

2016 ANNUAL REPORT

105年度年報 上市股票代碼：2204



中華汽車工業股份有限公司
CHINA MOTOR CORPORATION



中華汽車

Stock Code : 2204

China Motor Corporation

2016 Annual Report

(Translation)

Printed on March 31, 2017

Notice to Readers

The Annual Report have been translated into English from the original Chinese version. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese version shall prevail.

I. Information regarding Spokesperson, Deputy Spokesperson

Spokesperson: Ching-Wu Chien

Title: Vice President

Deputy Spokesperson: Yu-Chun Su

Title: General Manager, Corporate Planning Division, China Motor Corporation

Tel: 886-3-4783191

Email: 0800@china-motor.com

II. Contact Information of Headquarter, Branch Company and Plant

Headquarter

Address: 11F., No.2, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan

Tel: 886-2-23250000

China Motor Training Center

Address: No.3, Qingnian Rd., Yangmei Dist., Taoyuan City 326, Taiwan

Tel: 886-3-4641100

Yang Mei Plant

Address: No.618, Xiucui Rd., Yangmei Dist., Taoyuan City 326, Taiwan

Tel: 886-3-4783191

Hsin Chu Plant

Address: No.2, Guangfu Rd., Hukou Township, Hsinchu County 303, Taiwan

Tel: 886-3-5985841

III. Common Share Transfer Agent and Registrar

Company: China Motor Corporation

Address: 7F., No.150, Sec. 2, Nanjing E. Rd., Zhongshan Dist., Taipei City 104, Taiwan

Tel: 886-2-25156421

Website: <http://www.china-motor.com.tw>

IV. Information regarding 2016 Auditors

Company: Deloitte & Touche

Auditors: Eddie Shao, Lilac Shue

Address: 12F, 156, Sec. 3, Min-Sheng E. Rd., Taipei 105-96, Taiwan

Tel: 886-2-25459988

Website: <http://www.deloitte.com.tw>

V. Information regarding Depositary: N.A.

VI. Corporation Website: <http://www.china-motor.com.tw>

Table of Contents

[Letter to Shareholders] -----	4
[Company Profile] -----	6
I. Founding Date	6
II. Company History.....	6
III. Business Results.....	12
IV. Charity.....	13
[Corporate Governance] -----	21
I. Organization.....	21
II. Directors and Management Team	22
(I) Information Regarding Board of Directors	22
(II) Directors' Professional Qualifications and Independent Analysis	35
(III) Information Regarding President, Executive Vice President, Vice President, and General Manager of Each Department.....	36
(IV) Remuneration Paid to Board of Directors, Supervisors, President, and Executive Vice President in the Latest Year	42
(V) Employment Compensation Granted to Management Team.....	47
III. Implementation of Corporate Governance.....	48
(I) Board of Directors Meeting Status	48
(II) Attendance of Supervisors for Board Meetings	49
(III) Audit Committee Meeting Status.....	50
(IV) Corporate Governance Execution Status and Deviations from “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”.....	53
(V) Composition, Responsibilities and Operations of Compensation Committee.....	58
(VI) Social Responsibility	60
(VII) Taiwan Corporate Conduct and Ethics Implementation as Required by the Taiwan Financial Supervisory Commission.....	64
(VIII) Corporate Governance Guidelines and Regulations.....	67
(IX) Other Important Information Regarding Corporate Governance.....	67
(X) Internal Control System Execution Status	68
(XI) Punishment and Improvement Status of Violation Internal Control System during the 2016 Calendar Year and up to March 31, 2017.....	69
(XII) Major Resolutions at Shareholders Meetings and Board of Directors Meetings during the 2016 Calendar Year and up to March 31, 2017.....	69
(XIII) Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors during the 2016 Calendar Year and up to March 31, 2017	71
(XIV) Resignation or Dismissal of Chairperson, President, and General Manager of Accounting, Finance, Internal Audit and R&D during the 2016 Calendar Year and up to March 31, 2017.....	71
IV. Information Regarding Audit Fees	72
V. Information Regarding Replacement or Rotation of Accountants	73
VI. Chairperson, President and General Manager of Financial Affairs or Accounting Working in CMC’s Independent Audit Firm or its affiliates during 2016.....	73
VII. Changes in Shareholding of Directors, Managers and Major Shareholders	74
VIII. Information Disclosing the Relationship between any of the Top 10 Shareholders	75
IX. Long-Term Investment Ownership	76

Table of Contents

[Capital Overview]	77
I. Capital and Shares	77
(I) Sources of Capital	77
(II) Type of Stock	77
(III) Status of Shareholders	77
(IV) Shareholding Distribution Status	78
(V) List of Major Shareholders	78
(VI) Market Price, Net Worth, Earnings, and Dividends per Share	79
(VII) Corporate Dividend Policy and Implementation Status	79
(VIII) The Impact of Stock Dividend Issuance on Business Performance and EPS	80
(IX) Employee Compensation and Directors' Remuneration	80
(X) Buyback of Treasury Stock	82
II. Issuance of Corporate Bonds	82
III. Issuance of Preferred Stock	82
IV. Issuance of Depository Receipts	82
V. Status of Employee Stock Option Plan and Employee Restricted Stock	82
VI. Status of New Share Issuance in Connection with Mergers and Acquisitions	82
VII. Financing Plans and Implementation	82
[Operational Highlights]	83
I. Business Activities	83
(I) Business Scope	83
(II) Industry Overview	86
(III) Technology and R&D Overview	88
(IV) Long- and Short-term Business Development Plan	89
II. Market, Production, and Sales Overview	89
(I) Market Analysis	89
(II) Main Uses and Production Processes of Major Products	93
(III) Supply Status of Main Materials	94
(IV) Major Suppliers and Clients Taking over 10% of the Amount of Incoming (Sales) over the Last Two Years	94
(V) Production over the Last Two Years	96
(VI) Sales over the Last Two Years	96
III. Human Resources	96
IV. Environmental Cost	97
(I) Losses and Fines Caused by Environmental Pollution during the 2016 Calendar Year and up to March 31, 2017	97
(II) Forecast of Environmental Cost for the Next Three Years	97
V. Labor and Management Relationship	97
(I) Employee's Benefits, Training, Retirement Measures and Implementation	97
(II) Dispute between Labor and Management during the 2016 Calendar Year and up to March 31, 2017	102
VI. Major Contracts	103
[Financial Highlights]	104
I. Condensed Balance Sheet and Statement of Comprehensive Income over the Last Five Years	104
(I) Condensed Balance Sheet and Statement of Comprehensive Income	104
(II) Auditors' Opinions over the Last Five Years	107

Table of Contents

II. Financial Analysis over the Last Five Years	108
III. Audit Committee's Review Report	111
IV. Consolidated Financial Statements and Appendix	112
V. Financial Statements and Appendix of the Corporation	196
VI. Financial Difficulties during the 2016 Calendar Year and up to March 31, 2017	256

[Review of Financial Status, Operating Results, and Risk Management] **258**

I. Analysis of Financial Status	258
II. Analysis of Operating Results	259
III. Analysis of Cash Flow	260
IV. Major Capital Expenditure	260
V. Re-investment Policies in last year and Major causes for Profit/Loss and Improvement, and Investment Plans in the coming year	261
VI. Risk Management	262
(I) Impact on profits/losses of Interest rate volatility, Exchange rate volatility and Inflation and the Future Countermeasures	262
(II) Risks Associated with High-risk/High-leveraged Investment; Lending, Endorsement and Guarantees; and Derivative Transactions	263
(III) Future R&D Plans and Expected R&D Spending	263
(IV) Effects of and Response to Changes of Government Policies and Regulatory Environment	263
(V) Effects of and Response to Changes in Technology and Industry	263
(VI) Effects of and Response to Changes in Corporate Image on Company's Crisis Management	263
(VII) Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans	263
(VIII) Expected Benefits from, Risks Relating to and Response to Capacity Expansion	263
(IX) Risks Associated with Sales and Purchase Concentration	264
(X) Effects of, Risks Relating to and Response to Sales of Significant Numbers of Shares by Directors, and/ or Major Shareholders Who Own 10% or More of the Corporation's Total Outstanding Share	264
(XI) Effects of, Risks Relating to and Response to Changes in Control over the Corporation	264
(XII) Risks Associated with Litigation or Non-litigation Matters	264
(XIII) Other Risks	264
VII. Other Information Matters	264

[Special Disclosure] **265**

I. Summary of Affiliated Companies	265
(I) Consolidated Business Report of Affiliated Enterprises	265
(II) Consolidated Financial Statement of Affiliated Enterprises	275
(III) Affiliation Report	276
II. Private Placement Securities during the 2016 Calendar Year and up to March 31, 2017	277
III. Status of Shares Held or, Disposed of, by Subsidiaries during the 2016 Calendar Year and up to March 31, 2017	277
IV. Other Special Notes	277
V. Impacts of Significant Events on Shareholders' Rights or Stock Value during the 2016 Calendar Year and up to March 31, 2017	277

Letter to Shareholders

In 2016, demands for replacement vehicles have soared in the automotive market in Taiwan following the government's policy of subsidizing the replacement of old vehicles. About 439 thousand licenses were issued for the entire automotive market, equivalent to a 4.5% growth compared to the previous year.

To stimulate market demand, CMC released the all-new Outlander and a number of other vehicle models with enhanced competitiveness last year (2016), including the smart and enhanced version of the Colt Plus and imported vehicles such as the Lancer Sportback and Pajero, all of which have been positively received by the consumers. The aforementioned new car models sold 46,952 vehicles domestically in 2016 and achieved a consolidated revenue of NT\$ 40.73 billion, a consolidated net revenue of NT\$ 2.6 billion, a consolidated net income after tax of NT\$ 3.6 billion, and an after-tax EPS of NT\$ 2.34, wherein the figure for net income after tax reached a new high since 2006. For the overseas market, dedicated sales expansion by overseas dealers and fellow colleagues sold 1,280 vehicles last year (2016) and 13,530 sets of CKD parts, which was a nearly 30% growth compared to the external sales achieved in 2015.

Looking to 2017, CMC shall continue pursue expansions to domestic and overseas sales as well as upgrades to vehicle models in order to improve the competitiveness of the CMC brand. For domestic sales, in addition to the completely upgraded GRAND LANCER as well as the Zinger compact multi-purpose vehicle (MPV) with improved internal furnishings and external styling, and upgraded safety features that were introduced in April, the improved Colt Plus and the all-new Eclipse Cross crossover sport utility vehicle (CUV) imported directly from Japan will be released in the second half of the year to satisfy the market's diverse requirements and leverage the continuing implementation of the policy for subsidizing replacement of old vehicles. Such measures are expected to achieve improvements in year-round sales for this year (2017) compared to 2016. For overseas sales for this year (2017), in addition to continued expansions in the Southeast Asia, Middle East, and Central and South American markets, CMC shall also pursue expansions in Central America and Lebanon to generate new overseas sales opportunities.

For the Mainland Chinese auto market, South East Motor (SEM), an investee of CMC, has

Letter to Shareholders

continued to achieve good sales performance for the DX7 SUV model. In November last year (2016), SEM further released the mini-SUV DX3 and achieved total auto sales of 118 thousand vehicles last year (2016), a 54.8% growth compared to the same period in 2015. New models of DX7 and DX3 as well as the DX3 sports special edition model to be released this year (2017) are expected to sell 158 thousand units and set a record achievement.

Furthermore, Fujian Benz, an investee of CMC, sold 12.6 thousand vehicles in 2016 (nearly 80% growth compared to the same period in 2015) with the V-class luxurious multi-functional model and the New Vito new car model. For 2017, continuing positive reception and sales performance for the V-class are expected to raise annual sales to 21 thousand vehicles.

For new business development, two-wheeled electric vehicle sales from CMC sold 6,295 units in 2016, including 4,632 units of electric scooters for a market share of 22.1%. CMC continues to have high expectations for the potential of the electric scooter market, and will continue promotional efforts targeting environmentally-conscious individuals and continue to plan and release normal-sized and heavy electric scooters with greater performance and longer ranges to expand the client base for the electric scooter market. Annual sales are expected to increase beyond the figures achieved last year (2016).

CMC sincerely thanks all shareholders for their dedicated support and encouragement. Market competition is expected to become more intensive in 2017, but we will continue to work towards improving our sales performance to express gratitude towards our shareholders.



Kenneth K.T. YEN

Chairperson

March 31, 2017

Company Profile

I. Founding Date

June 13, 1969

II. Company History

- June 1969: The Corporation was founded by late Yen Tjing Ling with capital NT\$100 million.
- October 1970: The Corporation signed technique cooperation contract with Mitsubishi Motors Corporation.
- December 1973: Yangmei Plant was built, manufacturing Fuso and Delica.
- November 1983: A new painting plant was built.
- October 1984: Equipment for processing crank shafts and cam shafts were implemented and started production.
- June 1986: Mitsubishi Motors Corporation (MMC) and Mitsubishi Corporation officially invested the Corporation, holding 19% and 6% of the stock respectively.
- December 1988: Verica, a light commercial vehicle, was developed by the Corporation successfully, launched for formal production.
- May 1989: Practicing two-shift rotation production.
- December 1990: Mechanical stamping plant was built, and Hsinchu Plant was built.
- March 1991: The stock of the Corporation was officially listed in Taiwan Stock Market.
- September 1993: Authorized ISO 9002 certification by Bureau of Standards, Metrology, and Inspection.
- October 1993: Won National Quality Award, Executive Yaun.
- December 1993: Lancer was released.
- March 1994: Authorized ISO 9002 certification by BSI.
- June 1994: Libero was released.
- June 1994: China Motor Training Center was initiated.
- November 1995: Founded South East (Fujian) Motor Co., Ltd.(SEM) with Fujian Motor Industry Group Co., Ltd.(FJMOTOR)
- November 1996: Lancer Virage was released.
- April 1997: Authorized ISO 14001 certification by BSI.
- July 1997: Space Gear was released, the Corporation entering RV market.

Company Profile

- July 1997: Authorized ISO 14001 certification by Bureau of Standards, Metrology, and Inspection.
- September 1997: Freeca was released. The Corporation initiated international division of labor model.
- March 1998: Automatic multiple car body welding production line was launched.
- May 1998: All New Galant was released.
- June 1998: Over 1 million cars were sold.
- July 1998: SEM, invested by the Corporation, was allowed to make construction and production.
- July 1999: China-Motor Indigenous Culture and Education Foundation was founded.
- September 1999: SEM, a company in China invested by the Corporation, was completed for production.
- October 1999: Authorized ISO 9001 certification by BSI.
- December 1999: The main building of CARTEC was completed.
- February 2000: Freeca was released by SEM.
- March 2000: A store with the brand CMC was built in Muscat, Oman.
- September 2000: Veryca was released.
- February 2001: Veryca Magic was released.
- July 2001: ERP system was launched, the Corporation becoming the first motor company using SAP system in Taiwan.
- October 2001: Savrin was released.
- November 2001: Hsinchu Plant was honored TPM Excellence Award by Japan Institute of Plant Maintenance (JIPM).
- November 2002: SEM was approved to manufacture automobiles in China.
- December 2002: A facelift of All New Gallant was released.
- May 2003: A facelift of Global Lancer was released.
- May 2003: Space Gear was exported to the Philippines.
- December 2003: Freeca was released.
- December 2003: Chinese Government approved the cooperation of Benz light passenger car between the Corporation, Daimler AG, and FJMOTOR.
- December 2003: Yangmei Plant was honored TPM Excellence Award by JIPM.

Company Profile

- June 2004: New Savrin was released.
- November 2004: Chinese Government approved the Corporation's investing feasibility analysis about the production of "passenger vehicle, commercial vehicle, and related components" in cooperation with Daimler AG, and FJMOTOR.
- December 2004: Grunder 2.4L was released.
- December 2004: Hsinchu Plant received a cross-level Special Award for TPM Achievement from JIPM.
- June 2005: New Space Gear was released.
- October 2005: Over 300 thousand cars of Lancer were sold.
- October 2005: The Corporation signed a cooperation contract with AMG, the second largest automobile selling group in Kuwait to release Veryca 1.2L/1.6L and Varica 1.2L commercial vehicle with CMC brand in The United Arab Emirates from 2006 on.
- December 2005: Zinger was released.
- January 2006: Complete Built Unit (CBU) of Grunder was exported to the Philippines, the first export of high-level car in Taiwan.
- February 2006: Authorized TS 16949 certification by BSI.
- April 2006: The Corporation signed an agreement to sell 25% of the SEM issuing stocks to MMC.
- April 2006: The Corporation undertook the production of Chrysler's Town & Country RV, which was the first time of it to be technically authorized and produced overseas.
- November 2006: SEM released Galant 2.4L into high-level car market in China.
- November 2006: The Corporation signed a letter of intent with Chrysler to produce Dodge brand vehicles and exported them to Mexico from Taiwan.
- December 2006: SEM signed an export contract with Mehreghan Investment Corporation, Iran and its agency Setareh Nik Aria Vehicle Manufacturing Co. in Beijing to export 8,000 Delica to Iran in 2007.
- January 2007: To promote the quality of customer service, from January 1, 2007 on, the warranty period of all the cars, RVs, small commercial vehicles is extended from two years or 50,000 kilograms to three years or 100,000 kilograms.

Company Profile

- January 2007: Hsinchu Plant received Advanced Special Award for TPM Achievement from JIPM, being the first in Taiwan and the 13th in the world to win this award.
- January 2007: Yangmei Plant received Special Award for TPM Achievement from JIPM.
- January 2007: Ministry of Commerce of the People's Republic of China approved the Corporation invested by the Corporation, Daimler AG, and FJMOTOR.
- March 2007: A facelift of All New Canter/Fuso was released.
- March 2007: Announced Driving Vision, a new manifesto of the brand.
- March 2007: Colt Plus 1.6L was released.
- May 2007: The first batch of CBU car of Zinger was exported to Mitsubishi Motors Philippines Corporation (MMPC).
- June 2007: The Corporation co-founded Fujian Daimler Motors Industry Co., Ltd. with Daimler AG, and FJMOTOR. (in 2012, it was renamed as Fujian Benz Automotive Co., Ltd.(FBAC))
- September 2007: Lancer Fortis 2.0L was released.
- October 2007: The ceremony of plant construction for Fujian Daimler Motors Industry Co., Ltd. (now Fujian Benz Automotive Co., Ltd.) was held.
- December 2007: A facelift of New Grunder was released.
- April 2008: Outlander 2.4L was released.
- April 2008: Imported with original packaging from Japan, All New Pajero 3.2L diesel edition and Outland 3.0L were released.
- May 2008: LANCER iO/LANCER FORTIS 1.8L/1.8L with aero kit Edition was released.
- September 2008: A new edition of Super Zinger 2.4L with MIVEC engine was released.
- September 2008: The first batch of Completely Knocked-Down (CKD) of Zinger was exported to Vietnam.
- April 2009: Announced 「Drive@earth」 as the new spirit of of MMC.
- April 2009: A limited edition of Lancer Fortis 1.8L/2.0L was released.
- May 2009: Imported 2009 edition Pajero 3.2L/Outlander 3.0L was released.
- May 2009: A new edition of Outlander 2.4L was released.
- June 2009: The third generation of Savrin was released.
- June 2009: Ralliart, mini foldable bike, sports edition, was released.
- September 2009: Lancer Ex was released by SEM.

Company Profile

- October 2009: Colt Plus 1.6L/Colt Plus iO was released.
- October 2009: The first time Veryca was exported as CBU to the US.
- October 2009: The safety-upgraded Super Zinger 2010 Edition was released.
- November 2009: 2010 edition of New Grunder was released.
- November 2009: 2010 edition of Lancer Fortis 1.8L/Lancer iO 2.0L was released.
- November 2009: Veryca 1.3L with a upgraded powerful engine, was released.
- December 2009: The Corporation joined in green energy industry, releasing "e-moving", an electric scooter.
- January 2010: Ralliart's mountain bike/road bike was released.
- March 2010: A new green energy brand for export 「GreenTrans」 was announced.
- May 2010: A special edition of Lancer Fortis 1.8L was released.
- June 2010: "E-moving" electric scooter and "e-moving" electric mini foldable bike were released
- October 2010: A special edition of Colt Plus was released.
- October 2010: A new edition of Outlander 2.4L was released.
- December 2010: Light passenger car, C1, was released by SEM.
- March 2011: GreenTrans' e-moving electric scooters were exported to Europe.
- April 2011: A more spacious edition Colt Plus was released.
- September 2011: A new Outlander iO was released.
- November 2011: A facelift of Boss Zinger was released.
- March 2012: Lancer iO was released.
- March 2012: E-moving plus and e-moving young were released.
- September 2012: Lancer Fortis was exported to Middle East.
- September 2012: V5 was released by SEM.
- December 2012: A new style of Delica was released.
- May 2013: Pro Canter eco-friendly edition which comply with 5th emission standard was released.
- May 2013: Imported Lancer Sportback hatchback, three-door and five-door off-road diesel RV Pajero was released.
- June 2013: E-moving Super was released.
- August 2013: V6 was released by SEM.

Company Profile

- September 2013: Electric bike, e-moving Bobe, was released. Product series of electric two-wheeled were complete.
- September 2013: Colt Plus mini RV was released.
- September 2013: A new style of Super Veryca was released.
- October 2013: 3.5T Leadca commercial vehicle was released.
- May 2014: The electric 2-wheel products with GreenTrans brand will be sold in Germany,.
- June 2014: A facelift of Lancer iO/Fortis was released.
- September 2014: Imported the Lancer Sportback 1.8L/Pajero 3.2L diesel 2015 version was released.
- November 2014: The Outlander was selected as the appointed timer car for the 2014 Yi-lan Chiang Wei-shui Memorial Freeway Marathon.
- December 2014: The new-generation Outlander and imported Outlander PHEV were released.
- December 2014: The Colt Plus X-Sports was released.
- April 2015: Lancer iO dazzling color lozenge special edition was released.
- July 2015: DX7 was released officially by SEM.
- September 2015: Colt Plus attacking special edition was released.
- September 2015: Research and develop Zinger independently, and have the car released with China Motor Brand.
- April 2016: Colt Plus ocean special edition was released.
- October 2016: New Outlander was released.
- March 2017: A best seller MPV Zinger was released.
- April 2017: Grand Lancer was released.

Company Profile

III. Business Results

- (1) Won the first place in Award of Corporate Social Responsibility, traditional industry group, Global Views Monthly, three years in a row, and was listed in CSR three times.
- (2) COLT PLUS, LANCER iO, and OUTLANDER were certified with energy label by Ministry of Economic Affairs.
- (3) Received the Award of Corporation with the Highest Average Asset Return in the Past 20 Years from China Credit Information Service, Ltd.
- (4) Selected as 2010 Excellent Company with Friendly Working Space by Ministry of Labor.
- (5) China Motor Training Center was honored as Excellent Training Unit in Taoyuan Area, Vocational Training Bureau, Executive Yuan.
- (6) E-moving electric scooter was certified TES (Taiwan E-scooter Standard) by Industrial Development Bureau, Ministry of Economic Affairs and honored as Eco-Friendly Vehicle of the Year by Environmental Protection Agency.
- (7) In 2010, e-moving electric motorcycle received iF Design Award, Germany, Taiwan Excellence, Award of Good Design Mark, and Golden Pin Design Award, Industrial Development Bureau, Ministry of Economic Affairs.
- (8) Outlander and Lancer Fortis received Award of High Efficient Dynamics and Award of Energy Conservation in Yahoo! 2010 Outstanding Vehicle Competition respectively.
- (9) Received Award of Outstanding Corporation for Environmental Protection and Green Energy, Taoyuan County.
- (10) Received double award in the first National Training Quality Award.
- (11) Lancer received Award of High Efficiency in Energy Conservation and Award of Fun in Driving in Yahoo! 2011 Outstanding Vehicle Competition.
- (12) Won the second Taiwan Green Classics Award, Ministry of Economic Affairs.
- (13) Won "Quality Award" in 2013 Business Next Green Brand Survey.
- (14) Ranked Number 2 in 2013 Automobile Industry of the Excellence of Corporate Social Responsibility of Common Wealth Magazine.
- (15) The Electric Scooter, e-moving-Super won the 22th Taiwan Excellence.
- (16) The Mid-Motor Kit of GreenTrans has won the 23rd Taiwan Excellence from Ministry of Economic Affairs.
- (17) Won the 2014 9th National HRD InnoPrize from Ministry of Labor.

- (18) Ranked Number 1 in 2014 Automobile Industry of the Excellence of Corporate Social Responsibility of Common Wealth Magazine.
- (19) The China Motor Mitsubishi service system ranked number 1 in 2014 J.D. Power Customer Satisfaction Study of domestic car.
- (20) Honored as “Top 5% of Listed Companies” based on the performance in the corporate governance evaluation of 1st term organized by TWSE.
- (21) Honored as 1st place of Commonwealth CSR Award – Automobile Industry in 2015.
- (22) Receive the large-scale enterprise award, 2015 National Talent Development Awards, by Workforce Development Agency, Ministry of Labor.
- (23) Honored as “Top 5% of Listed Companies” based on the performance in the corporate governance evaluation of 2nd term organized by TWSE.
- (24) Honored as 1st place of Commonwealth CSR Award – Automobile Industry in 2016.
- (25) Achieved Ministry of Economic Affairs (MOEA) Excellence Award for Energy Conservation in 2016.

IV. Charity

- (1) Since 2007, a series of activities of Mitsubishi Motors for Children has been held to cultivate children's idea for safe driving. So far, over 50,000 children have driven electric BuBu cars. By experiencing how to drive, children are able to learn correct safe driving ideas and Mitsubishi Motors' spirit of environmental protection and energy conservation.

- (2) Sending a Car to Wu Feng Elementary School

To reduce the differences between urban and rural areas and balance resource distribution, the Corporation worked with Charity Association led by Fu Juan and Dun Hua Elementary School to hold a fundraising activity to help Wu Feng Elementary School to own a school bus of their own. Children held a charity concert and donated their allowance to give Wu Feng Elementary School a hand. The Corporation sponsored half of the amount for the vehicle in order to realize the children's dream. This Veryca was like a angel fulfilling children in Wu Feng Elementary School's dream of moving around freely.

- (3) To sponsor Taipei International Flora Exposition

To support the government's international activity and display the results of Taiwan Electric

Company Profile

Scooter, the Corporation provided 20 e-moving Electric Scooters as police's vehicles for patrolling at 2011 Flora Exposition to keep millions of tourists safe.

- (4) To sponsor Lovely Taiwan Foundation with one Colt Plus for residents in Jialan Village Taitung to rebuild their home.

To help rebuild Jialan Village, destroyed by Typhoon Morakot, the Corporation established a tribe square and provided Lovely Taiwan Foundation with one Colt Plus to assist the industrial development. The construction of the tribe square of Jialan Village was initiated in January 2011, whereas the Colt Plus joined to rebuilding work from August 2011 on.

- (5) To sponsor St. John's University with one Delica for teachers and students in their community services.

The Corporation participated in Yulon Group's talent training program "10 Years for 1000 People," providing resources in automobile industry to cultural education. To help St. John's University with better education resources, in 2011, the Corporation donated one Delica to serve as a vehicle for administration support and community services for teachers and students.

- (6) The project for Travelling Library was initiated.

To reduce the differences between urban and rural areas, the Corporation sponsored Commonwealth Educational Foundation for the project of Travelling Library in a long run, enabling students in 200 elementary schools in rural areas to the world of reading. In 2004, 2005, and 2007, the Corporation exclusively sponsored 3 vehicles for travelling libraries. For many years, they have travelled around the rural elementary schools in Taiwan for over 90,000 kilometers. In 2011, cooperating with Commonwealth Educational Foundation, the Corporation refurbished Travel Library No.2 and No.3 and rebuilt NO.4, bringing more good books to students in rural elementary schools.

- (7) To support a film made by indigenous people in Taiwan *Finding Sayun*.

To encourage the development of cultural and creative industries in Taiwan, during 2009 and 2011, the Corporation sponsored the production of the movie *Finding Sayun*, made by indigenous people and provided Outlander and Delica for the movie. It became a new model for the cooperation between art and enterprise.

Company Profile

- (8) To sponsor the tour performance of "Telling a Story around the World--Mitsubishi Earth Saving Team" around the rural areas in Taiwan.

The Corporation promoted reading in 2011, hoping to help people in rural indigenous villages to have more opportunities to read books. During November 2011 and January 2012, cooperating with Ifkids Troupe, China-Motor Indigenous Culture and Education Foundation held "Telling a Story around the World." Ifkids Troupe created a play "Mitsubishi Earth Saving Team" and toured around four rural elementary schools, Zhong Xiao Elementary School in Taipei City, Sai Jia Elementary School in Pingtung, Bai Leng Elementary School in Taichung, and Xia Yun Elementary School in Taoyuan County to teach children the ideas to protect the Earth, conserve energy, and reduce carbon.

- (9) The Corporation sponsored vehicles for Ping Deng Elementary School, Taichung City

The Corporation has been caring about minority groups for long time. In early 2012, the Corporation learned that because Ping Deng Elementary School was located in remote mountain area in Taichung Heping District, it was very inconvenient for students to commute back and forth. To solve the problem, the Corporation donated one Delica as a shuttle bus and for administration support.

- (10) Through "cooperation between agriculture and corporation," the Corporation participated in the produce marketing project by the indigenous in Jianshi Township, Hsinchu County, promoting organic fruit and vegetable charity bazaar in the Corporation. The employees even bought 600 kilograms of persimmons from the indigenous farmers in Jianshi Township. Besides, the Corporation also offered subsidy for farmers in Jianshi Township to buy a new commercial vehicle.

- (11) Cooperating with Taiwan Black Bear Conservation Association, the Corporation held a press for the campaign of 2012 Taiwan black bears conservation promotion, spreading the ideas of Taiwan black bear conservation.

- (12) In 2014, CMC and farmers of the Olalip Community from Amis in Hegang Village, Hualien, co-organized the "Celebrating Mid-autumn Festival with Laocong Pomelo Group Buying" and "Heart Sweet Heart Painted Pomelo" employee pomelo painting competition. With the heated support of employees, employees purchased nearly 3,500kg of pomelos to create

Company Profile

excellent sales achievements.

- (13) In 2014, CMC employees and family voluntarily launched the “Books for Yisheng Elementary School” dream actualization activity. Great amount books from employees and families were collected and distributed to elementary schools in remote areas or schools to share resources with indigenous children, hoping to cultivate reading habits in these children and thereby prepare them for a better future.
- (14) In 2014, CMC launched cooperation with “Buy Nearby” to organize vegetable and fruit charity sale at Simple Life Festival to realize philanthropy with the public in real action by purchasing homegrown organic vegetables and fruit from nearby farmers.
- (15) In February 2015, CMC recruited supplies from employees and distributed them to Qoyaw Community in Fuxing District, Taoyuan City, for indigenous peoples living in remote areas to feel the warmth from CMC before Chinese New Year.
- (16) Send love to the tribe village “Help Marketing of May Peach in Jianshi” in May 2015
Because of the warm climate in 2015, peaches were produced in abundance. Notwithstanding, the peaches planted by seven old ladies under the “natural framing method” in Jianshi Township, Hsinchu could not find sales channels to market their peaches because of the abundant production. The Corporation helped these old ladies market their peaches. As a result, the sales of group purchase by the Corporation amounted to NT\$200,000 in no more than one week.
- (17) Direct delivery of organic vegetables from the tribe village to the Corporation for the Corporation’s organic vegetable day
In order to enable the indigenous farmers’ production and marketing to become more stable and to provide employees with healthy and fresh organic vegetables, the Corporation allied with farmers from tribes throughout Taiwan for the first time, and purchased the organic vegetables which are produced in small quantities and have unstable sale channels at reasonable cost, and supplied the vegetables to staff restaurants to benefit the Corporation’s employees.
- (18) Start from China Motor Corporation: To raise second-hand digital cameras and send these cameras to the remote areas

Company Profile

In order to make Hagay Tribe children's dreams come true and preserve the memories of home for them, the Corporation headed for Hagay Tribe, in which the people have lived in pre-fabricating housing for 12 years after their homeland was destroyed by torrential rain, and taught the tribe children how to use cameras to help them keep preserve pictures of their homeland, which was about to be removed.

- (19) China Motor Corporation performed the down roots plan, offered the technical and vocational education 4.0, and donated 7 testing cars

In order to upgrade the technical and vocational system's educational resources and train more automobile talents, the Corporation has successively donated 7 testing cars to Chung Yuan Christian University, Chien Hsin University of Science and Technology, New Taipei Industrial Vocational High School, Yuming Vocational High School of Industry & Home Economics, and the "National Industry-Related Skills Competition of High School Students" as the prize for the automobile competition or the teaching material of technical and vocational schools. Meanwhile, China Motor Corporations also activated its "Down Roots Plan", and invited about 300 classmates from four schools in Taoyuan City, including National Taoyuan Senior High School, National Yang Mei High School, Chin Ping Senior High School and Lioho High School, to visit the Corporation's production line this year, in hopes of sharing with the classmates about the approach to save energy and reduce carbon and develop new energy technology in the form of diversified education. The Corporation will also continue to boost the "Down Roots Plan" to fulfill its corporate social responsibility.

- (20) Formal operations initiated for the CMC Mitsubishi *Loving Fasteners* program, the only one in the industry. The program provides a touring vehicle checkup service for remote villages

To provide support for business vehicle users and residents in Indigenous settlements, CMC has invested in the *Loving Fasteners* program, offering a free touring vehicle examination services to travel to Indigenous settlements and servicing for vehicles owned by Indigenous peoples. In the first year of the program, CMC provided checkups and servicing for vehicles owned by members of the Indigenous peoples in Jianshi Shilei settlement in Hsinchu and Changzhi Baihe settlement in Pingtung. In the future, CMC Mitsubishi shall continue to use mobile service stations to tour various Indigenous settlements and provide vehicle checkup

Company Profile

and servicing. Plans have been made to expand the service to all settlements throughout Taiwan within five years.

- (21) CMC seasonal fresh produce - colleagues sharing a great meal with their children in kindergarten

CMC is a long-term supporter of Indigenous agriculture and sales. For the second year of the program, sales locations were expanded to deliver organically grown vegetables to the CMC kindergarten, with total participation in sharing good things and good produce. By the end of 2016, CMC has purchased nearly 1,200kg of organic produce, supporting sales of 20 Indigenous farms throughout Taiwan and becoming a leader in supporting the livelihood of Indigenous farmers.

- (22) Homecoming Youths: Going home and let happiness lead

CMC Mitsubishi focusing on youth emigration from remote villages - Million dollar rewards to encourage hardworking youths to return home

To re-establish happiness amongst the public, CMC Mitsubishi built a brand value of *Starting from Happiness*, allowing car owners to join us and discover the support provided for them. In 2016, CMC Mitsubishi leveraged the potential offered by its corporate structure and encouraged the public to pay better attention to the social problems caused by *rural emigration from remote villages in Taiwan* and initiated the *Homecoming Youths: Million Dollar Reward for Recruiting Hardworking Youths*. The programs encouraged all hardworking youths to return to their home villages to better their homes and realize their true potential through the process. More than 200 youths registered to the Hardworking Youth Recruitment Program. A total of 5 young entrepreneurs Chih-chiang Chang of *Taitung Class Leader Rice*, Heng-chin Chang of *E Pao Handicrafts*, Ming-tsung Hung of *Yinshi Farms*, Yun-shan Wang and sister of *Ice Cream at Corn Street 3*, and Hsuan-Yi Huang of *Grandma Yu's Handicraft Stand* were selected as winners of the final round of the entrepreneurship reward that amounted to one million dollars.

- (23) CMC X Taipei Medical University - Free Health Check Services in Remote Villages

CMC Mitsubishi focusing on youth emigration from remote villages - Million dollar rewards to encourage hardworking youths to return home

Company Profile

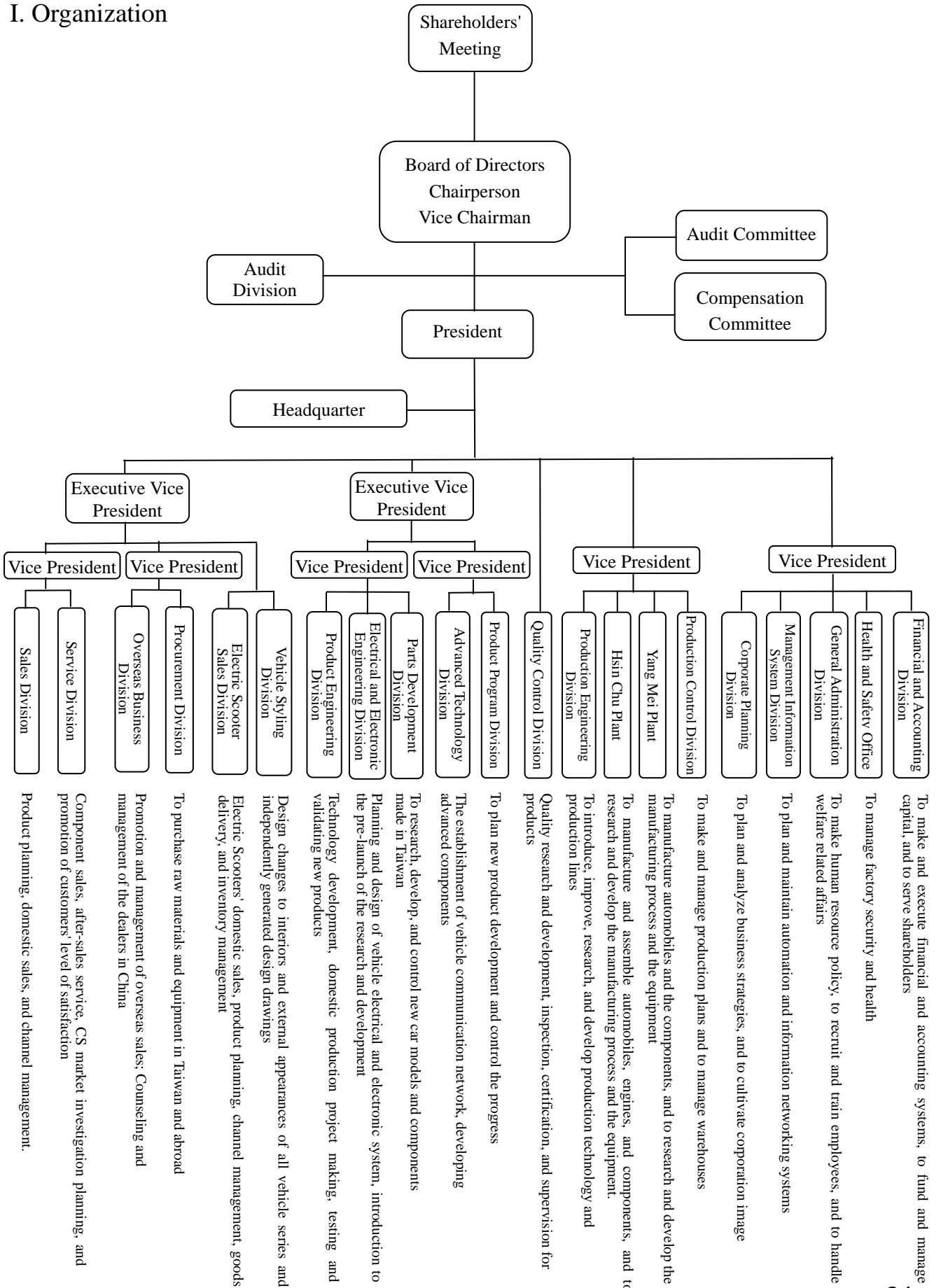
The CMC *Dreams Come True Program* formed a partnership with the social medical service team of Taipei Medical University for the first time in 2016, and headed to Pingtung Laiyi Township to provide free health checks at 9 Indigenous settlements at Nanhe Village, Wenle Village, Danlin Village, Wangjia Village, Laiyi Village, Yilin Village, Jiaying Village, Gulou Village, and Dahou Settlement. In addition to providing a COLT PLUS to transport Taipei Medical University students providing free health check services, CMC also collected children's toothpaste and toothbrushes for elementary schools in remote villages, providing care to tend to the dental hygiene of children in these areas.

- (24) CMC initiating the happy guardianship program to safeguard the happiness and safety of underprivileged children

In recent years, CMC adopted *Starting from Happiness* as the main theme of corporate social responsibility programs. As the leading brand for vehicles designed for children passengers, CMC focused on its industrial scope and expanded its vision of social support to include underprivileged schoolchildren by donating 3 Delica vans and providing bus services. CMC also worked with children's welfare groups, remote elementary schools, and affiliated kindergartens throughout Taiwan to promote the *Safety Program for Vehicles used by School Children*, providing a vehicle purchasing subsidy of NT\$ 30 thousand for children's vans that are over 10 years old, or passenger vehicles carrying 8 or more passengers (the subsidy is offered to 50 recipients per year).

Company Profile

I. Organization



Corporate Governance

II. Directors and Management Team

(I) Information Regarding Board of Directors

Title	Nationality or Country of Incorporation	Name	Gender	Date Elected	First Elected Date	Term	Shareholding When Elected		Current Shareholding		Spouse and Minor Shareholding	
							Shares	%	Shares	%	Shares	%
Chairperson	R. O. C.	Yulon Motor Co., Ltd. Representative: Kenneth K. T. Yen	Male	2016/6/24	1986/7/1	3 years	111,480,444 *16,621,212	8.05 1.20	111,480,444 *16,621,212	8.05 1.20	-	-
Vice Chairman	R. O. C.	Tai Yuen Textile Co., Ltd. Representative: Hsin-Tai Liu	Male	2016/6/24	2008/8/18	3 years	348,589,538 *14,560	25.19 -	348,589,538 *14,560	25.19 -	-	-
Director	Japan	Mitsubishi Motors Corporation Representative: Katsuro Asaoka	Male	2016/6/24	2013/4/1	3 years	193,768,273	14.00	193,768,273	14.00	-	-

* indicates personal owned shares

(Continued on the next page)

Corporate Governance

March 31, 2017

Shareholdings in Others' Names		Education and Selected Past Positions	Current Positions	Other Directors, Board of Directors, or Supervisors Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
Shares	%			Title	Name	Relation
-	-	Honorary Doctor of Business, St. John's University of New York (Positions are described as those in the right column.)	Chairperson, Yulon Motor Co., Ltd. Chairperson, Yulon Nissan Motor Co., Ltd. Chairperson, Tai Yuen Textile Co., Ltd. Chairperson, Hua-chuang Automobile Information Technical Center Co., Ltd. Chairperson, Luxgen Motor Co., Ltd. Chairperson, Fortune Motors Co., Ltd. Vice Chairman, Winsome Development Co., Ltd. For details, please refer "Summary of Affiliated Companies."	Director	Li-lien Chen	Spouse
-	-	Executives Program of Graduate School of Business Administration, National Chengchi Univeristy Dept. of Mechanical Engineering, National Cheng Kung University President, China Motors Corporation Positions are described as those in the right column.	Director, Hua-chuang Automobile Information Technical Center Co., Ltd. Director, South East (Fujian) Motor Co., Ltd. Director, Yen Tjing Ling Industrial Development Foundation Chairperson, Automotive Research & Testing Center, etc. For details, please refer "Summary of Affiliated Companies."	-	-	-
-	-	Program on Chinese, Dept. of Tokyo University of Foreign Studies Positions are described as those in the right column.	Director, Fortune Motors Co., Ltd. Assistant General Manager, North Asia B-Dept., North Asia Office, Mitsubishi Motors Corporation	-	-	-

Corporate Governance

(Continued from the previous page)

Title	Nationality or Country of Incorporation	Name	Gender	Date Elected	Date First Elected	Term	Shareholding When Elected		Current Shareholding		Spouse and Minor Shareholding	
							Shares	%	Shares	%	Shares	%
Director	R. O. C.	Tai Yuen Textile Co., Ltd., Representative: Hsin-I Lin	Male	2016/6/24	1984/7/20	3 years	348,589,538	25.19	348,589,538	25.19	-	-
Director	R. O. C.	Yulon Motor Co., Ltd. Representative: Li-Lien Chen	Female	2016/6/24	1994/7/1	3 years	111,480,444	8.05	111,480,444	8.05	16,621,212	1.20
Director	R. O. C.	Tai-Yuen Textile Co., Ltd., Representative: Kuo-Rong Chen	Male	2016/6/24	2004/6/24	3 years	348,589,538	25.19	348,589,538	25.19	-	-

* indicates personal owned shares.

(Continued on the next page)

Corporate Governance

Shareholdings in Others' Names		Education and Selected Past Positions	Current Positions	Other Directors, Board of Directors, or Supervisors Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
Shares	%			Title	Name	Relation
-	-	Dept. of Mechanical Engineering, National Cheng Kung University Deputy Minister, Executive Yuan and Minister, Council for Economic Planning and Development Minister, Ministry of Economic Affairs Chairperson, Taiwan Transportation Vehicle Manufacturers Association Vice Chairman and President, China Motor Corporation	Director, Yulon Motor Co., Ltd. Director, Acer Inc. Independent Director, E. SUN Financial Holding Co., Ltd.	-	-	-
-	-	Department of Physical Education, Chinese Culture University Positions are described as those in the right column.	Director, Yulon Motor Co., Ltd. Director, Taiwan Acceptance Corporation Vice Chairman, Tai-Yuen Textile Co., Ltd Director, Winsome Development Co., Ltd. For details, please refer "Summary of Affiliated Companies."	Chair- person	Kenneth K. T. Yen	Spouse
-	-	Executive Master of Business Administration, National Chiao Tung University President, Yulon Motors Co., Ltd.	Vice Chairman, Yulon Motor Co., Ltd. Director and Executive Assistant to the Chairperson, Yulon Nissan Motor Co., Ltd. Chairperson, Taiwan Acceptance Corporation Director, Tai-Yuen Textile Co., Ltd. Director, Hua-chuang Automobile Information Technical Center Co., Ltd. Vice Chairman, Luxgen Motor Co., Ltd. Director, Winsome Development Co., Ltd. Director, Dong Feng Yulon Motor Co., Ltd. Vice Chairman, Shenzun Feng Shen Motor Co., Ltd. Vice Chairman, Guangzhou Feng Shen Motor Co., Ltd. For details, please refer "Summary of Affiliated Companies."	-	-	-

Corporate Governance

(Continued from the previous page)

Title	Nationality or Country of Incorporation	Name	Gender	Date Elected	Date First Elected	Term	Shareholding When Elected		Current Shareholding		Spouse and Minor Shareholding	
							Shares	%	Shares	%	Shares	%
Director	Japan	Mitsubishi Corporation, Representative: Setsuya Yoshino (Note 1)	Male	2016/6/24	2016/12/1	3 years	66,404,796	4.80	66,404,796	4.80	-	-
Director	R. O. C.	Le Wen Enterprise Co., Ltd. Representative: Chao-Wen Chen	Male	2016/6/24	2016/6/24 (Note 2)	3 years	5,539,400	0.40	5,539,400	0.40	-	-

Note 1: Mitsubishi Corporation assigned Mr. Setsuya Yoshino in replacement of Mr. Yoshinori Yamazaki as its representative from December 1, 2016.

Note 2: After the shareholders' meeting elections held on June 24, 2017, Le Wen Enterprise Co., Ltd. supervisors shall be regarded as directors starting in July 1, 2016.

* indicates personal owned shares.

