544	$ 461,092	$ 289,930	$ 161,094	$ 451,024
Insurance expense	10,053	11,079	21,132	10,507	10,271	20,778
Pension	3,165	4,183	7,348	3,403	2,687	6,090
Others	9,577	3,706	13,283	8,838	2,990	11,828
Depreciation	449,474	28,023	477,497	352,050	26,702	378,752
Amortization	21,190	7	21,197	17,353	4,424	21,777

The employees of the Group and its subsidiaries were 1,390 and 1,338 as of December 31, 2016 and 2015, respectively.

B. Employee compensation

a. The Company shall allocate 2%~5% of profit as employees' compensation and no more than 1% of profit as directors' compensation for each profitable fiscal year after offsetting any cumulative losses. The aforementioned employees' compensation will be distributed in shares or cash. The employees of the Company's subsidiaries who fulfill specific requirements stipulated by the Board of Directors may be granted such compensation.

b. Due to accumulation deficit, there are no allocation as employees' compensation and remuneration to directors for the years ended December 31, 2016.

c. Due to accumulation deficit, there is no allocation as employees' compensation and remuneration to directors for the years ended December 31, 2016 and 2015.

Information on the aforementioned employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System on the website of the TWSE.

(24) Non-cash transactions

For the years ended December 31, 2016 and 2015, the Group entered into the following non-cash investing and financing activities:

	For the Year Ended December 31,2016		For the Year Ended December 31,2015	
Unrealized gain/loss on financial instrument	$	53,714	$	(43,172)
Exchange difference arising from the translation of the foreign operations	$	(75,769)	$	(189,022)

7. RELATED-PARTY TRANSACTIONS

A. Tycoons Group Enterprise Co., Ltd. is the ultimate parent company.

B. Significant transactions with related parties

a. Sales

	For the Year Ended December 31,2016			For the Year Ended December 31,2015		
	Amount		%	Amount		%
Associates	$	212,904	3	$	244,599	3

The sales prices and payment items to related parties were not significantly different from those of sales to third parties.

b. Accounts Receivable

	December 31,2016			December 31,2015		
	Amount		%	Amount		%
Associates	$	33,672	7	$	29,551	5

C. Compensation of key management

The compensation to directors and other key management personnel were as follows:

	For the Year Ended December 31, 2016		For the Year Ended December 31, 2015	
Short-term employee benefits	$	24,769	$	25,656

8. MORTGAGED OR PLEDGED ASSETS

The Group’s assets mortgaged or pledged as collateral for short-term borrowings and long-term borrowings were as follows (listed based on their carrying amounts):

	December 31, 2016		December 31, 2015	
Debt investments with no active market	$	287,112	$	299,873
Property, plant and equipment	$	7,722,903	$	7,712,354

9. COMMITMENTS AND CONTINGENT LIABILITIES

A. As of December 31, 2016 and 2015, the balances of unused letters of credit for the Company were USD 0 thousand and USD 2,960 thousand respectively.

As of December 31, 2016 and 2015, the balances of unused letters of credit for the Tycoons Group International Co., Ltd. were USD 0 thousand and USD 1,587 thousand respectively.

B. As of December 31, 2016 and 2015, the Company provided guarantee note deposits were $971,800 thousand and $970,800 thousand to the banks as securities against credit facilities.

C. As of December 31, 2016 and 2015, Tycoons Worldwide Group (Thailand) Public Co., Ltd. had raw material purchase commitments amounting to USD 1 million and USD 7 million respectively. The materials will be shipped to the company within 90-180 days from the contract date.

D. As of December 31, 2016 and 2015, Tycoons Worldwide Group (Thailand) Public Co., Ltd. had capital commitments amounting to approximately Baht 4 million and Baht 9 million, respectively, relating to purchase of machine and equipment; TY Steel Co., Ltd. had capital commitments amounting to approximately 484,569 thousand and 274,550 thousand respectively, relating to purchase of machine and equipment.

E. As of December 31, 2016 and 2015, Tycoons Worldwide Group (Thailand) Public Co., Ltd. had outstanding bank guarantees amounting to Baht 57 million, issued by banks on behalf of the company in respect of certain performance bonds for electricity use among others.

F. SIGNIFICANT OPERATING LEASE ARRANGEMENTS

TY Steel Co., Ltd. leased land for operating business and the lease period were 10 years and 30 years.

Future minimum lease payments under the above non-cancellable operating leases are as follows:

	December 31, 2016	December 31, 2015
Less than 1 year	$ 4,507	$ 4,556
1 year to 5 years	11,717	13,668
More than 5 years	66,696	82,918
	$ 82,920	$ 101,142

10. SUBSEQUENT LOSSES: None.

11. SUBSEQUENT EVENTS: None.

12. OTHER: None.