(Continued on the next page)

Corporate Governance

Shareholding in Others' Names		Education and Selected Past Positions	Current Positions	Other Directors, Board of Directors, or Supervisors Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
Shares	%			Title	Name	Relation
-	-	Department of International Relations, Faculty of Law, Hitotsubashi University Positions are described as those in the right column.	Director, Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. General Manager, Motor Vehicle North Asia Dept., Motor Vehicle Business Division, Mitsubishi Corporation	-	-	-
		Executives Program of Graduate School of Business Administration, National Chengchi University Dept. of Chemical Engineering, Chung Yuan Christian University Executive Vice President, China Motor Corporation General Manager, Production Engineering Division, China Motor Corporation	Director, Fortune Motors Co., Ltd. Director, Shung Ye Motor Enterprise Director, Tokio Marine Newa Insurance Co., Ltd. Director, Hua-chuang Automobile Information Technical Center Co., Ltd. For details, please refer "Summary of Affiliated Companies."			

Corporate Governance

(Continued from the previous page)

Title	Nationality or Country of Incorporation	Name	Gender	Date Elected	Date First Elected	Term	Shareholding When Elected		Current Shareholding		Spouse and Minor Shareholding	
							Shares	%	Shares	%	Shares	%
Independent Director	R. O. C.	Chen-Chi Hsiao	Male	2016/6/24	2016/6/24	3 years	-	-	-	-	-	-
Independent Director	R. O. C.	Chi-Ching Chen	Male	2016/6/24	2016/6/24	3 years	-	-	-	-	-	-
Independent Director	R. O. C.	Yun-Hua Yang	Male	2016/6/24	2016/6/24	3 years	-	-	-	-	-	-

* indicates personal owned shares..

Corporate Governance

Shareholdings in Others' Names		Education and Selected Past Positions	Current Positions	Other Managers, Directors, or Supervisors Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
Shares	%			Title	Name	Relation
-	-	Department of Accounting, National Chengchi University EMBA, Feng Chia University	Independent Director, Kian Shen Corporation Vice Chairman of Taiwan Certified Public Account Association	-	-	-
-	-	MBA, Massachusetts Institute of Technology Sloan School of Management Director, GigaMedia Limited Co. Director, Financial One Corp.	None	-	-	-
-	-	Ph.D in Law, University of Tuebingen Master of Law, National Taiwan University Professor of Law, National Chengchi University Member of the Law Committee, Ministry of Justice, Executive Yuan Seminar at the Academy for the Judiciary, Ministry of Justice, Executive Yuan	Member of Compensation Committee, Yulon Nissan Motor Co., Ltd. , China Motors Corporation , Taiwan Acceptance Corporation, Kian Shen Corporation CEO, Master of Laws Program for Executives, National Chengchi University	-	-	-

Corporate Governance

Table 1: Major Shareholders of the Institutional Shareholders

April 30, 2017

Name of Institutional Shareholder	Major Shareholders of the Institutional Shareholders
1. Tai-Yuen Textile Co., Ltd.	1. Yulon Motor Co., Ltd. (20.85%) 2. Yen Tjing Ling Industrial Development Foundation (14.24%) 3. British Virgin Islands Hoffman Brother Investment Company (9.80%) 4. British Virgin Islands Evans Corporation (9.71%) 5. Cayman Islands West Bridge Investment Company (9.13%) 6. Li Yuan Investment Co., Ltd. (7.17%) 7. Yong Shun Investment Corporation (6.82%) 8. Li Peng Investment Co., Ltd. (5.61%) 9. Diamond Hosiery & Thread Co., Ltd. (4.55%) 10. Yuan Wei Investment Co., Ltd. (3.10%)
2. Yulon Motor Co., Ltd.	1. Tai-Yuen Textile Co., Ltd. (18.11%) 2. China Motors Corporation (16.67%) 3. Kenneth K. T. Yen (10.18%) 4. Nan Shan Life Insurance Company, Ltd. (4.35%) 5. Public Service Pension Fund Management Board (1.56%) 6. Fan-Terh Investment Co., Ltd. (1.55%) 7. Mercuries Life Insurance Co., Ltd. (1.49%) 8. Labor Insurance Fund (1.36%) 9. Shin Kong Life Insurance Co., Ltd. (1.17%) 10. Yen Tjing Ling Industrial Development Foundation (1.09%)
3. Mitsubishi Motors Corporation	1. Nissan Motor Co., Ltd. (33.99%) 2. Mitsubishi Corporation (9.23%) 3. Mitsubishi Heavy Industries, Ltd (8.34%) 4. Bank of Tokyo-Mitsubishi UFJ, Ltd (3.26%) 5. Japan Trustee Services Bank (Trust Account) (1.63%) 6. MHI Automotive Capital LLC MMC stock management anonymous combination 2 (1.59%) 7. The Master Trust Bank of Japan (Trust Account) (1.25%) 8. THE CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW (0.94%) 9. JP Morgan Chase Bank 385632 (0.76%) 10. CBNY-GOVERNMENT OF NORWAY (0.73%)
4. Mitsubishi Corporation	1. Japan Trustee Services Bank (Trustee) (8.72%) 2. Tokyo Marine & Nichido Fire Insurance Co., Ltd. (4.70%) 3. The Master Trust Bank of Japan (Trust Account) (4.68%) 4. Meiji Yasuda Life Insurance Company (4.09%) 5. The Master Trust Bank of Japan (Mitsubishi Heavy Industries Ltd. • Retirement Benefits Trust Account) (2.03%) 6. ICHIGO TRUST PTE. LTD. (1.86%) 7. THE BANK OF NEW YORK MELLON SA/NV 10 (1.48%) 8. Japan Trustee Services Bank (Trust Account 9) (1.40%) 9. The Nomura Trust and Banking Co., Ltd. (Retirement Benefits Trust • Mitsubishi UFJ Trust and Banking Corporation Account) (1.39%) 10. STATE STREET BANK WEST CLIENT - TREATY 505234 (1.30%)
5. Le Wen Enterprise Co., Ltd.	1. Kenneth K. T. Yen (79.33%) 2. Wei Tai Investment Co., Ltd. (11.53%) 3. Wavin Investment Corp. (9.06%) 4. Fan-Terh Investment Co., Ltd. (0.04%) 5. Li-lien Chen (0.02%) 6. Wei-kung Chi (0.02%)

Corporate Governance

Table 2: The Major Shareholders of the Major Shareholders of the Institutional Shareholders in Table 1

April 30, 2017

Corporation Name	Major Shareholders of the Corporation
1. Yen Tjing Ling Industrial Development Foundation	Foundation constituted as a juristic person
2. British Virgin Islands Hoffman Brother Investment Company	The information is not available due to the limitations of local practices.
3. British Virgin Islands Evans Corporation	The information is not available due to the limitations of local practices.
4. Cayman Islands West Bridge Investment Company	The information is not available due to the limitations of local practices.
5. Li Yuan Investment Co., Ltd.	<ol style="list-style-type: none"> 1. Vivian Wu Industry and Commerce ECCC Foundation (99.126%) 2. Diamond Hosiery & Thread Co., Ltd. (0.869%) 3. Fan-Terh Investment Co., Ltd. (0.001%) 4. Wei Tai Investment Co., Ltd. (0.001%) 5. Le Wen Enterprise Co., Ltd. (0.001%) 6. Vincent Investment Co., Ltd. (0.001%) 7. Wavin Investment Corp. (0.001%)
6. Yong Shun Investment Corporation	<ol style="list-style-type: none"> 1. Vivian Wu Industry and Commerce ECCC Foundation (99.083%) 2. Diamond Hosiery & Thread Co., Ltd. (0.912%) 3. Fan-Terh Investment Co., Ltd. (0.001%) 4. Wei Tai Investment Co., Ltd. (0.001%) 5. Le Wen Enterprise Co., Ltd. (0.001%) 6. Vincent Investment Co., Ltd. (0.001%) 7. Wavin Investment Corp. (0.001%)
7. Li Peng Investment Co., Ltd.	<ol style="list-style-type: none"> 1. Vivian Wu Industry and Commerce ECCC Foundation (98.993%) 2. Diamond Hosiery & Thread Co., Ltd. (1.002%) 3. Fan-Terh Investment Co., Ltd. (0.001%) 4. Wei Tai Investment Co., Ltd. (0.001%) 5. Le Wen Enterprise Co., Ltd. (0.001%) 6. Vincent Investment Co., Ltd. (0.001%) 7. Wavin Investment Corp. (0.001%)
8. Diamond Hosiery & Thread Co., Ltd.	<ol style="list-style-type: none"> 1. British Virgin Islands Wanda Company (72.51%) 2. Tai -Yuen Textile Co., Ltd. (21.97%) 3. Yulon Motor Co., Ltd. (5.09%) 4. Vivian Wu Industry and Commerce ECCC Foundation (0.1684%) 5. Le Wen Enterprise Co., Ltd. (0.13%) 6. Wavin Investment Corp. (0.13%) 7. Kenneth K. T. Yen (0.0006%)
9. Yuan Wei Investment Co., Ltd.	<ol style="list-style-type: none"> 1. Vivian Wu Industry and Commerce ECCC Foundation (91.513%) 2. Diamond Hosiery & Thread Co., Ltd (8.477%) 3. Fan-Terh Investment Co., Ltd. (0.002%) 4. Wei Tai Investment Co., Ltd. (0.002%) 5. Le Wen Enterprise Co., Ltd. (0.002%) 6. Vincent Investment Co., Ltd. (0.002%) 7. Wavin Investment Corp. (0.002%)

Corporate Governance

Corporation Name	Major Shareholders of the Corporation
10. China Motor Corporation	<ol style="list-style-type: none"> 1. Tai-Yuen Textile Co., Ltd. (25.19%) 2. Mitsubishi Motors Corporation (14.00%) 3. Yulon Motor Co., Ltd. (8.05%) 4. Diamond Hosiery & Thread Co., Ltd (6.76%) 5. Mitsubishi Corporation (4.80%) 6. Cathay Life Insurance Co., Ltd. (3.39%) 7. Nan Shan Llife Insurance Company, Ltd. (2.39%) 8. Kenneth K. T. Yen (1.20%) 9. Investment account at the Norges Bank under the custody of Citibank (0.94%) 10. Vanguard Emerging Markets Stock Index Fund account under the custody of Standard Chartered (0.94%)
11. Nan Shan Life Insurance Company, Ltd.	<ol style="list-style-type: none"> 1. First Commercial Bank Trustee Account For Representative of Ruen Chen Investment Holding Co., Ltd. (76.46%) 2. Ruen Chen Investment Holding Co., Ltd. (14.16%) 3. Y. T. Du (3.25%) 4. Ruen Hua Dyeing & Weaving Co., Ltd. (0.28%) 5. Ruentex Leasing Co., Ltd. (0.15%) 6. Chi-Pin Investment Company (0.11%) 7. Boon-Teik Koay (0.11%) 8. Pou Huei Investments Co., Ltd. (0.05%) 9. Pou Hwang Investments Co., Ltd. (0.05%) 10. Pou Yih Investments Co., Ltd. (0.05%) 11. Pou Chi Investments Co., Ltd. (0.05%)
12. Public Service Pension Fund Management Board	Not applicable
13. Fan-Terh Investment Co., Ltd.	<ol style="list-style-type: none"> 1. Wei Tai Investment Co., Ltd. (33.36%) 2. Wavin Investment Corp. (33.30%) 3. Le Wen Enterprise Co., Ltd. (33.30%) 4. Chuan-Lin Zhu (0.02%) 5. Wei Kung Chi (0.02%)
14. Mercuries Life Insurance Co., Ltd.	<ol style="list-style-type: none"> 1. MERCURIES & ASSOCIATES, HOLDING LTD. (44.47%) 2. Shang Lin Investment Co., Ltd. (6.20%) 3. Shu Ren Investment Co., Ltd. (5.52%) 4. Mercuries Fu Bao Co., Ltd. (2.90%) 5. New Labor Pension Fund (1.67%) 6. Shin Kong Life Insurance Co., Ltd. (1.22%) 7. Ming-Jung Hsu (1.05%) 8. HSBC Trustee Account For Value Partners High-Dividend Stocks Fund. (0.72%) 9. Napoli Co., Ltd. (0.61%) 10. Cing-Fong Hsu (0.56%)
15. Labor Insurance Fund	Not applicable
16. Shin Kong Life Insurance Co., Ltd.	Shin Kong Financial Holding Co., Ltd. (100%)

Corporate Governance

Corporation Name	Major Shareholders of the Corporation
17. Nissan Motor Co., Ltd.	<ol style="list-style-type: none"> 1. Renault S.A. (43.4%) 2. The Chase Manhattan Bank, N.A. London Special Account No.1 (3.33%) 3. Japan Trustee Services Bank (Trustee Account) (2.96%) 4. The Master Trust Bank of Japan (Trustee Account) (2.56%) 5. State Street Bank & Trust Company (1.98%) 6. Japan Trustee Services Bank (Trustee Account 9) (1.64%) 7. Nippon Life Insurance Company (1.26%) 8. JP Morgan Chase Bank 385632 (1.01%) 9. THE BANK OF NEW YORK MELLON SA/NV 10 (0.92%) 10. Japan Trustee Services Bank (Trustee Account 7) (0.84%)
18. Mitsubishi Heavy Industries Co., Ltd.	<ol style="list-style-type: none"> 1. Japan Trustee Services Bank (Trustee Account) (5.66%) 2. The Master Trust Bank of Japan (Trustee Account) (4.16%) 3. The Nomura Trust and Banking Co., Ltd. (Retirement Benefits Trust • Bank of Tokyo-Mitsubishi UFJ, Ltd. Account)(3.72%) 4. Meiji Yasuda Life Insurance Company (2.37%) 5. THE BANK OF NEW YORK MELLON SA/NV 10 (1.78%) 6. Japan Trustee Services Bank (Trustee Account 7) (1.36%) 7. The Nomura Trust and Banking Co., Ltd. (Retirement Benefits Trust • Mitsubishi UFJ Trust and Banking Corporation Account)(1.36%) 8. STATE STREET BANK WEST CLIENT - TREATY 505234 (1.30%) 9. Japan Trustee Services Bank (Trustee Account 5) (1.08%) 10. Japan Trustee Services Bank (Trustee Account 6) (1.08%)
19. Bank of Tokyo-Mitsubishi UFJ, Ltd.	Mitsubishi UFJ FINANCIAL GROUP (100%)
20. Japan Trustee Service Bank(Trustee Account)	<ol style="list-style-type: none"> 1. Sumitomo TRUST HOLDINGS (66.66%) 2. RESONA Bank (33.33%)
21. MHI Automotive Capital LLC MMC stock management anonymous combination 2	The information is not available due to the limitations of local practices.
22. The Master Trust Bank of Japan (Trustee Account)	<ol style="list-style-type: none"> 1. Mitsubishi UFJ Trust and Banking Corporation (46.50%) 2. Nippon Life Insurance Co. (33.50%) 3. Meiji Yasuda Life Insurance Co. (10.00%) 4. The Norinchukin Trust & Banking Co., Ltd. (10.00%)
23. THE CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	The information is not available due to the limitations of local practices.
24. JP MORGAN CHASE Bank 385632	The information is not available due to the limitations of local practices.
25. CBNY-GOVERNMENT OF NORWAY	COMMUNITY NATIONAL BANCORP.(100%)
26. Tokio Marine & Nichido Fire Insurance Co., Ltd.	Tokio Marine Holdings Co. (100%)
27. Meiji Yasuda Life Insurance Company	The information is not available due to the limitations of local practices.

Corporate Governance

Corporation Name	Major Shareholders of the Corporation
28. The Master Trust Bank of Japan (Mitsubishi Heavy Industries Ltd. • Retirement Benefits Trust Account)	The information is not available due to the limitations of local practices.
29. ICHIGO TRUST PTE. LTD.	The information is not available due to the limitations of local practices.
30. THE BANK OF NEW YORK MELLON SA/NV 10	The information is not available due to the limitations of local practices.
31. Japan Trustee Services Bank (Trustee Account 9)	The information is not available due to the limitations of local practices.
32. The Nomura Trust and Banking Co., Ltd. (Retirement Benefits Trust • Mitsubishi UFJ Trust and Banking Corporation Account)	The information is not available due to the limitations of local practices.
33. STATE STREET BANK WEST CLIENT – TREATY 505234	The information is not available due to the limitations of local practices.
34. Wei Tai Investment Co., Ltd.	<ol style="list-style-type: none"> 1. Kenneth K. T. Yen (99.8%) 2. Fan-Terh Investment Co., Ltd. (0.04%) 3. Wavin Investment Co., Ltd. (0.02%) 4. Chuan-Lin Zhu (0.02%) 5. Li-Lien Chen (0.02%) 6. Wei Kung Chi (0.02%)
35. Wavin Investment Co., Ltd.	<ol style="list-style-type: none"> 1. Kenneth K. T. Yen (99.4%) 2. Wei Tai Investment Co., Ltd. (0.1%) 3. Le Wen Enterprise Co., Ltd. (0.1%) 4. Fan-Terh Investment Co., Ltd. (0.1%) 5. Jing Yu Investment Co., Ltd. (0.1%) 6. Yu Xin Investment Co., Ltd. (0.1%) 7. Li-Lien Chen (0.1%)

Corporate Governance

(II) Directors' Professional Qualifications and Independent Analysis

March 31, 2017

Criteria	Meet the Following Professional Qualification Requirements Together with at Least Five Years Work Experience			Criteria (Note)										Number of Other Taiwanese Public Companies Currently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College, or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Name														
Kenneth K. T. Yen	-	-	✓	✓	-	-	-	-	-	✓	-	✓	-	-
Hsin-Tai Liu	-	-	✓	-	-	✓	✓	-	-	✓	✓	✓	-	-
Katsuro Asaoka	-	-	✓	✓	-	✓	✓	-	-	✓	✓	✓	-	-
Hsin-I Lin	-	-	✓	✓	-	✓	✓	-	-	✓	✓	✓	-	1
Li-Lien Chen	-	-	✓	✓	-	-	-	-	-	✓	-	✓	-	-
Kuo-Rong Chen	-	-	✓	✓	-	✓	✓	-	-	✓	✓	✓	-	-
Setsuya Yoshino	-	-	✓	✓	-	✓	✓	-	-	✓	✓	✓	-	-
Chao-Wen Chen	-	-	✓	-	-	✓	✓	-	-	✓	✓	✓	-	-
Chen-Chi Hsiao	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Chi-Ching Chen	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Yun-Hua Yang	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-

Note: If the Directors or Supervisors meet any of the following situations two years before being elected or during the term of office, please mark "✓" in the appropriate corresponding boxes.

- Not an employee of the Corporation or any of its affiliates.
- Not a director or supervisor of an affiliated business of the Company. However, this restriction does not apply in cases where the person is an independent director of the Company, its parent or subsidiary established in pursuant to this law or local laws.
- Not a natural-person shareholder who holds shares, together with those held by the person's spouse, , minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Corporation or ranks as one of its top ten shareholders.
- Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs.
- Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the Corporation or ranks as one of its top five shareholders.
- Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the Corporation.
- Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Corporation or to any affiliate of the Corporation, or a spouse thereof.
- Not a spouse, or relative within the second degree of the kinship with other directors.
- Not been a person of any conditions defined in Article 30 of the Company Law.
- Not a government, juridical person, or its representative elected under the definition of Article 27 of the Company Law.

Corporate Governance

(III) Information Regarding President, Executive Vice President, Vice President, and General Manager of Each Department

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse and Minor Shareholding		Shareholdings in Others' Names	
					Shares	%	Shares	%	Shares	%
President	R. O. C.	Chao-Wen Chen	Male	2015/6/1	-	-	-	-	-	-
Executive Vice President	R. O. C.	Te-Jun Lo	Male	2011/2/1	47,356	-	231	-	-	-
Executive Vice President	R. O. C.	Ching-Ya Chen	Male	2015/1/1	27,661	-	-	-	-	-

(Continued on the next page)

Corporate Governance

March 31, 2017

Education and Selected Past Positions	Current Positions in Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
		Title	Name	Relation
<p>Executives Program of Graduate School of Business Administration, National Chengchi Univeristy Dept. of Chemical Engineering, Chung Yuan Christian University Executive Vice President, China Motor Corporation General Manager, Production Engineering Division, China Motor Corporation</p>	<p>Director, Fortune Motors Co., Ltd. Director, Shung Ye Motor Enterprise Director, Tokio Marine Newa Insurance Co., Ltd. Director, Hua-chuang Automobile Information Technical Center Co., Ltd. Director, Tai Yuen Venture Capital Investment Corp. For details, please refer "Summary of Affiliated Companies."</p>	-	-	-
<p>Executive Master of Business Administration, School of Management, National Central University Vice President, China Motor Corporation General Manager, Marketing Division, China Motor Corporation Plant General Manager, Yang Mei Plant, China Motor Corporation General Manager, Procurement Division, China Motor Corporation General Manager, Service Division, China Motor Corporation General Manager, Quality Control Division, China Motor Corporation</p>	<p>Director, Fortune Motors Co., Ltd. Director, Shung Ye Motor Enterprise Director, CARPLUS Auto Leasing Corporation Director, Shin Gan Co., Ltd. Director, Sinjang Co., Ltd. Vice Chairman, Zhejiang Kangda Motor Industry And Trading Co., Ltd. For details, please refer "Summary of Affiliated Companies."</p>	-	-	-
<p>Executives Program of Graduate School of Business Administration, National Chengchi Univeristy Graduate Institute of Mechanical Engineering, National Cheng Kung University Vice President, China Motor Corporation General Manager, Parts Development Division, China Motor Corporation</p>	<p>Director, Uni-Calsonic Corp. Director, ROC Spicer Ltd. Director, Taiway Industry Co., Ltd. Director, Yueki Industry Co. Ltd. For details, please refer "Summary of Affiliated Companies."</p>	-	-	-

Corporate Governance

(Continued from the previous page)

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse and Minor Shareholding		Shareholdings in Others' Names	
					Shares	%	Shares	%	Shares	%
Vice President	R. O. C.	Te-Chao Huang	Male	2014/1/1	661	-	95	-	-	-
Vice President	R. O. C.	Ching-Wu Chien	Male	2014/1/1	-	-	-	-	-	-
Vice President	R. O. C.	Shing JuChen	Male	2016/1/1	11,553	-	20,000	-	-	-
Vice President	R. O. C.	Hung-Ching Yang	Male	2016/1/1	-	-	-	-	-	-

(Continued on the next page)

Corporate Governance

Education and Selected Past Positions	Current Positions in Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
		Title	Name	Relation
<p>Department of Law, Chinese Culture University General Manager, General Administration Division, China Motor Corporation Project General Manager, General Administration Division, China Motor Corporation</p>	<p>Chairperson and President, Brilliant Insight International Consultancy Service Co., Ltd. For details, please refer “Summary of Affiliated Companies.”</p>	-	-	-
<p>MBA Program, National Chengchi University General Manager, Sales Division, China Motor Corporation General Manager, Marketing Division, China Motor Corporation</p>	<p>Director, Tokio Marine Nawa Insurance Co., Ltd. Director, Zhejiang Kangda Motor Industry And Trading Co., Ltd. Director, Fujian Benz Automotive Co., Ltd. Director, China-Motor Indigenous Culture and Education Foundation For details, please refer “Summary of Affiliated Companies.”</p>	-	-	-
<p>Department of Mechanical and Computer-Aided Engineering, Feng Chia University General Manager, Product Engineering Division General Manager, Product Program and Testing Division, China Motor Corporation Project General Manager, Engineering Division, China Motor Corporation</p>	<p>Director, China Engine (Fujian) Co., Ltd. For details, please refer “Summary of Affiliated Companies.”</p>	-	-	-
<p>Department of Mechanical and Electromechanical Engineering, National Sun Yat-sen University General Manager, Parts Development Division Project General Manager, Electrical and Electronic Engineering Division, China Motor Corporation</p>	<p>Director, Uni Auto Parts Manufacture Co., Ltd. Director, Uni-Calsonic Corp.</p>	-	-	-

Corporate Governance

(Continued from the previous page)

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse and Minor Shareholding		Shareholdings in Others' Names	
					Shares	%	Shares	%	Shares	%
Vice President	R. O. C.	Min-Chang Lee	Male	2016/4/1	1,805	-	-	-	-	-
Special Assistant (Vice President)	R. O. C.	Koju Huang	Male	2016/12/19	-	-	-	-	-	-
Vice President	R. O. C.	Chiung-chih Tseng	Male	2005/1/1	46,415	-	-	-	-	-
Accounting and Finance Supervisor	R. O. C.	Mei-Chu Tai	Female	2010/4/1	-	-	-	-	-	-

Corporate Governance

Education and Selected Past Positions	Current Positions in Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
		Title	Name	Relation
<p>Department of Mechanical, National Taipei University of Technology Gr. Leader of Development Division and Procurement Division, South East (Fujian) Motor Co., Ltd. General Manager, Quality Control Division General Manager, Parts Development Division</p>	<p>Director, ROC Spicer Ltd. Director, Xin Mi Co., Ltd. Director, Fuzhou Fushiang Motor Co., Ltd Director, Fuzhou Lien Hong Transportation Equipment Co., Ltd.</p>	-	-	-
<p>Bachelor of Science in Transportation / Industrial Design Art Center College of Design California, USA Graphic / Industrial Design Pasadena City College California, USA Design director of Styling Division (Yulon Motor Corporation, Yulon Nissan Motor Corporation, Hua-Chuang Automobile Information Technical Center Corporation, China Motor Corporation)</p>	None	-	-	-
<p>Department of Mechanical and Electro-Mechanical Engineering, Tamkang University Project General Manager, Procurement Division, China Motor Corporation</p>	<p>Supervisor, Fortune Motors Co., Ltd Supervisor, Shung Ye Motor Enterprise For details, please refer “Summary of Affiliated Companies.”</p>	-	-	-
<p>Executive Master of Business Administration, National Chiao Tung University Project General Manager, Financial and Accounting Division, China Motor Corporation</p>	<p>Supervisor, Hua-Chuang Automobile Information Technical Center Co., Ltd. Supervisor, Xin Mi Co., Ltd. Supervisor, Zhejiang Kangda Motor Industry And Trading Co., Ltd. Supervisor, Fuzhou Fushiang Motor Co., Ltd. Supervisor, Fuzhou Xin Mi Electric Co., Ltd. For details, please refer “Summary of Affiliated Companies.”</p>	-	-	-

Corporate Governance

(IV) Remuneration Paid to Board of Directors, Supervisors, President, and Executive Vice President in the Latest Year

1. Remuneration Paid to Directors

Title	Name	Director's Remuneration								Total Remuneration (A+B+C+D) as a % of Net Income	
		Compensation (A)		Pensions(B)		Remuneration (C)		Allowances(D)			
		From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities
Chairperson	Kenneth K. T. Yen	14,648	14,648	-	-	16,345 (Note1)	16,345	3,630 (Note2)	4,010	1.09	1.10
Vice Chairman	Hsin-Tai Liu										
Director	Katsuro Asaoka										
Director	Hsin I Lin										
Director	Li-Lien Chen										
Director	Kuo-Rong Chen										
Director	Setsuya Yoshino (Note 1)										
Director	Chao-Wen Chen										
Independent Director	Chen-Chi Hsiao										
Independent Director	Chi-Ching Chen										
Independent Director	Yun-Hua Yang										

In addition to the aforementioned disclosures, any remuneration received in the most recent year by the directors of the Company for rendering services (such as serving as a non-employed consultant) to any company listed in the Financial Report: None.

Note : 1. The earnings distribution was paid to Corporate Directors but not its representatives.

- (1) Chairperson Kenneth K. T. Yen and Director Li-Lien Chen are representatives of Yulon Motor Co., Ltd.
- (2) Vice Chairman Hsin-Tai Liu, Director Hsin-I Lin and Kuo-Rong Chen are representatives of Tai-Yuen Textile Co., Ltd.
- (3) Director Chao-Wen Chen is representatives of Le Wen Enterprise Co., Ltd.
- (4) Director Katsuro Asaoka is representative of Mitsubishi Motors Corporation.
- (5) Director Setsuya Yoshino is representative of Mitsubishi Corporation.

2. The above-mentioned figures include depreciation expense for official business cars NT\$263 thousand, gasoline NT\$40 thousand, and other expenses NT\$67 thousand. Besides, compensation paid to the drivers is NT\$526 thousand.

Corporate Governance

Unit: NT\$thousands/thousand shares

Compensation Earned by a Director Who is an Employee of the Corporation or of the Corporation's Consolidated Entities								Total Compensation (A+B+C+D+E+F+G) as a % of Net Income (%)		Compensation Paid to Directors from Non- consolidated Affiliates (J)
Compensation, Bonuses, and Allowances (E)		Pensions (F)		Employee Compensation (G)				From the Corporation	From All Consolidated Entities	
From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities	From the Corporation		From All Consolidated Entities				
				Cash	Stock	Cash	Stock			
45,345 (Note 2)	46,043	561	561	116	-	116	-	2.53	2.56	22,349

Corporate Governance

Remuneration	Name of Director			
	Total Remuneration(A+B+C+D)		Total Compensation(A+B+C+D+E+F+G)	
	From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities and Non-consolidated Affiliate (Note)
Under NT\$2,000,000	Mitsubishi Motors Corporation Mitsubishi Corporation Le Wen Enterprise Co., Ltd.(Note 2) Hsin-Tai Liu Katsuro Asaoka Hsin-I Lin Li-Lien Chen Kuo-Rong Chen Setsuya Yoshino Chao-Wen Chen Chen-Chi Hsiao Chi-Ching Chen Yun-Hua Yang	Mitsubishi Motors Corporation Mitsubishi Corporation Le Wen Enterprise Co., Ltd.(Note 2) Hsin-Tai Liu Katsuro Asaoka Hsin-I Lin Li-Lien Chen Kuo-Rong Chen Setsuya Yoshino Chao-Wen Chen Chen-Chi Hsiao Chi-Ching Chen Yun-Hua Yang	Mitsubishi Motors Corporation Mitsubishi Corporation Le Wen Enterprise Co., Ltd.(Note 2) Katsuro Asaoka Li-Lien Chen Kuo-Rong Chen Setsuya Yoshino Chen-Chi Hsiao Chi-Ching Chen Yun-Hua Yang	Mitsubishi Motors Corporation Mitsubishi Corporation Le Wen Enterprise Co., Ltd.(Note 2) Katsuro Asaoka Li-Lien Chen Setsuya Yoshino Chen-Chi Hsiao Chi-Ching Chen Yun-Hua Yang
NT\$2,000,000 ~ NT\$5,000,000	Tai-Yuen Textile Co., Ltd.	Tai-Yuen Textile Co., Ltd.	Tai-Yuen Textile Co., Ltd. Hsin-I Lin	Tai-Yuen Textile Co., Ltd. Kuo-Rong Chen
NT\$5,000,000 ~ NT\$10,000,000	Yulon Motor Co., Ltd.	Yulon Motor Co., Ltd.	Yulon Motor Co., Ltd.	Yulon Motor Co., Ltd. Hsin-I Lin
NT\$10,000,000 ~ NT\$15,000,000	-	-	-	-
NT\$15,000,000 ~ NT\$30,000,000	Kenneth K. T. Yen	Kenneth K. T. Yen	Kenneth K. T. Yen Hsin-Tai Liu Chao-Wen Chen	Hsin-Tai Liu Chao-Wen Chen
NT\$30,000,000 ~ NT\$50,000,000	-	-	-	Kenneth K. T. Yen
NT\$50,000,000 ~ NT\$100,000,000	-	-	-	-
Over NT\$100,000,000	-	-	-	-
Total	11 seats	11 seats	11 seats	11 seats

Note 1: The remuneration paid to Director from non-consolidated affiliates shall be included in this column.

Note 2: Supervisors of Le Wen Enterprise Co., Ltd. became director starting from July 1, 2016.

Corporate Governance

2. Remuneration Paid to Supervisors

Unit: NT\$ thousands

Title	Name	Remuneration Paid to Supervisors						Total Remuneration (A+B+C+D) as a % of Net Income		Compensation Paid to Supervisors from Nonconsolidated Affiliates
		Compensation(A)		Remuneration (B)		Allowances(C)		From the Corporation	From All Consolidated Entities	
		From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities			
Supervisor	Wei-Kung Chi	-	-	1,477	1,477	120	120	0.05	0.05	70
Supervisor	Tai-Ming Chen			(Note)						

Note 1 : The earnings distribution was paid to Corporate Supervisors but not its representatives.

Note 2 : Supervisors of Le Wen Enterprise Co., Ltd. became director starting from July 1, 2016. The data provided here shows the remuneration received by the supervisors for the first half of the year.

Remuneration	Name of Supervisor	
	Total Remuneration (A + B + C)	
	From the Corporation	From All Consolidated Entities and Non-consolidated Affiliates (Note)
Under NT\$2,000,000	Le Wen Enterprise Co., Ltd. Wei-Kung Chi Tai-Ming Chen	Le Wen Enterprise Co., Ltd. Wei-Kung Chi Tai-Ming Chen
NT\$ 2,000,000~ NT\$5,000,000	-	-
NT\$ 5,000,000~ NT\$10,000,000	-	-
NT\$10,000,000~ NT\$15,000,000	-	-
NT\$15,000,000~ NT\$30,000,000	-	-
NT\$30,000,000~ NT\$50,000,000	-	-
NT\$50,000,000~ NT\$100,000,000	-	-
Over NT\$100,000,000	-	-
Total	2 seats	2 seats

Note: The remuneration paid to Supervisor from non-consolidated affiliates shall be included in this column.

Corporate Governance

3. Remuneration Paid to President and Executive Vice President

Unit: NT\$ thousands/thousand shares

Title	Name	Compensation (A)		Pensions (B)		Bonuses and Allowances (C)		Employee Compensation (D)				Total Compensation (A+B+C+D) as a % of Net Income (%)		Compensation from Nonconsolidated Affiliates
		From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities	From the Corporation		From All Consolidated Entities		From the Corporation	From All Consolidated Entities	
								Cash	Stock	Cash	Stock			
President	Chao-Wen Chen													
Executive Vice President	Te-Jun Lo	7,679	7,679	732	732	26,001 (Note)	26,088	129	-	129	-	1.08	1.09	882
Executive Vice President	Ching-Ya Chen													

Note: The above-mentioned figures include depreciation expense for official business cars NT\$280 thousand, gasoline NT\$229 thousand, and other expenses NT\$163 thousand. Besides, compensation paid to the drivers is NT\$1,547 thousand.

Remuneration	Name of President and Executive Vice President	
	The Corporation	From All Consolidated Entities and Non-consolidated Affiliates (Note)
Under NT\$2,000,000	-	-
NT\$2,000,000 ~ NT\$ 5,000,000	-	-
NT\$5,000,000 ~ NT\$10,000,000	Te-Jun Lo Ching-Ya Chen	Te-Jun Lo Ching-Ya Chen
NT\$10,000,000~ NT\$15,000,000	Chao-Wen Chen	Chao-Wen Chen
NT\$15,000,000~ NT\$30,000,000	-	-
NT\$30,000,000~ NT\$50,000,000	-	-
NT\$50,000,000~ NT\$100,000,000	-	-
Over NT\$100,000,000	-	-
Total	3 people	3 people

Note: The remuneration paid to President and Executive Vice Presidents from non-consolidated affiliates shall be included in this column.

Corporate Governance

4. The Ratio of the Remuneration Paid to Board of Directors, Supervisors, Presidents, and Executive Vice Presidents to Net Income in 2015 and 2016

(1) Paid from the Corporation

Paid to	The ration of Remuneration to Net Income (%)		Increase (Decrease) Rate (%)
	2016	2015	
Director	1.09	1.55	(0.46)
Supervisor	0.05	0.10	(0.05)
President and Executive Vice President	1.08	1.47	(0.39)

(2) Paid from the Corporation

Paid to	The ration of Remuneration to Net Income (%)		Increase (Decrease) Rate (%)
	2016	2015	
Director	1.10	1.55	(0.45)
Supervisor	0.05	0.10	(0.05)
President and Executive Vice President	1.09	1.59	(0.50)

(3) Analysis

1. The ratios of remuneration paid to Directors, Supervisors, Presidents, and Executive Vice Presidents to net income are less than that in 2015 because the net income increased in 2016.
2. The connection between the remuneration's policy, standards and combinations, the process to sets up the remuneration, operation outcomes and future risks: There is Compensation Committee in the Corporation. Compensation paid to Directors, Supervisors, and General Managers are proposed by Compensation Committee and resolved by Board meetings.

(V) Employment Compensation Granted to Management Team

March 31, 2017
Unit: NT\$ thousands

	Title	Name	Stock	Cash	Total	Ratio of the Total to Net Income (%)
Managers	President	Chao-Wen Chen	-	351	351	0.01
	Executive Vice President	Te-Jun Lo				
	Executive Vice President	Ching-Ya Chen				
	Vice President	Te-Chao Huang				
	Vice President	Ching-Wu Chien				
	Vice President	Shing JuChen				
	Vice President	Hung-Ching Yang				
	Vice President	Min-Chang Lee				
	Special Assistant(Vice President)	Koju Huang				
	Vice President	Chiung-chih Tseng				
	Accounting and Finance Supervisor	Mei-Chu Tai				

Corporate Governance

III. Implementation of Corporate Governance

(I) Board of Directors Meeting Status

A total of 7 Board Meetings were held in 2016 and up to the end of March 2017, during which the annual shareholders' meeting of June 2016 re-elected the 19th Board of Directors, wherein one additional independent director was elected. Three independent directors also formed an audit committee to replace the role of the supervisors. The 18th Board of Directors held 2 meetings prior to this shareholder's meeting, while the 19th Board of Directors held 5 meetings after this shareholder's meeting. The following lists the directors' attendance to the Board Meetings:

Title	Name of Corporate Shareholder	Representative	Attendance		Attendance Rate in Person (%)	Notes
			in Person	By Proxy		
Chairperson	Yulon Motor Co., Ltd.	Kenneth K.T. Yen	5	2	71	
Vice Chairman	Tai-Yuen Textile Co.	Hsin-Tai Liu	7	0	100	
Director	Mitsubishi Motors Corporation	Katsuro Asaoka	7	0	100	
Director	Tai-Yuen Textile Co., Ltd.	Hsin-I Lin	6	1	86	
Director	Yulon Motor Co., Ltd.	Li-Lien Chen	5	2	71	
Director	Tai-Yuen Textile Co., Ltd.	Kuo-Rong Chen	7	0	100	
Director	Mitsubishi Corporation	Zenta Ishikawa	1	0	71	Mitsubishi Corporation assigned Mr. Yoshinori Yamazaki in replacement of Mr. Zenta Ishikawa as its representative from April 1, 2016 and Mr. Setsuya Yoshino in replacement of Mr. Yoshinori Yamazaki as its representative from December 1, 2016.
		Yoshinori Yamazaki	3	1		
		Setsuya Yoshino	1	1		
Director	Le Wen Enterprise Co., Ltd.	Chao-Wen Chen	5	0	100	The effective date started from July, 2016.
Independent Director	-	Tsung-Jen Huang	2	0	100	Tenure ended on June, 2016.
Independent Director	-	Robert Y.L., Mao	1	1	50	1.Mr. Mao attended BOD Meetings by vedio conference in 2016. Attending BOD Meetings by vedio conference is considered as attend in-person by law. 2.Tenure ended on June, 2016.

(Continued on the next page)

Corporate Governance

(Continued from the previous page)

Title	Name of Corporate Shareholder	Representative	Attendance		Attendance Rate in Person (%)	Notes
			in Person	By Proxy		
Independent Director	-	Chen-Chi Hsiao	5	0	100	The effective date started from July, 2016.
Independent Director	-	Chi-Ching Chen	5	0	100	The effective date started from July, 2016.
Independent Director	-	Yun-Hua Yang	5	0	100	The effective date started from July, 2016.

Annotation:

1. Where one of the following circumstances apply for the operations of the Board of Director meetings, the date, session, topic discussed, opinions of every independent directors, and handling of the opinions of the independent directors by the CMC shall be explained:
 - (1) Items listed by Article 14-3 of the "Securities and Exchange Act": Following the establishment of the audit committee, Article 14-5 of *Securities and Exchange Act* shall now apply, while Article 14-3 thereof shall not. For relevant resolutions, refer to the explanations provided in *Operational Status of the Audit Committee*.
 - (2) In addition to the aforementioned matters, any other resolutions from the Board of Directors where an independent director expressed a dissenting or qualified opinion that have been recorded or stated by written: None.
2. Recusals of Directors due to conflicts of interests: The directors of the Corporation are highly disciplined and recused themselves from the voting for proposal involved with their interest. There was no proposal with interest involved and therefore it was unnecessary for them to recuse. Regarding recusal for conflicts of interests relating to remuneration for independent directors, CMC has stipulated a clear internal operation procedure for handling recusals for conflicts of interests in 2017 and enforced the said procedure accordingly.
3. Measures taken to strengthen the functionality of the Board (e.g. establish Audit Committee, enhance information transparency): The Corporation had established the Audit Committee in 2016.

(II) Attendance of Supervisors for Board Meetings

A total of 7 Board Meetings were held in 2016 and up to the end of March 2017, during which the annual shareholders' meeting of June 2016 re-elected the 19th Board of Directors and formed an audit committee to replace the role of the supervisors. The 18th Board of Directors held 2 meetings prior to this shareholder's meeting. The supervisors' attendance status is as follows:

Corporate Governance

Titile	Name of Corporate Shareholder	Representative	Attendance in Person	Attendance Rate in Person (%)	Notes
Supervisor	Le Wen Enterprise Co., Ltd.	Wei Kung Chi	0	0	
		Tai-Ming Chen	1	50	
Annotations: 1. The composition and responsibilities of supervisors: (1) Descriptions of the communication between the supervisors and the employees and shareholders: in addition to the periodical report of related employees to supervisors, supervisors may contact related employees directly if there is any question. The supervisors may communicate with employees and shareholders via the board of directors and shareholders' meetings. (2) Descriptions of the communication between the supervisors, internal auditors and the auditors: the supervisors may investigate the business and financial conditions of the Corporation anytime and may request board of directors or managers for report. 2. Where there are opinions of the supervisors attending the BOD meeting, the date of BOD meeting, term, content of motion and resolutions shall be specified. The resolutions of BOD meetings and the handling of the Corporation to opinions expressed by the supervisors: None.					

(III) Audit Committee Meeting Status

1. The Audit Committee consists of 3 members.
2. Tenure of office: the audit committee of CMC was established this year. The tenure of first session of committee is from July 1, 2016 to June 30, 2019. Attendance in 2016 up to the end of March 2017 is provided in the following:

Titile	Representative	Attendance		Attendance Rate in Person (%)	Notes
		in Person	By Proxy		
Convener	Chen-Chi Hsiao	3	0	100	
Member	Chi-Ching Chen	3	0	100	
Member	Yun-Hua Yang	3	0	100	

Annotation: 1. Where one of the following circumstances apply for the operations of the audit committee, the date, session, and topic discussed of the Board Meeting, the resolution of the audit committee, and handling of the resolution of the audit committee by the CMC shall be described: (1) Items prescribed by Article 14-5 of the "Securities and Exchange Act": For details, refer to Point (3). (2) In addition to the aforementioned items, other proposals not passed by the audit committee but voted for by more than two-thirds of the entirety of the Board of Directors: None. 2. For the implementation and state of independent director's recusal for conflict of interest, the independent director's name, contents of the topic, reasons for the required recusal, and participation in the voting process: None. 3. State of communication between independent directors and internal audit supervisor and CPA (such as items, methods, and results of communications on the Company's finances and business status): For details, refer to Point (4) <i>State of communication of CMC independent directors with internal audit supervisor and CPA.</i>					
---	--	--	--	--	--

3. Operational status of the audit committee:

Board of Directors Meetings	Proposals	Items prescribed by Article 14-5 of the <i>Securities and Exchange Act</i>	Proposals not passed by the audit committee but voted for by more than two-thirds of the entirety of the Board of Directors
2 nd meeting of 19th term of BOD on August 4, 2016	1. Financial Report of the second quarter, 2016	V	
	2. Evaluations for the independence and suitability of certified public accountants (CPA) for 2016	V	
	3. Revisions to the <i>Procedure for the Conduct of Derivatives Trading</i>	V	
	Resulting resolutions of the audit committee (August 4, 2016): All members of the audit committee passed the resolution.		
	Handling of the opinions of the audit committee by the CMC: Approved by all Directors present in the meeting.		
4 th meeting of 19th term of BOD on December 19, 2016	1. Attending members of the audit committee.		
	2. Revisions of the <i>Procedures for the Application of Suspending and Restoring Transactions and Enforcement Rules for Internal Audits of Managing Procedures for the Application of Suspending and Restoring Transactions.</i>	V	
	3. Revisions to the <i>Corporate Governance Best Practice Principles.</i>	V	
	4. Revisions to the <i>Corporate Social Responsibility Best Practice Principles.</i>	V	
	5. Stipulation of the <i>2017 Audit Plan</i> of the CMC	V	
	Resulting resolutions of the audit committee (December 16, 2016): Resolution passed by every member of the audit committee.		
	Handling of the opinions of the audit committee by the CMC: Approved by all Directors present in the meeting.		
5 th meeting of 19th term of BOD on March 27, 2017	1. <i>Key audit matters</i> of the 2016 financial statement of CMC.		
	2. 2016 financial statement of CMC.	V	
	3. Earnings distribution plan for 2016 of CMC.	V	
	4. Propose the <i>Internal Control System Statement</i> for 2016 of CMC.	V	
	5. Revise a number of clauses in the articles of organization of the audit committee of CMC.	V	
	6. Revise a number of articles of the <i>Procedure for the Acquisition and Disposal of Assets and Enforcement Rules for the Procedure for the Acquisition and Disposal of Assets</i> of CMC.	V	
	7. Evaluate the independence and suitability of certified public accountants (CPA) for 2017	V	
	Resulting resolutions of the audit committee (March 27, 2017): Resolution passed by every member of the audit committee.		
	Handling of the opinions of the audit committee by the CMC: Approved by all Directors present in the meeting.		

Corporate Governance

4. State of communication of CMC independent directors with internal audit supervisor and CPA:

A. Method of communications between independent directors and the internal audit supervisor and CPA

- a. Independent directors and the CPA hold regular meetings every year. The CPA shall communicate matters related to the auditing of the financial position as well as internal controls implemented of CMC as well as explanations related to decree updates and contents that exert material influences on losses or gains.
- b. The independent directors commission the CPA to audit the financial statement of CMC and provide an audit opinion to the independent directors as their reference.
- c. The internal audit supervisor holds regular meetings with the independent directors to provide explanations on the state of implementing internal audits and of operations of internal controls in CMC.

B. Summary of the state of communications in 2016 and up to March 31, 2017

Date	Key communications between independent directors and CPA	Key communications between independent directors and internal audit supervisor
08.04.2016	<ul style="list-style-type: none"> ✓ The CPA presented a report on the auditing plan for the first half of 2016 and discussed key audit matters. ✓ The CPA communicated with attending personnel on questions that have been raised. 	<ul style="list-style-type: none"> ✓ Report key matters related to the implementation of audits in the first half of 2016. ✓ The audit supervisor communicated with attending personnel on questions that have been raised.
12.16.2016	<ul style="list-style-type: none"> ✓ The CPA discussed matters to be presented to the next audit committee meeting and key audit matters with the Board of Directors. ✓ The CPA communicated with attending personnel on questions that have been raised. 	<ul style="list-style-type: none"> ✓ Report on key audit implementation matters from August 2016 to November 2016. ✓ The audit supervisor communicated with attending personnel on questions that have been raised.
03.24.2017 and 03.27.2017	<ul style="list-style-type: none"> ✓ The CPA discussed matters to be communicated as prescribed by the Statement of Auditing Standards, key audit matters, and recommendations for the auditing of investees. ✓ The CPA communicated with attending personnel on questions that have been raised. 	<ul style="list-style-type: none"> ✓ Report on key audit implementation matters from December 2016 to February 2017. ✓ The audit supervisor communicated with attending personnel on questions that have been raised.

Corporate Governance

(IV) Corporate Governance Execution Status and Deviations from “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”

Assessment Item	Status of Implementation			Non-compliance with the Corporate Governance BPP and reasons
	Yes	No.	Performance Summary	
1. Does the Corporation establish and disclose own corporate practice principles with reference to the “Corporate Governance BPP”?	✓		The Corporation has established the Code of Corporate Governance Practice and disclosed it on the Market Observation Post System and own corporate website.	The Corporation has established and disclosed own “Code of Corporate Governance Practice” with reference to the “Corporate Governance BPP” and has established own internal control system. Therefore, this Corporation is operated with reference to the spirit of the Corporate Governance BPP and has implemented relevant regulations.
2. Shareholding structure & shareholders’ rights:				
(1) Does the Corporation establish and implement the internal operation procedures to handle shareholders’ suggestions, concerns, disputes and litigation matters?	✓		(1) Apart from establishing the spokesperson system to handle the shareholder suggestions, concerns, disputes and litigation matters, shareholders can express their comments on the corporate website at http://www.china-motor.com.tw . The Corporation will assign relevant departments to appropriately respond to their comments. Under the Financial Department, we have established a share registration unit to handle and respond to relevant affairs.	(1) Comply with the “Corporate Governance BPP”.
(2) Does the Corporation maintain a list of major shareholders who controlling the Corporation and their beneficial owners?	✓		(2) The Corporation maintains a list of major shareholders who controlling the Corporation and their beneficial owners and reports their shares and stock mortgage/relief status by the Rules Governing Information Filing for TWSE-Listed Companies.	(2) Comply with the “Corporate Governance BPP”.
(3) Has the Corporation established and implemented a risk management system and “firewall” between the Corporation and its affiliates?	✓		(3) The Corporation has established the “Interested Party Trading Management Regulations” as the risk management system and firewall between the Corporation and affiliates.	(3) Comply with the “Corporate Governance BPP”.
(4) Has the Corporation established internal rules prohibiting insider trading securities on undisclosed information?	✓		(4) The Corporation has established the “Insider Trading Prevention SOP” to prohibit insiders from trading securities with undisclosed information.	(4) Comply with the “Corporate Governance BPP”.
3. Formation and responsibility of the board of directors:				
(1) Does the Corporation establish and implement diversified policies with reference to board formation?	✓		(1) The <i>Corporate Governance Best Practice Principles</i> of CMC stipulated the <i>Diversification Policy for the Membership of the Board of Directors</i> in December 2016 after forming the Board of Directors. The Policy was announced on the official website and was enforced accordingly. To ensure that the membership of the Board of Directors meets diversification requirements, refer to the section on <i>Diversification Policy for the Membership of the Board of Directors</i> for relevant measurement indicators and state of implementation.	(1) Comply with the “Corporate Governance BPP”.

Corporate Governance

Assessment Item	Status of Implementation		Non-compliance with the Corporate Governance BPP and reasons
	Yes	No.	
(2) Besides establishing the Compensation Committee and Audit Committee by the law, does the Corporation voluntarily establish other functional committees?		✓	(2) Comply with the “Corporate Governance BPP”.
(3) Does the Corporation establish board performance evaluation regulations and methods to evaluate board performance every year?	✓		(3) Comply with the “Corporate Governance BPP”.
(4) Does the Corporation assess the independency of its CPAs?	✓		(4) Comply with the “Corporate Governance BPP”.

Corporate Governance

Assessment Item	Status of Implementation			Non-compliance with the Corporate Governance BPP and reasons
	Yes	No.	Performance Summary	
			commissioned by the CMC were found to have not violated the requirements for independence.	
4. Has the TWSE/TPEX listed company set up a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by directors and supervisors, handling matters related to board meetings and shareholders meetings, handling corporate registration and amendment registration, and producing minutes of board meetings and shareholders meetings)?	✓		<p>The unit dedicated for corporate governance in CMC is the financial department and the general manager's office. These organizations are respectively responsible for implementing the following matters of corporate governance:</p> <ol style="list-style-type: none"> 1. Company registration and changing the said registration, including changes to the membership of directors and supervisors or changes to business activities. 2. Matters related to the shareholders' meeting, including Board Meetings for approving proposals from the shareholders' meeting, notifications for the shareholders' meeting, convening of the meetings, and generating and uploading of the meeting minutes. 3. Matters related to the Board Meetings, including internal approval and resolutions for proposals of the Board Meetings, issuing notifications for the Board Meetings, convening of meetings, generating of the meeting minutes, making relevant disclosures, and submitting printed copies of the meeting minutes to the competent authorities. 4. Regularly provide directors with information necessary for their duties, including financial statements of each quarter, information on the state of corporate business, information on the resolutions of the audit committee, and information on the resolutions of the remuneration committee. 5. The implementation of internal corporate governance by the CMC includes regular corporate governance training courses for the directors and relevant supervisors, stipulation of goals related to the implementation of corporate governance, and regular monitoring of the said goals. 6. Actively promote rankings in corporate governance with the aim in achieving top 5% in terms of performance of TWSE/TPEX listed companies every year. 	Comply with the "Corporate Governance BPP".
5. Does the Corporation establish mechanisms for communicating with stakeholders and a stakeholder site on the corporate website to appropriately respond to material CSR topics they concern about?	✓		The Corporation has established the stakeholder site provided detailed contact information on the corporate website for stakeholders (customers, the public, and suppliers) to express their comments, so that the Corporation can make appropriate response.	Comply with the "Corporate Governance BPP".
6. Does the Corporation assign professional share registers to handle shareholder meeting affairs?		✓	The Corporation has an own share register department.	Comply with the "Corporate Governance BPP".
7. Information disclosure (1) Does the Corporation establish a website to disclose own operation, financial and corporate governance information? (2) Does the Corporation disclose such information with other methods (e.g., English website, assigning	✓ ✓		<p>(1) The Corporation discloses relevant operation, financial and corporate governance information over the corporate website.</p> <p>(2) The Corporation has established an English website, assigned special staff to gather and disclose corporate information, implemented the spokesperson system, and posted conference call on</p>	<p>(1) Comply with the "Corporate Governance BPP".</p> <p>(2) Comply with the "Corporate Governance BPP".</p>

(Continued)

Corporate Governance

Assessment Item	Status of Implementation			Non-compliance with the Corporate Governance BPP and reasons
	Yes	No.	Performance Summary	
staff to gather and disclose relevant information, implementing the spokesperson system, and posting the conference call on the corporate website)?			the corporate website.	
8. Does the Corporation disclose other information for investors to better understand its corporate governance practices (including but not limited to employee rights and benefits, employee care, investor relations, supplier relations, stakeholder rights and benefits, training for directors and supervisors, implementation of risk management policies and risk assessment standards, implementation of customer relations policies, and Directors and Officers Liability Insurance)?	✓		See Note.	Comply with the "Corporate Governance BPP".
9. Improvements made in the most recent year in response to the results of corporate governance evaluation conducted by the Corporate Governance Center of the Taiwan Stock Exchange Corporation, and prioritized matters and measures to be improved upon for matters that have not been improved: No such matters apply to CMC.				
<p>Note: Material information for better understanding of corporate governance:</p> <p>(1) Employee rights and benefits: The Corporation protects the rights and benefits of employees with reference to the Labor Standards Act and has specified employee rights and benefits in the Employee Handbook. The Corporation also publishes information regarding employee rights and benefits on the intranet and bulletin board.</p> <p>(2) Employee care: The Corporation provides employees with comprehensive care, including the employee canteen, employee dormitory, employee gymnasium, swimming pool, employee library, and infirmary. The Corporation also organizes employee fair (Family Day) and subsidizes employee tours from time to time and arranges health examinations for employees regularly.</p> <p>(3) Investor relations: The Corporation publishes on the corporate website information regarding the future development and financial condition of the Corporation and holds conference call at least 2 times a year. The Corporation also assigns special staff to answer questions of investors and explains to them the Corporation's future development through teleconferences or presentations from time to time.</p> <p>(4) Supplier relations: The Corporation has a procurement department to handle product supply of suppliers and handle the quality improvement of suppliers from time to time. The Corporation also holds the contractor conference every year to explain to suppliers the annual plan and future development of the Corporation.</p> <p>(5) Stakeholder rights and benefits: The Corporation maintains the rights and benefits of stakeholders with reference to the law and assigns relevant units to respond to stakeholders.</p> <p>(6) Training for directors and supervisors: The Corporation regularly provides training information for directors and supervisors and encourages them to receive training. In addition, the Corporation arranges training on new laws and accounting systems for directors and supervisors. Relevant training information is disclosed over the MOPS.</p> <p>(7) Implementation of risk management policy and risk assessment standards: The Corporation has established the Audit Division to audit potential risks on a routine basis and report results to the internal business meeting at planned intervals.</p> <p>(8) Implementation of customer service policy (respect for consumer demand): The Corporation has established a helpline (toll-free 0800) and suggestion box on the corporate website for consumers to express their demand and comments. The Corporation also requests dealers to make timely response to customers.</p> <p>(9) Directors and Officers Liability Insurance: In order to strengthen corporate governance of the Corporation, CMC buy D&O Liability Insurance every year. The information is published on the MOPS.</p>				

Corporate Governance

●Diversification Policy for the Membership of the Board of Directors

Policy for the diversification of Board of Directors membership of CMC has been passed in the Board Meeting of December 21, 2016. Major contents are provided in the following:

1. When selecting and evaluating candidates for directors and independent directors, the CMC shall include a wide range of considerations for membership diversity such as academic background, work experiences, gender, independence, professional experience, and nationality to determine whether or not the candidate should be made a member of the Board to bring about the maximum benefits for CMC.
2. The following lists indicators of diversity requirements to ensure that the Board members of CMC are able to meet diversity requirements:
 - (1) Independence: The ratio of the directors and independent directors in the Board of Directors shall be balanced to ensure that the Board is highly independent. The Board of the CMC shall have at least three independent directors.
 - (2) Gender: CMC actively promotes a work place free from gender discrimination. In the spirit of this consideration, there shall be at least one female director on the Board.
 - (3) Nationality: Given the diversity of the business portfolio of CMC, having one (or more) director of another nationality on the Board will provide better information and understanding of business operations in other countries. Hence, the Board of Directors of CMC shall have at least one director from another country.
 - (4) Skills and experience: Directors with a background in finance, academic subjects, and management will help provide professional recommendations for corporate management. The Board of CMC shall include at least a director or independent director with a professional background (such as accounting).

3. State of implementation:

Diversity indicators Name of director	Independence	Gender	Nationality	Skills and experience
Kenneth K. T. Yen	Non-independent	Male	R. O. C.	Administration and management
Hsin-Tai Liu	Non-independent	Male	R. O. C.	Administration and management
Katsuro Asaoka	Non-independent	Male	Japan	International corporate management
Hsin-I Lin	Non-independent	Male	R. O. C.	Administration and management
Li-Lien Chen	Non-independent	Female	R. O. C.	Administration and management
Kuo-Rong Chen	Non-independent	Male	R. O. C.	Administration and management
Setsuya Yoshino	Non-independent	Male	Japan	International corporate management
Chao-Wen Chen	Non-independent	Male	R. O. C.	Administration and management
Chen-Chi Hsiao	Independent	Male	R. O. C.	Accounting
Chi-Ching Chen	Independent	Male	R. O. C.	Administration and management
Yun-Hua Yang	Independent	Male	R. O. C.	Law and legal affairs

Corporate Governance

(V) Composition, Responsibilities and Operations of Compensation Committee:

1. Information of compensation committee members

Identity (Note 1)	Criteria	Meet the following professional qualification requirements, together with at least five years work experience			Criteria (Note 2)								Number of other Taiwanese public companies concurrently serving as a compensation committee member in Taiwan	NOTE	
		An instructor or higher position in a department of commerce, law, finance, accounting or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance or accounting or otherwise necessary for the business of the company	1	2	3	4	5	6	7	8			
Independent Director	Chen-Chi Hsiao	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	Chi-Ching Chen	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Yun-Hua Yang	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	3	

Note 1: Serve as a director, independent director or otherwise

Note 2: Status of independence compliance

- (1) Not an employee of the company or its affiliates
- (2) Not a director or supervisor of an affiliated business of the Company. However, this restriction does not apply in cases where the person is an independent director of the Company, its parent or subsidiary established in pursuant to this law or local laws.
- (3) Not a natural-person shareholder who holds the share, altogether with those shares held by the person's spouse, minor children or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or rank as one of its top 10 shareholders.
- (4) Not a spouse, relative with in second degree of kinship or lineral relative within the third degree of kinship, or any of the above person in the preceding three subparagraphs
- (5) Not a director, supervisor or employee of a corporate/institutional shareholder that directly holds 5% or more of the total number of issued shares of the company or rank as one of its top 5 shareholders
- (6) Not a director, supervisor, officer or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company.
- (7) Not a professional individual who, or an owner, partner, director, supervisor, officer of a sole proprietorship, company or institution that, provides commercial, legal, accounting services or consultation to the company or any affiliate of the company, or a spouse thereof.
- (8) Not been a person of any conditions defined in article 30 of the Company Law

Corporate Governance

2. Compensation committee meeting status

(1) The Corporation's compensation committee consists of 3 members.

(2) Tenure of office: the tenure of second session of committee is from July 1, 2013 to June 30, 2016. And the tenure of third session of committee is from July 1, 2016 to June 30, 2019. Attendance in 2016 up to the end of March 2017 is provided in the following:

Title	Name	Meeting Times (A)	Attendance		Attendance rate in person (%) (B/A)	Notes
			in person (B)	By proxy		
Convener	Tsung-Jen Huang	1	1	0	100%	Ended at June 30, 2016
Member	Robert Y.L., Mao		1	0	100%	
Member	Yun-Hua Yang		1	0	100%	
Convener	Chen-Chi Hsiao	3	3	0	100%	Start from July 1, 2016
Member	Chi-Ching Chen		3	0	100%	
Member	Yun-Hua Yang		3	0	100%	

Annotations:

1. There was no recommendation of the compensation committee which was not adopted or was modified by the Board.
2. There were no written or otherwise recorded resolutions on which a member of the compensation committee had a dissenting opinion or qualified opinion.

Corporate Governance

(VI) Social Responsibility:

Assessment Item	Implementation		Non-compliance with the Corporate Social Responsibility BPP for TWSE/GTSM Listed Companies and Reasons
	Yes	No	
1. Corporate governance promotion (1) Does the Corporation establish a CSR policy or system and review the effectiveness of implementation?	✓		(1) Comply with the CSR BPP.

(Continued)

Corporate Governance

Assessment Item	Implementation		Non-compliance with the Corporate Social Responsibility BPP for TWSE/GTSM Listed Companies and Reasons	
	Yes	No		Performance Summary
(2) Does the Corporation arrange CSR training on a regular basis?	✓		(2) The Administration Department arranges corporate ethics-related training regularly, including pre-service training for new employees.	(2) Comply with the CSR BPP.
(3) Does the Corporation establish a dedicated (concurrent) unit to promote CSR with authorization from top management and to report the effectiveness of implementation to the board?	✓		(3) In 2014, the Corporation established the CSR Management Committee chaired by the VP of Planning and Administration. Under the committee, there are the “corporate governance”, “employee care”, “sustainable environment”, “customer and partner relations”, and “philanthropy” teams. The Corporate Planning Division, General Administration Division, Health & Safety Office, and Service Division lead respective teams. Other members of these teams include the Finance and Accounting Division, Audit Division, Sales Division, Parts Development Division, Electrical & Electronic Engineering Division, Product Engineering Division, Yangmei Plant, Hsinchu Plant, and Procurement Division. The CSR Management Committee is responsible for promoting CSR, preparing the CSR report, and reporting the effectiveness of implementation to the board at planned intervals regularly. The outcomes of 2016 includes exchange visits to CSR benchmark companies, generation and uploading generation of the 2016 CSR report and uploading of the said report to the website of the TWSE, acquiring ISO 50001 certification, CSR training (training for updated ISO 14001 environmental management systems, e-courses for the <i>Personal Information Protection Act</i> , and safety and health), achieving more than NT\$ 10 million in cost reductions, energy conservation support for partnering firms, and receiving an <i>MOEA Award for Excellence in Energy Conservation</i> from the Bureau of Energy in 2016, etc.	(3) Comply with the CSR BPP.
(4) Does the Corporation establish a fair compensation policy combing with the employee performance evaluation system and CSR policy and an effective and well-defined reward and punishment system?	✓		(4) The Corporation has strictly followed the labor-and-human-rights regulations established by the government, and has established an appropriate compensation system and relevant disciplinary items to reward or punish employees with reference to their performance and conduct.	(4) Comply with the CSR BPP.

(Continued)

Corporate Governance

Assessment Item	Implementation		Non-compliance with the Corporate Social Responsibility BPP for TWSE/GTSM Listed Companies and Reasons	
	Yes	No		Performance Summary
<p>2. Development of a sustainable environment:</p> <p>(1) Does the Corporation make efforts to enhance resource efficiency and use recycled materials with lower environmental impact?</p> <p>(2) Does the Corporation establish an appropriate environmental management system (EMS) according to the characteristics of its industry?</p> <p>(3) Has the Corporation noticed the effect of climate change on its business activities and does it implement GHG inventory and establish an energy conservation and GHG reduction strategy?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>(1) The Corporation holds committee meetings to review resource recycling and energy conservation topics and rewards units making special proposals for related activities: recycling of production water at the Yangmei Plant, clutter reuse at the Hsinchu Plant, and the use of independent switches for lights on each floor for employees to switch lights off after leaving the office.</p> <p>(2) The Corporation has established an EMS with reference to relevant environmental regulations and other requirements, effective resource utilization, pollution prevention and continual improvement, and organizational operation. The Corporation has also passed ISO14001 EMS certification.</p> <p>(3) In 2009 the Corporation began voluntary GHG disclosure at the Taiwan National Greenhouse Gas (GHG) Registry every year. The Corporation establishes the Energy Conservation Team with members from each department to promote energy audit, establishes and implements energy conservation targets and programs, analyzes energy consumption and efficiency, holds review meetings at planned intervals, and proposes improvement plans, so as to reduce GHG emissions.</p> <p>In addition, by implementing the ISO14001 EMS, the Corporation includes energy conservation measures in the annual improvement program for each plant to implement. At the monthly energy conservation review meeting, each unit proposes energy conservation measures and practices.</p>	<p>(1) Comply with the CSR BPP.</p> <p>(2) Comply with the CSR BPP.</p> <p>(3) Comply with the CSR BPP.</p>
<p>3. Implementation of philanthropy</p> <p>(1) Does the Corporation establish relevant management policies and procedures with reference to relevant international regulations and international human rights treaties?</p> <p>(2) Does the Corporation establish mechanisms and channels for and properly handle employee grievances?</p>	<p>✓</p> <p>✓</p>		<p>(1) The Corporation observes relevant labor laws and regulations, and respects internationally recognized basic labor and human rights. After regularly gathering reviews labor laws and regulations, the General Administration Division reviews relevant the compliance of relevant SOPs and regulations and amend them where necessary. The Corporation also ensures no discrimination in employment policies.</p> <p>(2) The Corporation sets up a suggestion box to gather opinion and comments from employees and ensure unhindered communication with employees. The Corporation also sets up a hotline, fax line, and e-mail for sexual harassment reporting.</p>	<p>(1) Comply with the CSR BPP.</p> <p>(2) Comply with the CSR BPP.</p>

(Continued)

Corporate Governance

Assessment Item	Implementation		Non-compliance with the Corporate Social Responsibility BPP for TWSE/GTSM Listed Companies and Reasons	
	Yes	No		Performance Summary
(3) Does the Corporation provide employees with a safe and healthy work environment and regularly arrange safety and health training/education for employees?	✓		(3) The Corporation has established the Safety and Health Office and a Health Center (infirmary) to audit occupational safety in the work environment and arrange periodic health examination. The Corporation also hires resident physicians to ensure employee health.	(3) Comply with the CSR BPP.
(4) Does the Corporation establish mechanisms for periodic employee communication and reasonably notice employees of significant operational changes that could substantially affect them?	✓		(4) The Corporation holds Company business meetings to explain to employees the significant change affecting future corporate development in the future and related operational changes.	(4) Comply with the CSR BPP.
(5) Does the Corporation establish effective training plans for employees to develop employability?	✓		(5) The Corporation implements training/ education programs regularly, including pre-service training and in-service training. The Corporation also assigns suitable employees to attend knowledge and skill training courses to develop competencies required by work.	(5) Comply with the CSR BPP.
(6) Does the Corporation establish policies and procedures to protect consumer rights and benefits in R&D, procurement, production, operation, and service processes?	✓		(6) The Corporation prioritizes maintenance of consumer rights and benefits and establishes the following standards to handle product liability and accidents: "Toll-free Helpline Answering Service Quality Management SOP", "Toll-free Helpline and Consumer Complaint Handling SOP", and "Toll-free Helpline Complaint Closure Aftercare SOP". In addition, all product assurance standards and SOPs are reviewed and revised periodically to ensure a flawless product assurance system.	(6) Comply with the CSR BPP.
(7) Does the Corporation follow relevant regulations and international standards to market and label products and services?	✓		(7) In advertising products, apart from complying with the verity and good faith principle of automobiles, all appeals and methods comply with relevant legal requirements. In legal compliance, product related data is indicated in respective locations to clearly inform consumers. Details are also given in the owner's manual to ensure consumers fully and easily understand the specifications, performance, operation, and precautions of product.	(7) Comply with the CSR BPP.
(8) Does the Corporation assess if suppliers have records regarding causing impacts on the environment and society?	✓		(8) Apart from setting green procurement as an important corporate policy, the Corporation has aggressively encouraged suppliers to pass ISO14001 certification and assesses suppliers prior to any transactions.	(8) Comply with the CSR BPP.

(Continued)

Corporate Governance

Assessment Item	Implementation		Non-compliance with the Corporate Social Responsibility BPP for TWSE/GTSM Listed Companies and Reasons	
	Yes	No		Performance Summary
(9) When signing contracts with major suppliers, does the Corporation include the following terms in the contract: when suppliers violate the Corporation's CSR policy and have significant impact on the environment and society, the Corporation may terminate or rescind the contract at any time?	✓		(9) To optimize supplier management, the Corporation signs the "Basic Contract" with suppliers to specify the rights and obligations of both parties. The "Basic Contract" specifies that the supplier should comply with the Corporation's environmental policy, laws and regulations. The Corporation can terminate the contract and ask for compensation when the supplier violates the "Basic Contract". In addition, the Corporation has established and implemented the Supplier Management Regulations to request and supervise suppliers to continually raise quality, delivery time, cost, R&D, and safety standards. Through routine managements, guidance, and reward, we push suppliers to make continual improvement, so as to pursue sustainable operation.	(9) Comply with the CSR BPP.
4. Reinforcement of disclosure of CSR information. (1) Does the Corporation disclose relevant and reliable CSR information on the corporate website and MOPS?	✓		(1) The Corporation has set up a corporate website and discloses regularly information related to consumers and investors on the corporate website and the MOPS. In addition, the Corporation publishes CSR-related information in the annual report.	(1) Comply with the CSR BPP.
5. If the Corporation has established own code of CSR practice with reference to the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies," specify its operation and non-compliance with the best practice principles. In 2014 the Corporation established own Code of CSR Practice with reference to the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies." At present, the Corporation has completed our own internal control system. Therefore, the Corporation has operated and implemented relevant regulations with reference to the spirit of the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies."				
6. Other material information enabling a better understanding of CSR implementation: The Corporation published and disclosed the CSR Report on the corporate website and the MOPS.				
7. If the organizational CSR report has passed the verification standards of relevant certification authorities, please specify: None.				

(VII) Taiwan Corporate Conduct and Ethics Implementation as Required by the Taiwan Financial Supervisory Commission:

Assessment Item	Implementation		Non-compliance with Ethical Corporate Management BPP for TWSE/GTSM Listed Companies and Reasons	
	Yes	No		Performance Summary
1. Policies and plans for fair and ethical business operations (1) Does the Corporation specify its policies and practices to maintain fair and ethical business operations in relevant regulations and external documents? Do the board and managers actively implement the commitments made in relevant policies?	✓		(1) The Corporation sets "harmony, innovation, excellence" as management philosophy and "integrity, care, and responsibility" as the employee's code of conduct, apart from ensuring "philosophy" is implemented in management, it is specified in the employee handbook	(1) Comply with the Ethical Corporate Management BPP.

Corporate Governance

Assessment Item	Implementation			Non-compliance with Ethical Corporate Management BPP for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Performance Summary	
<p>(2) Does the Corporation draw up and practice programs to prevent unethical conduct and set out in each program and implement SOPs, conduct guidelines, penalties for violation, and a grievance system?</p> <p>(3) Does the Corporation take precautionary action to prevent business activities specified in paragraph 2 of Article 7 of the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and other business activities within its scope of business with higher behavioral risk?</p>	<p>✓</p> <p>✓</p>		<p>The Corporation established “Code of Business Ethics” to enhance fair and ethical business.</p> <p>(2) “Code of Business Ethics” stipulates the improper ethical behavior and rules to prevent improper behavior. In the organizational “Work Rules”, the Corporation specifies that no employee shall accept bribes or other improper benefits for an official act and punishes employees based on the severity of indecent act.</p> <p>(3) “Code of Business Ethics” sets up rules and prevention about risky business operation like improper profit, political donation In the “Service Ethics” and “Punishment, Reward, Promotion, Transfer, and Performance Evaluation” sections of the “Work Rules”, the Corporation specifies what employee behaviors are acceptable and how to respond to the indecent act of others. The “Work Rules” are explained to employees upon hiring.</p>	<p>(2) Comply with the Ethical Corporate Management BPP.</p> <p>(3) Comply with the Ethical Corporate Management BPP.</p>
<p>2. Implementation of fair and ethical business operations</p> <p>(1) Does the Corporation assess if trading counterparts involved in any unfair and unethical business operations and include the fair and ethical business operations clause in the transaction agreement signed with them?</p> <p>(2) Has the Corporation established a dedicated (concurrent) unit directly under the board to promote fair and ethical business operations and report the effectiveness of implementation directly to the board?</p>	<p>✓</p> <p>✓</p>		<p>(1) Aside from setting “integrity, care, and responsibility” as the employee’s code of conduct and specifying relevant service ethics in the “Work Rules”, the Corporation values the integrity of trading counterparties and thus specifies ethical clauses in standard contract with vendor.</p> <p>(2) The following describes the state of implementation in CMC:</p> <p>A. CMC has established an Ethical Corporate Management and Compliance Management Committee. The management department is responsible for serving as the executive secretary, with GR. Ching-wu Chien of planning management serving as the chairperson. The job functions and scope of responsibilities of each department are referenced to ensure the proper implementation of best practice principles of ethical corporate management. The general manager’s office shall report the state of the implementation to the Board Meeting on an annual basis. The state of implementation in 2016 has been reported to the Board of Directors on December 19, 2016.</p> <p>B. To prevent conflicts of interest and provide suitable channels of appeals, CMC has established an Ethical Corporate Management Best Practice Principles of</p>	<p>(1) Comply with the Ethical Corporate Management BPP.</p> <p>(2) Comply with the Ethical Corporate Management BPP.</p>

(Continued)

Corporate Governance

Assessment Item	Implementation			Non-compliance with Ethical Corporate Management BPP for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Performance Summary	
			<p>CMC in 2015.</p> <p>C. The following describes ethical corporate management measures implemented in 2016:</p> <p>a. Awareness of ethical corporate management is promoted amongst newly appointed directors and managerial officers. The said personnel are also required to sign declarations for ethical corporate management.</p> <p>b. Arrange training courses for the directors and supervisors.</p> <p>c. Promote ethical corporate management with partnering firms.</p> <p>d. Establish a dedicated phone line to receive employee complaints and appeals. No employee complaints have been received for this year.</p>	
(3) Does the Corporation establish and implement policies to prevent conflicts of interest and provide appropriate channels for reporting such conflicts?	✓		(3) In the “Work Rules” the Corporation specifies that employees may be dismissed and face relevant legal action if they engage in work of a similar nature externally with conflicts of interest with the Corporation that causes serious damage to the Corporation without prior permission from the Corporation. Also, the annual work target of employees is set with reference to the organizational or departmental annual work policies, and the goal of employees and the organization should be consistent and conflicts of interest should be prevented through thorough communication. The Corporation has established “Code of Business Ethics” stipulates the improper ethical behavior and rules to prevent improper behavior and “Corporate Ethical Management and Compliance Committee” to process and communicate relative manners.	(3) Comply with the Ethical Corporate Management BPP.
(4) Has the Corporation established effective accounting and internal control systems to implement fair and ethical business operations? Does the Corporation have these system audited regularly by the internal audit unit or a CPA?	✓		(4) The Audit Division audits internal systems and external activities regularly and report the results to the board.	(4) Comply with the Ethical Corporate Management BPP.
(5) Does the Corporation arrange regular internal/external training/ education for fair and ethical business operations?	✓		(5) Apart from arranging training on fair and ethical operations for new employees, the Corporation has established the “Work Rules” and “NC-0403 Reward and Punishment Regulations” and posted them on the intranet for the reference of all employees to ensure employees understand the importance of fair and ethical operations and relevant reward and punishment regulations. In addition, the Corporation reviews relevant regulations at	(5) Comply with the Ethical Corporate Management BPP.

(Continued)

Corporate Governance

Assessment Item	Implementation			Non-compliance with Ethical Corporate Management BPP for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Performance Summary	
			planned intervals and publishes them after each time of revision for employees to understand.	
3. Operation of the whistleblower system (1) Does the Corporation establish a practical whistleblower and reward system and channels to facilitate reporting of unfair and unethical business operations and assign appropriate personnel to handle a reported case? (2) Does the Corporation establish a SOP and a non-disclosure mechanism of relevant investigations? (3) Does the Corporation establish and implement an informer protection policy to ensure no informer will receive indecent treatment?	✓ ✓ ✓		(1) ~ (3) Employees can directly report to the General Administration Division or to the supervisors through the "Employee Grievance Box" any violation of fair and ethical operations and no part of investigations will be disclosed. In addition, employees can make anonymous reports and the case responsible unit will not disclose any information of informers (whistleblowers) to ensure absolute protection. The report hotline and SOP are published on the Corporation website and reports will be handling by stakeholder identity under SOP.	(1) ~ (3) Comply with the Ethical Corporate Management BPP.
4. Reinforcement of information disclosure (1) Does the Corporation disclose the content and effectiveness of implementation of the Code of Business Ethics on the corporate website and MOPS?	✓		(1) The Corporation discloses the content of own Code of Business Ethics on the corporate website and MOPS and the status of operation on the corporate website at planned intervals, including the status of fair and ethical operations where necessary.	(1) Comply with the Ethical Corporate Management BPP.
5. If The Corporation has established own code of business ethics with reference to the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies," specify its operation and non-compliance with the best practice principles. In 2014, the Corporation established own Code of Business Ethics with reference to the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies." At present, the Corporation also has a completely internal control system. Therefore, the Corporation has operated and implemented relevant regulations with reference to the spirit of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies."				
6. Other material information enabling a better understanding of fair and ethical business operations (such as review and revise the code of business ethics): To respond to the replacement of supervisors with an audit committee, the CMC has revised its Ethical Corporate Management Best Practice Principles in December 2015 (entered into force in July 2016). An Ethical Corporate Management and Compliance Management Committee meeting was convened in November 2016 to adjust committee organization and discuss future implementation.				

(VIII) Corporate Governance Guidelines and Regulations:

Please refer the "Corporate Governance" of Market Observation Post System and the corporate website (<http://www.china-motor.com.tw>).

(IX) Other Important Information Regarding Corporate Governance:

Please refer the "Corporate Governance" of Market Observation Post System and the corporate website (<http://www.china-motor.com.tw>).

Corporate Governance

(X) Internal Control System Execution Status

1. Statement of Internal Control System

China Motor Corporation
Statement of Internal Control System

Date: March 27, 2017

Based on the findings of a self-assessment, the Corporation states the following with regard to its internal control system during the year of 2016:

1. The Corporation's Board of Directors and Management are responsible for establishing, implementing, and maintaining an adequate internal control system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operation (including profitability, performance, and safeguarding of assets), reliability of our financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing its stated objectives. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanism, and the Corporation takes immediate actions in response to any identified deficiencies.
3. The Corporation evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control System by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five key components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further covers certain items. Please refer to "Regulations" for preceding items.
4. The Corporation has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations.
5. Based on the findings of such evaluation, the Corporation believes that, on December 31, 2016, we have maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations.
6. This statement will be an integral part of the Corporation's Annual Report for the year 2016 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Article 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This statement has been passed by the Board of Directors in their meeting held on March 27, 2017, with none of 11 attending directors expressing dissenting opinions, and the remainder all affirming the content of this statement.

China Motor Corporation

Chairperson: Kenneth K.T. YEN

President : Chao-Wen Chen



Corporate Governance

2. The independent auditor's report shall be disclosed if the the auditor is designated to review internal control system: None

(XI) Punishment and Improvement Status of Violation Internal Control System during the 2016 Calendar Year and up to March 31, 2017: None

(XII) Major Resolutions at Shareholders Meetings and Board of Directors Meetings during the 2016 Calendar Year and up to March 31, 2017

1. Major Resolutions at Board of Directors Meetings

Date of meeting	Important resolution	Implementation
03.28.2016	<ol style="list-style-type: none"> 1. Passed the Corporation's 2015 Annual Report. 2. Passed the Corporation's 2015 Earning Distribution.. 3. Passed the date and location of the Corporation's general shareholders' meeting 2016. 4. Passed the election of the Corporation's directors and independent directors at the general shareholders' meeting 2016. 5. Passed the lifting of non-competition restrictions on the Corporation's directors of 19th term resolved at the general shareholders' meeting 2016. 6. Passed the consolidation of the Corporation and CMC Investment Co., Ltd.. 7. Passed the partial revisions to the Corporation's Articles of Incorporation. 8. Passed the allocation of remuneration and compensation to directors/supervisors and employees 2015. 9. Passed the issue of the Corporation's "Statement of Internal Control System" for 2015. 10. Passed the revision to the Corporation's "Enforcement Rules of Internal Audit". 11. Passed the amendment of the Corporation's internal control requirements to be in line with the replacement of supervisors by Audit Committee 2016. 12. Passed the Corporation's rearrangement of general managers and higher-level officers. 13. Passed lifting of the non-competition restriction on the Corporation's administrators. 	<p>Already published on the MOPS and implemented with reference to relevant regulations. Motions 1, 2, 4, 5 and 7 were submitted to the general shareholders' meeting 2016 for recognition and resolution.</p>
05.13.2016	<ol style="list-style-type: none"> 1. Review the proposed candidates for directors and independent directors of CMC to be voted for in the 2016 annual shareholders' meeting. 2. Passed the revision to the Corporation's "Share Registration Unit Internal Control System" and "Internal Audit Implementation Rules for Share Registration Unit Internal Audit System". 3. Passed the revision to the Corporation's "Operating Procedure for Application for Suspension and Resumption of Transactions". 	<p>Already published on the MOPS and implemented with reference to relevant regulations. Item 1 has been raised in the 2016 annual shareholders' meeting for voting.</p>

Corporate Governance

Date of meeting	Important resolution	Implementation
07.04.2016	Appointment of the members of the third remuneration committee of CMC.	Already published on the MOPS and implemented with reference to relevant regulations.
08.04.2016	<ol style="list-style-type: none"> 1. Passed the evaluation on CPA's independence and competency 2016. 2. Stipulate remuneration of independent directors in CMC. 3. Passed the revisions to the "Procedure for the Conduct of Derivatives Trading". 	Already implemented per the resolution.
11.07.2016	<ol style="list-style-type: none"> 1. Request the Board of Directors to authorize one director to sign the audit report of CMC. 2. Passed the raise of managers 2016. 3. Passed the Corporation's rearrangement of general managers and higher-level officers. 	Already implemented per the resolution.
12.19.2016	<ol style="list-style-type: none"> 1. Passed the Corporation's annual objectives 2017. 2. Revise a number of articles of the "Procedures for the Application of Suspending and Restoring Transactions" and "Enforcement Rules for Internal Audits of Managing Procedures for the Application of Suspending and Restoring Transactions" of CMC. 3. Passed the partial revision to the Corporation's "Code of Corporate Governance Practice". 4. Passed the partial revision to the Corporation's "Code of CSR Practice". 5. Passed the Corporation's "Regulations Governing Evaluation on Performance of Board of Directors". 6. Stipulate "Diversification Policy for the Membership of the Board of Directors" of CMC. 7. Passed the Corporation's annual audit plan 2017. 8. Proposal for lifting non-compete clause prohibitions for newly appointed directors for the 19th Board of Directors of CMC in the 2017 annual shareholders' meeting. 9. Passed the motion for reorganization of the Corporation's departments. 10. Passed the Corporation's rearrangement of general managers and higher-level officers. 11. Passed lifting of the non-competition restriction on the Corporation's administrators. 	Already published on the MOPS and implemented with reference to relevant regulations. Motions 8 were submitted to the general shareholders' meeting 2017 for resolution.
03.27.2017	<ol style="list-style-type: none"> 1. Key audit matters of 2016 Annual Report. 2. The Corporation's 2016 Annual Report. 3. The Corporation's 2016 Earning Distribution. 4. Passed the date and location of the Corporation's general shareholders' meeting 2017. 5. Passed the allocation of remuneration and compensation to directors/supervisors and employees 2016. 6. Passed the issue of the Corporation's "Statement of Internal Control System" for 2016. 7. Revise a number of articles on the articles of organization of the audit committee of CMC. 8. Appointment of managerial officers of CMC as directors and supervisors of an investee, and lifting non-compete clause 	Already published on the MOPS and implemented with reference to relevant regulations. Motions 2 and 3 were submitted to the general shareholders' meeting 2017 for recognition. Motions 10 were submitted to the general shareholders' meeting

Corporate Governance

Date of meeting	Important resolution	Implementation
	prohibitions. 9. Passed the evaluation on CPA's independence and competency 2017. 10. Revise a number of articles of the " <i>Procedure for the Acquisition and Disposal of Assets</i> " and " <i>Enforcement Rules for the Procedure for the Acquisition and Disposal of Assets</i> " of CMC. 11. Passed the Corporation's rearrangement of managers and higher-level officers.	2017 for recognition and resolution.

2. Major Resolutions at Shareholders Meetings

Date of Meeting	Important resolution	Implementation
06.24.2016	1. Recognition of the final account book 2015.	Already published on the MOPS.
	2. Recognition of allocation of earnings 2015.	The cash dividend allocated at NT\$1.5 per share. The record date was set on July 29, 2016, and the dividend was granted on August 24, 2016.
	3. Passed the partial revision to the Corporation's "Articles of Incorporation".	Approved by and registered with Ministry of Economic Affairs on July 20, 2016 and posted on the Corporation's website.
	4. Passed the partial revision to the Corporation's the Company's "Procedures for Loaning of Funds".	Already posted on the Corporation's website and implemented per the resolution.
	5. Passed the partial revision to the Company's "Procedures for Endorsements/Guarantees".	Already posted on the Corporation's website and implemented per the resolution.
	6. Passed the partial revision to the " <i>Procedure for the Acquisition and Disposal of Assets</i> " of CMC.	Already posted on the Corporation's website and implemented per the resolution.
	7. Passed the revisions to the "Procedure for the Conduct of Derivatives Trading".	Already posted on the Corporation's website and implemented per the resolution.
	8. Passed the election of the Corporation's 19 th term directors.	Approved by and registered with Ministry of Economic Affairs on July 20, 2016.
	9. Passed the lifting of non-competition restrictions on the Corporation's directors of 19th term.	Already implemented per the resolution.

(XIII) Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors during the 2016 Calendar Year and up to March 31, 2017: None

(XIV) Resignation or Dismissal of Chairperson, President, and General Manager of Accounting, Finance, Internal Audit and R&D during the 2016 Calendar Year and up to March 31, 2017: None

Corporate Governance

IV. Information Regarding Audit Fees

Audit Fees

Accounting Firm	Name of CPA	Audit Period	Note
Deloitte & Touche	Chih-Ming Shao, Shiow-Ming Shue	2016.1.1~2016.12.31	-

Item		Audit Fee	Non-Audit Fee	Total
Range of the Amount				
1	Belwo 2,000 thousands		✓	
2	2,000 thousands (included) ~ 4,000 thousands			
3	4,000 thousands (included) ~ 6,000 thousands			
4	6,000 thousands (included) ~ 8,000 thousands			
5	8,000 thousands (included) ~ 10,000 thousands	✓		✓
6	10,000 thousands (included) and above			

1. When the non-audit fees paid to CPA, the firm of CPA and its affiliates are more than one fourth of the audit fee, disclose the amounts of audit and non-audit fee and the content of non-audit services:

Unit : Thousand

Accounting Firm	Name of CPA	Audit Fee	Non-Audit Fee					Audit Period	Note
			System Design	Company Registration	Human Resource	Other (note)	Subtoatl		
Deloitte & Touche	Chih-Ming Shao, Shiow-Ming Shue	8,280	-	85	-	495	580	2016.1.1~ 2016.12.31	Fees for Transfer Pricing, Supporting procedures and consolidated subsidiaries

Note: If the "other" of non-audit fee reaches 25% of non-audit fee, specify its service content in the note.

2. Replace the accounting firm and the audit fee paid in the year of replacement is less than the audit fee in previous year, disclose the amount of audit fee before and after the replacement and its reasons: N.A.
3. For the audit fee is reduced more than 15 percent as comparing to previous year, disclose the amount reduced, percentage and reason: N.A.

V. Information Regarding Replacement or Rotation of Accountants

(I) Regarding the former CPA

Date of Replacement	July 2014		
Reason and Description of Replacment	Due to relevant regulatory requirements on rotation, Deloitte & Touche has rotated audit partners in 2014, the CPA Chih-Ming Shao succeeded the duty of orignal CPA Denny Kuo in July 2014.		
Reason for termination or rejection of appointment	Related Party	CPA	Appointer
	Status	(NA)	(NA)
	Voluntary termination of appointment	(NA)	(NA)
Opinion and reason for any report otherthan unqualified opinion in last two years	Reject the (continued) appointment	(NA)	(NA)
	Partial long-term investment under equity method is recognized based on the audit report of other CPA and therefore the modified unqualified opinions are issued.		
Any disagreement with the issuer	Yes	-	Accounting principle or practice
		-	Disclosure of financial statement
		-	Scope or steps of audit
		-	Other
	No	✓	
Note	-		
Other disclosure (items to be disclosed in accordance with article 10.5.(1)(iv) of Regulations Governing Information to be Published in Annual Reports of Public Companies)	None		

(II) Regarding the successive CPA

Account Firm	Deloitte & Touche
Name of CPA	CPA Chih-Ming Shao
Date of Appointment	July 2014
The items and results of possible opinion on the financial report aiming at accounting methods or accounting principles applied to specific transactions as enquired before the appointment	NA
The written opinions of successive CPA which are different from the former CPA	None

(III) The former CPA written response to the matters referred to in article 10.5.(1) and article 10.5.(2) (ii) of Regulations Governing Information to be Published in Annual Reports of Public Companies: N.A.

VI. Chairperson, Prsident and General Manager of Financial Affairs or Accounting Working in CMC's Independent Audit Firm or its affiliates during 2016: None

Corporate Governance

VII. Changes in Shareholding of Directors, Managers and Major Shareholders

(I) Share transfer and change in pledged shares of directors, managers and shareholders holding more than 10% of shares

Unit: share

Title	Name	2016		As of March 31, 2017	
		Change in Shareholding	Increase (decrease) on pledged shares	Change in Shareholding	Increase (decrease) on pledged shares
Director (Note1)	Tai-Yuen Textile Co., Ltd.	-	(30,000,000)	-	-
Director	Yulon Motor Co., Ltd.	-	-	-	-
Director (Note1)	Mitsubishi Motors Corporation	-	-	-	-
Director	Mitsubishi Corporation	-	-	-	-
Director	Le Wen Enterprise Co., Ltd.	-	-	-	-
Chairperson	Kenneth K. T. Yen	-	-	-	-
Vice Chairman	Hsin-Tai Liu	-	-	-	-
Director	Katsuro Asaoka	-	-	-	-
Director	Hsin-I Lini	-	-	-	-
Director	Li-Lien Chen	-	-	-	-
Director	Kuo-Rong Chen	-	-	-	-
Director(Note2)	Setsuya Yoshino	-	-	-	-
Director /Prsident	Chao-Wen Chen	-	-	-	-
Independent Director	Chen-Chi Hsiao	-	-	-	-
Independent Director	Chi-Ching Chen	-	-	-	-
Independent Director	Yun-Hua Yang	-	-	-	-
Executive Vice Prsident	Te-Jun Lo	-	-	-	-
Executive Vice Prsident	Ching-Ya Chen	-	-	-	-
Vice President	Te-Chao Huang	-	-	-	-
Vice President	Ching-Wu Chien	-	-	-	-
Vice President	Shing JuChen	20,000	-	-	-
Vice President	Hung-Ching Yang	-	-	-	-
Vice President	Min-Chang Lee	-	-	-	-
Special Assistant (Vice President)	Koju Huang	-	-	-	-
Vice President	Chiung-chih Tseng	-	-	-	-
Accounting and Finance Supervisor	Mei-Chu Tai	-	-	-	-

Note1: Shareholders holding over 10% of issued shares.

Note2:Mitsubishi Corporation assigned Mr. Setsuya Yoshino in replacement of Mr. Yoshinori Yamazaki as its representative from December 1, 2016.

- (2) When the opponent party of shares transfer or pledge is a related party, disclose the name of the opponent party, the relation with the Corporation, directors, supervisors and shareholders holding over 10% of shares and the shares acquired or pledged: None.

Corporate Governance

VIII. Information Disclosing the Relationship between any of the Top Ten Shareholders

Name	Shareholding		Spouse & Minor Children Shareholding		Shares Held Through Other Parties		Names and Relationship of Any of the Top Ten Shareholders being A Related Party or spouse or relatives within 2nd degree kinship		Note
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Titel (or Name)	Relation	
Tai-Yuen Textile Co., Ltd.	348,589,538	25.19	-	-	-	-	Yulon Motor Co., Ltd.	Same chairperson	-
							Diamond Hosiery & Thread Co., Ltd.	Same chairperson	-
							Kenneth K. T. Yen	Chairperson	-
Representative : Hsin-I Lin	-	-	-	-	-	-	-	-	-
Representative : Kuo-Rong Chen	-	-	-	-	-	-	-	-	-
Representative : Hsin-Tai Liu	14,560	-	-	-	-	-	-	-	-
Mitsubishi Motors Corporation	193,768,273	14.00	-	-	-	-	Mitsubishi Corporation	Investee under equity method	-
Representative : Katsuro Asaoka	-	-	-	-	-	-	-	-	-
Yulon Motor Co., Ltd.	111,480,444	8.05	-	-	-	-	Tai-Yuen Textile Co., Ltd	Same chairperson	-
							Diamond Hosiery & Thread Co., Ltd.	Same chairperson	-
							Kenneth K. T. Yen	Chairperson	-
Representative : Kenneth K. T. Yen	16,621,212	1.20	-	-	-	-	Li-Lien Chen	Spouse	-
Representative : Li-Lien Chen	-	-	16,621,212	1.20	-	-	Kenneth K. T. Yen	Spouse	-
Diamond Hosiery & Thread Co., Ltd.	93,596,630	6.76	-	-	-	-	Tai-Yuen Textile Co., Ltd.	Same chairperson	-
							Yulon Motor Co., Ltd.	Same chairperson	-
							Kenneth K. T. Yen	Chairperson	-
Mitsubishi Corporation	66,404,796	4.80	-	-	-	-	Mitsubishi Motors Corporation	Invester under equity method	-
Representative : Setsuya Yoshino	-	-	-	-	-	-	-	-	-
Cathay Life Insurance Co., Ltd.	41,941,000	3.39	-	-	-	-	-	-	-
Nan Shan Life Insurance Company, Ltd.	33,213,000	2.39	-	-	-	-	-	-	-
Kenneth K. T. Yen	16,621,212	1.20	-	-	-	-	Tai-Yuen Textile Co., Ltd.	Chairperson of said company	-
							Yulon Motor Co., Ltd.	Chairperson of said company	-
							Diamond Hosiery & Thread Co., Ltd.	Chairperson of said company	-
Investment account at the Norges Bank under the custody of Citibank	13,041,196	0.94	-	-	-	-	-	-	-
Vanguard Emerging Markets Stock Index Fund account under the custody of Standard Chartered	13,022,000	0.94	-	-	-	-	-	-	-

Corporate Governance

IX. Long-Term Investment Ownership

March 31, 2017

Investee	Investment of the Corporation		Investments of Directors, Supervisors, Managers and Businesses with Shares Directly or Indirectly Held by the Corporation		Syndicated Investments	
	Shares	Shareholding %	Shares	Shareholding %	Shares	Shareholding %
Yulon Motor Co., Ltd.	262,228,166	16.67	453,465,665	28.83	715,693,831	45.50
Kian Shen Corporation	32,201,367	43.87	51,915	0.07	32,253,282	43.94
Hwa Wei Holdings Co., Ltd.	40,000	40.00	60,000	60.00	100,000	100.00
China Motor Investment Co., Ltd.	40,000	100.00	-	-	40,000	100.00
Fortune Motors Co., Ltd	132,116,729	41.01	31,021,658	9.63	163,138,387	50.64
Sino Diamond Motor Corporation	325,786,161	100.00	-	-	325,786,161	100.00
Alliance Investment & Management Co., Ltd.	183,000,000	100.00	-	-	183,000,000	100.00
ROC Spicer Ltd.	1,422,360	29.00	1,003,584	20.46	2,425,944	49.46
Tokio Marine Nawa Insurance Co., Ltd.	61,510,524	20.57	52,009,524	17.39	113,520,048	37.96
Daimler Vans Hong Kong Ltd.	46,565,750	32.45	-	-	46,565,750	32.45
Shung Ye Motor Enterprise	26,588,916	39.98	11,084	0.02	26,600,000	40.00
Gatetech Technology Inc.	24,725,155	56.53	7,140,410	16.33	31,865,565	72.86
COC Tooling & Stamping Co., Ltd.	33,564,678	49.76	33,892,952	50.23	67,457,630	99.99
Tai Yuen Venture Capital Investment Corp.	26,759,700	49.50	27,278,676	50.46	54,038,376	99.96
China Engine Corporation	32,000,000	18.95	88,000,000	52.10	120,000,000	71.05
Hua-Chuang Automobile Information Technical Center Co., Ltd.	94,400,000	18.88	294,400,000	58.88	388,800,000	77.76
Uni Auto Parts Manufacture Co., Ltd.	13,032,137	15.00	21,728,516	25.00	34,760,653	40.00
Sinjang Co., Ltd	8,567,750	20.01	8,567,950	20.01	17,135,700	40.02
Huang Chung Motor Co., Ltd.	8,790,000	100.00	-	-	8,790,000	100.00
Shin Gan Co., Ltd.	7,074,057	24.67	11,636,355	40.59	18,710,412	65.26
Yulon IT Solutions Inc.	8,331,999	43.85	10,668,001	56.15	19,000,000	100.00
Hua Han Corporation (in the course of liquidation)	521,161	48.99	542,429	51.00	1,063,590	99.99

Note: The investees are investment of the Corporation under equity method.

Capital Overview

I. Capital and Shares

(I) Sources of Capital

Unit: thousand shares; NTD thousand

Month/Year	Issue Price (NTD)	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount	Shares	Amount	Source of capital	Capital Increase by assets Other than Cash	Other
09/2007	10	1,800,000	18,000,000	1,391,301	13,913,008	Capital increment by earning	-	2007/09/14 Jing Shou Shang No. 9601227310
01/2011	10	1,800,000	18,000,000	1,384,051	13,840,508	Cancellation of treasury stocks	-	2011/01/17 Jing Shou Shang No. 10001001380

(II) Type of stock

April 30, 2017

Type of Stock	Authorized Capital		
	Issued Shares (share, note)	Unissued Shares (share)	Total
Inscribed common stock	1,384,050,854	415,949,146	1,800,000,000

Note: TWSE listed stock.

(III) Status of Shareholders

April 30, 2017

Type of Shareholders	Government Agencies	Financial Institutions	Other Judicial Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Qty						
Number of Shareholders	4	41	140	40,923	328	41,436
Shareholding (share)	12,746,000	107,445,032	634,559,522	186,439,578	442,860,722	1,384,050,854
Shareholding (%)	0.92	7.76	45.85	13.47	32.00	100.00

Capital Overview

(IV) Shareholding Distribution Status

April 30, 2017

Shareholder Ownership (share)	Number of Shareholders (person)	Onwership (share)	Ownership (%)
1 ~ 999	17,484	3,083,641	0.22
1,000 ~ 5,000	17,186	36,780,154	2.66
5,001 ~ 10,000	3,397	25,405,355	1.84
10,001 ~ 15,000	1,128	13,471,858	0.97
15,001 ~ 20,000	625	11,434,281	0.83
20,001 ~ 30,000	557	13,768,466	0.99
30,001 ~ 40,000	217	7,558,841	0.55
40,001 ~ 50,000	193	8,930,385	0.64
50,001 ~ 100,000	273	19,763,050	1.43
100,001 ~ 200,000	143	20,448,395	1.48
200,001 ~ 400,000	82	23,297,825	1.68
400,001 ~ 600,000	35	17,110,279	1.24
600,001 ~ 800,000	19	13,406,736	0.97
800,001 ~ 1,000,000	18	16,828,487	1.21
Over 1,000,000	79	1,152,763,101	83.29
Total	41,436	1,384,050,854	100.00

(V) List of Major Shareholders

April 30, 2017

Shareholders	Share	Total Shares Owned (share)	Ownership (%)
1. Tai-Yuen Textile Co., Ltd.		348,589,538	25.19
2. Mitsubishi Motors Corporation		193,768,273	14.00
3. Yulon Motor Co., Ltd.		111,480,444	8.05
4. Diamond Hosiery & Thread Co., Ltd		93,596,630	6.76
5. Mitsubishi Corporation		66,404,796	4.80
6. Cathay Life Insurance Co., Ltd.		46,941,000	3.39
7. Nan Shan Life Insurance Company., Ltd.		33,213,000	2.39
8. Kenneth K. T. Yen		16,621,212	1.20
9. Investment account at the Norges Bank under the custody of Citibank		13,041,196	0.94
10. Vanguard Emerging Markets Stock Index Fund account under the custody of Standard Chartered		13,022,000	0.94

Capital Overview

(VI) Market Price, Net Worth, Earnings, and Dividends per Share

Item		Year		
		2015	2016	As of March 31, 2017
Market Price Per Share (NTD)	Highest	27.90	27.50	29.75
	Lowest	19.60	20.55	26.05
	Average	24.46	23.62	28.40
Net Worth Per Share (NTD)	Before distribution	35.78	35.71	- (Note3)
	After distribution	34.28	35.71 (Note1)	- (Note3)
Earning Per Share (NTD)	Weighted average shares (thousand shares)	1,384,051	1,384,051	1,384,051
	Earning per share	2.32	2.34	- (Note3)
Dividend Per Share (NTD)	Cash dividend (note 2)	1.15	1.50	-
	Stock dividend	-	-	-
		-	-	-
	Accumulated undistributed dividend	-	-	-
Return on Investment	Price/earning ratio	10.54	10.09	-
	Price/dividend ratio	21.27	15.75	-
	Cash dividend yield rate	4.70%	6.35%	-

Note: 1. The 2017 shareholders' meeting has not yet been convened, and the earning distribution is not yet confirmed. Therefore, the EPS amounts before and after distribution are the same.

2. The earning distribution in previous year.

3. Up to the publication date of March 31, 2017, of this Report, there is no financial figure of the first quarter reviewed by the CPA that has not been disclosed.

(VII) Corporate Dividend Policy and Implementation Status

1. Dividend policy

The dividend policy in the current version of the Articles of Incorporation is as follows:

If there is a profit after the annual closing of books, the Corporation shall, after having provided for taxes and covered the losses of previous years by law, appropriate ten percent (10%) of the net profit after tax to the legal reserve. The remainder plus undistributed earnings from prior years should be distributed as dividends as recommended by the board of directors and approved by the stockholders in their meeting.

The Corporation is operated in a mature and stable industry. Dividends are distributed with reference to the organizational profitability, capital demand for future business plans, and industry environment change. In addition, the dividend distribution plan is made with reference to shareholder benefit and long-term

Capital Overview

organizational financial planning. Dividend distribution is not less than 40% of the net income, but there'll no dividend distribution in deficit year. Dividends are distributed in the form of cash or stock. The amount of cash distributed each year shall not be less than 20% of the total amount of dividends issued.

2. Proposed dividend allocation plan at the present Shareholders Meeting:

The profit allocation plan of 2016 was established by the board to distribute cash dividend at NT\$1.60 per share.

The profit for allocation was appropriated from the unallocated profit of 2016.

If the Corporation decided to re-purchase company shares or assign treasury stock to employees and such decision affects the number of shares circulating on the market on the dividend distribution base date, the shareholders' meeting will be requested to authorize the board to adjust the dividend ratio.

(VIII) The Impact of Stock Dividend Issuance on Business Performance and EPS: N.A.

(IX) Employees' Compensation and Remuneration to Directors

1. The percentage or scope of employee' compensation and remuneration to directors specified in articles of incorporation

The policy in the current version of the Articles of Incorporation is as follows:

(1) No higher than 0.5% of net profit before income tax as remunerations for directors.

The remunerations of 18th term of BOD distribute to directors and supervisors are calculated by tenure.

(2) Not less than 0.1% of net profit before income tax as employee' compensation in the form of cash or stock approved by the BOD. In either form, employee' compensation should also be distributed to employees of affiliated companys complying with certain requirements established by the board.

The employee' compensation and remuneration to directors should be approved by the BOD and then be presented on Shareholders Meeting.

There should be reservation for losses of previous years and then the residential

Capital Overview

balance should be distributed according to the ratio stipulated in Articles of Incorporation.

2. The accounting for the discrepancy between actual amount distributed and the estimated amount arising from differences of the basis of estimate of employee' compensation and remuneration to directors and supervisors

The Corporation has made as most appropriate estimate and recognized the expenses pursuant to the percentage of employee' compensation and remuneration to directors and supervisors as set forth in the Articles of Incorporation. If there is significant change with the proposed amount by the BOD afterward, the change shall be recognized as expenses in current year (the year of recognizing expenses). If the actual amount of distribution changes upon the amount approved by the BOD in next year, then the change will be carried to the profit and loss of next year in principle of change in accounting estimate.

3. Employee' Compensation and Remuneration to Directors and Supervisors approved by BOD

- (1) The employee' compensation and remuneration to directors and supervisors in cash and stock. Where there is discrepancy between the expenses recorded and the estimated, disclose the amount, reason and handling of difference

The 2016 proposal concerning the employee' compensation and remuneration to directors had been approved by the 5th meeting of 19th term of BOD on March 27, 2017. It is approved to distribute \$18,426 thousands to employees as compensation and \$17,822 thousands to directors as remunerations, which are identical to the estimate in the year of recording expenses. In case the actual distribution amount is changed upon the resolution of BOD, it will be deemed as change of accounting estimate and will be adjusted in the actual distributing year.

In addition to allocating the aforementioned employees' compensation, the CMC also issued other bonuses such as the three major festivals, end of year bonuses, and business team growth and performance awards on the basis of business

Capital Overview

performance and personal performance by the employee to encourage workers to generate better performance for the Company as well as shareholders.

- (2) The percentage of stock employee' compensation over the net income and the total employee' compensation

There was no stock employee' compensation distributed in 2016 and therefore this is not applicable

4. The actual distribution of employee profit sharing and compensation to directors and supervisors (including the number of shares, amount and share price), the amount, reason and handling of difference from the recognized employee profit sharing and compensations to directors and supervisors.

The 2015 employee profit sharing and compensation to directors and supervisors had been approved by the 17th meeting of 18th term of BOD on March 28, 2016. The proposed cash bonus to employees was 21,054 thousands and 17,468 as compensation to directors and supervisors, which were identical to the actual amount distributed after the shareholders' meeting.

(X) Buyback of Treasury Stock: None

II. Issurance of Corporate Bonds: None

III. Issuance of Preferred Stock: None

IV. Issuance of Depository Receipts: None

V. Status of Employee Stock Option Plan and Employee Restricted Stock: None

VI. Status of New Share Issuance in Connection with Mergers and Acquisitions:
None

VII. Financing Plans and Implementation: N.A.

I. Business Activities

(I) Business Scope

1. The Main Content of the Corporation's Business:

- (1) CA01090 Aluminum Casting Manufacturing
- (2) CB01010 Machinery and Equipment Manufacturing
- (3) CC01010 Electric Power Supply, Electric Transmission and Power Distribution Machinery Manufacturing
- (4) CD01030 Automobiles and Parts Manufacturing
- (5) CD01040 Motor Vehicles and Parts Manufacturing
- (6) CD01050 Bicycles and Parts Manufacturing
- (7) CC01090 Batteries Manufacturing
- (8) CD01990 Other Transport Equipment and Parts Manufacturing
- (9) CQ01010 Die Manufacturing
- (10) E603050 Cybernation Equipments Construction
- (11) E603100 Electric Welding Construction
- (12) E604010 Mechanical Installation Construction
- (13) E605010 Computing Equipments Installation Construction
- (14) F106030 Wholesale of Mold
- (15) F112040 Wholesale of Petrochemical Fuel Products
- (16) F113010 Wholesale of Machinery
- (17) F113110 Wholesale of Batteries
- (18) F113020 Wholesale of Household Appliance
- (19) F113070 Wholesale of Telecom Instruments
- (20) F114010 Wholesale of Automobiles
- (21) F114020 Wholesale of Motorcycles
- (22) F114030 Wholesale of Motor Vehicle Parts and Supplies
- (23) F114040 Wholesale of Bicycle Parts and Supplies
- (24) F114050 Wholesale of Tire and Tubes
- (25) F119010 Wholesale of Electronic Materials
- (26) F206030 Retail Sale of Die
- (27) F212050 Retail Sale of Petroleum Products

Operational Highlights

- (28) F213010 Retail Sale of Household Appliance
- (29) F213060 Retail Sale of Telecom Instruments
- (30) F213110 Retail Sale of Batteries
- (31) F214010 Retail Sale of Automobiles
- (32) F214020 Retail Sale of Motorcycles
- (33) F214030 Retail Sale of Motor Vehicle Parts and Supplies
- (34) F214040 Retail Sale of Bicycles and Parts
- (35) F214050 Retail Sale of Tires and Tubes
- (36) F219010 Retail Sale of Electronic Materials
- (37) F401010 International Trade
- (38) F401021 Restrained Telecom Radio Frequency Equipments and Materials Import
- (39) F501990 Other Eating and Drinking Places Not Elsewhere Classified
- (40) H703100 Real Estate Rental and Leasing
- (41) I102010 Investment Consultancy
- (42) I103060 Management Consulting Services
- (43) I301010 Software Design Services
- (44) I401010 General Advertising Services
- (45) I501010 Product Designing
- (46) IE01010 Telecommunications Number Agencies
- (47) IZ01010 Copying Services
- (48) IZ02010 Typewriting Services
- (49) IZ04010 Translation Services
- (50) IZ12010 Manpower Services
- (51) J901020 Hotels and Motels
- (52) J903020 Mountain Climbing Guiding Services
- (53) JA01010 Automotive Repair and Maintenance
- (54) JA01990 Other Automobile Services
- (55) JA02010 Electric Appliance and Audiovisual Electric Products Repair Shops
- (56) JA02020 Motorcycle Repair Shops
- (57) JA02030 Bicycle Repair Shops
- (58) JB01010 Exhibition Services

Operational Highlights

- (59) JE01010 Rental and Leasing Business
- (60) J202010 Industry Innovation and Incubation Services
- (61) F106010 Wholesale of Ironware
- (62) CC01020 Electric Wires and Cables Manufacturing
- (63) CC01030 Electric Appliance and Audiovisual Electric Products Manufacturing
- (64) CC01080 Electronic Parts and Components Manufacturing
- (65) IZ99990 Other Industry and Commerce Services Not Elsewhere Classified
- (66) ZZ99999 Other than licensed businesses, to manage and operate businesses not prohibited or restricted by law

2. Revenue distribution

Manufacture and sales of vehicles and related components accounted for 96% of revenue.

3. Current Products of Company

- Commercial vehicles:

- FUSO 3.49 ~ 17T series

- LEADCA 3.49T series

- DELICA 2.4L series

- VERYCA 1.2L/1.3L series

- Sedans:

- GRAND LANCER 1.8L series

- COLT PLUS 1.5L series

- Recreational/Business vehicles:

- OUTLANDER 2.4L car series

- ZINGER 2.4L car series

- Electric vehicles:

- Electric scooter series: e-moving, e-moving plus, e-moving young and e-moving Super

- Electric bike: e-moving Bobe

4. New products to be developed in the future

The future target markets of the Corporation include Taiwan (domestic) and Asia-Pacific (export). Based on this strategy, products are divided into three groups: (1) value-added innovative models (create product added value through partial modification) for the Taiwan market; (2) models from Asia-Pacific international division of labor (international division of

Operational Highlights

RD labor: achieving cost-effectiveness with the complementary effect of worldwide parts); and (3) “independently developed models for China and Taiwan markets.

For electric vehicles, in addition to the e-moving Series that have been well-received by the public, new vehicle colors have been released for e-moving Bobe electric scooters, e-moving electric scooters with extended range, and e-moving plus to improve product charms, generate novelty, and help stimulate sales volume. Plans have been made to release all-new vehicle model for e-moving Bobe electric scooters in September. The new appearances are designed with streamlined features and high-tech cosmetics and accessories that cater to younger riders in northern Taiwan and urban markets.

In the future, breakthroughs in battery technology (extended lifespan and rapid recharging) will be used to release vehicle models with improved performance, while market requirements shall be referenced to release new products that meet the three required dimensions of safety, technology, and comfort. The Internet of Things (IoT) shall be integrated with vehicles to develop new future tools of smart mobility. Such efforts are expected to integrate environmental features to achieve smart transportation. Simply said, these efforts shall achieve the two goals of “computerization and communications between the vehicle and the road”.

a. Smart vehicles: Vehicle positioning, navigation, anti-collision, and accident report systems.

b. Smart roads: Traffic detection and control, traffic accident management, and automated road navigation systems.

(II) Industry Overview

1. Current status and development of the industry

In recent years, about 300 thousand - 420 thousand cars were sold a year in Taiwan. Thanks to the economic recovery, massive JPY depreciation, and new model launch of different automakers, over 439.6 thousand cars were sold in Taiwan last year (2016), which was a 4.5% growth compared to the 420.8 thousand cars of 2015.

According to business indicator lights disclosed by the National Development Council (NDC) in 2016, the light has switched from blue to yellow-blue in April and was then switched to green in July, indicating that Taiwan's economic performance is becoming increasingly positive. Continuing recovery of the global recovery in 2017, increases in global prices in oil and raw materials, and increasing stability of the economy of Mainland China are

Operational Highlights

advantageous to attracting domestic investments and improving exports. Forecasts predict improved economy in Taiwan during 2017 compared to the previous year (2016). Forecasts for Taiwan's economic growth in 2017 provided by different research agencies are: 1.92% (Directorate-General of Budget, Accounting, and Statistics), 1.78% (Taiwan Institute of Economic Research), and 1.73% (Chung-hua Institute for Economic Research).

Despite predictions for continuing economic growth in 2017, there are still many uncertainties in Taiwan and the rest of the world, while bonus effects for vehicle replacement policies are gradually wearing off with each passing year. Predictions for the passenger car market are expected to reach 420 thousand cars (and 429 thousand including heavy vehicles) in 2017. These figures are slightly less compared to vehicle sales for this year (2016) of 430.4 thousand cars (439.6 thousand including heavy vehicles).

2. Interrelations among up-, mid-, and down-stream industries

The auto industry is a technology- and capital-intensive industry covering a wide range of industries, including parts and components at upstream, the whole car manufacture at midstream, and sales and after service at downstream, and each part are closely interrelated with one another. In terms of the interrelation between parts and components and whole car manufacture, as car manufacture and assembly involves complex processes and require over ten thousand parts, part and component suppliers and the auto-making plants form a satellite-center system with long-term, steady cooperation. As the internal interrelation of the auto industry is close, each auto-making plant will launch vertical integration with upstream and downstream suppliers at different levels.

3. Developmental trends of product

The auto market in Taiwan is highly competitive, and different automakers launch different models to create different, new market segmentations. In addition, to cope with the global environmental protection trend and the advent of high oil price era, automakers will emphasize on new engine cars, hybrid cars, Plug-in hybrid electric cars and even pure electric cars. The Corporation will also assess the implementation or relevant R&D technologies and models.

4. Product competition

After long-term competitions, domestic cars have shared nearly 60.4% of the market,

Operational Highlights

suggesting that the effort in market cultivation of domestic automakers has won market recognition. In the future, the Corporation will continue to engage in R&D and production to enhance product competitiveness and thereby fulfill the constantly changing demand of consumers and market environment.

(III) Technology and R&D overview

1. R&D Expenses

In 2016 the R&D expenses were NT\$2,017,732 thousand. In 2016 the consolidated R&D expenses were NT\$2,712,947 thousand.

2. Successfully developed technology and products in 2016 and by 31 March 2017

- (1) February 2016: Completed the development and began mass production and sales of the LANCER FORTIS 2016 vision model for the Middle East.
- (2) March 2016: Completed the development and began mass production and sales of the the DELICA complying with relevant safety standards.
- (3) March 2016: Completed the development and began mass production and sales of the COLT PLUS special edition.
- (4) April 2016: Completed the development and began mass production and sales of the LANCER FORTIS complying with relevant safety standards.
- (5) April 2016: Completed the development and began mass production and sales of the COLT PLUS complying with relevant safety standards.
- (6) April 2016: Completed the development and began mass production and sales of the the e-moving Bobe vehicle with a new lithium battery.
- (7) May 2016: Completed the development and began mass production and sales of the OUTLANDER complying with relevant safety standards.
- (8) September 2016: Completed the development and began mass production and sales of the OUTLANDER M/C new version.
- (9) February 2017: Completed the development and began mass production and sales of the ZINGER with enhanced competitiveness.
- (10) March 2017: Completed the development and began mass production and sales of the ALL NEW GRAND LANCER new revised version.

(IV) Long- and short-term business development plan

In the short-term development plan, we will continue to launch models under Mitsubishi or SEM's brand to the Taiwan and China markets and expand the scale of export sales. For long-term development, although the oil price remain in relatively low level last year, it is expected to rise in the long run. To capture the new opportunities from the green energy industry, therefore, the Corporation will aggressively engage in developing electrical 2-wheels production and relative power kits. Therefore, the Corporation will continue out three-fold long-term development strategy: "cultivation of the Taiwan market", "expansion of the China market and export sales", and "entry to the green energy business", so as to maintain profit, sustain business growth, and pursue sustainable operations.

II. Market, production, and sales overview

(I) Market analysis

1. Market condition of auto sales

Our product lineup includes commercial cars, sedans, RVs and vans. Currently, Taiwan is the principal market. In 2016, a total of 46,327 sedans and commercial vehicles (3.5 t and under, including imported models), commanding 10.8% of the market. This figure included 6,251 sedans, reaching 2.9% of the sedan market; 12,110 RVs, gaining 6.8% of the RV market; and 27,966 commercial vehicles (3.5t and under), achieving 74.8% of the commercial vehicle market. In addition, a total of 1,953 heavy vehicles over 3.5t were sold, taking 21.2% of the heavy vehicle market (these figures referred to registered vehicles).

2. Future supply and demand and growth of the auto market

Under the influence of the macro environment, domestic auto sales began to drop significantly from a peak of 510 thousand cars in 2005 to only a half at 229 thousand cars in 2008. As the economy gradually recovered and with the favorable factors came from the government in recent years, auto sales rose back to over 400 thousand cars in last two years. Total vehicle sales last year (2016) nearly reached 440 thousand cars, a 4.5% growth compared to the previous year. In the future, it is estimated that sales (includes heavy vehicles) will maintain at 400 thousand to 450 thousand cars a year for the short run.

New or revised models from different brands in 2017:

CMC's GRAND LANCER, NISSAN BIG TIIDA · TOYOTA C-HR · MAZDA CX-5 · HONDA CIVIC · HYUNDAI ELANTRA, etc.

Operational Highlights

3. Competition strategy in the auto market

As the auto market in Taiwan is exceptionally challenging, the Corporation will aggressively cultivate the Taiwan market, expand the China market, increase international sales, and develop self-owned technology as described below:

Favorable factors

- (1) After years of diligent cultivation, the Corporation has established an excellent brand image with great word of mouth that has won consumer identification and recognition. Moreover, we have successfully established the No. 1 brand image of RV and commercial vehicle in consumers.
- (2) After independently developing technology for decades, the Corporation has established solid technology R&D foundation and capability and partner recognition. Today, the Corporation is part of the international division of labor system of Mitsubishi Motors and has exported whole cars and parts to Southeast Asia, the Middle East, and Latin America.
- (3) The Corporation has established a well-connected sales and service network and complete horizontally integrated business system with service scope covering auto sales, property insurance, car-owner service, car rental, pre-owned car trade, and magazine to comprehensively and effectively enhance organizational competitiveness.
- (4) Solid sales system support: At present, Fortune Motors Co., Ltd. and Shung Ye Motor are the two distributors of our sedans, RVs, and commercial vehicles, and Yu Ye Motor is the distributor of our heavy commercial vehicles (including the 3.5t Canter). All of them are leading vehicle distributors in Taiwan.

Unfavorable factors

- (1) Other automakers launch competitive (low fuel consumption and low price) new sedans manufactured in Taiwan, commercial vehicles, and RVs.
- (2) Imported vehicles are released to the market at a price close to a domestically manufactured vehicle, allowing gradual growth in market share for imported vehicles.

Countermeasures

- (1) Cultivating the Taiwan market: Mitsubishi and own brand dual-line product development, product competitiveness enhancement, shortening product R&D time.

Operational Highlights

As Taiwan is the fundamental market of CMC, the Corporation will continue to cultivate the Taiwan market. Apart from aggressively striving for new model development with Mitsubishi Motors, the Corporation will develop other products and launch competitive new models, so as to meet the needs for the Taiwan market and shorten product launch time.

CMC also continued to target customer requirements to develop automotive parts to meet various requirements of the consumers, improve brand adherence and loyalty, and intent for repurchasing.

- (2) Expanding China market: Integrating with international resources and strengthening competitiveness in the China market with SEM as the core.
 - A. After importing resources from Mitsubishi Motors, SEM, a CMC re-invested business with controlling power in China, has launched a dual-brand strategy featuring Mitsubishi and own-brand SEM. In 2016 a total of 120 thousand cars were sold. In the 4th quarter of 2016, the all-new small SUV DX3 was released that proved popular in the market. Sales are expected to remain popular until this year (2017). Plans have also been made to release a number of models with enhanced competitiveness in 2017, and such efforts are expected to greatly improve sales figures compared to last year. In the future, the Corporation will maintain close connection with SEM and establish a strategic relationship with SEM to cultivate cross-strait markets.
 - B. In addition, Fujian Benz Automotive Co., Ltd., a joint venture established among CMC, Daimler AG, and Fujian Motor, was officially established in June 2007 and began mass product in May 2010. With the resources of SEM OEM plant in Qingkou, Fujian Benz manufactures and distributes high-grade Mercedes sedans to occupy the special niche market, thus enabling CMC to accomplish its product lineups in the China market and become two major pillars of our business in China along with SEM.

In last year (2016), the all-new luxury VS20 (equipped with the latest Downsizing Turbo engine from Benz) was released in April and has been well-received by the market, reaching an annual sales volume of 12.6 thousand cars. For 2017, CMC shall continue to leverage the popularity of VS20 and continue to offer multiple color schemes and bonus packages. Sales for this year (2017) are expected to reach about 20 thousand cars.

Operational Highlights

- (3) Aggressive participation in the international division of labor system and expanding export scale

Cooperating with the global market development strategy of Mitsubishi Motors, the Corporation will continuously enhance product cost competitiveness to strive for OEM and export contracts of Mitsubishi models. In 2012, the Corporation successfully exported Lancer Fortis to the Middle East, and a total of 3,571 cars were sold cumulatively until the end of 2016. In the future, the Corporation will continue to strive for more export opportunities and more export models from Mitsubishi Motors.

- (4) Strengthening technical R&D capability

After establishing the China-motor Car Asia Research & Technology Center, the Corporation has developed and revised a number of models (e.g., VERYCA/VARICA, FREECA, GRUNDER, ZINGER, COLT PLUS, LEADCA and GRAND LANCER) based on the demand of Taiwan and China markets. In the future, the Corporation will continue improve independent R&D capability and develop the OEM capability of key parts and components to ensure the market competitiveness of independently developed models and thereby improve self-owned design and R&D capabilities.

4. Electric bikes

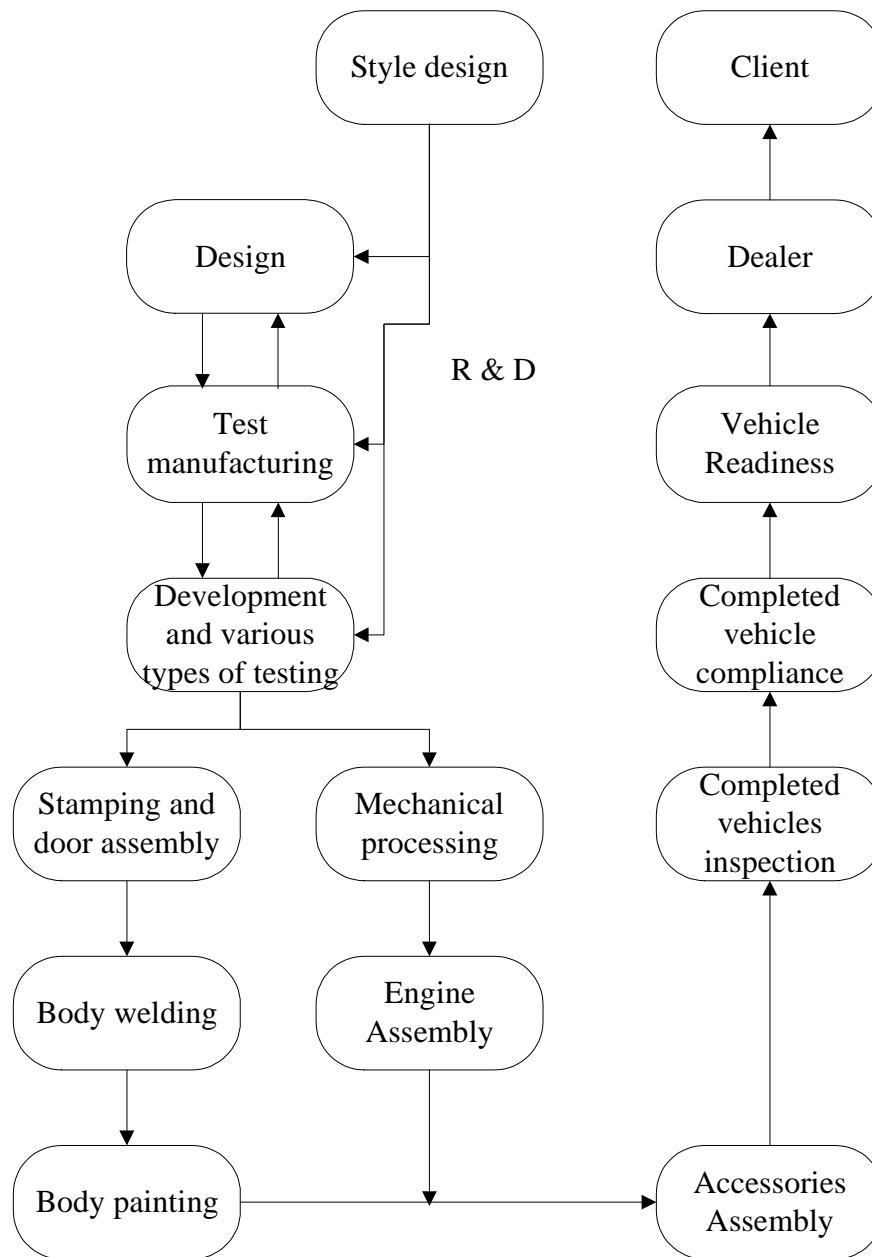
In 2016, a total of 4,632 e-moving scooters were registered, grow 8.8% over 2015. After the government began to promote TES (Taiwan E-scooter Standard), a total of 31,171 e-moving scooters were sold cumulatively, with a market share at 48%.

In last year (2016), sales in the entire electric scooter market reached about 20,916 vehicles, which was a near 90% growth compared to 2015, demonstrating gradual growth in public acceptance for electric scooters. In addition to continuing various business promotional practices used last year (2016), the CMC shall continue to direct sales efforts towards environmentally-conscious individuals in 2017 and release normal and heavy electric scooters with greater performance and ranges to cater to the expanding range of electric scooter customers. Annual sales throughout the year are expected to reach 10,000 units and continue to maintain a stable growth.

Operational Highlights

(II) Main Uses and Production Processes of Major Products

The Corporation mainly produces various types of commercial vehicles, sedans, and RV/business vehicles whose main uses are to carry cargo, passengers and offer leisure. The production processes are shown below:



Operational Highlights

(III) Supply Status of Main Materials

The raw materials purchased by the Corporation are mainly parts needed for operations such as car manufacturing, sales and maintenance. International supplier is Mitsubishi Corporation of Japan. Domestic parts supplies are supplied by auto parts third-parties. With long term contracts signed and long term cooperation, supply status of raw materials is very stable.

Major Materials	Major Suppliers	Items	Procurement Strategy
Automotive Parts	Mitsubishi Corporation	Parts such as CKD	Contract signed, delivery in installments
Automotive Parts	116 auto parts suppliers such as Kian Shen Corporation, etc	Auto parts that are domestically produced	Contract signed, delivery in installments
Raw materials	CPC Corporation, Taiwan	Various oil products	Contract signed, delivery in installments
Raw materials	Taiwan Kansai Paint Co. Ltd., etc	Baking varnish, spray paint, solvent, etc	Contract signed, delivery in installments
Raw materials	Nippon Steel and Sumitomo Metal and Chun Yuan Steel Industry Co., Ltd.	Steel Plates	Contract signed, delivery in installments

(IV) Major Suppliers and Clients Taking over 10% of the Amount of Incoming (Sales) over the Last Two Years

1. Major Suppliers

Unit: NT\$ thousands

2015				2016			
Supplier	Procurement Amount	As % of Total Net Procurement	Relation to CMC	Supplier	Procurement Amount	As % of Total Net Procurement	Relation to CMC
South East Motor	2,298,346	10	Investee accounted for using equity method	South East Motor	4,170,292	16	Investee accounted for using equity method
Net Procurement	22,636,961	100	-	Net Procurement	26,362,609	100	-

Note: The table above is base on consolidated information.

Operational Highlights

2. Main Customers

Unit: NT\$ thousands

2015				2016			
Customer	Net Sales	As % of Total Net Sales	Relation to CMC	Customer	Net Sales	As % of Total Net Sales	Relation to CMC
Fortune Motors Co., LTD	16,288,526	44	Investee accounted for using equity method	Fortune Motors Co., LTD	18,045,415	44	Investee accounted for using equity method
Yu Ye Motor	6,146,202	17	-	Yu Ye Motor	6,290,759	15	-
Shung Ye Motor Enterprise	4,995,219	14	Investee accounted for using equity method	Shung Ye Motor Enterprise	4,631,098	11	Investee accounted for using equity method
Net Sales	36,884,447	100	-	Net Sales	40,733,485	100	-

Note: The table above is base on consolidated information.

Operational Highlights

(V) Production over the Last 2 Years

Unit: Quantity –Vehicles
Unit: NT\$ thousands

Capacity/ Volume Value Main Products	Year		2015			2016		
	Production Capacity	Production Volume	Production Value	Production Capacity	Production Volume	Production Value		
4-wheeled vehicles	56,880	43,829	19,959,865	56,880	49,422	21,952,965		
2-wheeled vehicles	14,640	6,467	234,605	14,640	6,886	247,600		

Note: The production volume and value in the table above is mainly based on production of car built-up.
Production capacity refers the volume manufactured using existing production equipment operating under normal single shift given considerations to factors such as holidays or days when production ceases.

(VI) Sales over the Last 2 Years

Unit: Quantity –Vehicles (Set)
Unit: NT\$ thousands

Sales Volume Value Main Products	Year		2015				2016			
	Domestic Sales		Exports		Domestic Sales		Exports			
	Volume	Value	Volume	Value	Volume	Value	Volume	Value		
4-wheeled vehicles	42,696	22,877,895	1,509	462,624	46,952	24,431,639	1,280	333,846		
2-wheeled vehicles	6,283	289,816	-	-	5,941	281,247	-	-		
Sets of parts	-	-	8,280	422,741	-	-	13,530	831,961		

Note: The sales volume and value in the table above is mainly based on sale of car built-up.

III. Human Resources

Year		2015	2016	March 31, 2017
Number of employees		4,432	4,370	4,434
Average Age (years)		39.37	39.44	39.42
Average Years of Service (years)		11.46	11.20	11.03
Education	Ph.D.	9	9	9
	Master's	555	588	579
	Bachelor's or Other higher education	1,555	1,613	1,608
	High School	1,625	1,517	1,563
	Junior High School or Less	688	643	675

Note: The table above is base on consolidated information.

Operational Highlights

IV. Environmental Cost

(I) Losses and Fines Caused by Environmental Pollution during the 2016 Calendar Year and up to March 31, 2017: None

(II) Forecast of Environmental Protection Expenses for Next Three Years

Unit: NT\$ thousands

Year Item	2017		2018		2019	
	Environmental Protection Expenses	Amount	Environmental Protection Expenses	Amount	Environmental Protection Expenses	Amount
Proposed Purchase of Pollution Prevention Equipment or Content of Expenses	(1) Waste water and polluted air running costs	78,273	(1) Waste water and polluted air running costs	78,635	(1) Waste water and polluted air running costs	47,135
	(2) Pollution inspection fees	8,445	(2) Pollution inspection fees	8,245	(2) Pollution inspection fees	9,963
Expected Improvement	Comply with the (1) Air Pollution Control Act, (2) Water Pollution Control Act, (3) Waste Disposal Act, (4) Toxic Chemical Substances Control Act.					

V. Labor and Management Relationship

(I) Employee's Benefits, Training, Retirement Measures and Implementation

1. Employee Benefits Programs

- (1) Providing uniforms, shuttle buses and transport vehicles to return home during consecutive holidays.
- (2) Providing full equipped dormitories, activity centers, training centers, restaurants and nurseries.
- (3) Holding activities such as domestic and foreign travel, year-end dinner and raffles drawing.
- (4) Sponsoring worker social group activities.
- (5) Providing free group term insurance, accident insurance, and regular general health checks.
- (6) Providing hospitalization condolences, sympathy and mutual aid pro mourning, and dependents entitled to hospitalization benefits.
- (7) Providing gifts for the three major Chinese holidays, birthdays, wedding and child birth
- (8) Providing scholarships for employees and their children, emergency loans and aids.
- (9) Signing agreements with excellent domestic stores to become "Special Arrangement Stores" to provide employees with diversified information for purchasing and selection.
- (10) Providing discounts to purchase the Corporation's vehicles.

Operational Highlights

2. People Development

- (1) The Corporation's human resources development integrates the double objectives of "Corporate Development" and "Employee Satisfaction." These objectives are for nurturing professionals, developing personal potential and building a learning organization so that the growth of the Corporation and colleagues are combined with each other.
- (2) To implement the people development vision, the Corporation's human resource development system is divided into "In-house Training", "External Education and Training," "Overseas Training", "On the Job Training" and "Validation Personnel Training." These provide a series of core skill, management skill and professional skill courses and convenient real-time online learning system. These allow the tight integration of employee personal development and work assignments.

A. In-house Training consists of five categories:

- a. Core work skill training
- b. Management skill training
- c. Professional skill training
- d. New staff training
- e. Project training

B. External Education and Training:

To carry out the Corporation's educational training, each unit can apply to send employees based on needs to attend educational training courses held outside the Corporation in addition to attending regularly scheduled in-house training. In addition, the application to attend external educational training shall be reviewed and approved by educational and training unit for recommendation on whether to attend or not.

C. Overseas Training:

Each department can send its staff members to attend overseas training programs held by external institutions based on actual work needs or develop its overseas training plan to send the appropriate staff member. After approval, staff members are then sent abroad for overseas training while providing managerial staff from the mainland China's joint ventures to receive project training in Taiwan.

D. On the Job Training (OJT):

Using methods such as delegated work, work instructions, project implementation, and so forth, managers at all levels shall develop abilities of the team members based on the individual ability and work nature of the team member.

Operational Highlights

E. Validation Personnel Training:

Implement the training of inspection, testing, monitoring, and so forth of processes or product designs, manufacture, installation, services and environmental management of each unit shall be done. The training and qualification certification of internal auditors, environmental management, and occupational safety staff members are held.

3. Retirement

(1) The retirement of workers shall be conducted according to the following stipulations:

- A. The Corporation has a retirement plan for formally hired employees. Retirement pensions are set aside into the retirement reserve fund and managed by the Corporation's Labor Pension Fund Supervisory Committee and deposited into Bank of Taiwan on behalf of the committee.
- B. Pension can be claimed only for those conforming to the requirements of Labor Standards Act upon retirement for those who select to retire according to the regulations of the Labor Standards Act.
- C. For those who select the Labor Pension Act, the Corporation shall set aside funds monthly based on the employees' wages. In addition, the working years prior to selecting the Labor Pension Act shall be retained until the time conforming to the stipulations of retirement according to the Labor Pension Act. Only upon retirement shall the pension be claimed.
- D. The Labor Pension Act is applicable to all employees (including those re-employed after leaving the Corporation) that reported to duty after July 1, 2005.

(2) The standard for retirement is based on the following stipulations:

- A. For employees satisfying any of the conditions listed below, they can apply for voluntary retirement.
 - a. For those who have worked in the Corporation for fifteen years and aged fifty-five or above.
 - b. For those who have worked in the Corporation for twenty-five years.
 - c. For those who have worked in the Corporation for ten years and aged sixty or above.
- B. The Corporation shall not implement compulsory retirement unless one of the following conditions applies:
 - a. For those aged sixty-five or above.
 - b. For those unable to fulfill their duties at work due to insanity or physical disability.

Operational Highlights

- (3) The calculation for the amount of pension given is based on the following criteria for those where Labor Standards Act apply:
 - A. Based on years worked, each full year worked shall receive two basis points. However, for those with years work exceeding fifteen years, each full year worked shall receive one basis point with the highest total of forty-five points as the upper limit. For those who have worked less than half a year, the basis used is one-half year. Those who have worked half a year or more shall be calculated based on one full year.
 - B. For employees who become insane or physically disabled while performing work duties, an additional twenty percent or five basis points (which ever one is more) shall be added in addition to those stipulated by the previous article.
 - C. The standard of pension basis point refers to the monthly average age at the time of retirement.

4. Labor and Management Agreement

- (1) The Corporation philosophy is based on coexistence and common prosperity through the spirit of working together cooperatively and harmoniously to seek the maximum well-being for all.
- (2) The establishing of year-end bonuses and profit-sharing system match the interests of employees in conjunction with the Corporation's interests and create outstanding employee performance in the process.
- (3) Regular labor and management meetings are held to ensure smooth communication channels and promote labor and management harmony.

5. Implementation of Measures Protecting Employee Rights

- (1) Promoting employee assistance programs, maintaining health of employees in terms of physical and social functions, providing psychological and legal consultations and counseling, and establishing comprehensive, holistic care counseling system.
- (2) Conducting management skill training and implementing counseling skills in day to day management.
- (3) Promoting mutely-channel communication concepts, encouraging participating in management, developing team consensus.
- (4) Being open and public about management and operating conditions, increasing solidarity and sense of crisis among employees.

Operational Highlights

- (5) Emphasizing worker issues, establishing sound labor unions and ensuring employee rights.
- (6) Holding labor and management meetings regularly to coordinate labor and management relations.

6. Protective Measures for Work Environment and Employee Safety

- (1) Work Environment: The Corporation provides a good work environment to employees in the following specific ways:
 - A. Planting large amount of plants in the factory's empty spaces to beautify the environment. In addition, themes are planned according to the four seasons for the flower section and seasonal flowers.
 - B. Setting up rest areas as QCC garden, coffee shops, and so forth.
 - C. Banning cigarette smoking in all workplace and restaurants, so that cigarette smoking can only be in designated areas.
 - D. Setting up dedicated walkways for dining and commuting, ensuring proper separation of people and vehicle lanes.
 - E. Establishing widely turbine exhausts and local exhausts in the factory area to ensure the air quality.
 - F. Setting up air conditioner in the painting field operation area to raise comfort level.
 - G. Measuring the operating environment focusing on the monitoring and improvement of operational areas for the plant dust, noise, organic solvents and so forth semiannually.
- (2) Protecting of Employee Safety
 - A. Introducing occupational safety and health management system and improving health and safety management performance.
 - B. Formulating labor safety and health management programs to implement and ensure the safety and health of the employees.
 - C. Environmental health and safety meetings are held regularly. In addition, tracking safety and health performance indicators are to done to reach state to strengthen the implementation of safety and health policy.
 - D. Implanting concepts of predetermined danger and risk management into the minds of employees and families. To continue promoting residential safety and fire escape, to implement fire escape training in offices, factories and dormitories, to promote the prevention of carbon monoxide poisoning and traffic safety, on site safety observations, cases of other factory occupational hazards, and so forth.
 - E. Implementing regular health checks for employees. For those with abnormalities,

Operational Highlights

requesting periodic follow-up and tracking or treatment is done in addition to health education to ensure the physical health of employees.

7. Code of Ethics and Business Conduct

(1) Code of Conduct: The Corporation employees' code of conduct is "Honesty, Caring, and Responsibility."

(2) Code of Ethics: The Corporation work rules have a chapter dedicated to "Service Ethics." The chapter includes explicit specifications regarding working attitude, strict keeping of confidentiality, requirements regarding using public properties, no bribery or improper benefits allowed, and so forth.

(3) Learning Code of Conduct and Code of Ethics are the keypoints of new employee training.

(II) Dispute between Labor and Management during the 2016 Calendar Year and up to March 31, 2017
The Corporation has had no labor disputes in 2016 and as of March 31, 2017. In the future, this philosophy will be used to promote labor and management harmony. Therefore, the prediction is that there will not be any labor disputes or losses from it.

Operational Highlights

VI. Major Contracts

Contract Nature	Interested Party	Contract Term	Content	Restrictions
Licensing and technology cooperation	Mitsubishi Motors Corporation	July 1, 2005 to September 2025.	The Corporation is licensed to manufacture and sell parts, components, and vehicles designed by Mitsubishi Motors based on the design, drawings, and technical specifications provided by Mitsubishi Motors. Mitsubishi Motors should send staff to provide necessary technical assistance in manufacture for the Corporation at any time at the request of the Corporation.	The Corporation should not assign or re-license the rights and licenses granted by Mitsubishi Motors to a third party without prior permission of Mitsubishi Motors.
Agreement for parts supply and sales of completed vehicles	Daimler Trucks Asia Taiwan Ltd.	January 1, 2017 to December 31, 2021	1.CMC supplies vehicles bearing the FUSO brand and locally manufactured parts to Daimler Trucks Asia Taiwan Ltd. (DTAT). 2.DTAT shall supply imported parts to CMC.	Unless provided with a written consent from the other party, the relevant rights and obligations shall not be transferred to any third party
Distribution contract	Fortune Motors Co., Ltd.	August 1, 2014 to July 31, 2017	Distribution of sedans, RVs, vans, and trucks under 3.5t (exclusive).	Territory: Taiwan and Fujian areas under the ROC jurisdiction.
Distribution contract	Shung Ye Motor	December 30, 2014 to December 29, 2017	Distribution of sedans, RVs, and vans under 3.5t (exclusive).	Territory: Taiwan and Fujian areas under the ROC jurisdiction.
Shareholders Agreement	Daimler AG	Since November 4, 2004.	Established and managed Fujian Daimler Automotive Co., Ltd. (now Fujian Benz Automotive Co., Ltd.), a joint venture established among CMC, Daimler AG, and Fujian Motor, to manufacture medium and light sedans at 2-6t.	Except for models licensed by Mitsubishi Motors or Daimler AG or independently developed models, the Corporation should not develop, manufacture, and distribute models competitive with models manufactured and distributed by Fujian Benz Automotive Co., Ltd. in China.

Financial Highlights

I. Condensed Balance Sheet and Statement of Comprehensive Income over the Last Five Years

(I) Condensed Balance Sheet and Statement of Comprehensive Income

1. Condensed Balance Sheet

(1) Consolidated Financial Report

Unit: NT\$ thousands

Year		Financial Data Last Five Years				
		2016 (Note 1)	2015	2014 (Note 2)	2013	2012
Item						
Current assets		24,001,876	23,381,141	22,939,000	23,879,163	22,358,136
Long-term Investments		29,528,944	30,441,435	29,743,458	27,698,817	26,770,354
Property, Plant, & Equipment		6,432,443	6,543,123	6,490,732	5,952,588	5,486,371
Intangible Assets		142,571	208,051	245,859	188,472	93,666
Other Assets		2,073,639	2,108,281	2,104,369	2,341,370	2,337,760
Total Assets		62,179,473	62,682,031	61,523,418	60,060,410	57,046,287
Current Liabilities	Before Distribution	7,877,685	7,694,923	7,856,941	8,393,456	8,651,966
	After Distribution	7,877,685	9,770,999	9,448,599	9,915,912	9,897,612
Non-current Liabilities		1,580,426	2,327,897	2,267,307	2,228,053	2,289,245
Total Liabilities	Before Distribution	9,458,111	10,022,820	10,124,248	10,621,509	10,941,211
	After Distribution	9,458,111	12,098,896	11,715,906	12,143,965	12,186,857
Equity Attributable to owners of the Corporation		49,421,655	49,515,345	48,441,258	46,725,127	43,599,725
Capital Stock		13,840,508	13,840,508	13,840,508	13,840,508	13,840,508
Capital Surplus		6,407,220	6,404,906	6,392,369	6,376,868	6,373,509
Retained Earnings	Before Distribution	28,619,636	27,800,054	26,422,019	25,516,688	24,130,457
	After Distribution	28,619,636	25,723,978	24,830,361	23,994,232	22,884,811
Other Equity		554,291	1,469,877	1,786,362	991,063	(744,749)
Treasury stock		-	-	-	-	-
Non-controlling Interests		3,299,707	3,143,866	2,957,912	2,713,774	2,505,351
Total Equity	Before Distribution	52,721,362	52,659,211	51,399,170	49,438,901	46,105,076
	After Distribution	52,721,362	50,583,135	49,807,512	47,916,445	44,859,430

Note 1: Because the 2017 shareholders' meeting is not held yet, the earnings distribution is not yet finalized. Therefore, the earnings before and after distribution are the same.

Note 2: Disclosures are in accordance with the revised Statement.

Financial Highlights

(2) Unconsolidated Financial Report

Unit: NT\$ thousands

Year		Financial Data Last Five Years				
		2016 (Note1)	2015 (Note2)	2014 (Note2)	2013	2012
Item						
Current assets		17,695,756	17,273,150	16,872,698	16,865,341	15,344,312
Long-term Investments		33,011,238	33,972,084	33,399,414	32,055,302	31,493,938
Property, Plant, & Equipment		3,471,752	3,502,485	3,370,510	2,920,646	2,449,934
Intangible Assets		142,571	180,379	218,187	160,800	65,993
Other Assets		1,251,585	1,329,847	1,314,492	1,362,665	1,412,078
Total Assets		55,572,902	56,257,945	55,175,301	53,364,754	50,766,255
Current Liabilities	Before Distribution	5,014,126	4,909,518	4,971,795	4,891,727	5,312,757
	After Distribution	5,014,126	6,985,594	6,563,453	6,414,183	6,558,403
Non-current Liabilities		1,137,121	1,833,082	1,762,248	1,747,900	1,853,773
Total Liabilities	Before Distribution	6,151,247	6,742,600	6,734,043	6,639,627	7,166,530
	After Distribution	6,151,247	8,818,676	8,325,701	8,162,083	8,412,176
Capital Stock		13,840,508	13,840,508	13,840,508	13,840,508	13,840,508
Capital Surplus		6,407,220	6,404,906	6,392,369	6,376,868	6,373,509
Retained Earnings	Before Distribution	28,619,636	27,800,054	26,422,019	25,516,688	24,130,457
	After Distribution	28,619,636	25,723,978	24,830,361	23,994,232	22,884,811
Other Equity		554,291	1,469,877	1,786,362	991,063	(744,749)
Treasury stock		-	-	-	-	-
Total Equity	Before Distribution	49,421,655	49,515,345	48,441,258	46,725,127	43,599,725
	After Distribution	49,421,655	47,439,269	46,849,600	45,202,671	42,354,079

Note1: Because the 2017 shareholders' meeting is not held yet, the earnings distribution is not yet finalized. Therefore, the earnings before and after distribution are the same.

Note2: Disclosures are in accordance with the revised Statement.

Financial Highlights

2. Statement of Comprehensive Income

(1) Consolidated Financial Reports

Unit: NT\$ thousands (except EPS, NT\$)

Item \ Year	Financial Data for Last Five Years				
	2016	2015	2014(Note)	2013	2012
Operating Revenue	40,733,485	36,884,447	35,951,427	35,539,825	41,786,130
Realized Gross Profit	7,195,521	6,713,127	6,062,064	5,182,483	5,573,613
Profit from Operations	2,598,624	2,215,415	1,969,934	1,380,509	1,295,750
Non-operating income and expenses	1,493,705	1,675,814	1,269,735	1,685,439	1,231,375
Profit Before Income Tax	4,092,329	3,891,229	3,239,669	3,065,948	2,527,125
Net Profit from continuing operations after income taxes	3,597,372	3,504,688	2,821,482	2,751,022	2,322,084
Net Profit from discontinued operations	-	-	-	-	-
Net Profit (losses)	3,597,372	3,504,688	2,821,482	2,751,022	2,322,084
Other Comprehensive income (Loss) (after-tax)	(1,370,347)	(544,138)	732,458	1,916,382	(1,092,941)
Total Comprehensive income	2,227,025	2,960,550	3,553,940	4,667,404	1,229,143
Net profit attributable to owners of the Corporation	3,189,100	3,166,104	2,558,118	2,531,878	2,139,436
Net profit attributable to non-controlling interests	408,272	338,584	263,364	219,144	182,648
Total Comprehensive income attributable to owners of the Corporation	1,993,759	2,667,467	3,223,837	4,368,486	1,102,399
Total Comprehensive income attributable to non-controlling interests	233,266	293,083	330,103	298,918	126,744
Earnings per share (NT\$)	2.34	2.32	1.88	1.86	1.57

Note: Disclosures are in accordance with the revised Statement.

Financial Highlights

(2) Unconsolidated Financial Report

Unit: NT\$ thousands (except EPS, NT\$)

Item \ Year	Financial Data for Last Five Years				
	2016	2015(Note)	2014(Note)	2013	2012
Operating Revenue	30,577,106	28,447,231	28,272,683	27,562,088	33,836,593
Gross Profit	5,128,358	4,874,165	4,550,959	3,807,173	4,111,778
Profit from Operations	2,263,593	2,002,384	1,971,191	1,705,072	1,709,453
Non-operating income and expenses	1,264,507	1,454,043	925,927	1,045,806	565,563
Profit Before Income Tax	3,528,100	3,456,427	2,897,118	2,750,878	2,275,016
Net Profit from continuing operations After Income Taxes	3,189,100	3,166,104	2,558,118	2,531,878	2,139,436
Net Profit from discontinued operations	-	-	-	-	-
Net Pfofit (losses)	3,189,100	3,166,104	2,558,118	2,531,878	2,139,436
Other Comprehensive income(after-tax)	(1,195,341)	(498,637)	665,719	1,836,608	(1,037,037)
Total Comprehensive income	1,993,759	2,667,467	3,223,837	4,368,486	1,102,399
Earnings per share (NT\$)	2.34	2.32	1.88	1.86	1.57

Note: Disclosures are in accordance with the revised Statement.

(II) Auditors' Opinions for the Last Five Years

Year	2016	2015	2014	2013	2012
CPA	Chih-Ming Shao Shiow-Ming Shue	Chih-Ming Shao Shiow-Ming Shue	Chih-Ming Shao (Note) Shiow-Ming Shue	Denny Kuo Shiow-Ming Shue	Denny Kuo (Note) Shiow-Ming Shue
Auditors' Opinion	An Unqualified Opinion with Other Matter Paragraph	A Modified Unqualified Opinion	A Modified Unqualified Opinion	A Modified Unqualified Opinion	A Modified Unqualified Opinion

Note: Because of internal rotation within the CPA firm, the auditing CPA changed from Denny Kuo to Chih-Ming Shao in 2014. In addition, the auditing CPA changed from Chih-Ming Shao to Denny Kuo in 2012.

Financial Highlights

II. Financial Analysis over the Last Five Years

(I) Consolidated Financial Report

Item of Analysis		Year	Financial Analysis for the Last Five Years				
		2016	2015	2014	2013	2012	
Capital Structure Analysis (%)	Debt Ratio	15.21	15.99	16.45	17.68	19.18	
	Long-term Fund to Property, Plant, and Equipment Ratio	844.19	840.38	827.03	867.97	882.08	
Liquidity Analysis %	Current Ratio	304.68	303.85	292.47	284.50	258.42	
	Quick Ratio	228.50	217.58	207.99	199.40	161.79	
	Times Interest Earned (Times)	337.02	223.80	153.02	110.40	67.04	
Operating Performance Analysis (Times)	Average Collection Turnover	13.91	12.85	11.93	11.34	12.54	
	Days Sales Outstanding (Days)	26.24	28.40	30.60	32.19	29.11	
	Average Inventory Turnover	6.44	5.45	5.08	4.47	5.17	
	Average Payment Turnover	9.96	8.87	8.16	8.31	9.74	
	Average Inventory Turnover Days (Days)	56.67	66.97	71.85	81.66	70.60	
	Property, Plant, and Equipment Turnover	6.04	5.45	5.59	5.98	7.31	
	Total Assets Turnover	0.63	0.57	0.57	0.58	0.70	
Profitability Analysis (%)	Return on Total Assets	5.78	5.67	4.67	4.74	4.04	
	Return on Equity	6.83	6.74	5.60	5.76	5.01	
	Pre-tax Income to Paid in capital	29.57	28.11	23.41	22.15	18.26	
	Net Margin	9.17	9.86	8.12	8.04	5.73	
	Earnings per Share (NT\$)	2.34	2.32	1.88	1.86	1.57	
Cash Flow (%)	Cash Flow Ratio	41.31	38.48	47.78	33.69	12.50	
	Cash Flow Adequacy Ratio	87.44	N/A	N/A	N/A	N/A	
	Cash Flow Reinvestment Ratio	1.44	1.66	2.75	2.00	(0.77)	
Leverage	Operating Leverage	2.57	2.76	2.76	3.69	3.84	
	Financial Leverage	1.00	1.01	1.01	1.02	1.03	
“Times Interest Earned” increased in 2016 mainly because the Interest Expenses decreased.							

Financial Highlights

(II) Unconsolidated Financial Report

Item of Analysis		Year	Financial Analysis for the Last Five Years				
		2016	2015 (Note)	2014	2013	2012	
Capital Structure Analysis (%)	Debt Ratio	11.07	11.99	12.20	12.44	14.12	
	Long-term Fund to Property, Plant, and Equipment Ratio	1456.29	1466.06	1489.51	1659.67	1855.29	
Liquidity Analysis %	Current Ratio	352.92	351.83	339.37	344.77	288.82	
	Quick Ratio	264.56	260.41	248.08	252.19	174.86	
	Times Interest Earned (Times)	54279.46	26385.94	32924.75	15994.48	1682.46	
Operating Performance Analysis (Times)	Average Collection Turnover	18.24	17.44	17.56	16.94	18.03	
	Days Sales Outstanding (Days)	20.01	20.93	20.79	21.55	20.24	
	Average Inventory Turnover	6.49	5.85	5.77	4.92	5.85	
	Average Payment Turnover	9.95	9.17	8.81	8.77	10.11	
	Average Payment Turnover Days (Days)	56.24	62.39	63.26	74.19	62.39	
	Property, Plant, and Equipment Turnover	8.64	8.14	8.85	10.09	13.77	
	Total Assets Turnover	0.54	0.50	0.51	0.52	0.65	
Profitability Analysis (%)	Return on Total Assets	5.70	5.68	4.71	4.86	4.16	
	Return on Equity	6.45	6.46	5.38	5.61	4.88	
	Pre-tax Income As Ratio of Paid in capital	25.49	24.97	20.93	19.88	16.44	
	Net Margin	10.58	11.32	9.19	9.34	6.42	
	Earnings per Share (NT\$)	2.34	2.32	1.88	1.86	1.57	
Cash Flow (%)	Cash Flow Ratio	38.10	56.10	48.57	62.09	13.50	
	Cash Flow Adequacy Ratio	70.23	N/A	N/A	N/A	N/A	
	Cash Flow Reinvestment Ratio	(0.22)	1.56	1.22	2.50	(1.38)	
Leverage	Operating Leverage	2.45	2.93	2.56	3.55	1.79	
	Financial Leverage	1.00	1.00	1.00	1.00	1.00	
<p>1. "Times Interest Earned" increased in 2016 mainly because the Interest Expenses decreased.</p> <p>2. "Cash Flow Ratio" and "Cash Flow Reinvestment Ratio" decreased in 2016 are primarily attributed to one-time provision of pensions for legal conformance, resulting in a reduction of the "Cash Provided by Operating Activities".</p>							

Financial Highlights

1. Capital Structure Analysis

- (1) Debt Ratio = Total Liabilities / Total Assets
- (2) Long-term Fund to Fixed Assets Ratio = (Equity + Non-current Liabilities) / Net Property, Plant, & Equipment

2. Liquidity Analysis

- (1) Current Ratio = Current Assets / Current Liabilities
- (2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
- (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

- (1) Average Collection Turnover = Net Sales / Average Trade Receivables
- (2) Days Sales Outstanding = 365 / Average Collection Turnover
- (3) Average Inventory Turnover = Cost of Sales / Average Inventory
- (4) Average Payment Turnover = Cost of Sales / Average Trade Payables
- (5) Average Inventory Turnover Days = 365 / Average Inventory Turnover
- (6) Property, Plant, & Equipment Turnover = Net Sales / Net Property, Plant, & Equipment
- (7) Total Assets Turnover = Net Sales / Total Assets

4. Profitability Analysis

- (1) Return on Total Assets = (Net Profit + Interest Expenses * (1 - Effective tax rate)) / Average Total Assets
- (2) Return on Equity = Net Profit / Average Equity
- (3) Net Margin = Net Profit / Net Sales
- (4) Earnings per Share = (Net Profit - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash Flow

- (1) Cash Flow Ratio = Net Cash Generated from Operating Activities / Current Liabilities
- (2) Cash Flow Adequacy Ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend
- (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant, & Equipment + Long-term Investments + Other Non-current Assets + Working Capital)

6. Leverage

- (1) Operating Leverage = (Net Sales - Variable Cost of goods sold) / Profit from Operations
- (2) Financial Leverage = Profit from Operations / (Profit from Operations - Interest Expenses)

III. Audit Committee's Review Report

The Company the 2016 Financial Statements and the Consolidated Financial Report which were audited by Chih-Ming Shao and Shio-Ming Shue of Deloitte & Touche. The Annual Report and Earnings Distribution proposal have been reviewed by the Audit Committee members of the Company and determined to be correct and accurate. This is hereby reported in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

Please verify the audit and review results.

To The 2017 Annual Shareholders' Meeting

China Motor Corporation

Chairman of Audit Committee:
Chen-Chi Hsiao

Handwritten signature of Chen-Chi Hsiao in black ink, consisting of three characters: 簡, 珍, 琪.

Date: March 27, 2017

Financial Highlights

"

"K0Eppuqik cvgf "Hpcpekn"Ucvgo gpw"cpf "Cr r gpf kz"

"

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
China Motor Corporation

Opinion

We have audited the accompanying consolidated financial statements of China Motor Corporation and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the 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 (refer to Other Matter section), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and 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 Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion based on our audits and the reports of other auditors.

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 for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Financial Highlights

Key audit matters for the consolidated financial statements of the Group for the year ended December 31, 2016 are stated as follows:

Evaluation of Write-down of Inventory

Inventories of the Group are stated at the lower of cost or net realizable value. The estimation of the net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Since rapid changes in market conditions may have a material impact on the result of such evaluation which could thus lead to the risk of inventory being inactive or obsolete, the evaluation of the write-off of inventory has been identified as a key audit matter.

Our audit procedures in respect of the evaluation of the impairment of inventory included:

- Discussing with management whether the accounting methods and calculations of the evaluation of inventory had any significant changes;
- Taking stock and verifying the authenticity of documentary evidence of the net realizable value of inventory, such as sales invoices, in order to verify the accuracy of the calculation of the net realizable value of inventory.

Revenue Recognition

Domestic sales of vehicles is material to the Group's consolidated financial statements. Since the sales of vehicles is subject to the market situation and might lead to recognizing revenue in advance of the appropriate point of recognition, revenue recognition has been identified as a key audit matter.

Our audit procedures in respect of revenue recognition included:

- Discussing with management whether the accounting methods for revenue recognition were appropriate and consistently applied;
- Testing the design of the revenue recognition internal controls and the operating effectiveness of such controls as well as verifying the authenticity of sales transaction-related documentary evidence;
- Performing cut-off tests, including examining transaction terms in sales contracts and vehicle delivery receipts, in order to verify whether the risks and rewards of the merchandise were truly transferred and whether the timing of revenue recognition was accurate.

Other Matter

We did not audit the financial statements as of and for the years ended December 31, 2016 and 2015 of Daimler Vans Hong Kong Ltd., Guangzhou NTN-Yulon Drivertrain Co., Ltd., Xiangyang NTN-Yulon Drivertrain Co., Ltd., Shung Ye Motors Corporation, Uni Auto Parts Manufacture Co., Ltd. and Southeast-Motor Co., Ltd. in which the Group had equity-method investments, but such financial statements were audited by other auditors whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included for these investees in the Group's consolidated financial statements, is based solely on the reports of the other auditors. The aforementioned equity-method investments were 9.0% (NT\$5,618,921 thousand) and 8.7% (NT\$5,463,784 thousand) of the Group's total assets as of December 31, 2016 and 2015, respectively. The Group's share of equity of the aforementioned equity-method investments amounted to NT\$310,008 thousand in comprehensive income and NT\$33,206 thousand in comprehensive loss for the years ended December 31, 2016 and 2015, respectively, which amounted to 13.9% and 1.1% of the Group's total equity, respectively.

We have also audited the parent company only financial statements of China Motor Corporation as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion with other matter section and a modified unqualified report, respectively.

Financial Highlights

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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect 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 members of the Audit Committee) 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 the 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.

Financial Highlights

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 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 for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chih-Ming Shao and Shio-Ming Shue.

Deloitte & Touche
Taipei, Taiwan
Republic of China

The logo for Deloitte & Touche, featuring the company name in a stylized, handwritten-style font.

March 27, 2017

Notice to Readers

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

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

Financial Highlights

CHINA MOTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

ASSETS	2016		2015	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 14,231,759	23	\$ 12,717,820	20
Financial assets at fair value through profit or loss (Notes 4 and 7)	15,853	-	340,976	-
Available-for-sale financial assets (Notes 4 and 8)	731,135	1	764,991	1
Debt investments with no active market (Notes 4 and 14)	62,162	-	-	-
Notes receivable, net (Notes 4 and 10)	104,586	-	160,346	-
Accounts receivable, net (Notes 4 and 10)	1,169,831	2	991,138	2
Trade receivables from related parties, net (Notes 4 and 27)	1,577,844	3	1,635,172	3
Other receivables (Note 4)	107,587	-	131,957	-
Inventories (Notes 4, 5 and 12)	5,048,320	8	5,043,959	8
Other current assets (Notes 4, 9, 23, 27 and 28)	<u>952,799</u>	<u>2</u>	<u>1,594,782</u>	<u>3</u>
Total current assets	<u>24,001,876</u>	<u>39</u>	<u>23,381,141</u>	<u>37</u>
NON-CURRENT ASSETS				
Available-for-sale financial assets, net of current portion (Notes 4 and 8)	844,812	1	872,350	1
Financial assets measured at cost (Notes 4 and 13)	267,047	1	293,767	1
Debt investments with no active market (Notes 4 and 14)	1,846,292	3	2,129,979	4
Investments accounted for using the equity method (Notes 4 and 15)	26,570,793	43	27,145,339	43
Property, plant and equipment (Notes 4, 16, 27 and 28)	6,432,443	10	6,543,123	11
Investment properties (Notes 4, 17 and 28)	1,411,013	2	1,428,944	2
Intangible assets under development (Note 4)	142,571	-	180,379	-
Goodwill (Note 4)	-	-	27,672	-
Deferred tax assets (Notes 4 and 23)	398,231	1	486,308	1
Other non-current assets	<u>264,395</u>	<u>-</u>	<u>193,029</u>	<u>-</u>
Total non-current assets	<u>38,177,597</u>	<u>61</u>	<u>39,300,890</u>	<u>63</u>
TOTAL	<u>\$ 62,179,473</u>	<u>100</u>	<u>\$ 62,682,031</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 18 and 28)	\$ 768,000	1	\$ 745,940	1
Short-term bills payable	89,977	-	109,913	-
Notes and accounts payable	2,478,679	4	2,490,060	4
Trade payables to related parties (Note 27)	807,997	1	744,846	1
Other payables (Note 19)	3,127,812	5	2,943,603	5
Current tax liabilities (Notes 4 and 23)	214,133	1	221,593	-
Current portion of long-term borrowings	-	-	16,364	-
Other current liabilities (Notes 4, 7, 9 and 27)	<u>391,087</u>	<u>1</u>	<u>422,604</u>	<u>1</u>
Total current liabilities	<u>7,877,685</u>	<u>13</u>	<u>7,694,923</u>	<u>12</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 23)	181,932	-	124,986	-
Net defined benefit liability (Notes 4 and 20)	1,371,926	2	2,177,664	4
Other non-current liabilities	<u>26,568</u>	<u>-</u>	<u>25,247</u>	<u>-</u>
Total non-current liabilities	<u>1,580,426</u>	<u>2</u>	<u>2,327,897</u>	<u>4</u>
Total liabilities	<u>9,458,111</u>	<u>15</u>	<u>10,022,820</u>	<u>16</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 4 and 21)				
Ordinary shares	<u>13,840,508</u>	<u>22</u>	<u>13,840,508</u>	<u>22</u>
Capital surplus	<u>6,407,220</u>	<u>11</u>	<u>6,404,906</u>	<u>10</u>
Retained earnings				
Legal reserve	8,168,383	13	7,851,773	13
Special reserve	1,051,658	2	1,051,673	2
Unappropriated earnings	<u>19,399,595</u>	<u>31</u>	<u>18,896,608</u>	<u>30</u>
Total retained earnings	<u>28,619,636</u>	<u>46</u>	<u>27,800,054</u>	<u>45</u>
Other equity				
Exchange differences on translating foreign operations	(268,058)	-	571,137	1
Unrealized gain on available-for-sale financial assets	850,984	1	897,338	1
Total gain (loss) on effective portion of cash flow hedges (Notes 6 and 9)	<u>(28,635)</u>	<u>-</u>	<u>1,402</u>	<u>-</u>
Total other equity	<u>554,291</u>	<u>1</u>	<u>1,469,877</u>	<u>2</u>
Total equity attributable to owners of the Corporation	49,421,655	80	49,515,345	79
NON-CONTROLLING INTERESTS	<u>3,299,707</u>	<u>5</u>	<u>3,143,866</u>	<u>5</u>
Total equity	<u>52,721,362</u>	<u>85</u>	<u>52,659,211</u>	<u>84</u>
TOTAL	<u>\$ 62,179,473</u>	<u>100</u>	<u>\$ 62,682,031</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 27, 2017)

Financial Highlights

CHINA MOTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 27)				
Net sales	\$ 39,215,483	96	\$ 35,526,502	96
Other operating revenue	<u>1,518,002</u>	<u>4</u>	<u>1,357,945</u>	<u>4</u>
Total operating revenue	<u>40,733,485</u>	<u>100</u>	<u>36,884,447</u>	<u>100</u>
OPERATING COSTS (Notes 9, 12, 20, 22 and 27)				
Cost of goods sold	32,480,766	80	29,290,807	79
Other operating cost	<u>1,048,918</u>	<u>3</u>	<u>890,427</u>	<u>3</u>
Total operating costs	<u>33,529,684</u>	<u>83</u>	<u>30,181,234</u>	<u>82</u>
GROSS PROFIT	7,203,801	17	6,703,213	18
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH ASSOCIATES	<u>(8,280)</u>	<u>-</u>	<u>9,914</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>7,195,521</u>	<u>17</u>	<u>6,713,127</u>	<u>18</u>
OPERATING EXPENSES (Notes 20, 22 and 27)				
Selling and marketing expenses	746,343	2	948,827	2
General and administrative expenses	1,137,607	3	1,103,903	3
Research and development expenses	<u>2,712,947</u>	<u>6</u>	<u>2,444,982</u>	<u>7</u>
Total operating expenses	<u>4,596,897</u>	<u>11</u>	<u>4,497,712</u>	<u>12</u>
PROFIT FROM OPERATIONS	<u>2,598,624</u>	<u>6</u>	<u>2,215,415</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES				
Share of profit of associates and joint ventures accounted for using the equity method (Notes 4 and 15)	1,420,751	4	1,247,729	3
Interest income (Note 4)	216,784	1	226,357	1
Dividend income (Note 4)	42,186	-	75,780	-
Other income (Note 30)	53,171	-	60,162	-
Gain on disposal of investments (Notes 4 and 13)	43,120	-	93,584	-
Gain on financial instruments at fair value through profit or loss (Note 4)	5,948	-	63,237	-
Interest expense	(12,179)	-	(17,465)	-
Other expenses (Notes 12, 16 and 30)	(13,747)	-	(24,197)	-
Foreign exchange losses	(223,080)	(1)	(12,783)	-
Impairment loss (Notes 4, 13, 16 and 30)	<u>(39,249)</u>	<u>-</u>	<u>(36,590)</u>	<u>-</u>
Total non-operating income	<u>1,493,705</u>	<u>4</u>	<u>1,675,814</u>	<u>4</u>

(Continued)

Financial Highlights

CHINA MOTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

	2016		2015	
	Amount	%	Amount	%
PROFIT BEFORE INCOME TAX	\$ 4,092,329	10	\$ 3,891,229	10
INCOME TAX EXPENSE (Notes 4 and 23)	<u>494,957</u>	<u>1</u>	<u>386,541</u>	<u>1</u>
NET PROFIT FOR THE YEAR	<u>3,597,372</u>	<u>9</u>	<u>3,504,688</u>	<u>9</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 20)	(214,632)	(1)	(104,683)	-
Share of other comprehensive loss of associates (Note 15)	(106,356)	-	(102,959)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 23)	36,462	-	17,796	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 21)	(156,308)	(1)	(46,057)	-
Unrealized loss on available-for-sale financial assets (Note 21)	(54,531)	-	(53,552)	-
Total gains (losses) on effective portion of cash flow hedges (Note 21)	(36,190)	-	1,689	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 15 and 21)	(844,945)	(2)	(256,085)	(1)
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 21 and 23)	<u>6,153</u>	<u>-</u>	<u>(287)</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(1,370,347)</u>	<u>(4)</u>	<u>(544,138)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 2,227,025</u>	<u>5</u>	<u>\$ 2,960,550</u>	<u>8</u>

(Continued)

Financial Highlights

CHINA MOTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 3,189,100	8	\$ 3,166,104	9
Non-controlling interests	<u>408,272</u>	<u>1</u>	<u>338,584</u>	<u>1</u>
	<u>\$ 3,597,372</u>	<u>9</u>	<u>\$ 3,504,688</u>	<u>10</u>
TOTAL COMPREHENSIVE INCOME				
ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,993,759	5	\$ 2,667,467	7
Non-controlling interests	<u>233,266</u>	<u>-</u>	<u>293,083</u>	<u>1</u>
	<u>\$ 2,227,025</u>	<u>5</u>	<u>\$ 2,960,550</u>	<u>8</u>
EARNINGS PER SHARE (In New Taiwan dollars; Note 24)				
Basic	<u>\$ 2.34</u>		<u>\$ 2.32</u>	
Diluted	<u>\$ 2.34</u>		<u>\$ 2.32</u>	

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

(With Deloitte & Touche audit report dated March 27, 2017)

(Concluded)

Financial Highlights

CHINA MOTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Equity Attributable to Owners of the Corporation						Other Equity			Total	Non-controlling Interests	Total Equity
	Ordinary Shares		Capital Surplus	Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total Gains (Losses) on Effective Portion of Cash Flow Hedges			
	Shares (In Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings						
BALANCE AT JANUARY 1, 2015	1,384,051	\$ 13,840,508	\$ 6,392,369	\$ 7,595,944	\$ 1,057,002	\$ 17,769,073	\$ 750,561	\$ 1,035,801	\$ -	\$ 48,441,258	\$ 2,957,912	\$ 51,399,170
Appropriation of the 2014 earnings												
Legal reserve	-	-	-	255,829	-	(255,829)	-	-	-	-	-	-
Cash dividends distributed by the Corporation - NT\$1.15 per share	-	-	-	-	-	(1,591,658)	-	-	-	(1,591,658)	-	(1,591,658)
Reversal of special reserve	-	-	-	-	(5,329)	5,329	-	-	-	-	-	-
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(90,929)	(90,929)
Change in investments in associates and joint ventures accounted for using the equity method	-	-	12,537	-	-	(14,209)	-	-	-	(1,672)	-	(1,672)
Acquisition of interests in subsidiaries	-	-	-	-	-	(50)	-	-	-	(50)	(16,200)	(16,250)
Net profit for the year ended December 31, 2015	-	-	-	-	-	3,166,104	-	-	-	3,166,104	338,584	3,504,688
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	-	(182,152)	(179,424)	(138,463)	1,402	(498,637)	(45,501)	(544,138)
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	-	2,983,952	(179,424)	(138,463)	1,402	2,667,467	293,083	2,960,550
BALANCE AT DECEMBER 31, 2015	1,384,051	13,840,508	6,404,906	7,851,773	1,051,673	18,896,608	571,137	897,338	1,402	49,515,345	3,143,866	52,659,211
Appropriation of the 2015 earnings												
Legal reserve	-	-	-	316,610	-	(316,610)	-	-	-	-	-	-
Cash dividends distributed by the Corporation - NT\$1.5 per share	-	-	-	-	-	(2,076,076)	-	-	-	(2,076,076)	-	(2,076,076)
Reversal of special reserve	-	-	-	-	(15)	15	-	-	-	-	-	-
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(77,425)	(77,425)
Change in investments in associates and joint ventures accounted for using the equity method	-	-	2,314	-	-	(13,687)	-	-	-	(11,373)	-	(11,373)
Net profit for the year ended December 31, 2016	-	-	-	-	-	3,189,100	-	-	-	3,189,100	408,272	3,597,372
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(279,755)	(839,195)	(46,354)	(30,037)	(1,195,341)	(175,006)	(1,370,347)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	2,909,345	(839,195)	(46,354)	(30,037)	1,993,759	233,266	2,227,025
BALANCE AT DECEMBER 31, 2016	<u>1,384,051</u>	<u>\$ 13,840,508</u>	<u>\$ 6,407,220</u>	<u>\$ 8,168,383</u>	<u>\$ 1,051,658</u>	<u>\$ 19,399,595</u>	<u>\$ (268,058)</u>	<u>\$ 850,984</u>	<u>\$ (28,635)</u>	<u>\$ 49,421,655</u>	<u>\$ 3,299,707</u>	<u>\$ 52,721,362</u>

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

(With Deloitte & Touche audit report dated March 27, 2017)

Financial Highlights

CHINA MOTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 4,092,329	\$ 3,891,229
Adjustments for:		
Depreciation expenses	881,684	852,429
Amortization expenses	110,003	105,083
Net gain on fair value change of financial instruments at fair value through profit or loss	(5,948)	(63,237)
Interest expense	12,179	17,465
Interest income	(216,784)	(226,357)
Dividend income	(42,186)	(75,780)
Share of profit of associates and joint ventures accounted for by the equity method	(1,420,751)	(1,247,729)
(Gain) loss on disposal of property, plant and equipment	5,940	(5,308)
(Gain) loss on disposal of investments	1,414	(43,758)
Impairment loss	39,249	36,590
(Realized) unrealized gain on the transactions with associates	8,280	(9,914)
Unrealized net loss on foreign currency exchange	81,956	65,492
Changes in operating assets and liabilities		
Financial assets held for trading	268,390	353,667
Notes receivable	53,766	88,148
Accounts receivable	(196,012)	(64,454)
Trade receivables from related parties	53,547	(75,817)
Other receivables	18,798	62,608
Inventories	(28,887)	650,946
Other current assets	636,812	(688,370)
Notes and accounts payable	(4,110)	(53,244)
Trade payables to related parties	74,054	(86,234)
Other payables	219,277	(47,759)
Other current liabilities	(39,486)	(19,328)
Net defined benefit liability	(1,020,370)	(12,590)
Cash generated from operations	3,583,144	3,403,778
Income tax paid	(328,851)	(442,507)
Net cash generated from operating activities	<u>3,254,293</u>	<u>2,961,271</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in financial assets designated as at fair value through profit or loss upon initial recognition	61,392	36
Decrease in available-for-sale financial assets	7,853	729,337
Acquisition of debt investments with no active market	(2,645,042)	(909,512)
Proceeds from the repayments of principal of debt investments with no active market	2,751,550	76,387
Acquisition of financial assets measured at cost	-	(77,708)
Proceeds from the disposal of financial assets measured at cost	16,300	162,254

(Continued)

Financial Highlights

CHINA MOTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	2016	2015
Proceeds from capital reduction of financial assets measured at cost	\$ -	\$ 96,771
Acquisition of investments accounted for using the equity method	(623)	(197,393)
Proceeds from the disposal of investments accounted for using the equity method	-	29
Proceeds from capital reduction of investments accounted for using the equity method	-	280,035
Acquisition of property, plant and equipment	(840,971)	(950,742)
Proceeds from the disposal of property, plant and equipment	30,718	57,657
Increase in other non-current assets	(150,967)	(88,441)
Interest received	216,822	198,516
Dividends received	<u>1,067,152</u>	<u>840,534</u>
Net cash generated from investing activities	<u>514,184</u>	<u>217,760</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	23,812	97,201
Decrease in short-term bills payable	(20,905)	(9,957)
Repayments of long-term borrowings	(16,364)	(33,636)
Increase in other non-current liabilities	1,321	12,856
Cash dividends paid	(2,076,076)	(1,591,658)
Acquisition of ownership interests in subsidiaries	-	(16,250)
Interest paid	(11,082)	(17,419)
Decrease in non-controlling interests	<u>(77,425)</u>	<u>(90,929)</u>
Net cash used in financing activities	<u>(2,176,719)</u>	<u>(1,649,792)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(77,819)</u>	<u>(23,028)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,513,939	1,506,211
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>12,717,820</u>	<u>11,211,609</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 14,231,759</u>	<u>\$ 12,717,820</u>

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

(With Deloitte & Touche audit report dated March 27, 2017)

(Concluded)

CHINA MOTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

China Motor Corporation (the “Corporation”) manufactures and sells cars and related parts. Its stock is listed on the Taiwan Stock Exchange.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements of the Corporation and its subsidiaries, collectively referred to as the “Group”, were approved by the Corporation’s board of directors on March 27, 2017.

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

- a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Group should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

Financial Highlights

Note 1: Unless stated otherwise, the above New or amended IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Group's accounting policies, except for the following:

Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Group or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related-party relationship, unless it can be demonstrated that no control or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Group has significant transactions. If the transactions or balance with a specific related party is 10% or more of the Group's respective total transactions or balance, such transactions should be separately disclosed by the name of each related party.

The disclosures of related-party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

Except for the above impacts, as of the date the financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Corporation's financial position and financial performance and will disclose these other impacts when the assessment is completed.

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

Financial Highlights

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Group’s accounting policies, except for the following:

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

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

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

- a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

Financial Highlights

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

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

Impairment of financial assets

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

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

Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity’s risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risks eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

Financial Highlights

2) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by The FSC.

b. Basis of preparation

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

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

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

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

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Financial Highlights

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Corporation does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

1) Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (i.e. its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition 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 Corporation.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's 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 the owners of the Corporation.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (ii) the assets (including any goodwill) and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2) Entities included in consolidated financial statements

Investor	Investee	Main Business	Combined Shareholding Ratio		Note
			2016	2015	
China-Motor Corporation	Kian Shen Corporation ("Kian Shen")	Production of frame of heavy duty car and mold	43.87	43.87	a)
(Parent)	CMC Investment Co., Ltd. ("CMC Investment")	Investment of production and service industries	-	100.00	e)

(Continued)

Financial Highlights

Investor	Investee	Main Business	Combined Shareholding Ratio		Note
			December 31		
			2016	2015	
	Hwa Wei Holdings Corporation Ltd. (“Hwa Wei Holdings”)	Overseas investment of production and service industries	100.00	100.00	
	China Engine Corporation (“China Engine”)	Manufacture of automobile engine and parts	52.11	52.11	
	Sino Diamond Motors Corporation (“Sino Diamond Motors”)	Sales and providing after sales service of vehicle	100.00	100.00	
	Hwa Hann Corporation (“Hwa Hann”)	Sales of automobile parts	99.99	99.99	c)
	Alliance Investment & Management Co., Ltd. (“Alliance Investment & Management”)	Investment	100.00	100.00	
	Gatetech Technology Inc. (“Gatetech Technology”)	Aluminum-magnesium alloy casting industry	72.81	72.81	
	China Motor Investment Co., Ltd. (CMI)	Investment	100.00	100.00	
	Hwa Chung Motors Corporation (“Hwa Chung Motors”)	Sales of vehicle and parts	100.00	100.00	
	COC Tooling & Stamping Co., Ltd. (COC)	Production of mold, fixture and gauge of vehicle	49.76	49.76	b)
Kian Shen	Kian Shen Investment Co., Ltd. (“Kian Shen Investment”)	Overseas investment of production and service industries	43.87	43.87	a)
China Engine	Advance Power Machinery Co., Ltd. (“Advance Power Machinery”)	Manufacture of automobile engine and parts	52.11	52.11	
	Advance Power Investment Co., Ltd. (“Advance Power Investment”)	Investment and sales	52.11	52.11	
Sino Diamond Motors	Hwa-Yu Corporation Ltd. (“Hwa-Yu”)	Overseas investment of production and service industries	100.00	100.00	
	Brilliant Insight International Consultancy Service Co., Ltd. (“Brilliant Insight International”)	Consulting and service	100.00	100.00	
Gatetech Technology	Gatetech Holding Co., Ltd. (GH)	Investment	72.81	72.81	
Alliance Investment & Management	Greentrans Investment Co., Ltd. (“Greentrans Investment”)	Investment	100.00	100.00	
Hwa Chung Motors	Greentrans Corporation (“Greentrans”)	Sales of motorcycle, bicycle and parts	100.00	100.00	
	Ling Wei Motor Co., Ltd. (“Ling Wei”)	Sales of second-hand vehicle	100.00	100.00	
COC	Y. M. Hi-Tech Industry Ltd. (“Y. M. Hi-Tech”)	Steel cutting	42.30	42.30	b)
	Shye Shinn Corporation (“Shye Shinn”)	Investment	49.76	49.76	b)
Kian Shen Investment	Kian Shen Investment Hong Kong Co., Limited (KSIHK)	Investment	43.87	43.87	a)
Hwa-Yu	Hwa-Lin Investments Ltd. (“Hwa-Lin”)	Overseas investment of production and service industries	100.00	100.00	
	Beijing Jun Hua Information Co., Ltd. (“Beijing Jun Hua”)	Consulting and services	-	-	d)
	Fujian Rui Hua Consulting Co., Ltd. (“Fujian Rui Hua”)	Consulting and services	100.00	100.00	
GH	Gatetech International Co., Ltd. (GI)	Investment	72.81	72.81	
Greentrans Investment	Jiangsu Greentrans Automotive Parts Co., Ltd. (“Jiangsu Greentrans”)	Production and sales of parts of electronic motorcycle	100.00	100.00	
Shye Shinn	Zhengzhou Tooling & Stamping Co., Ltd. (“Zhengzhou Tooling & Stamping”)	Design, production, sales and technical service of mold, fixture and gauge of vehicle	29.86	29.86	b)
GI	Gatetech (Suchou) Technology Co., Ltd (“Gatetech Suchou Technology”)	Aluminum-magnesium alloy casting industry	72.81	72.81	
Hwa-Lin	Dongguan Huayi Motor Maintenance Co., Ltd. (“Dongguan Huayi”)	Sales of vehicle and parts, and maintenance and supplementary services of vehicle	100.00	100.00	
	Tianjin Hwarui Maintenance Co., Ltd. (“Tianjin Hwarui”)	Sales of vehicle and parts, and maintenance and supplementary services of vehicle	100.00	100.00	
	Sichuan Huafeng Hanwei Cars Service and Maintenance Co., Ltd. (“Sichuan Huafeng Hanwei”)	Sales of vehicle and parts, and maintenance and supplementary services of vehicle	100.00	100.00	
	Guangzhou Huayou Motor Maintenance Co., Ltd. (“Guangzhou Huayou Motor Maintenance”)	Sales of vehicle and parts, and maintenance and supplementary services of vehicle	100.00	100.00	
Dongguan Huayi	Dongguan Huashun Motor Sales Co., Ltd. (“Dongguan Huashun”)	Sales of vehicle and parts, and maintenance and supplementary services of vehicle	100.00	100.00	

(Continued)

Financial Highlights

Investor	Investee	Main Business	Combined Shareholding Ratio		Note
			December 31		
			2016	2015	
Tianjin Hwarui	Tianjin Hwahong Sales Co., Ltd. ("Tianjin Hwahong")	Sales of vehicle and parts	100.00	100.00	
Sichuan Huafeng Hanwei	Sichuan Houwei Cars Service and Maintenance Co., Ltd. ("Sichuan Houwei")	Sales of vehicle and parts	100.00	100.00	
	Sichuan Lingwei Cars Service and Maintenance Co., Ltd. ("Sichuan Lingwei")	Sales of vehicle and parts	100.00	100.00	
Guangzhou Huayou Motor Maintenance	Guangzhou Huayou Motor Sales Co., Ltd. ("Guangzhou Huayou Motor Sales")	Sales of vehicle and parts	100.00	100.00	

(Concluded)

Notes:

- The Group's equity in Kian Shen was 43.87%. Kian Shen is a listed company, and 56.13% of Kian Shen's shares were held by numerous shareholders unrelated to the Group. Considering the Group's substantial influence on Kian Shen in terms of having an absolute number of voting rights and the relative size of the other shareholdings, Kian Shen was deemed a subsidiary.
- The Group's equity in COC was 49.76%. However, the parent company controls more than half of the members of the board and holds a significant number of COC's shares; thus, COC was considered a subsidiary.
- In April 2009, the board of Hwa Hann decided to dissolve this subsidiary; as of December 31, 2016, the liquidation had not been completed.
- In October 2014, the board of Beijing Jun Hua decided to dissolve the Company; the liquidation was completed in November 2015, and its income and expense before liquidation were included in the consolidated financial statements for the year ended December 31, 2015.
- The Board of CMC Investment determined to merge its company with the Corporation. The merger occurred on March 31, 2016 with the Corporation as the acquiring company and CMC Investment as the acquired company. This merger retained the name of the acquiring company. The income and expenses of CMC Investment before merger were included in the consolidated financial statements for the year ended December 31, 2016.

For the relationship between the Corporation and its controlled entities as of December 31, 2016, please refer to Attachment 9.

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess are recognized immediately in profit or loss as a bargain purchase gain.

Financial Highlights

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets.

f. Foreign currencies

In preparing the financial statements of each individual group 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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

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 included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, 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 subsidiaries, associates and joint ventures in country or with currency different from that of the Corporation) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting year. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Corporation's entire interest in a foreign operation, or a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation) all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Corporation are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Corporation losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

g. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

h. Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Financial Highlights

The Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are 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 and joint venture. The Group also recognizes the changes in the Group's share of equity of associates and joint venture attributable to the Group. The Group's equity in the investees' net income or net loss is calculated using the treasury stock method when investees also have investments in the Group (reciprocal holding).

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 or a joint venture 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.

When the Group subscribes for additional new shares of the associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate and joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of equity of associates and joint ventures. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture 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 by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture, the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

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. Any 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 subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

When a group transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate and the joint venture that are not related to the Group.

Financial Highlights

i. Property, plant and equipment

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

Property, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation on property, plant and equipment, except for tooling (included in machinery) which are amortized using the production unit method, are computed using the straight-line method over service lives. Each significant part 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 estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Investment properties

Investment properties are properties held to earn rentals or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

k. Intangible assets

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if all of the following have been demonstrated:

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

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, they are measured at cost less accumulated amortization and accumulated impairment loss.

Financial Highlights

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

1. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its 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 estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

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.

The 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, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently 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 (less amortization expenses or depreciation expenses) 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 in profit or loss.

m. Financial instruments

Financial assets and financial liabilities are recognized when an entity becomes 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.

1) 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 are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

i. 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 Highlights

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

- i) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii) The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- iii) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be 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.

Fair value is determined in the manner described in Note 26.

ii. 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. 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 will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

Loans and receivables (including cash and cash equivalent, debt investments with no active market, trade receivables and accounts receivable (including related parties), other receivables, other financial assets (included in other current assets) and guarantee deposits paid (included in other non-current assets) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Financial Highlights

b) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, 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.

For financial assets carried at amortized cost, such as accounts receivable are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Corporation's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables, and other situation.

For financial assets carried at amortized cost, 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.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

Financial Highlights

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and other receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers 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 is recognized in profit or loss.

2) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, convertible bonds, convertible preference shares and foreign exchange rate swaps.

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 the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through profit or loss.

n. Hedge accounting

The Group designates certain hedging instruments for as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and included in the initial cost of the non-financial asset or non-financial liability.

Financial Highlights

Hedge accounting is discontinued prospectively when the Group revokes the designated hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when the hedging instrument no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

o. Provisions

Provisions are measured at the best estimate of the discounted cash flows 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.

Provisions for the expected cost of warranty obligations are recognized at the date of sale of the relevant products at the best estimate by the management of the Corporation of the expenditure required to settle the Group's obligation.

p. 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. Allowance for sales returns and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when 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.

2) Rendering of services

Service income including that from operating service provided under service concession arrangements is recognized when services are provided.

3) Royalties

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognized by reference to the underlying arrangement.

Financial Highlights

4) Dividend and interest income

Dividend income from investments is recognized when the shareholders' right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate.

q. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

r. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) 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 and past service cost) 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 it 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 represents the actual deficit in the Group's defined benefit plan.

s. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

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

Financial Highlights

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities 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 and unused loss carry forward 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 and interests 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 asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow 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 period in which the liability is settled or the asset 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.

3) 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, in which case, the current and deferred tax are also recognized in other comprehensive income respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is 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 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 period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Financial Highlights

Write-down of Inventory

The net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of the net realizable value was based on current market conditions and historical experience with products sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Cash		
Cash on hand	\$ 6,484	\$ 7,308
Checking accounts and demand deposits	<u>2,954,521</u>	<u>1,567,059</u>
	<u>2,961,005</u>	<u>1,574,367</u>
Cash equivalents		
Time deposits	10,681,084	9,401,422
Repurchase agreements collateralized by bonds	<u>589,670</u>	<u>1,742,031</u>
	<u>11,270,754</u>	<u>11,143,453</u>
	<u>\$ 14,231,759</u>	<u>\$ 12,717,820</u>

Cash equivalents, for the purpose of meeting short-term cash commitments, consist of highly liquid time deposits and repurchase agreements collateralized by bonds that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The interest rate intervals of cash on bank and repurchase agreements collateralized by bonds at the end of the reporting period were as follows:

	December 31	
	2016	2015
Checking accounts and demand deposits	0.00%-2.00%	0.00%-0.50%
Time deposits	0.29%-6.50%	0.50%-4.30%
Repurchase agreements collateralized by bonds	0.35%-0.40%	0.40%-0.42%

The Group's hedging strategy is to buy Japanese yen (JPY) at the spot rate to avoid its foreign currency exposure in relation to Japanese yen (JPY) forecasted purchases. The Group purchased JPY853,173 thousand at the spot rate in 2016. When the forecasted purchases will actually take place, the carrying amounts of the non-financial hedged items will be adjusted accordingly.

Financial Highlights

At the end of the reporting period, Japanese yen (JPY) bought at the spot rate, which was not offset, was as follow:

Currency	Due Date	Notional Amount (In Thousands)
JPY/NTD	January 28, 2017	JPY53,173/NTD14,655
JPY/NTD	January 28, 2017	JPY100,000/NTD27,560
JPY/NTD	January 28, 2017	JPY100,000/NTD27,560
JPY/NTD	February 9, 2017	JPY100,000/NTD27,560
JPY/NTD	February 9, 2017	JPY100,000/NTD27,560
JPY/NTD	February 11, 2017	JPY100,000/NTD27,560
JPY/NTD	February 14, 2017	JPY100,000/NTD27,560
JPY/NTD	February 15, 2017	JPY100,000/NTD27,560
JPY/NTD	February 15, 2017	JPY100,000/NTD27,560

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2016	2015
<u>Financial assets - current</u>		
Financial assets designated as at FVTPL		
Convertible bonds	\$ -	\$ 61,103
Financial assets held for trading		
Non-derivative financial assets		
Mutual funds	15,041	275,540
Domestic listed shares	-	2,420
	<u>15,041</u>	<u>277,960</u>
Derivative financial assets		
Forward foreign exchange contracts	812	-
Preference share options	-	1,913
	<u>812</u>	<u>1,913</u>
	<u>\$ 15,853</u>	<u>\$ 340,976</u>
<u>Financial liabilities - current (included in other current liabilities)</u>		
Financial liabilities held for trading		
Derivative financial liabilities		
Foreign exchange rate swaps	\$ -	\$ 299

At the end of the reporting period, the Group's outstanding foreign exchange forward contracts not under hedge accounting were as follows:

December 31, 2016

Transaction	Currency	Maturity Date	Notional Amount (In Thousands)
Buy	USD/NTD	2017.2.14	USD1,000/NTD31,385

Financial Highlights

At the end of the reporting period, the Group's outstanding foreign exchange rate swaps not under hedge accounting were as follows:

December 31, 2015

Notional Amounts	Maturity Date	Exchange Rate-buy	Exchange Rate-sell
EUR 1,672	2016.06.23	1.0865 (EUR:USD)	1.0922 (EUR:USD)

The Group entered into foreign exchange forward contracts and foreign exchange rate swaps to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	2016	2015
<u>Current</u>		
Domestic investments		
Mutual funds	\$ 731,135	\$ 734,854
Listed shares	<u>-</u>	<u>30,137</u>
	<u>\$ 731,135</u>	<u>\$ 764,991</u>
<u>Non-current</u>		
Domestic investments		
Unlisted shares	\$ 732,680	\$ 844,733
Listed shares	<u>112,132</u>	<u>27,617</u>
	<u>\$ 844,812</u>	<u>\$ 872,350</u>

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGING

	<u>December 31</u>	
	2016	2015
Derivative financial assets under hedge accounting - current <u>(included in other current assets)</u>		
Foreign exchange forward contracts	<u>\$ 1,371</u>	<u>\$ 1,916</u>
Derivative financial liabilities under hedge accounting - current <u>(included in other current liabilities)</u>		
Foreign exchange forward contracts	<u>\$ 16,546</u>	<u>\$ 227</u>

The Group's hedging strategy is to enter into foreign exchange forward contracts to avoid exchange rate exposure in relation to Japanese yen (JPY) forecasted purchases. When the forecasted purchases actually take place, the carrying amounts of the non-financial hedged items will be adjusted accordingly.

Financial Highlights

The Group's outstanding foreign exchange forward contracts at the end of the reporting period were as follows:

Transaction	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2016</u>			
Buy	JPY/NTD	2017.02.24-2017.07.31	JPY1,200,000/NTD347,250
<u>December 31, 2015</u>			
Buy	JPY/NTD	2016.01.29-2016.03.04	JPY700,000/NTD189,930

Gains and losses of hedging instruments reclassified from equity to cost of goods sold were \$6,188 thousand and \$795 thousand for the years ended December 31, 2016 and 2015, respectively.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Notes receivable</u>		
Notes receivable - operating	\$ 105,459	\$ 161,502
Less: Allowance for impairment loss	<u>(873)</u>	<u>(1,156)</u>
	<u>\$ 104,586</u>	<u>\$ 160,346</u>
<u>Accounts receivable</u>		
Accounts receivable	\$ 1,178,774	\$ 997,786
Less: Allowance for impairment loss	<u>(8,943)</u>	<u>(6,648)</u>
	<u>\$ 1,169,831</u>	<u>\$ 991,138</u>

In determining the recoverability of notes receivable and accounts receivable, the Group considered any change in the credit quality of the notes receivable and accounts receivable since the date credit was initially granted to the end of the reporting period. Due to insignificant risks on the recoverability of the Group's notes receivable and accounts receivable historically, allowance for impairment loss was recognized based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

For the notes receivable and accounts receivable balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss, because there was no significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

Financial Highlights

The aging of receivables was as follows:

	December 31	
	2016	2015
0 days	\$ 1,228,846	\$ 1,060,344
1-60 days	35,400	26,105
61-90 days	11,059	58,255
More than 90 days	<u>8,928</u>	<u>14,584</u>
	<u>\$ 1,284,233</u>	<u>\$ 1,159,288</u>

The above aging schedule was based on the number of days past due from the end of the credit term.

The aging of receivables that were past due but not impaired was as follows:

	December 31	
	2016	2015
1-60 days	\$ 1,518	\$ -
61-90 days	-	-
More than 90 days	<u>8</u>	<u>14,332</u>
	<u>\$ 1,526</u>	<u>\$ 14,332</u>

The above aging schedule was based on the number of days past due from the end of the credit term.

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2015	\$ 8,380	\$ 8,104	\$ 16,484
Add: Impairment losses recognized on receivables	-	115	115
Deduct: Amounts written off during the year as uncollectable	(7,137)	-	(7,137)
Less: Impairment losses reversed	(1,032)	(622)	(1,654)
Foreign exchange translation gains and losses	<u>(3)</u>	<u>(1)</u>	<u>(4)</u>
Balance at December 31, 2015	<u>\$ 208</u>	<u>\$ 7,596</u>	<u>\$ 7,804</u>
Balance at January 1, 2016	\$ 208	\$ 7,596	\$ 7,804
Add: Impairment losses recognized on receivables	-	3,017	3,017
Deduct: Impairment losses reversed	(141)	(834)	(975)
Foreign exchange translation gains and losses	<u>-</u>	<u>(30)</u>	<u>(30)</u>
Balance at December 31, 2016	<u>\$ 67</u>	<u>\$ 9,749</u>	<u>\$ 9,816</u>

11. SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

The Group had a 43.87% interest in Kian Shen as of December 31, 2016 and 2015. The remaining 56.13% interest in Kian Shen is dispersed and held by shareholders unrelated to the Group.

See Table 6 for the information on place of incorporation and principal place of business.

Financial Highlights

The summarized financial information below represents amounts before intragroup eliminations.

Kian Shen and Kian Shen's subsidiaries:

	December 31	
	2016	2015
Current assets	\$ 831,523	\$ 850,583
Non-current assets	3,557,519	3,336,687
Current liabilities	(585,482)	(543,164)
Non-current liabilities	<u>(251,370)</u>	<u>(257,052)</u>
Equity	<u>\$ 3,552,190</u>	<u>\$ 3,387,054</u>
Equity attributable to:		
Owners of Kian Shen	\$ 1,558,346	\$ 1,485,900
Non-controlling interests of Kian Shen	<u>1,993,844</u>	<u>1,901,154</u>
	<u>\$ 3,552,190</u>	<u>\$ 3,387,054</u>
	For the Year Ended December 31	
	2016	2015
Revenue	<u>\$ 1,194,399</u>	<u>\$ 1,201,629</u>
Profit for the year	\$ 529,412	\$ 437,216
Other comprehensive loss for the year	<u>(267,332)</u>	<u>(58,539)</u>
Total comprehensive income for the year	<u>\$ 262,080</u>	<u>\$ 378,677</u>
Profit attributable to:		
Owners of Kian Shen	\$ 232,253	\$ 191,807
Non-controlling interests of Kian Shen	<u>297,159</u>	<u>245,409</u>
	<u>\$ 529,412</u>	<u>\$ 437,216</u>
Total comprehensive income attributable to:		
Owners of Kian Shen	\$ 114,974	\$ 166,126
Non-controlling interests of Kian Shen	<u>147,106</u>	<u>212,551</u>
	<u>\$ 262,080</u>	<u>\$ 378,677</u>
Net cash inflow (outflow) from:		
Operating activities	\$ 18,121	\$ 56,215
Investing activities	388,080	(48,261)
Financing activities	(67,294)	(26,593)
Foreign exchange adjustments	<u>(15,869)</u>	<u>(16)</u>
Net cash inflow (outflow)	<u>\$ 323,038</u>	<u>\$ (18,655)</u>
Dividends paid to non-controlling interests of Kian Shen	<u>\$ 77,735</u>	<u>\$ 54,413</u>

Financial Highlights

12. INVENTORIES

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Merchandise	\$ 255,334	\$ 457,579
Finished goods	2,173,043	1,903,492
Work in progress	389,590	406,318
Raw materials	1,979,613	1,741,823
Materials in transit	<u>250,740</u>	<u>534,747</u>
	<u>\$ 5,048,320</u>	<u>\$ 5,043,959</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 were \$32,480,766 thousand and \$29,290,807 thousand, respectively. The cost of goods sold for the years ended December 31, 2016 and 2015 included write-downs of inventory of \$6,681 thousand and the reversal of write-downs of inventory of \$14,552 thousand, respectively. Previous write-downs were reversed as a result of the disposal of obsolete inventories.

A fire occurred in the Group's subsidiary, Kian Shen, in May 2016. The Group recognized an inventory retirement loss of \$1,822 thousand (included in other expenses) for the year ended December 31, 2016. Refer to Note 30.

13. FINANCIAL ASSETS MEASURED AT COST

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Non-current</u>		
Overseas unlisted ordinary shares	\$ 167,134	\$ 171,231
Domestic unlisted ordinary shares	<u>99,913</u>	<u>122,536</u>
	<u>\$ 267,047</u>	<u>\$ 293,767</u>
Classified according to financial asset measurement categories		
Available-for-sale financial assets	<u>\$ 267,047</u>	<u>\$ 293,767</u>

Management believed that the above unlisted equity investments held by the Group had fair values which could not be reliably measured because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of reporting period.

The Group disposed of certain financial assets measured at cost with carrying amounts of \$17,714 thousand and \$118,496 thousand for the years ended December 31, 2016 and 2015, respectively, recognizing a disposal loss of \$1,414 thousand and a disposal benefit of \$43,758 thousand, respectively.

The Group evaluated its invested-in entities by their future cash flows and market rate of return and recognized an impairment loss of \$7,359 thousand and \$36,590 thousand for the years ended December 31, 2016 and 2015, respectively.

Financial Highlights

14. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Current</u>		
Bonds	\$ 32,308	\$ -
Principal guaranteed notes	<u>29,854</u>	<u>-</u>
	<u>\$ 62,162</u>	<u>\$ -</u>
<u>Non-current</u>		
Bonds	\$ 1,026,965	\$ 1,826,471
Principal guaranteed notes	512,487	-
Preference shares	<u>306,840</u>	<u>303,508</u>
	<u>\$ 1,846,292</u>	<u>\$ 2,129,979</u>

- a. The range of bonds' coupon rate was 3.50%-5.88% and 2.90%-5.88% per annum as of December 31, 2016 and 2015, respectively.
- b. The range of principal guaranteed notes' coupon rate was 3.32%-3.85% per annum as of December 31, 2016.
- c. The range of coupon rate for the Group's preference shares was 1.50%-3.70% and 1.50%-3.25% per annum as of December 31, 2016 and 2015, respectively.

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Investments in associates	\$ 20,422,864	\$ 21,026,869
Investments in joint ventures	<u>6,147,929</u>	<u>6,118,470</u>
	<u>\$ 26,570,793</u>	<u>\$ 27,145,339</u>

- a. Investments in associates

Associate	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Material associates		
Yulon	\$ 11,241,524	\$ 11,555,961
Associates that are not individually material	<u>9,181,340</u>	<u>9,470,908</u>
	<u>\$ 20,422,864</u>	<u>\$ 21,026,869</u>

- 1) Material associates

Refer to Table 6 for the nature of activities, principal place of business and country of incorporation of the associates.

The Group holds 16.80% interest in Yulon on December 31, 2016 and 2015, respectively.

Financial Highlights

The Group exercises significant influence over Yulon and applies the equity method of accounting because the Group and Yulon share the same president of the board even though the Group holds less than 20% of interest in Yulon.

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments was based on the basis of the associates' financial statements audited by the auditors for the same year.

Fair value (Level 1) of investments in associates with available published price quotation are summarized as follows:

Name of Associate	December 31	
	2016	2015
Yulon	\$ <u>7,027,715</u>	\$ <u>7,919,291</u>

All the associates are accounted for using the equity method.

The summarized financial information below represents amounts shown in the associates' consolidated financial statements, prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

Yulon

	December 31	
	2016	2015
Current assets	\$ 131,584,835	\$ 122,157,795
Non-current assets	89,686,806	89,844,295
Current liabilities	(132,381,417)	(118,623,293)
Non-current liabilities	<u>(9,827,404)</u>	<u>(12,197,154)</u>
Equity	79,062,820	81,181,643
Non-controlling interests	<u>(9,348,274)</u>	<u>(9,703,719)</u>
	\$ <u>69,714,546</u>	\$ <u>71,477,924</u>
Proportion of the Group's ownership	16.80%	16.80%
Equity attributable to the Group	\$ 11,712,044	\$ 12,008,291
Cross shareholdings	(473,805)	(455,615)
Unrealized gain on sidestream transactions	<u>3,285</u>	<u>3,285</u>
Carrying amount	\$ <u>11,241,524</u>	\$ <u>11,555,961</u>
	For the Year Ended December 31	
	2016	2015
Operating revenue	\$ <u>112,166,685</u>	\$ <u>122,525,821</u>
Net profit for the year	\$ 1,779,223	\$ 3,919,292
Other comprehensive loss	<u>(1,928,172)</u>	<u>(907,689)</u>
Total comprehensive income (loss) for the year	\$ <u>(148,949)</u>	\$ <u>3,011,603</u>
Dividends received from Yulon	\$ <u>236,005</u>	\$ <u>183,560</u>

Financial Highlights

2) Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2016	2015
The Group's share of:		
Net profit for the year	\$ 526,129	\$ 635,529
Other comprehensive loss	<u>(213,409)</u>	<u>(129,436)</u>
Total comprehensive income for the year	<u>\$ 312,720</u>	<u>\$ 506,093</u>

Above associates are accounted for using the equity method.

Investments in associates that are not individually material were accounted for using the equity method although the Group had less than 20% interest because the Group exercised significant influence on their major transactions or had the same president of the board.

Investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments was based on the associates' financial statements audited by the auditor for the same year.

b. Investments in joint ventures

	December 31	
	2016	2015
Joint ventures that are not individually material	<u>\$ 6,147,929</u>	<u>\$ 6,118,470</u>

Aggregate information of joint ventures that are not individually material:

	For the Year Ended December 31	
	2016	2015
The Group's share of:		
Net profit of the year	\$ 712,995	\$ 87,742
Other comprehensive loss	<u>(489,207)</u>	<u>(105,574)</u>
Total comprehensive income (loss) for the year	<u>\$ 223,788</u>	<u>\$ (17,832)</u>

All the joint ventures are accounted for using the equity method.

Investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments was based on the joint ventures' financial statements audited by the auditor for the same year.

Financial Highlights

16. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery	Other Equipment	Construction in Progress	Total
Cost							
Balance at January 1, 2015	\$ 2,125,129	\$ 105,157	\$ 4,799,703	\$ 24,247,524	\$ 1,786,519	\$ 749,243	\$ 33,813,275
Additions	-	-	3,349	12,686	36,418	898,289	950,742
Disposals	-	-	-	(394,700)	(99,770)	-	(494,470)
Reclassification	-	10,050	122,100	885,088	42,385	(1,065,960)	(6,337)
Effect of foreign currency exchange differences	-	1	(11,104)	(23,144)	2,072	(1,205)	(33,380)
Balance at December 31, 2015	<u>\$ 2,125,129</u>	<u>\$ 115,208</u>	<u>\$ 4,914,048</u>	<u>\$ 24,727,454</u>	<u>\$ 1,767,624</u>	<u>\$ 580,367</u>	<u>\$ 34,229,830</u>
Accumulated depreciation and impairment							
Balance at January 1, 2015		\$ 94,882	\$ 3,461,671	\$ 22,336,200	\$ 1,429,790	\$ -	\$ 27,322,543
Disposals		-	-	(391,667)	(50,454)	-	(442,121)
Depreciation expense		2,563	135,347	622,477	76,540	-	836,927
Reclassification		235	(3,983)	(21,316)	21,316	-	(3,748)
Effect of foreign currency exchange differences		-	(2,732)	(27,198)	3,036	-	(26,894)
Balance at December 31, 2015		<u>\$ 97,680</u>	<u>\$ 3,590,303</u>	<u>\$ 22,518,496</u>	<u>\$ 1,480,228</u>	<u>\$ -</u>	<u>\$ 27,686,707</u>
Carrying amounts at December 31, 2015	<u>\$ 2,125,129</u>	<u>\$ 17,528</u>	<u>\$ 1,323,745</u>	<u>\$ 2,208,958</u>	<u>\$ 287,396</u>	<u>\$ 580,367</u>	<u>\$ 6,543,123</u>
Cost							
Balance at January 1, 2016	\$ 2,125,129	\$ 115,208	\$ 4,914,048	\$ 24,727,454	\$ 1,767,624	\$ 580,367	\$ 34,229,830
Additions	-	-	6,915	22,425	92,800	718,831	840,971
Disposals	-	(3,227)	(9,165)	(956,318)	(85,795)	-	(1,054,505)
Reclassification	2,268	3,105	31,256	670,614	73,844	(778,819)	2,268
Effect of foreign currency exchange differences	-	-	(45,663)	(42,877)	(5,465)	(17,289)	(111,294)
Balance at December 31, 2016	<u>\$ 2,127,397</u>	<u>\$ 115,086</u>	<u>\$ 4,897,391</u>	<u>\$ 24,421,298</u>	<u>\$ 1,843,008</u>	<u>\$ 503,090</u>	<u>\$ 33,907,270</u>
Accumulated depreciation and impairment							
Balance at January 1, 2016		\$ 97,680	\$ 3,590,303	\$ 22,518,496	\$ 1,480,228	\$ -	\$ 27,686,707
Disposals		(3,224)	(9,069)	(945,208)	(60,346)	-	(1,017,847)
Depreciation expense		5,702	137,788	652,133	70,398	-	866,021
Reclassification		-	-	66	(66)	-	-
Impairment losses		-	4,218	-	-	-	4,218
Effect of foreign currency exchange differences		-	(20,221)	(40,778)	(3,273)	-	(64,272)
Balance at December 31, 2016		<u>\$ 100,158</u>	<u>\$ 3,703,019</u>	<u>\$ 22,184,709</u>	<u>\$ 1,486,941</u>	<u>\$ -</u>	<u>\$ 27,474,827</u>
Carrying amounts at December 31, 2016	<u>\$ 2,127,397</u>	<u>\$ 14,928</u>	<u>\$ 1,194,372</u>	<u>\$ 2,236,589</u>	<u>\$ 356,067</u>	<u>\$ 503,090</u>	<u>\$ 6,432,443</u>

A fire occurred in the Group's subsidiary, Kian Shen, in May 2016. The Group recognized a property, plant and equipment retirement loss of \$7,920 thousand (included in other expenses) and a factory impairment loss of \$4,218 thousand for the year ended December 31, 2016. Refer to Note 30.

Except for tooling (included in machinery), which is depreciated on an expected production quantity basis, the above items of property, plant and equipment were depreciated on a straight-line basis over their estimated useful lives as follows:

Category	Year
Land improvements	3-20 years
Buildings	2-60 years
Machinery	2-24 years
Other equipment	2-20 years

Financial Highlights

Property, plant and equipment pledged as collateral for bank borrowing are set out in Note 28.

17. INVESTMENT PROPERTIES

Cost

Balance at January 1, 2015	\$ 1,816,547
Reclassification	<u>6,337</u>

Balance at December 31, 2015	<u>\$ 1,822,884</u>
------------------------------	---------------------

Accumulated depreciation and impairment

Balance at January 1, 2015	\$ 374,690
Reclassification	3,748
Depreciation expense	<u>15,502</u>

Balance at December 31, 2015	<u>\$ 393,940</u>
------------------------------	-------------------

Carrying amounts at December 31, 2015	<u>\$ 1,428,944</u>
---------------------------------------	---------------------

Cost

Balance at January 1, 2016	\$ 1,822,884
Reclassification	<u>(2,268)</u>

Balance at December 31, 2016	<u>\$ 1,820,616</u>
------------------------------	---------------------

Accumulated depreciation and impairment

Balance at January 1, 2016	\$ 393,940
Depreciation expense	<u>15,663</u>

Balance at December 31, 2016	<u>\$ 409,603</u>
------------------------------	-------------------

Carrying amounts at December 31, 2016	<u>\$ 1,411,013</u>
---------------------------------------	---------------------

The investment properties held by the Group were depreciated over their estimated 10-60 years useful lives, using the straight-line method.

The fair value of investment properties of the Group were \$2,288,404 thousand and \$2,342,650 thousand as of December 31, 2016 and 2015, respectively. Except for a part of investment properties appraised by the independent valuer, Po Hung Chen, as of December 31, 2016 and 2015, others as of December 31, 2016 and 2015 were appraised by the Group's management using the valuation model, which other market participants frequently use. The valuation from management was arrived at by reference to market evidence of transaction prices for similar properties. The independent valuer's valuation referenced the weighted analysis of cost and revenue method, and assumed a discount rate of 3.04% and 3.18% as of December 31, 2016 and 2015, respectively, and a capitalization rate of 2.24% as of both dates.

For the amount of investment properties pledged as deposits for certain projects, refer to Note 28.

Financial Highlights

18. SHORT-TERM BORROWINGS

	<u>December 31</u>	
	2016	2015
Bank loans	\$ 415,000	\$ 365,000
Line of credit borrowings	<u>353,000</u>	<u>380,940</u>
	<u>\$ 768,000</u>	<u>\$ 745,940</u>

- a. The range of interest rate on bank loans was 1.20%-1.42% and 1.30%-1.68% per annum as of December 31, 2016 and 2015, respectively.
- b. The range of interest rate on credit borrowings was 0.99%-1.54% and 1.10%-4.35% per annum as of December 31, 2016 and 2015, respectively.

19. OTHER PAYABLES

	<u>December 31</u>	
	2016	2015
Payable for salaries or bonus	\$ 1,367,430	\$ 1,212,217
Payable for warranties	218,465	210,325
Payable for taxes	165,898	179,538
Provisions for employee benefits	124,343	101,051
Payable for development costs	80,327	136,196
Others	<u>1,171,349</u>	<u>1,104,276</u>
	<u>\$ 3,127,812</u>	<u>\$ 2,943,603</u>

20. RETIREMENT BENEFIT PLANS

- a. Defined contribution plans

The Corporation and Kian Shen, China Engine, Advance Power Machinery, Sino Diamond Motors, Brilliant Insight International, COC, Y.M. Hi-Tech, Gatetech Technology and Ling Wei of the Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of the Group's subsidiaries in China are members of a state-managed retirement benefit plan operated by the government of China. The subsidiary is required to contribute a specified percentage of payroll costs per month to the retirement benefit scheme to fund the benefits.

- b. Defined benefit plans

The defined benefit plan adopted by the Corporation and Kian Shen, China Engine, Sino Diamond Motors, COC, Y.M. Hi-Tech and Gatetech Technology of the Group in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Group contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for

Financial Highlights

employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group’s defined benefit plans were as follows:

	December 31	
	2016	2015
Present value of defined benefit obligation	\$ 2,512,855	\$ 2,312,467
Fair value of plan assets	<u>(1,140,929)</u>	<u>(134,803)</u>
Net defined benefit liability	<u>\$ 1,371,926</u>	<u>\$ 2,177,664</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2015	\$ <u>2,232,927</u>	\$ <u>(147,356)</u>	\$ <u>2,085,571</u>
Service cost			
Current service cost	49,351	-	49,351
Past service cost	18,570	-	18,570
Net interest expense (income)	<u>41,882</u>	<u>(3,090)</u>	<u>38,792</u>
Recognized in loss (profit)	<u>109,803</u>	<u>(3,090)</u>	<u>106,713</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(553)	(553)
Actuarial loss - changes in demographic assumptions	13,584	-	13,584
Actuarial loss - changes in financial assumptions	69,277	-	69,277
Actuarial loss - experience adjustments	<u>22,375</u>	<u>-</u>	<u>22,375</u>
Recognized in other comprehensive income	<u>105,236</u>	<u>(553)</u>	<u>104,683</u>
Contributions from the employer	-	(34,287)	(34,287)
Benefits paid	(50,483)	50,483	-
Portion of benefits paid by the Corporation	<u>(85,016)</u>	<u>-</u>	<u>(85,016)</u>
Balance at December 31, 2015	<u>2,312,467</u>	<u>(134,803)</u>	<u>2,177,664</u>
Service cost			
Current service cost	48,819	-	48,819
Past service cost	10,527	-	10,527
Net interest expense (income)	<u>37,477</u>	<u>(2,481)</u>	<u>34,996</u>
Recognized in loss (profit)	<u>96,823</u>	<u>(2,481)</u>	<u>94,342</u>

(Continued)

Financial Highlights

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ (4,165)	\$ (4,165)
Actuarial loss - changes in demographic assumptions	8,886	-	8,886
Actuarial loss - changes in financial assumptions	158,079	-	158,079
Actuarial loss - experience adjustments	<u>51,832</u>	<u>-</u>	<u>51,832</u>
Recognized in other comprehensive income	<u>218,797</u>	<u>(4,165)</u>	<u>214,632</u>
Contributions from the employer	-	(1,060,904)	(1,060,904)
Benefits paid	(61,424)	61,424	-
Portion of benefits paid by the Corporation	<u>(53,808)</u>	<u>-</u>	<u>(53,808)</u>
Balance at December 31, 2016	<u>\$ 2,512,855</u>	<u>\$ (1,140,929)</u>	<u>\$ 1,371,926</u> (Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	For the Year Ended December 31	
	2016	2015
Operating costs	\$ 54,080	\$ 61,635
Selling and marketing expenses	3,007	4,009
General and administrative expenses	7,360	8,478
Research and development expenses	<u>28,457</u>	<u>30,822</u>
	<u>\$ 92,904</u>	<u>\$ 104,944</u>

The amount of disbursement of defined benefit plans of associates is \$1,438 thousand and \$1,769 thousand in 2016 and 2015, respectively.

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) **Investment risk:** The plan assets are invested in domestic (foreign) equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) **Interest risk:** A decrease in the bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) **Salary risk:** The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

Financial Highlights

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2016	2015
Discount rate	1%-1.7%	1.375%-1.75%
Expected rate of salary increase	1%-2.5%	1%-2.5%

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:

	December 31	
	2016	2015
Discount rate		
0.25% increase	<u>\$ (72,781)</u>	<u>\$ (68,598)</u>
0.25% decrease	<u>\$ 75,813</u>	<u>\$ 71,510</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 74,453</u>	<u>\$ 70,577</u>
0.25% decrease	<u>\$ (71,829)</u>	<u>\$ (68,023)</u>

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.

	December 31	
	2016	2015
The expected contributions to the plan for the next year	<u>\$ 327,264</u>	<u>\$ 1,044,269</u>
The average duration of the defined benefit obligation	9.3-18 years	9.4-19 years

21. EQUITY

a. Ordinary shares

	December 31	
	2016	2015
Numbers of shares authorized (in thousands)	<u>1,800,000</u>	<u>1,800,000</u>
Amount of shares authorized	<u>\$ 18,000,000</u>	<u>\$ 18,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>1,384,051</u>	<u>1,384,051</u>
Shares issued	<u>\$ 13,840,508</u>	<u>\$ 13,840,508</u>

Fully paid ordinary shares, which have a par value of NT\$10, carry one vote per share and carry a right to dividends.

Financial Highlights

b. Capital surplus

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note 1)</u>		
Conversion of bonds	\$ 5,183,923	\$ 5,183,923
Issuance of ordinary shares	1,184,920	1,184,920
Others	4,666	4,666
<u>May be used to offset a deficit only</u>		
Changes in percentage of ownership interest in subsidiaries (Note 2)	2,225	2,225
Share of changes in capital surplus of associates	<u>31,486</u>	<u>29,172</u>
	<u>\$ 6,407,220</u>	<u>\$ 6,404,906</u>

Note 1: Such capital surplus may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and once a year).

Note 2: Such capital surplus arises from the effect of changes in ownership interest in a subsidiary resulted from equity transactions other than actual disposal or acquisition, or from changes in capital surplus of subsidiaries accounted for using equity method.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting in June 2016 and, in that meeting, had resolved amendments to the Corporation's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes and offsetting losses of previous years, then for setting aside as legal reserve 10% of the remaining profit. If there is remaining profit, the profit shall be utilized for setting aside a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution. For the policies on distribution of employees' compensation and remuneration of directors after amendment, refer to Note 22.

The operating of the Corporation is considered as a mature and steady industry. In determining dividend amounts, the Corporation takes its future capital expenditures and related factors into account and also seeks to uphold the shareholders' interests and realize the Corporation's long-term financial plan. Dividends are distributed no less than 40% of profits after tax, yet dividends cannot be distributed if the Corporation has deficit. Dividends are in the form of cash or stock. The Corporation's policy is that cash dividends should be at least 20% of total dividends.

Appropriation of earnings to the legal reserve shall be made until the legal reserve equals the Corporation's paid-in capital. The legal reserve may be used to offset deficits. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

Financial Highlights

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs” should be appropriated to or reserved from a special reserve by the Corporation.

All shareholders receiving the dividends are not allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation when appropriating the earnings before 1997. Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation when appropriating the earnings after 1998.

The appropriations of earnings for 2015 and 2014 approved in the shareholders’ meetings in June 2016 and 2015 respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For Year 2015</u>	<u>For Year 2014</u>	<u>For Year 2015</u>	<u>For Year 2014</u>
Legal reserve	\$ 316,610	\$ 255,829	\$ -	\$ -
Cash dividends	2,076,076	1,591,658	1.50	1.15

Information on the bonus to employees and the remuneration of directors and supervisors approved in the shareholders’ meetings is available on the Market Observation Post System website of the Taiwan Stock Exchange.

The appropriation of earnings for 2016 had been proposed by the Corporation’s board of directors on March 27, 2017. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>	<u>Dividends Per Share (NT\$)</u>
Legal reserve	\$ 318,910	\$ -
Cash dividends	2,214,481	1.6

The appropriation of earnings for 2016 are subject to the resolution in the shareholders’ meeting to be held in June 2017.

d. Special reserves

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Beginning at January 1	\$ 1,051,673	\$ 1,057,002
Reversal:		
Disposal of property, plant and equipment	(15)	(14)
Disposal of subsidiaries and associates	<u>-</u>	<u>(5,315)</u>
Balance at December 31	<u>\$ 1,051,658</u>	<u>\$ 1,051,673</u>

Financial Highlights

e. Others equity items

1) Exchange differences on translating foreign operations

	2016	2015
Balance at January 1	\$ 571,137	\$ 750,561
Exchange differences arising on translating the financial statements of foreign operations	13,927	(8,250)
Share of exchange differences of associates and joint ventures accounted for using the equity method	<u>(853,122)</u>	<u>(171,174)</u>
Balance at December 31	<u>\$ (268,058)</u>	<u>\$ 571,137</u>

2) Unrealized gain (loss) on revaluation of available-for-sale financial assets

	2016	2015
Balance at January 1	\$ 897,338	\$1,035,801
Unrealized loss arising on revaluation of available-for-sale financial assets	(54,531)	(53,552)
Share of unrealized gain (loss) on revaluation of available-for-sale financial assets of associates and joint ventures accounted for using the equity method	<u>8,177</u>	<u>(84,911)</u>
Balance at December 31	<u>\$ 850,984</u>	<u>\$ 897,338</u>

3) Total gain (loss) on effective portion of cash flow hedges

	2016	2015
Balance at January 1	\$ 1,402	\$ -
Transferred to initial carrying amount of hedged items		
Foreign exchange rate swaps	(19,326)	-
Foreign exchange forward contracts	(16,864)	1,689
Related income tax	<u>6,153</u>	<u>(287)</u>
Balance at December 31	<u>\$ (28,635)</u>	<u>\$ 1,402</u>

f. Non-controlling interests

	2016	2015
Balance at January 1	\$ 3,143,866	\$ 2,957,912
Attributable to non-controlling interests:		
Share of profit for the year	408,272	338,584
Exchange difference arising on translation of foreign entities	(170,235)	(37,807)
Remeasurement on defined benefit plans	(5,732)	(9,270)
Related income tax	961	1,576
Acquisition of non-controlling interests in subsidiaries	-	(16,200)
Cash dividends to subsidiaries' shareholders	<u>(77,425)</u>	<u>(90,929)</u>
Balance at December 31	<u>\$ 3,299,707</u>	<u>\$ 3,143,866</u>

Financial Highlights

22. NET PROFIT

Net profit concludes as follow:

a. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
An analysis of depreciation by function		
Operating costs	\$ 745,653	\$ 718,399
Operating expenses	<u>136,031</u>	<u>134,030</u>
	<u>\$ 881,684</u>	<u>\$ 852,429</u>
An analysis of amortization by function		
Operating cost	\$ 8,756	\$ 5,804
Operating expenses	<u>63,439</u>	<u>61,471</u>
	<u>\$ 72,195</u>	<u>\$ 67,275</u>
An analysis of amortization in intangible assets by function		
Research and development expenses	<u>\$ 37,808</u>	<u>\$ 37,808</u>

b. Rental income and operating expenses directly related to investment properties

	For the Year Ended December 31	
	2016	2015
Rental income from investment properties	<u>\$ 63,877</u>	<u>\$ 63,121</u>
Direct operating expenses from investment properties that generated rental income	<u>\$ 23,352</u>	<u>\$ 21,936</u>

c. Employee benefits expense

	For the Year Ended December 31	
	2016	2015
Post-employment benefits		
Defined contribution plans	\$ 85,897	\$ 83,212
Defined benefit plans	<u>92,904</u>	<u>104,944</u>
	178,801	188,156
Short-term benefits	<u>4,117,480</u>	<u>3,903,347</u>
	<u>\$ 4,296,281</u>	<u>\$ 4,091,503</u>
An analysis of employee benefits expenses by function		
Operating costs	\$ 2,364,867	\$ 2,242,535
Operating expenses	<u>1,931,414</u>	<u>1,848,968</u>
	<u>\$ 4,296,281</u>	<u>\$ 4,091,503</u>

Financial Highlights

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Corporation approved by the shareholders in their meeting in June 2016, the Corporation accrued employees' compensation and remuneration of directors at the rates no less than 0.1% and no higher than 0.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors (including directors with the term of service ended on June 30, 2016). The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Corporation's board of directors in March 2017 and 2016, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2016	2015
Employees' compensation	0.52%	0.60%
Remuneration of directors and supervisors	0.50%	0.50%

Amount

	For the Year Ended December 31	
	2016	2015
	Cash	Cash
Employees' compensation	\$ 18,426	\$ 21,054
Remuneration of directors and supervisors	17,822	17,468

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

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

Information on the employees' compensation and remuneration of directors and supervisors for 2015 resolved by the Corporation's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

The bonuses to employees and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meetings in June 2015, were as follows:

	For the Year Ended December 31, 2014
	Cash
Bonus to employees	\$ 12,876
Remuneration of directors and supervisors	11,512

There was no difference between the amounts of bonus to employees and the remuneration of directors and supervisors approved in the shareholders' meetings in June 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2014.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the shareholders' meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

Financial Highlights

23. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current year	\$ 304,433	\$ 319,728
Adjustments for the prior years	<u>(79)</u>	<u>(10,114)</u>
	<u>304,354</u>	<u>309,614</u>
Deferred tax		
In respect of the current year	195,535	76,927
Adjustments for the prior years	<u>(4,932)</u>	<u>-</u>
	<u>190,603</u>	<u>76,927</u>
Income tax expense recognized in profit or loss	<u>\$ 494,957</u>	<u>\$ 386,541</u>

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year Ended December 31	
	2016	2015
Profit before tax	<u>\$ 4,092,329</u>	<u>\$ 3,891,229</u>
Income tax expense calculated at the tax rate (17%)	\$ 695,696	\$ 661,509
Tax-exempt income	(162,306)	(172,813)
Additional income tax on unappropriated earnings	88,298	93,280
Unrecognized deductible temporary differences	(53,323)	(213,529)
Investment credits	(75,390)	(78,036)
Unrecognized loss carryforwards	324	33,864
Effect of different tax rate of group entities operating in other jurisdictions	17,749	55,799
Adjustments for prior years' tax	(5,011)	(10,114)
Others	<u>(11,080)</u>	<u>16,581</u>
Income tax expense recognized in profit or loss	<u>\$ 494,957</u>	<u>\$ 386,541</u>

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

As the status of the 2017 appropriation of earnings is uncertain, the potential income tax consequences of the 2016 unappropriated earnings are not reliably determinable.

Financial Highlights

b. Income tax recognized in other comprehensive income

	<u>For the Year Ended December 31</u>	
	2016	2015
<u>Deferred tax</u>		
Remeasurement on defined benefit plans	\$ 36,462	\$ 17,796
Total gain (loss) on effective portion of cash flow hedges	<u>6,153</u>	<u>(287)</u>
Total income tax recognized in other comprehensive income	<u>\$ 42,615</u>	<u>\$ 17,509</u>

c. Current tax assets and liabilities

	<u>December 31</u>	
	2016	2015
<u>Current tax assets (included in other current assets)</u>		
Tax refund receivable	\$ 13,307	\$ 6,179
Prepaid income tax	<u>9,173</u>	<u>109</u>
	<u>\$ 22,480</u>	<u>\$ 6,288</u>
<u>Current tax liabilities</u>		
Income tax payable	<u>\$ 214,133</u>	<u>\$ 221,593</u>

d. 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

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Closing Balance
<u>Deferred tax assets</u>					
Temporary difference					
Defined benefit plans	\$ 343,237	\$ (172,874)	\$ 36,462	\$ -	\$ 206,825
Other payables	40,865	5,749	-	-	46,614
Inventories	21,209	1,332	-	-	22,541
Others	<u>17,026</u>	<u>20,951</u>	<u>5,866</u>	-	<u>43,843</u>
	422,337	(144,842)	42,328	-	319,823
Loss carryforwards	<u>63,971</u>	<u>14,437</u>	-	-	<u>78,408</u>
	<u>\$ 486,308</u>	<u>\$ (130,405)</u>	<u>\$ 42,328</u>	<u>\$ -</u>	<u>\$ 398,231</u>
<u>Deferred tax liabilities</u>					
Temporary difference					
Reserve for land value increment tax	\$ 69,799	\$ -	\$ -	\$ -	\$ 69,799
Unappropriated earnings of investments accounted for using the equity method	47,918	64,682	-	(2,967)	109,633
Others	<u>7,269</u>	<u>(4,484)</u>	<u>(287)</u>	<u>2</u>	<u>2,500</u>
	<u>\$ 124,986</u>	<u>\$ 60,198</u>	<u>\$ (287)</u>	<u>\$ (2,965)</u>	<u>\$ 181,932</u>

Financial Highlights

For the year ended December 31, 2015

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Closing Balance
<u>Deferred tax assets</u>					
Temporary difference					
Defined benefit plans	\$ 327,583	\$ (2,142)	\$ 17,796	\$ -	\$ 343,237
Other payables	36,029	4,836	-	-	40,865
Inventories	22,452	(1,243)	-	-	21,209
Others	<u>52,471</u>	<u>(35,445)</u>	<u>-</u>	<u>-</u>	<u>17,026</u>
	438,535	(33,994)	17,796	-	422,337
Loss carryforwards	<u>50,395</u>	<u>(50,366)</u>	<u>-</u>	<u>63,942</u>	<u>63,971</u>
	<u>\$ 488,930</u>	<u>\$ (84,360)</u>	<u>\$ 17,796</u>	<u>\$ 63,942</u>	<u>\$ 486,308</u>
<u>Deferred tax liabilities</u>					
Temporary difference					
Reserve for land value increment tax	\$ 69,799	\$ -	\$ -	\$ -	\$ 69,799
Unappropriated earnings of investments accounted for using the equity method	46,618	2,149	-	(849)	47,918
Others	<u>16,564</u>	<u>(9,582)</u>	<u>287</u>	<u>-</u>	<u>7,269</u>
	<u>\$ 132,981</u>	<u>\$ (7,433)</u>	<u>\$ 287</u>	<u>\$ (849)</u>	<u>\$ 124,986</u>

- e. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the balance sheets

	<u>For the Year Ended December 31</u>	
	2016	2015
Loss carryforwards		
Expiry in 2017	\$ 123,319	\$ 125,129
Expiry in 2018	255,854	255,854
Expiry in 2019	121,375	121,375
Expiry in 2020	317,499	322,794
Expiry in 2021	412,710	444,912
Expiry in 2022	171,848	171,883
Expiry in 2023	91,783	91,783
Expiry in 2024	56,417	57,137
Expiry in 2025	253,288	234,665
Expiry in 2026	<u>10,251</u>	<u>-</u>
	<u>\$ 1,814,344</u>	<u>\$ 1,825,532</u>
Deductible temporary differences	<u>\$ 2,145,116</u>	<u>\$ 2,314,222</u>

Financial Highlights

f. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2016 comprised of:

Unused Amount	Expiry Year
\$ 123,319	2017
661,170	2018
121,375	2019
317,499	2020
412,710	2021
171,848	2022
91,783	2023
56,417	2024
253,288	2025
<u>66,157</u>	2026
<u>\$ 2,275,566</u>	

g. The aggregate amount of temporary difference associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2016 and 2015, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were \$445,804 thousand and \$441,351 thousand, respectively.

h. Integrated income tax

	December 31	
	2016	2015
Unappropriated earnings		
Generated before January 1, 1998	\$ 4,328,589	\$ 4,342,276
Generated on and after January 1, 1998	<u>15,071,006</u>	<u>14,554,332</u>
	<u>\$ 19,399,595</u>	<u>\$ 18,896,608</u>
Shareholder-imputed credit accounts (“ICA”)	<u>\$ 2,037,910</u>	<u>\$ 1,946,054</u>

The creditable ratios for the distribution of earnings of the Corporation of 2016 and 2015 were 14.38% (expected ratio) and 15.08% (actual ratio), respectively. Based on the revised Article 66-6 of the Income Tax Law that will take effect on January 1, 2015, the creditable ratio for individual shareholders residing in the ROC will be half of the original creditable ratio.

Under the Income Tax Law, for distribution of earnings generated after January 1, 1998, the imputation credits allocated to ROC resident shareholders of the Corporation was calculated based on the creditable ratio as of the date of dividends distribution. The actual imputation credits allocated to shareholders of the Corporation was based on the balance of ICA as of the date of dividends distribution. Therefore, the expected creditable ratio for the 2016 earnings may differ from the actual creditable ratio to be used in allocating imputation credits to the shareholders.

i. Income tax assessments

The tax returns of the Corporation through 2013 have been assessed by the tax authorities.

Financial Highlights

24. EARNINGS PER SHARE

	For the Year Ended December 31	
	2016	2015
Basic earnings per share	<u>\$ 2.34</u>	<u>\$ 2.32</u>
Diluted earnings per share	<u>\$ 2.34</u>	<u>\$ 2.32</u>

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

Net Profit for the Year

	For the Year Ended December 31	
	2016	2015
Profit for the year of the Corporation	<u>\$ 3,189,100</u>	<u>\$ 3,166,104</u>

Weighted Average Number of Ordinary Shares Outstanding (In Thousand Shares)

	For the Year Ended December 31	
	2016	2015
Weighted average number of ordinary shares in computation of basic earnings per share		
Weighted average number of ordinary shares	1,384,051	1,384,051
Adjustment for associates holding shares	<u>(20,599)</u>	<u>(20,599)</u>
	1,363,452	1,363,452
Effect of potentially dilutive ordinary shares		
Employees' compensation	<u>936</u>	<u>1,235</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>1,364,388</u>	<u>1,364,687</u>

When calculating EPS, the Corporation considers the shares which associates hold as the treasury shares to reduce the outstanding shares.

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

25. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged in the future.

Financial Highlights

26. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

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

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2016

	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Financial assets at FVTPL				
Non-derivative financial assets held for trading	\$ 15,041	\$ -	\$ 812	\$ 15,853
Available-for-sale financial assets				
Listed securities - ROC	\$ 112,132	\$ -	\$ -	\$ 112,132
Unlisted securities - ROC	-	-	732,680	732,680
Mutual funds	731,135	-	-	731,135
	<u>\$ 843,267</u>	<u>\$ -</u>	<u>\$ 732,680</u>	<u>\$ 1,575,947</u>
Derivative financial assets for hedging				
Derivative financial instruments (included in other current assets)	\$ -	\$ -	\$ 1,371	\$ 1,371
<u>Financial liabilities</u>				
Derivative financial liabilities for hedging				
Derivative financial instruments (included in other current liabilities)	\$ -	\$ -	\$ 16,546	\$ 16,546

Financial Highlights

December 31, 2015

	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Financial assets at FVTPL				
Derivative financial instruments	\$ 61,103	\$ -	\$ 1,913	\$ 63,016
Non-derivative financial assets held for trading	<u>277,960</u>	<u>-</u>	<u>-</u>	<u>277,960</u>
	<u>\$ 339,063</u>	<u>\$ -</u>	<u>\$ 1,913</u>	<u>\$ 340,976</u>
Available-for-sale financial assets				
Listed securities - ROC	\$ 57,754	\$ -	\$ -	\$ 57,754
Unlisted securities - ROC	119,195	-	725,538	844,733
Mutual funds	<u>734,854</u>	<u>-</u>	<u>-</u>	<u>734,854</u>
	<u>\$ 911,803</u>	<u>\$ -</u>	<u>\$ 725,538</u>	<u>\$ 1,637,341</u>
Derivative financial assets for hedging				
Derivative financial instruments (included in other current assets)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,916</u>	<u>\$ 1,916</u>
<u>Financial liabilities</u>				
Financial liabilities at FVTPL				
Derivative financial instruments (included in other current liabilities)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 299</u>	<u>\$ 299</u>
Derivative financial liabilities for hedging				
Derivative financial instruments (included in other current liabilities)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 227</u>	<u>\$ 227</u>

There were no transfers between Levels 1 and 2 in the current and prior periods.

Financial Highlights

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2016

Financial Assets	Financial Instruments at Fair Value Through Profit or Loss Derivatives	Available-for-sale Financial Assets	Derivative Financial Instruments for Hedging	Total
Balance at January 1	\$ 1,913	\$ 725,538	\$ 1,916	\$ 729,367
Recognized in profit or loss	(1,101)	-	(1,916)	(3,017)
Recognized in other comprehensive income	<u>-</u>	<u>7,142</u>	<u>1,371</u>	<u>8,513</u>
Balance at December 31	<u>\$ 812</u>	<u>\$ 732,680</u>	<u>\$ 1,371</u>	<u>\$ 734,863</u>

Financial Liabilities	Financial Instruments at Fair Value Through Profit or Loss Derivatives	Derivative Financial Instruments for Hedging	Total
Balance at January 1	\$ 299	\$ 227	\$ 526
Recognized in profit or loss	(299)	(227)	(526)
Recognized in other comprehensive income	<u>-</u>	<u>16,546</u>	<u>16,546</u>
Balance at December 31	<u>\$ -</u>	<u>\$ 16,546</u>	<u>\$ 16,546</u>

For the year ended December 31, 2015

Financial Assets	Financial Instruments at Fair Value Through Profit or Loss Derivatives	Available-for-sale Financial Assets	Derivative Financial Instruments for Hedging	Total
Balance at January 1	\$ 56	\$ 667,025	\$ -	\$ 667,081
Recognized in profit or loss	1,857	-	-	1,857
Recognized in other comprehensive income	<u>-</u>	<u>58,513</u>	<u>1,916</u>	<u>60,429</u>
Balance at December 31	<u>\$ 1,913</u>	<u>\$ 725,538</u>	<u>\$ 1,916</u>	<u>\$ 729,367</u>

Financial Highlights

Financial Liabilities	Financial Instruments at Fair Value Through Profit or Loss Derivatives	Derivative Financial Instruments for Hedging	Total
Balance at January 1	\$ -	\$ -	\$ -
Recognized in profit or loss	299	-	299
Recognized in other comprehensive income	<u>-</u>	<u>227</u>	<u>227</u>
Balance at December 31	<u>\$ 299</u>	<u>\$ 227</u>	<u>\$ 526</u>

- 3) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement
- a) Derivative financial instruments: The fair values of warrants are determined using option pricing models where the significant unobservable inputs are historical volatility. An increase in the historical volatility used in isolation would result in an increase in the fair value.
 - b) Derivative financial instruments: The fair values of foreign exchange rate swaps and foreign exchange forward contracts of future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
 - c) Domestic unlisted securities to which the market approach was applied: The fair values of domestic unlisted shares were determined using the P/E (price-earnings) ratio and the P/B (price-to-book) ratio while referring to stock prices of listed companies with operating activities that were similar to those of the Corporation. The material unobservable inputs were as follows:

	December 31	
	2016	2015
P/E ratio	13.83-21.65 times	14.85-20.87 times
P/B ratio	1.72-2.31 times	1.44-1.65 times
Discount rate for lack of marketability	20%	20%

If the inputs to the valuation model were changed to reflect reasonably possible alternative assumptions while all the other variables were held constant, the fair values of the shares would have increased (decreased) as follows:

	December 31	
	2016	2015
P/E ratio		
1 time increase	<u>\$ 55,161</u>	<u>\$ 56,896</u>
1 time decrease	<u>\$ (55,161)</u>	<u>\$ (56,896)</u>
P/B ratio		
0.1 time increase	<u>\$ 73,268</u>	<u>\$ 72,554</u>
0.1 time decrease	<u>\$ (73,268)</u>	<u>\$ (72,554)</u>

Financial Highlights

c. Categories of financial instruments

	<u>December 31</u>	
	2016	2015
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	\$ 15,853	\$ 279,873
Designated as at FVTPL	-	61,103
Derivative instruments in designated hedge accounting relationships (included in other current assets)	1,371	1,916
Loans and receivables (Note 1)	19,448,312	18,403,358
Available-for-sale financial assets (Note 2)	1,842,994	1,931,108
<u>Financial liabilities</u>		
Amortized cost (Note 3)	7,297,374	7,074,558
Fair value through profit or loss (FVTPL)		
Held for trading (included in other current liabilities)	-	299
Derivative instruments in designated hedge accounting relationships (included in other current liabilities)	16,546	227

Note 1: The balances included cash and cash equivalents, debt investments with no active market, notes receivable, accounts receivable (related parties included), other receivables, other financial assets (included in other current assets) and guarantee deposits (included in other non-current assets).

Note 2: The balances included the carrying amounts of available-for-sale financial assets and available-for-sale financial assets measured at cost.

Note 3: The balances included short-term borrowings, short-term bills payable, notes payable, accounts payable (related parties included), other payables, current portion of long-term borrowings and deposits received (included in other non-current liabilities).

d. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, accounts receivable, accounts payables and borrowings. Financial risks include market risk, credit risk, and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and other market-related factors.

a) Foreign currency

Holding foreign currency-denominated assets and liabilities exposes the Group to adverse fluctuations of cash flows and the reduction of foreign currency assets due to the exchange rate changes. The Group avoids cash flow risk resulting from the adverse exchange rate changes by using derivative contracts.

Sensitivity analysis

The Group is mainly exposed to the U.S. dollar (USD), Japanese yen (JPY) and Renminbi (RMB).

Financial Highlights

The following table details the Group's sensitivity to a 1% increase and decrease in New Taiwan dollars against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included outstanding foreign currency denominated monetary items and their translation at the end of the reporting period is adjusted for a 1% change in exchange rates. A positive number below indicates an increase in pre-tax profit and equity due to a 1% strengthening of the New Taiwan dollar against the relevant currency. For a 1% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and equity and the balances below would be negative.

	USD to NTD	
	For the Year Ended December 31	
	2016	2015
Loss	\$ (8,512)	\$ (7,764)

	JPY to NTD	
	For the Year Ended December 31	
	2016	2015
Gain	\$ 200	\$ 2,600
Equity	(5,980)	(1,916)

	RMB to NTD	
	For the Year Ended December 31	
	2016	2015
Loss	\$ (21,832)	\$ (21,474)

b) Interest rate risk

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rate risk at the end of the reporting period were as follows:

	December 31	
	2016	2015
Fair value interest rate risk		
Financial assets	\$ -	\$ 61,103
Cash flow interest rate risk		
Financial assets	14,349,092	12,845,348
Financial liabilities	857,977	872,217

Sensitivity analysis

The following sensitivity analysis was based on the Group's exposure to changes in interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. The sensitivity rate of 1% is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Had interest rates been 1% higher and had all other variables been held constant, the Group's pre-tax profit would have increased by \$134,911 thousand in 2016 and \$119,731 thousand in 2015.

Financial Highlights

The Group's sensitivity to interest rates increased during the current year mainly due to the increase in variable rate debt instruments.

c) Other price risk

The Group was exposed to equity price risk on its investments in listed securities, emerging stocks and mutual funds.

Sensitivity analysis

The Group assesses equity price risk using sensitivity analysis.

The following sensitivity analysis was based on the exposure to equity price risk at the end of the reporting period. Had equity prices been 5% lower, the fair values of available-for-sale investments and held-for-trading investments would have decreased by \$42,915 thousand and \$59,488 thousand as of December 31, 2016 and 2015, respectively.

2) Credit risk

The amounts of financial assets were potentially affected by the Group if the counter-parties or third parties breach financial instrument contracts. The affection includes the concentrated degrees, composition parts and contracts amounts of the financial instruments and other receivables. The Group believes the risk is low because the trading parties were creditworthy banks, brokers and dealers.

3) Liquidity risk

The Group has sufficient operating capital to meet cash requirements for settling derivative transactions. Thus, liquidity risk is low.

27. TRANSACTIONS WITH RELATED PARTIES

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

a. Operating transactions

1) Revenue

Related-Party Categories	For the Year Ended December 31	
	2016	2015
Associates	\$ 24,623,771	\$ 23,284,055
Investors that have significant influence over the Group	<u>919,972</u>	<u>590,567</u>
	<u>\$ 25,543,743</u>	<u>\$ 23,874,622</u>

Financial Highlights

2) Purchases of goods

Related-Party Categories	For the Year Ended December 31	
	2016	2015
Associates	\$ 6,671,922	\$ 4,461,093
Investors that have significant influence over the Group	<u>2,204,357</u>	<u>2,278,945</u>
	<u>\$ 8,876,279</u>	<u>\$ 6,740,038</u>

3) Technical service expense (included in cost of goods sold and selling and marketing expenses)

Related-Party Categories	For the Year Ended December 31	
	2016	2015
Investors that have significant influence over the Group	<u>\$ 218,712</u>	<u>\$ 186,423</u>

4) Development expense (included in research and development expenses)

Related-Party Categories	For the Year Ended December 31	
	2016	2015
Investors that have significant influence over the Group	<u>\$ 105,778</u>	<u>\$ 78,799</u>

5) Property, plant and equipment acquired

Related-Party Categories	December 31	
	2016	2015
Associates	<u>\$ 17,635</u>	<u>\$ 88,140</u>

6) Receivables from related parties

Related-Party Categories	December 31	
	2016	2015
Associates	\$ 1,496,603	\$ 1,589,114
Investors that have significant influence over the Group	<u>81,241</u>	<u>46,058</u>
	<u>\$ 1,577,844</u>	<u>\$ 1,635,172</u>

7) Prepayments (included in other current assets)

Related-Party Categories	December 31	
	2016	2015
Associates	\$ 167,853	\$ 231,406
Investors that have significant influence over the Group	<u>11,597</u>	<u>90,173</u>
	<u>\$ 179,450</u>	<u>\$ 321,579</u>

Financial Highlights

8) Payables to related parties

Related-Party Categories	December 31	
	2016	2015
Associates	\$ 657,053	\$ 587,155
Investors that have significant influence over the Group	<u>150,944</u>	<u>157,691</u>
	<u>\$ 807,997</u>	<u>\$ 744,846</u>

9) Deposit in advance (included in other current liabilities)

Related-Party Categories	December 31	
	2016	2015
Associates	\$ 44,310	\$ 59,278
Investors that have significant influence over the Group	<u>24,610</u>	<u>-</u>
	<u>\$ 68,920</u>	<u>\$ 59,278</u>

The outstanding payables to related parties had no guarantees and would be paid in cash. The Group receives guarantees of the receivables from part of the related parties. In addition, the Group did not recognize allowance for doubtful accounts for 2016 and 2015.

Transactions with related parties have the same terms for pricing, receipts and payments as of those for the third parties. Lease contracts with related parties are based on market conditions, and the terms of receipts or payments were the same as those for the third parties.

The Group signed contract with Mitsubishi Motor Corp. (MMC). Refer to Note 29.

b. Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	\$ 155,612	\$ 170,134
Post-employment benefits	<u>3,092</u>	<u>3,402</u>
	<u>\$ 158,704</u>	<u>\$ 173,536</u>

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

28. ASSETS PLEDGED AS COLLATERAL

The following assets were provided as collateral for bank borrowings, the tariff of importing vehicle parts and materials, escrows, government tenders and the deposit of project:

	December 31	
	2016	2015
Property, plant and equipment	\$ 792,304	\$ 798,509
Other current assets	117,333	127,528
Investment properties	<u>52,323</u>	<u>54,591</u>
	<u>\$ 961,960</u>	<u>\$ 980,628</u>

Financial Highlights

29. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant commitments and contingencies of the Group as of December 31, 2016 were as follows:

- a. Guarantee notes amounted to \$5,088,600 thousand, which had been issued to financial institutions as collaterals for loans; unused letters of credit amounted to \$9,953 thousand.
- b. The Group entered into an agreement with Mitsubishi Motor Corporation (MMC) as stated below:

<u>Project</u>	<u>Content</u>	<u>Date of Agreement/ Expiry Date</u>	<u>Agreement Price</u>	<u>Payment</u>
Technical royalty	Technical cooperation and manufacture of Delica, Lancer and other car models	2005.7.1-2025.9.7	Royalty was agreed to be 3% of the FOB price of automobiles sold and manufactured parts repaired	Paid every 6 months within 90 days

- c. The status of endorsements/guarantees was listed in Table 2.

30. SIGNIFICANT LOSSES FROM DISASTERS

On May 3, 2016, units D and G of the factory located in Yangmei District owned by subsidiary Kian Shen were partially damaged by fire. The factory was used for spray painting and was stored with spray booths. For the year ended December 31, 2016, casualty losses recognized were amounted to \$2,695 thousand (including property, plant and equipment retirement loss \$7,920 thousand (included in other expense), factory impairment loss \$4,218 thousand and inventory retirement loss \$1,822 thousand (included in other expense), deducting insurance proceeds \$11,265 thousand (included in other income)).

31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2016

	Foreign Currencies	Exchange Rate (Note)	Carrying Amount
<u>Foreign currency assets</u>			
Monetary items			
USD	\$ 28,778	32.2500	\$ 928,086
RMB	486,198	4.6170	2,244,777
JPY	1,326,386	0.2756	365,552
Non-monetary items			
Joint ventures accounted for using the equity method			
EUR	38,213	33.9000	1,295,405
<u>Foreign currency liabilities</u>			
Monetary items			
JPY	545,863	0.2756	150,440

Financial Highlights

December 31, 2015

	Foreign Currencies	Exchange Rate (Note)	Carrying Amount
<u>Foreign currency assets</u>			
Monetary items			
USD	\$ 27,057	32.8250	\$ 888,156
RMB	433,845	4.9950	2,167,055
Non-monetary items			
Joint ventures accounted for using the equity method			
EUR	35,370	35.8800	1,269,091
<u>Foreign currency liabilities</u>			
Monetary items			
USD	3,406	32.8250	111,800
JPY	967,635	0.2727	263,874

Note: Exchange rate represents the number of N.T. dollars for which one foreign currency could be exchanged, unless stated otherwise.

For the years ended December 31, 2016 and 2015, net foreign exchange losses (realized and unrealized) were \$223,080 thousand and \$12,783 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions.

32. SEPARATELY DISCLOSED ITEMS

Excluded in Notes 7, 9, 26 and Tables 1 to 8, there were no other separately disclosed items.

33. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments were vehicle manufacturing, channel and others.

Financial Highlights

The following was an analysis of the Group's revenue and results by reportable segment.

	Segment Revenues		Segment Income or Loss	
	2016	2015	2016	2015
Vehicle manufacturing	\$ 34,416,875	\$ 32,493,282	\$ 4,322,109	\$ 3,742,870
Channel	6,520,698	4,612,836	(14,734)	(26,151)
Others	84,088	77,675	415	922
Adjustment and eliminations	(288,176)	(299,346)	-	-
	<u>\$ 40,733,485</u>	<u>\$ 36,884,447</u>	<u>4,307,790</u>	<u>3,717,641</u>
Administration cost and remunerations to directors and supervisors			(288,415)	(254,497)
Other non-operating income and expenses, net			72,954	428,085
Profit before income tax			<u>\$ 4,092,329</u>	<u>\$ 3,891,229</u>

Intersegment transactions were accounted for according to market prices.

Segment profit represented the profit before tax earned by each segment without allocation of central administration costs and remunerations to directors and supervisors, interest income, dividend income, other income, gain on disposal of investments, gain on financial instruments at fair value through profit or loss, other expense, net foreign exchange loss, impairment loss, interest expense and income tax expense. This was the measure reported to the chief operating decision maker for resource allocation and assessment of segment performance.

Financial Highlights

TABLE 1

CHINA MOTOR CORPORATION AND SUBSIDIARIES

**FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Year (Note 1)	Ending Balance (Note 1)	Actual Borrowing Amount (Notes 1 and 4)	Interest Rate	Nature of Financing	Business Transaction Amount	Reason for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit
													Item	Value		
0	China Motor Corporation	Sino Diamond Motors	Other receivables	Yes	\$ 500,000	\$ 500,000	\$ -	-	Short-term financing	\$ -	Working capital	\$ -	-	\$ -	\$ 1,482,650 (Note 2)	\$ 9,884,331 (Note 3)
1	Hwa-Lin	Sichuan Huafeng Hanwei	Other receivables	Yes	38,700 (US\$ 1,200 thousand)	38,700 (US\$ 1,200 thousand)	38,700 (US\$ 1,200 thousand)	2	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	63,210 (US\$ 1,960 thousand)	63,210 (US\$ 1,960 thousand)	63,210 (US\$ 1,960 thousand)	2	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Dongguan Huayi	Other receivables	Yes	146,066 (US\$ 3,570 thousand) and (RMB 6,700 thousand)	146,066 (US\$ 3,570 thousand) and (RMB 6,700 thousand)	138,138 (US\$ 3,515 thousand) and (RMB 5,367 thousand)	2-3	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Guangzhou Huayou Motor Sales	Other receivables	Yes	26,317 (RMB 5,700 thousand)	26,317 (RMB 5,700 thousand)	21,377 (RMB 4,630 thousand)	2.5	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Dongguan Huashun	Other receivables	Yes	50,787 (RMB 11,000 thousand)	50,787 (RMB 11,000 thousand)	12,849 (RMB 2,783 thousand)	2.5	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
2	Guangzhou Huayou Motor Maintenance	Guangzhou Huayou Motor Sales	Other receivables	Yes	461,700 (RMB 100,000 thousand)	461,700 (RMB 100,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Tianjin Hwahong	Other receivables	Yes	46,170 (RMB 10,000 thousand)	46,170 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Sichuan Huafeng Hanwei	Other receivables	Yes	46,170 (RMB 10,000 thousand)	46,170 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Dongguan Huashun	Other receivables	Yes	46,170 (RMB 10,000 thousand)	46,170 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Dongguan Huayi	Other receivables	Yes	46,170 (RMB 10,000 thousand)	46,170 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
3	Sichuan Huafeng Hanwei	Sichuan Lingwei	Other receivables	Yes	46,170 (RMB 10,000 thousand)	46,170 (RMB 10,000 thousand)	11,626 (RMB 2,518 thousand)	5.4	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Sichuan Hauwei	Other receivables	Yes	46,170 (RMB 10,000 thousand)	46,170 (RMB 10,000 thousand)	1,108 (RMB 240 thousand)	5.4	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Tianjin Hwahong	Other receivables	Yes	46,170 (RMB 10,000 thousand)	46,170 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	46,170 (RMB 10,000 thousand)	46,170 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)

(Continued)

Financial Highlights

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Year (Note 1)	Ending Balance (Note 1)	Actual Borrowing Amount (Notes 1 and 4)	Interest Rate	Nature of Financing	Business Transaction Amount	Reason for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit
													Item	Value		
		Dongguan Huashun	Other receivables	Yes	\$ 138,510 (RMB 30,000 thousand)	\$ 138,510 (RMB 30,000 thousand)	\$ -	-	Short-term financing	\$ -	Working capital	\$ -	-	\$ -	\$ 1,482,650 (Note 2)	\$ 9,884,331 (Note 3)
		Dongguan Huayi	Other receivables	Yes	138,510 (RMB 30,000 thousand)	138,510 (RMB 30,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
4	Tianjin Hwarui	Tianjin Hwahong	Other receivables	Yes	46,170 (RMB 10,000 thousand)	46,170 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	46,170 (RMB 10,000 thousand)	46,170 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Dongguan Huayi	Other receivables	Yes	138,510 (RMB 30,000 thousand)	138,510 (RMB 30,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Dongguan Huashun	Other receivables	Yes	138,510 (RMB 30,000 thousand)	138,510 (RMB 30,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
5	Tianjin Hwahong	Tianjin Hwarui	Other receivables	Yes	230,850 (RMB 50,000 thousand)	230,850 (RMB 50,000 thousand)	84,491 (RMB 18,300 thousand)	5.4	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Sichuan Huafeng Hanwei	Other receivables	Yes	92,340 (RMB 20,000 thousand)	92,340 (RMB 20,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Dongguan Huayi	Other receivables	Yes	69,255 (RMB 15,000 thousand)	69,255 (RMB 15,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Dongguan Huashun	Other receivables	Yes	69,255 (RMB 15,000 thousand)	69,255 (RMB 15,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	138,510 (RMB 30,000 thousand)	138,510 (RMB 30,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
6	Dongguan Huayi	Dongguan Huashun	Other receivables	Yes	230,850 (RMB 50,000 thousand)	230,850 (RMB 50,000 thousand)	46,170 (RMB 10,000 thousand)	5.04	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
7	Dongguan Huashun	Dongguan Huayi	Other receivables	Yes	46,170 (RMB 10,000 thousand)	46,170 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Sichuan Huafeng Hanwei	Other receivables	Yes	46,170 (RMB 10,000 thousand)	46,170 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Tianjin Hwahong	Other receivables	Yes	46,170 (RMB 10,000 thousand)	46,170 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	46,170 (RMB 10,000 thousand)	46,170 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)
8	GH	Gatech Suzhou	Other receivables	Yes	48,375 (US\$ 1,500 thousand)	48,375 (US\$ 1,500 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,482,650 (Note 2)	9,884,331 (Note 3)

(Continued)

Financial Highlights

Note 1: At exchange rate on December 31, 2016, US\$1=NT\$32.25, RMB1=NT\$4.617.

Note 2: The amount is 3% of the total shareholders' equity of the latest financial statement of China Motor Corporation.

Note 3: The amount is 20% of the total shareholders' equity of the latest financial statement of China Motor Corporation.

Note 4: Eliminated.

(Concluded)

Financial Highlights

TABLE 2

CHINA MOTOR CORPORATION AND SUBSIDIARIES

**ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

No.	Endorser/Guarantor	Endorsee/Guarantee Receiver		Limit on Endorsement/ Guarantee Given on Behalf of Each Party	Maximum Amount Endorsed/ Guaranteed During the Year (Note)	Outstanding Endorsement/ Guarantee at the End of the Year (Note)	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiary	Endorsement/ Guarantee Given by Subsidiary on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Company in Mainland China
		Name	Relationship										
1	Sino Diamond Motors	Guangzhou Huayou Motor Maintenance	Subsidiary	20% of the Corporation's issued capital, \$2,768,102 thousand	\$ 967,500 (US\$ 30,000 thousand)	\$ 499,875 (US\$ 15,500 thousand)	\$ -	\$ -	1.01	50% of the Corporation's issued capital, \$6,920,254 thousand	No	-	Yes
		Tianjin Hwarui	Subsidiary	20% of the Corporation's issued capital, \$2,768,102 thousand	3,386,250 (US\$ 105,000 thousand)	1,757,625 (US\$ 54,500 thousand)	-	-	3.56	50% of the Corporation's issued capital, \$6,920,254 thousand	No	-	Yes
		Sichuan Huafeng Hanwei	Subsidiary	20% of the Corporation's issued capital, \$2,768,102 thousand	1,612,500 (US\$ 50,000 thousand)	1,612,500 (US\$ 50,000 thousand)	-	-	3.26	50% of the Corporation's issued capital, \$6,920,254 thousand	No	-	Yes
2	Dongguan Huayi	Dongguan Huashun	Subsidiary	20% of the Corporation's issued capital, \$2,768,102 thousand	230,850 (RMB 50,000 thousand)	-	-	-	-	50% of the Corporation's issued capital, \$6,920,254 thousand	No	-	Yes
3	Guangzhou Huayou Motor Maintenance	Guangzhou Huayou Motor Sales	Subsidiary	20% of the Corporation's issued capital, \$2,768,102 thousand	230,850 (RMB 50,000 thousand)	-	-	-	-	50% of the Corporation's issued capital, \$6,920,254 thousand	No	-	Yes

Note: At exchange rate on December 31, 2016, US\$1=NT\$32.25, RMB1=NT\$4.617.

CHINA MOTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2016

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

Holding Company Name	Type and Name/Issuer of Marketable Security	Relationship with the Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
China Motor Corporation	<u>Preference share options</u> Yuanta Financial Holdings	-	Financial assets at fair value through profit or loss	-	\$ -	-	\$ -	
	<u>Beneficiary certificates</u>							
	Paradigm Pion Money Market	-	Available-for-sale financial assets - current	8,718	99,857	-	99,857	
	The RSIT Enhanced Money Market	-	Available-for-sale financial assets - current	6,854	81,288	-	81,288	
	Sinopac Money Market Fund	-	Available-for-sale financial assets - current	5,887	81,220	-	81,220	
	Fubon Chi Hsiang Money Market Fund	-	Available-for-sale financial assets - current	3,284	51,045	-	51,045	
	UPAMC James Bond Money Market Fund	-	Available-for-sale financial assets - current	1,850	30,638	-	30,638	
	Nomura Asia Pacific High Yield Bond Fund	-	Available-for-sale financial assets - current	2,293	30,347	-	30,347	
	Fidelity (Taiwan) Asian Total Return Bond Fund	-	Available-for-sale financial assets - current	3,007	30,028	-	30,028	
	Allianz Global Investors All Seasons Harvest Fund of Bond Funds	-	Available-for-sale financial assets - current	2,450	29,970	-	29,970	
	Nomura Global Short Duration Bond Fund Accumulate	-	Available-for-sale financial assets - current	2,925	29,753	-	29,753	
	Fuh Hwa RMB Bond A	-	Available-for-sale financial assets - current	532	27,121	-	27,121	
	Hua Nan Phoenix Money Market Fund	-	Available-for-sale financial assets - current	1,266	20,406	-	20,406	
	Cathay Taiwan Money Market Fund	-	Available-for-sale financial assets - current	1,647	20,336	-	20,336	
	PineBridge Global Multi-Strategy High Yield Bond Fund	-	Available-for-sale financial assets - current	1,145	15,133	-	15,133	
	Fubon China Money Market Fund	-	Available-for-sale financial assets - current	288	14,245	-	14,245	
	Franklin Templeton SinoAm Money Market	-	Available-for-sale financial assets - current	1,006	10,289	-	10,289	
	CTBC Hua Win Money Market Fund	-	Available-for-sale financial assets - current	150	1,638	-	1,638	
	<u>Shares</u>							
	Shye Shyang Machinery Industrial	Corporate director	Available-for-sale financial assets - non-current	9,009	732,680	10.00	732,680	
	Orange Electronic Co., Ltd.	-	Available-for-sale financial assets - non-current	1,800	87,493	8.47	87,493	
	Myson Century, Inc.	Corporate director	Available-for-sale financial assets - non-current	4,705	23,664	7.84	23,664	
	Carnival	-	Available-for-sale financial assets - non-current	190	975	0.05	975	
	<u>Shares</u>							
	Uni-Calsonic Corp.	Corporate director	Financial assets measured at cost	3,549	48,730	18.20	-	
	Taiwan Aerospace	-	Financial assets measured at cost	811	8,107	0.60	-	
	Com2B (Cayman) Corp.	-	Financial assets measured at cost	2,000	3,471	4.44	-	
	Yueki Industrial Co., Ltd.	-	Financial assets measured at cost	16	100	0.08	-	
	NORM Pacific Automation Corp.	-	Financial assets measured at cost	116	-	0.45	-	

(Continued)

Financial Highlights

Holding Company Name	Type and Name/Issuer of Marketable Security	Relationship with the Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
	<u>Preference shares</u> Yuanta Financial Holdings	-	Debt investments with no active market - non-current	\$ -	\$ 296,940	-	\$ 296,940	
	<u>Corporate bonds</u> Société Générale	-	Debt investments with no active market - non-current	-	208,627	-	208,627	
	Value Success International	-	Debt investments with no active market - non-current	-	157,606	-	157,606	
	Gatetech Technology	Subsidiary	Debt investments with no active market - non-current	-	150,000	-	150,000	Note 1
	Morgan Stanley	-	Debt investments with no active market - non-current	-	138,723	-	138,723	
	Deutsche Bank Aktiengesellschaft, Singapore Branch	-	Debt investments with no active market - non-current	-	138,510	-	138,510	
	Crédit Agricole Corporate and Investment Bank SA	-	Debt investments with no active market - non-current	-	92,340	-	92,340	
	Sinotrans Sailing Ltd.	-	Debt investments with no active market - non-current	-	69,277	-	69,277	
	KUNZHI Ltd.	-	Debt investments with no active market - non-current	-	69,255	-	69,255	
	Fonterra Co-operative Group Ltd.	-	Debt investments with no active market - non-current	-	46,372	-	46,372	
	China Unicom (Hong Kong) Limited	-	Debt investments with no active market - non-current	-	46,190	-	46,190	
	Uni-President China Holdings Ltd.	-	Debt investments with no active market - current	-	32,308	-	32,308	
	Shanghai Baosteel Group Corporation	-	Debt investments with no active market - non-current	-	23,088	-	23,088	
	Bank of China, Abu Dhabi Branch	-	Debt investments with no active market - non-current	-	23,088	-	23,088	
	Sinostrong International Ltd.	-	Debt investments with no active market - non-current	-	13,889	-	13,889	
	<u>Principle guaranteed notes</u> President Securities 100% Principle Guaranteed Note	-	Debt investments with no active market - non-current	-	512,487	-	512,487	
Kian Shen	<u>Beneficiary certificates</u> Jih Sun Money Market Fund	-	Financial assets at fair value through profit or loss	818	12,000	-	12,000	
Alliance Investment & Management	<u>Shares</u> Samuel (Cayman) Co., Ltd.	-	Financial assets measured at cost	6,327	92,132	15.07	-	
	T-Car Inc.	-	Financial assets measured at cost	425	55,822	4.25	-	
	CARPLUS Auto Leasing Corporation	-	Financial assets measured at cost	2,590	21,531	3.45	-	
	United Oriental Glass Ind. Co., Ltd.	-	Financial assets measured at cost	533	11,200	1.33	-	
	Phalanx Biotech Group	-	Financial assets measured at cost	696	3,481	1.32	-	
	Gongin Precision Industrial Co., Ltd.	-	Financial assets measured at cost	192	2,801	0.48	-	
	Solidlite Corporation	-	Financial assets measured at cost	789	2,367	3.60	-	
	Site information service	-	Financial assets measured at cost	65	968	0.54	-	
	Jouge Technology Co., Ltd.	-	Financial assets measured at cost	123	627	0.76	-	
	Chao Peng Optronics Co., Ltd.	-	Financial assets measured at cost	88	1	0.81	-	
	<u>Preference shares</u> Rock Financial Risk Service Co., Ltd.	-	Debt investments with no active market - non-current	-	9,900	-	9,900	
Sino Diamond Motors	<u>Beneficiary certificates</u> CTBC Hwa-win Money Market Fund	-	Available-for-sale financial assets - current	7,876	85,973	-	85,973	
	Allianz Global Investors All Seasons Return Fund of Bond Funds	-	Available-for-sale financial assets - current	3,420	51,714	-	51,714	
	Taishin Ta-Chong Money Market	-	Available-for-sale financial assets - current	1,431	20,134	-	20,134	

(Continued)

Financial Highlights

Holding Company Name	Type and Name/Issuer of Marketable Security	Relationship with the Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
Hwa Lin	<u>Principle guaranteed notes</u> President Securities 100% Principle Guaranteed Note	-	Debt investments with no active market - current	-	\$ 29,854	-	\$ 29,854	
Brilliant Insight International Consultancy Service Co., Ltd.	<u>Beneficiary certificates</u> Taishin Ta-Chong Money Market	-	Financial assets at fair value through profit or loss	216	3,041	-	3,041	

Note 1: Eliminated.

Note 2: See Tables 6 and 7 for the information of investments in subsidiaries and associates.

(Concluded)

CHINA MOTOR CORPORATION AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Seller/Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total (Note 2)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total (Note 2)	
China Motor Corporation ("CMC")	Fortune Motors	Equity-method investee	Sale	\$ (17,155,604)	(56)	Collect after 16-60 days of delivery	\$ -	-	\$ 648,480	37	
	Shung Ye Motors	Equity-method investee	Sale	(4,086,080)	(13)	Collect after 16-60 days of delivery	-	-	216,983	12	
	Mitsubishi Motor Corp.	Director of CMC	Sale	(915,635)	(3)	Collect after 20-80 days of delivery	-	-	81,208	5	
	Y. M. Hi-Tech (Note 1)	Subsidiary	Sale	(121,145)	-	Collect after 90 days of the month of delivery	-	-	39,268	2	
	Mitsubishi Corp.	Director of CMC	Purchase	2,068,724	10	Pay after 7 days of cargo ship out	-	-	(24,307)	(1)	
	Uni Auto Parts Manufacture	Equity-method investee	Purchase	673,200	3	Pay after 45 days of the month of delivery	-	-	(64,189)	(3)	
	Kian Shen (Note 1)	Subsidiary	Purchase	591,027	3	Pay after 45 days of the month of delivery	-	-	(49,933)	(2)	
	ROC-Spicer	Equity-method investee	Purchase	487,091	2	Pay after 45 days of the month of delivery	-	-	(93,504)	(4)	
	COC (Note 1)	Subsidiary	Purchase	378,999	2	Pay after 45 days of the month of delivery	-	-	(75,825)	(3)	
	Shye Shyang Machinery Industrial	Director of Shye Shyang Machinery Industrial	Purchase	371,197	2	Pay after 45 days of the month of delivery	-	-	(69,413)	(3)	
	Yueki	Equity-method investee's subsidiary	Purchase	162,771	1	Pay after 45 days of the month of delivery	-	-	(28,167)	(1)	
	Uni-Calsonic	Director of Uni-Calsonic	Purchase	151,721	1	Pay after 45 days of the month of delivery	-	-	(28,889)	(1)	
Sino Diamond Motors	Fortune Motors	Equity-method investee	Sale	(889,326)	(52)	Collect after 16-45 days of delivery	-	-	5,357	9	
	Shung Ye Motors	Equity-method investee	Sale	(529,477)	(31)	Collect after 7-45 days of delivery	-	-	29,415	47	
	Mitsubishi Corp.	Director of parent company	Purchase	135,348	32	Net 30 days from the end of the month of when invoice is issued	-	-	(24)	-	
Kiah Shen	China Motor Corporation (Note 1)	Parent company	Sale	(591,027)	(49)	Collect after 45 days of the month of delivery	-	-	49,933	35	
	Yueki	Equity-method investee's subsidiary	Purchase	145,853	16	Pay after 45 days of the month of delivery	-	-	(43,584)	(17)	

(Continued)

Financial Highlights

Seller/Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total (Note 2)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total (Note 2)	
COC	Yulon	Equity-method investee	Sale	\$ (394,709)	(24)	Collect after 45 days of the month of delivery	\$ -	-	\$ 66,104	21	
	China Motor Corporation (Note 1)	Parent company	Sale	(378,999)	(23)	Collect after 45 days of the month of delivery	-	-	75,825	24	
	Luxgen	Equity-method investee's subsidiary	Sale	(146,679)	(9)	Collect after 45 days of the month of delivery	-	-	242	-	
	Yulon	Equity-method investee	Purchase	157,977	23	Pay after 45 days of the month of delivery	-	-	(8,932)	(3)	
	Y. M. Hi-Tech (Note 1)	Subsidiary	Purchase	113,722	16	Pay after 45 days of the month of delivery	-	-	(17,745)	(6)	
Y. M. Hi-Tech	Yulon	Equity-method investee	Sale	(127,455)	(40)	Collect after 45 days of the month of delivery	-	-	24,990	48	
	COC (Note 1)	Parent company	Sale	(113,722)	(36)	Collect after 45 days of the month of delivery	-	-	17,745	34	
	China Motor Corporation (Note 1)	Parent company	Purchase	121,145	42	Pay after 90 days of the month of delivery	-	-	(39,268)	(31)	
	Yulon	Equity-method investee	Purchase	116,010	40	Pay after 45 days of the month of delivery	-	-	(53,246)	(42)	
China Engine	Hua-Chuang Automobile Information Technical Center	Equity-method investee	Sale	(696,316)	(70)	Collect after 45 days of the month of delivery	-	-	318,005	83	
	Yulon	Equity-method investee	Sale	(202,608)	(20)	Collect after 45 days of the month of delivery	-	-	43,289	11	
Sichuan Hwafeng Hanwei	South Eastern (Fujian) Motor	Equity-method investee	Purchase	1,119,498	98	Pay after 45 days of delivery	-	-	-	-	
Guangzhou Huayou Motor Maintenance	Guangzhou Huayou Motor Sales (Note 1)	Subsidiary	Sale	(222,183)	(86)	Collect after 45 days of the month of delivery	-	-	90,242	89	
	South Eastern (Fujian) Motor	Equity-method investee	Purchase	204,315	79	Pay after 45 days of the month of delivery	-	-	-	-	
Guangzhou Huayou Motor Sales	South Eastern (Fujian) Motor	Equity-method investee	Purchase	604,711	72	Pay after 45 days of the month of delivery	-	-	(1,780)	(2)	
	Guangzhou Huayou Motor Maintenance (Note 1)	Parent company	Purchase	222,183	27	Pay after 45 days of the month of delivery	-	-	(90,242)	(92)	
Tianjin Huahong	South Eastern (Fujian) Motor	Equity-method investee	Purchase	766,494	99	Pay after 45 days of the month of delivery	-	-	(158)	(1)	
Donggun Huashun	South Eastern (Fujian) Motor	Equity-method investee	Purchase	1,450,820	97	Pay after 45 days of the month of delivery	-	-	(1,438)	(1)	

Note 1: Eliminated.

Note 2: The proportion of the individual company's total purchase (sale) or total receivable (payable).

(Concluded)

CHINA MOTOR CORPORATION AND SUBSIDIARIES

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

DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
China Motor Corporation	Fortune Motors	Equity-method investee	\$ 648,480	26.20	\$ -	-	\$ 648,480	\$ -
	Shung Ye Motors	Equity-method investee	216,983	19.20	-	-	216,983	-
China Engine	Hua-Chuang Automobile Information Technical Center	Equity-method investee	318,005	2.18	-	-	96,535	-

CHINA MOTOR CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount		As of December 31, 2016			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2016	December 31, 2015	Shares (In Thousands)	%	Carrying Amount			
China Motor Corporation	Yulon (Note 6)	Miaoli, Taiwan	Manufacture and sale of vehicles	\$ 3,835,585	\$ 2,772,729	262,228	16.80	\$ 11,238,239	\$ 1,334,703	\$ 181,627	Equity-method investees
	Kian Shen (Note 1)	Taoyuan, Taiwan	The production of frame of heavy duty car and mold	344,800	344,800	32,201	43.87	1,802,753	529,412	255,756	Subsidiary
	Fortune Motors	Taipei, Taiwan	Sales and providing after sales service of vehicle	2,132,826	2,132,203	132,117	41.93	3,872,973	998,396	432,047	Equity-method investees
	Sino Diamond Motors (Note 1)	Taipei, Taiwan	Sales and providing after sales service of vehicle	3,463,724	3,463,724	325,786	100.00	2,762,828	(105,437)	(127,885)	Subsidiary
	Alliance Investment & Management (Note 1)	Taipei, Taiwan	Investment	1,200,030	1,200,030	183,000	100.00	1,644,020	(70,605)	(70,605)	Subsidiary
	Tokio Marine Newa Insurance (Note 2)	Taipei, Taiwan	Property insurance	955,941	955,941	61,511	20.57	1,616,241	806,070	165,813	Equity-method investees
	Daimler Vans Hong Kong Ltd.	Hong Kong	Investment	2,011,363	2,011,363	46,566	32.45	1,295,405	443,483	143,910	Equity-method investees
	ROC-Spicer	Taoyuan, Taiwan	Manufacture and sales of automobile parts	803,633	803,633	1,422	29.00	1,136,559	385,940	111,758	Equity-method investees
	CMI (Note 1)	Samoa	Investment	1,402	1,402	40	100.00	1,092,175	(5,514)	(5,514)	Subsidiary
	COC (Note 1)	Taoyuan, Taiwan	The production of mold, fixture and gauge of vehicle	412,125	412,125	33,565	49.76	756,924	209,770	103,802	Subsidiary
	Hua-Chuang Automobile Information Technical Center (Note 4)	Taipei, Taiwan	Product design	988,020	473,760	94,400	18.88	737,458	(810,066)	(103,856)	Equity-method investees
	Hwa Wei (Note 1)	British Virgin Islands	Overseas investment on production and service industries	1,202	1,202	40	40.00	721,913	(9,134)	(3,654)	Subsidiary
	Uni Auto Parts Manufacture	Miaoli, Taiwan	The production of mold, fixture and gauge of vehicle	109,813	109,813	13,032	15.00	370,114	268,050	40,220	Equity-method investees
	Shung Ye Motors (Note 3)	Taipei, Taiwan	Sales and providing after sales service of vehicle	391,142	391,142	26,589	39.98	322,893	42,982	17,185	Equity-method investees
	Gatetech Technology (Note 1)	Taoyuan, Taiwan	Aluminum-magnesium alloy casting industry	474,941	474,941	24,725	56.53	213,675	47,730	26,996	Subsidiary
	China Engine (Note 1)	Taoyuan, Taiwan	Manufacture of automobile engine and parts	320,000	320,000	32,000	18.95	147,964	1,812	(14,464)	Subsidiary
	Tai Yuen Venture Capital Investment	Taipei, Taiwan	Venture capital, providing plan consulting and operations administration	237,897	237,897	26,760	49.50	109,784	(8,053)	(3,986)	Equity-method investees
	Sin Jiang Enterprises	Taipei, Taiwan	Retail and wholesale of second-hand vehicle	85,893	85,893	8,568	20.01	96,395	28,819	5,767	Equity-method investees
	Sin Gan	Taipei, Taiwan	Wholesale, repair and other service of vehicles	71,316	71,316	7,074	24.67	94,450	58,641	14,471	Equity-method investees
	Hwa Chung Motors (Note 1)	Taoyuan, Taiwan	Manufacture and sale of vehicles	328,900	328,900	8,790	100.00	65,041	566	566	Subsidiary
Yulon IT Solutions	Taipei, Taiwan	Information software wholesale services	83,320	83,320	8,332	43.85	21,822	(711)	(360)	Equity-method investees	
Hwa Hann (Note 1)	Philippines	Buy and sell of automobile parts	-	-	521	48.99	-	-	-	Subsidiary (under liquidation)	
Kian Shen	Kian Shen Investment (Note 1)	British Virgin Islands	Overseas investment on production and service industries	328,888	328,888	10,296	100.00	3,491,793	625,017	-	Subsidiary
Kian Shen Investment	KSIHK (Note 1)	Hong Kong	Investment	US\$ 25,907 thousand	US\$ 25,907 thousand	25,907	100.00	RMB 756,399 thousand	RMB 128,982 thousand	-	Subsidiary
Alliance Investment & Management	Hua-Chuang Automobile Information Technical Center	Taipei, Taiwan	Product design	473,760	473,760	47,200	9.44	448,760	(810,066)	-	Equity-method investees
	Greentrans Investment (Note 1)	Samoa	Investment	344,369	344,369	11,200	100.00	321,413	(8,573)	-	Subsidiary
	Gatetech Technology (Note 1)	Taoyuan, Taiwan	Aluminum-magnesium alloy casting industry	145,123	145,123	3,172	7.26	27,448	47,730	-	Subsidiary
Sino Diamond Motors	Hua-Yu (Note 1)	Samoa	Overseas investment on production and service industries	1,758,773	1,758,773	45,643	100.00	947,517	(72,174)	-	Subsidiary
	Hua-Chuang Automobile Information Technical Center	Taipei, Taiwan	Product design	473,760	473,760	47,200	9.44	448,760	(810,066)	-	Equity-method investees
	China Engine (Note 1)	Taoyuan, Taiwan	Manufacture of automobile engine and parts	616,000	616,000	56,000	33.16	334,030	1,812	-	Subsidiary
	Gatetech Technology (Note 1)	Taoyuan, Taiwan	Aluminum-magnesium alloy casting industry	149,369	149,369	3,946	9.02	34,145	47,730	-	Subsidiary
	Brilliant Insight International (Note 1)	Taoyuan, Taiwan	Consulting and service	22,000	22,000	2,200	100.00	18,733	240	-	Subsidiary
	Hwa Hann (Note 1)	Philippines	Buy and sell of automobile parts	-	-	542	51.00	-	-	-	Subsidiary (under liquidation)
	Shung Ye Motors (Note 5)	Taipei, Taiwan	Sales and providing after sales service of vehicle	180	180	11	0.02	181	42,982	-	Equity-method investees
Fortune Motors	Taipei, Taiwan	Sales and providing after sales service of vehicle	24	24	1	-	13	998,396	-	Equity-method investees	

(Continued)

Financial Highlights

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount		As of December 31, 2016			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2016	December 31, 2015	Shares (In Thousands)	%	Carrying Amount			
Hua-Yu	Hwa-Lin (Note 1)	British Virgin Islands	Overseas investment on production and service industries	US\$ 45,929 thousand	US\$ 45,929 thousand	42,093	100.00	\$ 851,212	\$ (72,642)	\$ -	Subsidiary
Gatetech Technology	GH (Note 1)	Samoa	Investment	647,041	647,041	20,130	100.00	582,849	33,184	-	Subsidiary
GH	GI (Note 1)	Samoa	Investment	US\$ 20,268 thousand	US\$ 20,268 thousand	20,268	100.00	582,821	32,346	-	Subsidiary
China Engine	Advance Power Investment (Note 1) Advance Power Machinery (Note 1)	Mauritius	Reinvestment and sales	59,456	59,456	3,750	100.00	100,231	3,036	-	Subsidiary
		Miaoli, Taiwan	Manufacture of vehicle and parts	5,000	5,000	500	100.00	7,672	2,721	-	Subsidiary
CMI	Hwa Wei holdings (Note 1)	British Virgin Island	Overseas investment on production and service industries	1,428,503	1,428,503	60	60.00	1,089,995	(9,134)	-	Subsidiary
Hwa Chung Motors	Ling Wei (Note 1)	Taipei, Taiwan	Sales of second-hand vehicle	31,000	31,000	3,608	100.00	27,855	47	-	Subsidiary
	Greentrans (Note 1)	Taipei, Taiwan	Sales of bicycle and motorcycle	10,000	10,000	1,000	100.00	10,671	464	-	Subsidiary
COC	Y. M. Hi-Tech (Note 1)	Taoyuan, Taiwan	Steel cutting	46,250	46,250	4,250	85.00	58,545	4,074	-	Subsidiary
	Shye Shinn (Note 1)	British Virgin Islands	Investment	US\$ 968 thousand	US\$ 968 thousand	968	100.00	42,941	2,743	-	Subsidiary

Note 1: Eliminated.

Note 2: During the preparation of consolidated financial statement, price making \$75,455 thousand of intra-group transaction had been eliminated.

Note 3: During the preparation of consolidated financial statement, loss on disposal \$22,538 thousand of intra-group transaction had been eliminated.

Note 4: During the preparation of consolidated financial statement, side stream transaction \$42,115 thousand had been eliminated.

Note 5: During the preparation of consolidated financial statement, gain on disposal \$31 thousand of intra-group transaction had been eliminated.

Note 6: During the preparation of consolidated financial statement, side stream transaction \$3,285 thousand had been eliminated.

(Concluded)

CHINA MOTOR CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital (Note 1)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2016 (Note 1)	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2016 (Note 1)	Net Income (Loss) of the Investee (Notes 2 and 3)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Notes 2 and 3)	Carrying Amount as of December 31, 2016 (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2016 (Note 1)
					Outward	Inward						
South Eastern (Fujian) Motor (Notes 4 and 5)	Manufacture and sales of industrial automation products	\$ 4,450,500 (US\$ 138,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	\$ 1,112,625 (US\$ 34,500 thousand)	\$ -	\$ -	\$ 1,112,625 (US\$ 34,500 thousand)	\$ 541,902	25.00	\$ 135,476	\$ 1,584,791	\$ 839,242 (US\$ 26,023 thousand)
China Engine (Fujian)	Manufacture and sales of engines and engine parts	483,750 (US\$ 15,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	241,875 (US\$ 7,500 thousand)	-	-	241,875 (US\$ 7,500 thousand)	12,144	38.03	6,072	200,435	-
Fujian Benz Automotive	Sales of industrial automation products	9,729,300 (EUR 287,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	1,578,587 (EUR 46,566 thousand)	-	-	1,578,587 (EUR 46,566 thousand)	889,358 (EUR 24,912 thousand)	16.23	144,299 (EUR 4,042 thousand)	1,295,082 (EUR 38,203 thousand)	-
Guangzhou NTN-YULON Drivertrain	Sales and manufacture of vehicles' components	403,125 (US\$ 12,500 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	161,250 (US\$ 5,000 thousand)	-	-	161,250 (US\$ 5,000 thousand)	1,058,369 (RMB 218,265 thousand)	17.55	423,348 (RMB 87,306 thousand)	1,594,120 (RMB 345,272 thousand)	-
Fuzhou Fushiang Motor Industrial	Sales and manufacture of vehicles' components	573,405 (US\$ 17,780 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	91,429 (US\$ 2,835 thousand)	-	-	91,429 (US\$ 2,835 thousand)	241,013 (RMB 49,704 thousand)	15.35	84,354 (RMB 17,396 thousand)	643,519 (RMB 139,380 thousand)	-
Xiangyang NTN-YULON Drivertrain	Sales and manufacture of vehicles' components	1,096,500 (US\$ 34,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	-	-	-	-	175,683 (RMB 36,231 thousand)	17.55	70,273 (RMB 14,492 thousand)	445,944 (RMB 96,587 thousand)	-
Xiamen King-Long Kian-Shen Frame	Sales and manufacture of vehicles' components	443,232 (RMB 96,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	49,246 (US\$ 1,527 thousand)	-	-	49,246 (US\$ 1,527 thousand)	56,572 (RMB 11,667 thousand)	21.94	28,286 (RMB 5,833 thousand)	315,816 (RMB 68,403 thousand)	-
Beijing NTN-SEOHAN Driveshaft	The assembling and extra work of transmission shafts and other parts	193,500 (US\$ 6,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	17,415 (US\$ 540 thousand)	-	-	17,415 (US\$ 540 thousand)	-	3.95	-	15,709 (RMB 3,402 thousand)	-
Jiangsu Greentrans Automotive Parts (Note 6)	Manufacture and sales of parts of electronic motorcycles	361,200 (US\$ 11,200 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	361,200 (US\$ 11,200 thousand)	-	-	361,200 (US\$ 11,200 thousand)	(8,536)	100.00	(8,536)	321,243	-
Fujian Rui Hua (Note 6)	Consultation and services	109,650 (US\$ 3,400 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	109,650 (US\$ 3,400 thousand)	-	-	109,650 (US\$ 3,400 thousand)	476	100.00	476	96,263	-
Zhejiang Kangda Motor Industry And Trading	Sales of various vehicles and their components	184,680 (RMB 40,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	38,958 (US\$ 1,208 thousand)	-	-	38,958 (US\$ 1,208 thousand)	(394,258)	24.50	(96,593)	84,933	-

(Continued)

Financial Highlights

Investee Company	Main Businesses and Products	Paid-in Capital (Note 1)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2016 (Note 1)	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2016 (Note 1)	Net Income (Loss) of the Investee (Notes 2 and 3)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Notes 2 and 3)	Carrying Amount as of December 31, 2016 (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2016 (Note 1)
					Outward	Inward						
Guangzhou Huayou Motor Maintenance (Note 6)	Maintenance and ancillary services of vehicle	\$ 413,123 (US\$ 12,810 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	\$ 361,168 (US\$ 11,199 thousand)	\$ -	\$ -	\$ 361,168 (US\$ 11,199 thousand)	\$ (5,115)	100.00	\$ (5,115)	\$ 103,809	\$ -
Sichuan Huafeng Hanwei (Note 6)	Maintenance and ancillary services of vehicle	429,893 (US\$ 13,330 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	429,893 (US\$ 13,330 thousand)	-	-	429,893 (US\$ 13,330 thousand)	3,894	100.00	3,894	126,192	-
Tianjin Hwarui (Note 6)	Maintenance and ancillary services of vehicle	258,645 (US\$ 8,020 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	250,292 (US\$ 7,761 thousand)	-	-	250,292 (US\$ 7,761 thousand)	14,574	100.00	14,574	139,529	-
Dongguan Huayi (Note 6)	Maintenance and ancillary services of vehicle	143,513 (US\$ 4,450 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	135,998 (US\$ 4,217 thousand)	-	-	135,998 (US\$ 4,217 thousand)	33,614	100.00	33,614	79,759	-
Suzhou Fulgent Automobile Service (Note 7)	Maintenance and ancillary services of vehicle	214,430 (US\$ 6,649 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	132,064 (US\$ 4,095 thousand)	-	-	132,064 (US\$ 4,095 thousand)	-	35.00	-	-	-
Jiang Su Hui Feng Vehicle Service (Note 7)	Maintenance and ancillary services of vehicle	81,496 (US\$ 2,527 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	21,446 (US\$ 665 thousand)	-	-	21,446 (US\$ 665 thousand)	-	35.00	-	-	-
Sichuan Hauwei (Note 6)	Sales of various vehicles and their components	13,851 (RMB 3,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	-	-	-	-	(339) (RMB 70 thousand)	100.00	(339) (RMB 70 thousand)	(983) (RMB 213 thousand)	-
Sichuan Lingwei (Note 6)	Sales of various vehicles and their components	9,234 (RMB 2,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	-	-	-	-	(4,670) (RMB 963 thousand)	100.00	(4,670) (RMB 963 thousand)	(4,405) (RMB 954 thousand)	-
Dongguan Huashun (Note 6)	Sales of various vehicles and their components	69,255 (RMB 15,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	-	-	-	-	44,892 (RMB 9,258 thousand)	100.00	44,892 (RMB 9,258 thousand)	(4,035) (RMB 874 thousand)	-
Tianjin Hwahong (Note 6)	Sales of various vehicles and their components	277,020 (RMB 60,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	-	-	-	-	13,286 (RMB 2,740 thousand)	100.00	13,286 (RMB 2,740 thousand)	267,301 (RMB 57,895 thousand)	-
Guangzhou Huayou Motor Sales (Note 6)	Sales of various vehicles and their components	198,531 (RMB 43,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	-	-	-	-	3,341 (RMB 689 thousand)	100.00	3,341 (RMB 689 thousand)	12,826 (RMB 2,778 thousand)	-
Gatech Suzhou (Note 6)	Aluminum-magnesium alloy casting industry	783,675 (US\$ 24,300 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	653,611 (US\$ 20,267 thousand)	-	-	653,611 (US\$ 20,267 thousand)	32,368	72.81	32,368	581,367	-
Zhengzhou Tooling & Stamping (Note 6)	Design, manufacture, sales and providing technological services of molds, hardware and stampings	57,713 (RMB 12,500 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	31,218 (US\$ 968 thousand)	-	-	31,218 (US\$ 968 thousand)	5,001 (US\$ 155 thousand)	29.86	3,000 (US\$ 93 thousand)	42,957 (US\$ 1,332 thousand)	23,897 (US\$ 741 thousand)

(Continued)

Financial Highlights

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2016 (Note 1)	Investment Amount Authorized by Investment Commission, MOEA (Note 1)	Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$5,782,762 (US\$130,362 thousand and EUR46,566 thousand)	\$7,015,117 (US\$203,367 thousand and EUR13,467 thousand)	\$29,652,993

Note 1: At exchange rate on December 31, 2016, US\$1= NT\$32.25, RMB1= NT\$4.617, EUR1= NT\$33.9.

Note 2: At exchange rate of average rate of the year ended December 31, 2016, US\$1= NT\$32.263, RMB1= NT\$4.849, EUR1= NT\$35.7.

Note 3: The carrying amount and related investment income of the equity investment were calculated based on the audited financial statements of the corresponding year.

Note 4: The amount of sales of parts and mold to South Eastern (Fujian) Motor for the year ended December 31, 2016 was \$53,460 thousand. Unrealized gross profit was \$4,751 thousand for the year ended December 31, 2016, and the payment terms were based on agreements.

Note 5: During the preparation of consolidated statements, the unrealized profit of \$12,283 thousand had been eliminated.

Note 6: Eliminated.

Note 7: The ownerships of Suzhou Fulgent Automobile Service and Jiang Su Hui Feng Vehicle Service were transferred and sold in March 2016.

(Concluded)

CHINA MOTOR CORPORATION AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)**

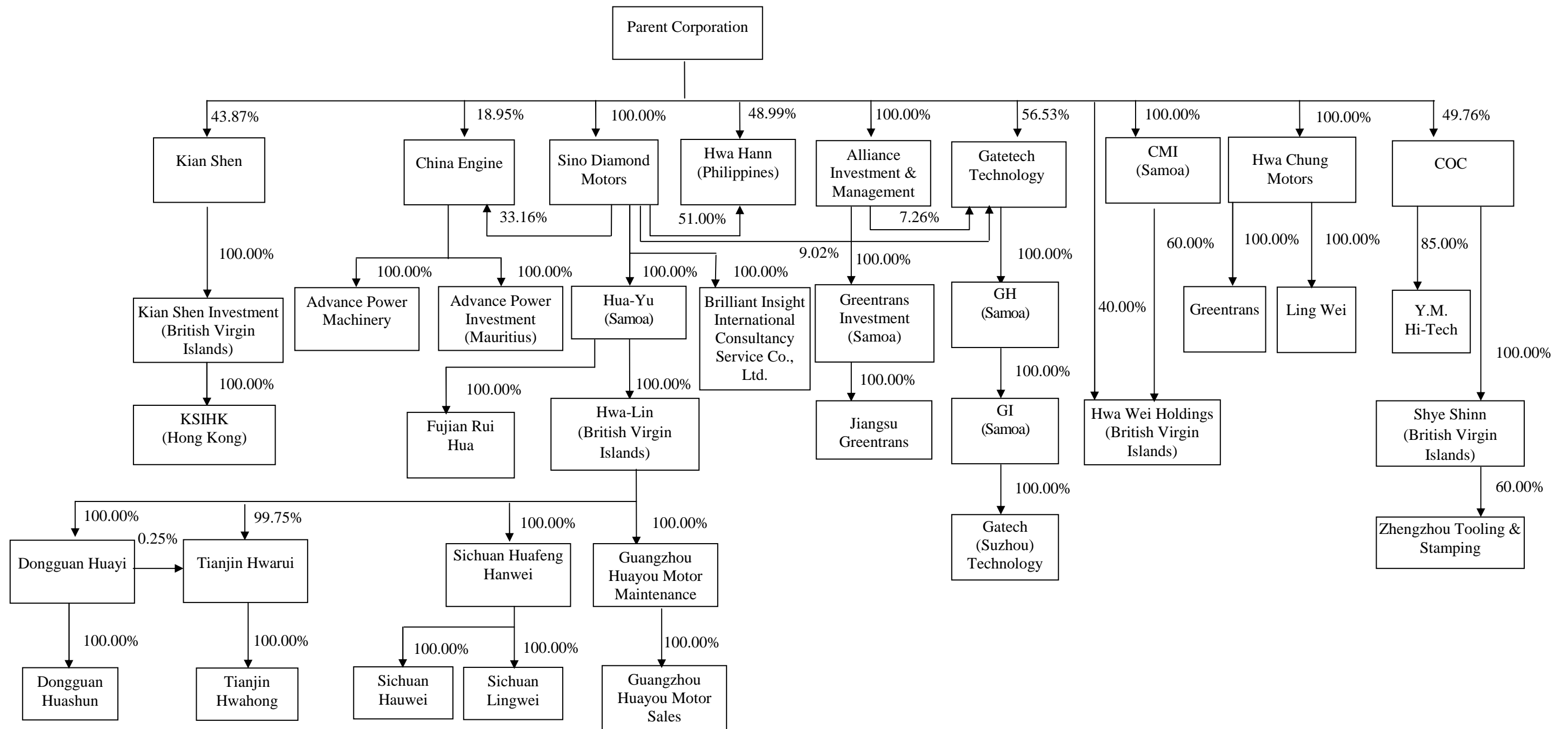
No.	Company Name	Related Party	Relationship	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Total Sales or Assets
0	China Motor Corporation	Kian Shen	Subsidiary	Cost of goods sold	\$ 591,027	The prices and payment terms for related-party transactions were based on market price which are not significantly different from those to third parties.	1.45
		COC	Subsidiary	Cost of goods sold	378,999	The prices and payment terms for related-party transactions were based on market price which are not significantly different from those to third parties.	0.93
		Gatetech Technology	Subsidiary	Debt investments with no active market - non-current	150,000	The prices and payment terms were based on agreements.	0.24
		Sino Diamond Motors	Subsidiary	Other operating revenue	169,200	The prices and payment terms for related-party transactions were based on market price which are not significantly different from those to third parties.	0.42
		Y. M. Hi-Tech	Subsidiary	Sales	121,145	The prices and payment terms for related-party transactions were based on market price which are not significantly different from those to third parties.	0.30
1	Hwa-Lin	Dongguan Huayi	Subsidiary	Other receivables	138,138	The prices and payment terms were based on agreements.	0.22
2	COC	Y. M. Hi-Tech	Subsidiary	Cost of goods sold	113,722	The prices and payment terms were based on agreements.	0.28
3	Guangzhou Huayou Motor Maintenance	Guangzhou Huayou Motor Sales	Subsidiary	Sales	222,183	The prices and payment terms were based on agreements.	0.55

Note 1: Eliminated.

Note 2: This table includes transactions for amounts over one hundred million.

CHINA MOTOR CORPORATION AND SUBSIDIARIES

INTERCOMPANY INVESTMENT RELATIONSHIPS AND RATE OF SHARE HELD FRAMEWORK
DECEMBER 31, 2016



Financial Highlights

V. Financial Statements and Appendix of the Corporation

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
China Motor Corporation

Opinion

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

In our opinion, based on our audits and the reports of other auditors (refer to Other Matter section), the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and 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 Financial Statements section of our report. We are independent of the Corporation in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion based on our audits and the reports of other auditors.

Key Audit Matters

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

Key audit matters for the financial statements of the Corporation for the year ended December 31, 2016 are stated as follows:

Evaluation of Write-down of Inventory

Inventories of the Corporation are stated at the lower of cost or net realizable value. The estimation of the net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Since rapid changes in market conditions may have a material impact on the result of such evaluation which could lead to the risk of inventory

Financial Highlights

being inactive or obsolete, the evaluation of the write-off of inventory has been identified as a key audit matter.

Our audit procedures in respect of the evaluation of the impairment of inventory included:

- Discussing with management whether the accounting methods and calculations of the evaluation of inventory had any significant changes;
- Taking stock and verifying the authenticity of documentary evidence of the net realizable value of inventory, such as sales invoices, in order to verify the accuracy of the calculation of the net realizable value of inventory.

Revenue Recognition

Domestic sales of vehicles is material to the Corporation's financial statements. Since the sales of vehicles is subject to the market situation and might lead to recognizing revenue in advance of the appropriate point of recognition, revenue recognition has been identified as a key audit matter.

Our audit procedures in respect of revenue recognition included:

- Discussing with management whether the accounting methods for revenue recognition were appropriate and consistently applied;
- Testing the design of the revenue recognition internal controls and the operating effectiveness of such controls as well as verifying the authenticity of sales transaction-related documentary evidence;
- Performing cut-off tests, including examining transaction terms in sales contracts and vehicle delivery receipts, in order to verify whether the risks and rewards of the merchandise were truly transferred and whether the timing of revenue recognition was accurate.

Other Matter

We did not audit the financial statements as of and for the years ended December 31, 2016 and 2015 of Daimler Vans Hong Kong Ltd., Shung Ye Motors Corporation, and Uni Auto Parts Manufacture Co., Ltd. in which the Corporation had equity-method investments, but such financial statements were audited by other auditors whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included for these investees in the Corporation's accompanying financial statements, is based solely on the reports of the other auditors. The aforementioned equity-method investments were 3.6% (NT\$1,988,412 thousand) and 3.5% (NT\$1,976,546 thousand) of the Corporation's total assets as of December 31, 2016 and 2015, respectively. The Corporation's share of equity of the aforementioned equity-method investments amounted to NT\$37,615 thousand in comprehensive income and NT\$114,701 thousand in comprehensive loss for the years ended December 31, 2016 and 2015, respectively, which amounted to 1.9% and 4.3% of the Corporation's total equity, respectively.

Note 14 to the accompanying financial statements discloses the Corporation's merger with its subsidiary, CMC Investment, in 2016. In compliance with "Comments on IFRS" and Interpretation 2012-301 issued by the Accounting Research and Development Foundation, the merger resulted in a joint control restructuring. Therefore, in preparing comparative financial statements, the merger is disclosed as if it had occurred on January 1, 2016, and the Corporation's financial statements as of and for the year ended December 31, 2015 are restated.

Financial Highlights

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Corporation's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

As part of an audit in accordance with the 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 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 Corporation'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 Corporation'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 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 Corporation to cease to continue as a going concern.

Financial Highlights

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chih-Ming Shao and Shioh-Ming Shue.

Deloitte & Touche
Taipei, Taiwan
Republic of China



March 27, 2017

Notice to Readers

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

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

Financial Highlights

CHINA MOTOR CORPORATION

BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

ASSETS	2016		2015 (Restated)	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 10,850,490	20	\$ 10,385,210	19
Financial assets at fair value through profit or loss (Notes 4 and 7)	812	-	145,065	-
Available-for-sale financial assets (Notes 4 and 8)	573,314	1	652,876	1
Debt investments with no active market (Notes 4 and 13)	32,308	-	-	-
Notes receivable, net (Notes 4 and 10)	78,508	-	106,582	-
Accounts receivable, net (Notes 4 and 10)	592,873	1	391,490	1
Trade receivables from related parties (Notes 4 and 25)	1,084,214	2	1,050,899	2
Other receivables (Note 4)	52,984	-	52,663	-
Inventories (Notes 4, 5 and 11)	4,016,463	7	3,768,103	7
Other current assets (Notes 4, 9, 21, 25 and 26)	413,790	1	720,262	1
Total current assets	<u>17,695,756</u>	<u>32</u>	<u>17,273,150</u>	<u>31</u>
NON-CURRENT ASSETS				
Available-for-sale financial assets, net of current portion (Notes 4 and 8)	844,812	2	872,350	2
Financial assets measured at cost (Notes 4 and 12)	60,408	-	60,521	-
Debt investments with no active market (Notes 4 and 13)	1,986,392	4	2,250,079	4
Investments accounted for using the equity method (Notes 4 and 14)	30,119,626	54	30,789,134	55
Property, plant and equipment (Notes 4, 15 and 25)	3,471,752	6	3,502,485	6
Investment properties (Notes 4 and 16)	840,077	1	846,351	1
Intangible assets under development (Note 4)	142,571	-	180,379	-
Deferred tax assets (Notes 4 and 21)	330,384	1	415,609	1
Other non-current assets	81,124	-	67,887	-
Total non-current assets	<u>37,877,146</u>	<u>68</u>	<u>38,984,795</u>	<u>69</u>
TOTAL	<u>\$ 55,572,902</u>	<u>100</u>	<u>\$ 56,257,945</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Accounts payable	\$ 1,772,068	3	\$ 1,827,764	3
Trade payables to related parties (Note 25)	775,955	2	703,070	2
Other payables (Note 17)	2,130,334	4	2,110,972	4
Current tax liabilities (Notes 4 and 21)	129,135	-	136,533	-
Other current liabilities (Notes 4, 7, 9 and 25)	206,634	-	131,179	-
Total current liabilities	<u>5,014,126</u>	<u>9</u>	<u>4,909,518</u>	<u>9</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 21)	116	-	4,803	-
Net defined benefit liability (Notes 4 and 18)	1,129,182	2	1,820,670	3
Other non-current liabilities	7,823	-	7,609	-
Total non-current liabilities	<u>1,137,121</u>	<u>2</u>	<u>1,833,082</u>	<u>3</u>
Total liabilities	<u>6,151,247</u>	<u>11</u>	<u>6,742,600</u>	<u>12</u>
EQUITY (Notes 4 and 19)				
Ordinary shares	13,840,508	25	13,840,508	25
Capital surplus	6,407,220	12	6,404,906	11
Retained earnings				
Legal reserve	8,168,383	14	7,851,773	14
Special reserve	1,051,658	2	1,051,673	2
Unappropriated earnings	19,399,595	35	18,896,608	33
Total retained earnings	28,619,636	51	27,800,054	49
Other equity				
Exchange differences on translating foreign operations	(268,058)	(1)	571,137	1
Unrealized gain on available-for-sale financial assets	850,984	2	897,338	2
Total gain (loss) on effective portion of cash flow hedges (Notes 6 and 9)	(28,635)	-	1,402	-
Total other equity	554,291	1	1,469,877	3
Total equity	<u>49,421,655</u>	<u>89</u>	<u>49,515,345</u>	<u>88</u>
TOTAL	<u>\$ 55,572,902</u>	<u>100</u>	<u>\$ 56,257,945</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 27, 2017)

Financial Highlights

CHINA MOTOR CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015 (Restated)	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 25)				
Net sales	\$ 30,132,433	99	\$ 27,957,703	98
Other operating revenue	<u>444,673</u>	<u>1</u>	<u>489,528</u>	<u>2</u>
Total operating revenue	<u>30,577,106</u>	<u>100</u>	<u>28,447,231</u>	<u>100</u>
OPERATING COSTS (Notes 9, 11, 18, 20 and 25)				
Cost of goods sold	25,259,945	82	23,402,169	82
Other operating cost	<u>195,311</u>	<u>1</u>	<u>172,072</u>	<u>1</u>
Total operating costs	<u>25,455,256</u>	<u>83</u>	<u>23,574,241</u>	<u>83</u>
GROSS PROFIT	5,121,850	17	4,872,990	17
REALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES	<u>6,508</u>	<u>-</u>	<u>1,175</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>5,128,358</u>	<u>17</u>	<u>4,874,165</u>	<u>17</u>
OPERATING EXPENSES (Notes 4, 18, 20 and 25)				
Selling and marketing expenses	289,151	1	454,793	2
General and administrative expenses	557,882	2	545,447	2
Research and development expenses	<u>2,017,732</u>	<u>6</u>	<u>1,871,541</u>	<u>6</u>
Total operating expenses	<u>2,864,765</u>	<u>9</u>	<u>2,871,781</u>	<u>10</u>
PROFIT FROM OPERATIONS	<u>2,263,593</u>	<u>8</u>	<u>2,002,384</u>	<u>7</u>
NON-OPERATING INCOME AND EXPENSES				
Share of profit of subsidiaries, associates and joint ventures (Notes 4 and 14)	1,169,594	4	1,144,656	4
Interest income (Note 4)	166,394	1	178,531	1
Other income (Note 25)	49,742	-	83,247	-
Gain on disposal of investments	33,078	-	51,844	-
Gains on financial instruments at fair value through profit or loss	5,348	-	5,965	-
Other expenses	(1,159)	-	(2,367)	-
Foreign exchange losses	(158,377)	(1)	(5,715)	-
Impairment loss (Notes 4 and 12)	<u>(113)</u>	<u>-</u>	<u>(2,118)</u>	<u>-</u>
Total non-operating income	<u>1,264,507</u>	<u>4</u>	<u>1,454,043</u>	<u>5</u>

(Continued)

Financial Highlights

CHINA MOTOR CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015 (Restated)	
	Amount	%	Amount	%
PROFIT BEFORE INCOME TAX	\$ 3,528,100	12	\$ 3,456,427	12
INCOME TAX EXPENSE (Notes 4 and 21)	<u>339,000</u>	<u>1</u>	<u>290,323</u>	<u>1</u>
NET PROFIT FOR THE YEAR	<u>3,189,100</u>	<u>11</u>	<u>3,166,104</u>	<u>11</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 18)	(198,649)	(1)	(86,408)	-
Share of other comprehensive loss of subsidiaries and associates (Note 14)	(114,876)	-	(110,433)	(1)
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 21)	33,770	-	14,689	-
Items that may be reclassified subsequently to profit or loss:				
Unrealized loss on available-for-sale financial assets (Note 19)	(57,706)	-	(49,343)	-
Total gains (losses) on effective portion of cash flow hedges (Note 19)	(36,190)	-	1,689	-
Share of the other comprehensive loss of subsidiaries, associates and joint ventures accounted for using the equity method (Notes 14 and 19)	(827,843)	(3)	(268,544)	(1)
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 19 and 21)	<u>6,153</u>	<u>-</u>	<u>(287)</u>	<u>-</u>
Other comprehensive loss for the year (net of income tax)	<u>(1,195,341)</u>	<u>(4)</u>	<u>(498,637)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,993,759</u>	<u>7</u>	<u>\$ 2,667,467</u>	<u>9</u>
EARNINGS PER SHARE (IN NEW TAIWAN DOLLARS; Note 22)				
Basic	<u>\$ 2.34</u>		<u>\$ 2.32</u>	
Diluted	<u>\$ 2.34</u>		<u>\$ 2.32</u>	

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

(With Deloitte & Touche audit report dated March 27, 2017)

(Concluded)

CHINA MOTOR CORPORATION

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Cash Dividends Per Share)

	Ordinary Shares		Capital Surplus	Retained Earnings			Exchange Differences on Translating Foreign Operations	Other Equity		Total Equity
	Shares (In Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings		Unrealized Loss on Available-for-sale Financial Assets	Total Gains (Losses) on Effective Portion of Cash Flow Hedges	
BALANCE AT JANUARY 1, 2015	1,384,051	\$ 13,840,508	\$ 6,392,369	\$ 7,595,944	\$ 1,057,002	\$ 17,769,073	\$ 750,561	\$ 1,035,801	\$ -	\$ 48,441,258
Appropriation of the 2014 earnings										
Legal reserve	-	-	-	255,829	-	(255,829)	-	-	-	-
Cash dividends distributed by the Corporation - NT\$1.15 per share	-	-	-	-	-	(1,591,658)	-	-	-	(1,591,658)
Reversal of special reserve	-	-	-	-	(5,329)	5,329	-	-	-	-
Change in investments in associates and joint ventures accounted for using equity method	-	-	12,537	-	-	(14,209)	-	-	-	(1,672)
Acquisition of interests in subsidiaries	-	-	-	-	-	(50)	-	-	-	(50)
Net profit for the year ended December 31, 2015	-	-	-	-	-	3,166,104	-	-	-	3,166,104
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	-	(182,152)	(179,424)	(138,463)	1,402	(498,637)
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	-	2,983,952	(179,424)	(138,463)	1,402	2,667,467
BALANCE AT DECEMBER 31, 2015, AS RESTATED	1,384,051	13,840,508	6,404,906	7,851,773	1,051,673	18,896,608	571,137	897,338	1,402	49,515,345
Appropriation of 2015 earnings										
Legal reserve	-	-	-	316,610	-	(316,610)	-	-	-	-
Cash dividends distributed by the Corporation - NT\$1.5 per share	-	-	-	-	-	(2,076,076)	-	-	-	(2,076,076)
Reversal of special reserve	-	-	-	-	(15)	15	-	-	-	-
Change in investments in associates and joint ventures accounted for using equity method	-	-	2,314	-	-	(13,687)	-	-	-	(11,373)
Net profit for the year ended December 31, 2016	-	-	-	-	-	3,189,100	-	-	-	3,189,100
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(279,755)	(839,195)	(46,354)	(30,037)	(1,195,341)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	2,909,345	(839,195)	(46,354)	(30,037)	1,993,759
BALANCE AT DECEMBER 31, 2016	<u>1,384,051</u>	<u>\$ 13,840,508</u>	<u>\$ 6,407,220</u>	<u>\$ 8,168,383</u>	<u>\$ 1,051,658</u>	<u>\$ 19,399,595</u>	<u>\$ (268,058)</u>	<u>\$ 850,984</u>	<u>\$ (28,635)</u>	<u>\$ 49,421,655</u>

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

(With Deloitte & Touche audit report dated March 27, 2017)

Financial Highlights

CHINA MOTOR CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	2016	2015 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 3,528,100	\$ 3,456,427
Adjustments for:		
Depreciation expenses	672,479	604,881
Amortization expenses	75,484	66,986
Net gain on fair value change of financial instruments at fair value through profit or loss	(5,348)	(5,965)
Interest expense	65	131
Interest income	(166,394)	(178,531)
Dividend income	(27,344)	(55,149)
Share of profit of subsidiaries, associates and joint ventures	(1,169,594)	(1,144,656)
Gain on disposal of property, plant and equipment	(1,854)	(6,944)
Gain on disposal of investments	-	(7,257)
Impairment loss	113	2,118
Realized gain on the transactions with associates	(6,508)	(1,175)
Unrealized net loss on foreign currency exchange	80,469	65,492
Changes in operating assets and liabilities		
Financial assets held for trading	86,921	189,751
Notes receivable	28,074	1,462
Accounts receivable	(198,341)	59,535
Trade receivables from related parties	(32,614)	44,045
Other receivables	(2,818)	(232)
Inventories	(248,360)	467,614
Other current assets	310,521	(419,633)
Accounts payable	(55,056)	33,717
Payables to related parties	82,982	(81,735)
Other payables	20,825	61,465
Other current liabilities	59,435	(48,265)
Net defined benefit liability	(890,137)	(5,268)
Cash generated from operations	2,141,100	3,098,814
Income tax paid	(230,531)	(344,443)
Net cash generated from operating activities	<u>1,910,569</u>	<u>2,754,371</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in financial assets designated as at fair value through profit or loss upon initial recognition	61,391	36
Decrease in available-for-sale financial assets	50,384	725,868
Acquisition of debt investments with no active market	(2,763,701)	(899,612)
Proceeds from the repayments of principal of debt investments with no active market	2,881,550	76,387
Proceeds from the disposal of financial assets measured at cost	-	10,757
Proceeds from capital reduction of financial assets measured at cost	-	95,253

(Continued)

Financial Highlights

CHINA MOTOR CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	2016	2015 (Restated)
Acquisition of investments accounted for using the equity method	\$ (623)	\$ (197,393)
Proceeds from the disposal of investments accounted for using the equity method	-	29
Proceeds from capital reduction of investments accounted for using equity method	-	282,158
Acquisition of property, plant and equipment	(656,113)	(783,003)
Proceeds from disposal of property, plant and equipment	22,495	53,667
Increase in other non-current assets	(50,913)	(50,091)
Interest received	166,683	151,134
Dividends received	<u>919,485</u>	<u>734,280</u>
Net cash generated from investing activities	<u>630,638</u>	<u>199,470</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in other non-current liabilities	214	548
Cash dividends paid	(2,076,076)	(1,591,658)
Interest paid	<u>(65)</u>	<u>(131)</u>
Net cash used in financing activities	<u>(2,075,927)</u>	<u>(1,591,241)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	465,280	1,362,600
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>10,385,210</u>	<u>9,022,610</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 10,850,490</u>	<u>\$ 10,385,210</u>

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

(With Deloitte & Touche audit report dated March 27, 2017)

(Concluded)

Financial Highlights

CHINA MOTOR CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

1. GENERAL INFORMATION

China Motor Corporation (the “Corporation”) manufactures and sells cars and related parts. Its stock is listed on the Taiwan Stock Exchange.

2. APPROVAL OF FINANCIAL STATEMENTS

The accompany financial statements were approved by the board of directors and authorized for issue on March 27, 2017.

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

- a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Corporation should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

Financial Highlights

Note 1: Unless stated otherwise, the above New or amended IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Corporation's accounting policies, except for the following:

Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Corporation or is the spouse or second immediate family of the chairman of the board of directors or president of the Corporation are deemed to have a substantive related-party relationship, unless it can be demonstrated that no control or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Corporation has significant transactions. If the transactions or balance with a specific related party is 10% or more of the Corporation's respective total transactions or balance, such transactions should be separately disclosed by the name of each related party.

The disclosures of related-party transactions will be enhanced when the above amendments are retrospectively applied in 2017.

Except for the above impacts, as of the date the financial statements were authorized for issue, the Corporation continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Corporation's financial position and financial performance and will disclose these other impacts when the assessment is completed.

b. New IFRSs in issue but not yet endorsed by the FSC

The Corporation has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

Financial Highlights

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Corporation’s accounting policies, except for the following:

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

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

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

- a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

Financial Highlights

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

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

Impairment of financial assets

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

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

Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity’s risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risks eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

Financial Highlights

2) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Corporation shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the “Regulations”).

b. Basis of preparation

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

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

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

When preparing its financial statements, the Corporation used the equity method to account for its investment in subsidiaries, associates and joint ventures. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the financial statements to be the same as the amounts attributable to the owners of the Corporation in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and consolidated basis were made to investments accounted for by using the equity method, the share of profit or loss of subsidiaries, associates and joint ventures, the share of other comprehensive income of subsidiaries, associates and joint ventures, and other related equity items.

Financial Highlights

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

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Corporation does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Foreign currencies

In preparing the financial statements, 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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

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 from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, 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 financial statements, the assets and liabilities of the Corporation's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Corporation's entire interest in a foreign operation, or a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation) all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Corporation are reclassified to profit or loss.

Financial Highlights

In relation to a partial disposal of a subsidiary that does not result in the Corporation losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

e. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

f. Investments accounted for using equity method

The Corporation uses the equity method to account for its investments in subsidiaries associates and joint ventures.

1) Investment in subsidiaries

Subsidiary is an entity that is controlled by the Corporation.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Corporation's share of equity of subsidiaries attributable to the Corporation.

Changes in the Corporation's ownership interest in a subsidiary that do not result in the Corporation losing control of the subsidiary are equity transactions. The Corporation recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Corporation's share of losses of a subsidiary equals or exceeds its interest in that subsidiary, the Corporation continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Corporation's share of the net fair value of the identifiable assets and liabilities of a subsidiary 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 Corporation's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Corporation assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Corporation recognizes reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

Financial Highlights

When the Corporation loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Corporation accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Corporation had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full in the parent company only financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized in the parent company only financial statements only to the extent of interests in the subsidiaries that are not related to the Corporation.

2) Investment in associates and joint ventures

An associate is an entity over which the Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture. Joint venture is a joint arrangement whereby the Corporation and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Corporation uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate and joint venture. The Corporation also recognizes the changes in the Corporation's share of equity of associates and joint venture attributable to the Corporation. The Corporation's equity in the investees' net income or net loss is calculated using the treasury stock method when investees also have investments in the Corporation (reciprocal holding).

Any excess of the cost of acquisition over the Corporation's share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized.

When the Corporation subscribes for additional new shares of the associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Corporation's proportionate interest in the associate and joint venture. The Corporation records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Corporation's share of equity of associates and joint ventures. If the Corporation's ownership interest is reduced due to the additional subscription of the new shares of associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture 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 by the equity method is insufficient, the shortage is debited to retained earnings.

When the Corporation's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture, the Corporation discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Corporation has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

Financial Highlights

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. Any 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 subsequently increases.

The Corporation discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Corporation accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Corporation continues to apply the equity method and does not remeasure the retained interest.

When an entity of the Corporation transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Corporation's financial statements only to the extent of interests in the associate and the joint venture that are not related to the Corporation.

g. Property, plant and equipment

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

Property, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation on property, plant and equipment, except for tooling (included in machinery) which are amortized using the production unit method, are computed using the straight-line method over service lives. Each significant part 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 estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

h. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

Financial Highlights

i. Intangible assets

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if all of the following have been demonstrated:

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

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, they are measured at cost less accumulated amortization and accumulated impairment loss.

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

j. Impairment of tangible and intangible assets

At the end of each reporting period, the Corporation reviews the carrying amounts of its 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 Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

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.

The 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, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently 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 (less amortization expenses or depreciation expenses) 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 in profit or loss.

Financial Highlights

k. Financial instruments

Financial assets and financial liabilities are recognized when the Corporation becomes 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.

1) 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 are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

i. 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.

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

- i) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii) The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- iii) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be 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.

Fair value is determined in the manner described in Note 24.

ii. 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.

Financial Highlights

Available-for-sale financial assets are measured at fair value. 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 will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Corporation's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

Loans and receivables (including cash and cash equivalents, debt investments with no active market, trade receivables and accounts receivable (including related parties), other receivables, other financial assets (included in other current assets) and guarantee deposits paid (included in other non-current assets) are measured at amortized cost using the effective interest method less any impairment, except for short-term receivables when the effect of discounting is immaterial.

b) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, 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.

For financial assets carried at amortized cost, such as accounts receivable are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Corporation's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables, and other situation.

For financial assets carried at amortized cost, 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.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

Financial Highlights

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and other receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers 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 is recognized in profit or loss.

2) Derivative financial instruments

The Corporation enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, convertible bonds, convertible preference shares and foreign exchange rate swaps.

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 the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Financial Highlights

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through profit or loss.

l. Hedge accounting

The Corporation designates certain hedging instruments for as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the Corporation revokes the designated hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when the hedging instrument no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

m. Provisions

Provisions are measured at the best estimate of the discounted cash flows 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.

Provisions for the expected cost of warranty obligations are recognized at the date of sale of the relevant products at the best estimate by the management of the Corporation of the expenditure required to settle the Corporation's obligation.

n. 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. Allowance for sales returns and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a) The Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Corporation 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;

Financial Highlights

- d) It is probable that the economic benefits associated with the transaction will flow to the Corporation; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Rendering of services

Service income including that from operating service provided under service concession arrangements is recognized when services are provided.

3) Royalties

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement provided that it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be measured reliably. Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognized by reference to the underlying arrangement.

4) Dividend and interest income

Dividend income from investments is recognized when the shareholders' right to receive payment has been established provided that it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate.

o. Government grants

Government grants are not recognized until there is reasonable assurance that the Corporation will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Corporation recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Corporation should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

p. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

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

Financial Highlights

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 and past service cost) 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 it occurs. 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 represents the actual deficit in the Corporation's defined benefit plan.

q. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities 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, and unused loss carry forward 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 Corporation 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 and interests 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 asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow 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 period in which the liability is settled or the asset 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 Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Financial Highlights

3) 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, in which case, the current and deferred tax are also recognized in other comprehensive income.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Corporation's accounting policies, management is 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 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 period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Write-down of Inventory

The net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of the net realizable value was based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Cash		
Cash on hand	\$ 3,009	\$ 5,225
Checking accounts and demand deposits	<u>1,904,477</u>	<u>941,206</u>
	<u>1,907,486</u>	<u>946,431</u>
Cash equivalents		
Time deposits	8,424,332	7,721,750
Repurchase agreements collateralized by bonds	<u>518,672</u>	<u>1,717,029</u>
	<u>8,943,004</u>	<u>9,438,779</u>
	<u>\$ 10,850,490</u>	<u>\$ 10,385,210</u>

Cash equivalents, for the purpose of meeting short-term cash commitments, consist of highly liquid time deposits and repurchase agreements collateralized by bonds that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial Highlights

The interest rate intervals of cash on bank and repurchase agreements collateralized by bonds at the end of the reporting period were as follows:

	December 31	
	2016	2015
Checking accounts and demand deposits	0.00%-2.00%	0.00%-0.50%
Time deposits	0.29%-1.17%	0.50%-1.35%
Repurchase agreements collateralized by bonds	0.35%-0.40%	0.40%-0.42%

The Corporation's hedging strategy is to buy Japanese yen (JPY) at the spot rate to avoid its foreign currency exposure in relation to Japanese yen (JPY) forecasted purchases. The Corporation purchased JPY853,173 thousand at the spot rate in 2016. When the forecasted purchases will actually take place, the carrying amounts of the non-financial hedged items will be adjusted accordingly.

At the end of the reporting period, Japanese yen (JPY) bought at the spot rate, which was not offset, was as follow:

Currency	Due Date	Notional Amount (In Thousands)
JPY/NTD	January 28, 2017	JPY53,173/NTD14,655
JPY/NTD	January 28, 2017	JPY100,000/NTD27,560
JPY/NTD	January 28, 2017	JPY100,000/NTD27,560
JPY/NTD	February 9, 2017	JPY100,000/NTD27,560
JPY/NTD	February 9, 2017	JPY100,000/NTD27,560
JPY/NTD	February 11, 2017	JPY100,000/NTD27,560
JPY/NTD	February 14, 2017	JPY100,000/NTD27,560
JPY/NTD	February 15, 2017	JPY100,000/NTD27,560
JPY/NTD	February 15, 2017	JPY100,000/NTD27,560

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2016	2015
<u>Financial assets - current</u>		
Financial assets designated as at FVTPL		
Convertible bonds	\$ -	\$ 61,103
Financial assets held for trading		
Non-derivative financial assets		
Mutual funds	-	79,629
Domestic listed shares	-	2,420
	-	82,049
Derivative financial assets		
Forward foreign exchange contracts	812	-
Preference share options	-	1,913
	812	1,913
	<u>\$ 812</u>	<u>\$ 145,065</u>

(Continued)

Financial Highlights

	<u>December 31</u>	
	2016	2015
<u>Financial liabilities - current (included in other current liabilities)</u>		
Financial liabilities held for trading		
Derivative financial liabilities		
Foreign exchange rate swaps	\$ -	\$ 299
		(Concluded)

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

December 31, 2016

Transaction	Currency	Maturity Date	Notional Amount (In Thousands)
Buy	USD/NTD	2017.2.14	USD1,000/NTD31,385

At the end of the reporting period, outstanding foreign exchange rate swaps not under hedge accounting were as follows:

December 31, 2015

Notional Amounts	Maturity Date	Exchange Rate-buy	Exchange Rate-sell
EUR 1,672	2016.06.23	1.0865 (EUR:USD)	1.0922 (EUR:USD)

The Corporation entered into foreign exchange forward contracts and foreign exchange rate swaps to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	2016	2015
<u>Current</u>		
Domestic investments		
Mutual funds	\$ 573,314	\$ 622,739
Listed shares	-	30,137
	<u>\$ 573,314</u>	<u>\$ 652,876</u>
<u>Non-current</u>		
Domestic investments		
Unlisted shares	\$ 732,680	\$ 844,733
Listed shares	112,132	27,617
	<u>\$ 844,812</u>	<u>\$ 872,350</u>

Financial Highlights

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGING

	<u>December 31</u>	
	2016	2015
<u>Derivative financial assets under hedge accounting - current (included in other current assets)</u>		
Foreign exchange forward contracts	\$ <u>1,371</u>	\$ <u>1,916</u>
<u>Derivative financial liabilities under hedge accounting - current (included in other current liabilities)</u>		
Foreign exchange forward contracts	\$ <u>16,546</u>	\$ <u>227</u>

The Corporation's hedging strategy is to enter into foreign exchange forward contracts to avoid exchange rate exposure on its forecasted Japanese yen (JPY) purchases. When the forecasted purchases actually take place, the carrying amounts of the non-financial hedged items will be adjusted accordingly.

The Corporation's outstanding foreign exchange forward contracts at the end of the reporting period were as follows:

Transaction	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2016</u>			
Buy	JPY/NTD	2017.02.24-2017.07.31	JPY1,200,000/NTD347,250
<u>December 31, 2015</u>			
Buy	JPY/NTD	2016.01.29-2016.03.04	JPY700,000/NTD189,930

Gains and losses of hedging instruments reclassified from equity to cost of goods sold were \$6,188 thousand and \$795 thousand for the years ended December 31, 2016 and 2015, respectively.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	2016	2015
<u>Notes receivable</u>		
Notes receivable - operating	\$ 79,301	\$ 107,658
Less: Allowance for impairment loss	<u>(793)</u>	<u>(1,076)</u>
	<u>\$ 78,508</u>	<u>\$ 106,582</u>
<u>Accounts receivable</u>		
Accounts receivable	\$ 598,827	\$ 395,436
Less: Allowance for impairment loss	<u>(5,954)</u>	<u>(3,946)</u>
	<u>\$ 592,873</u>	<u>\$ 391,490</u>

Financial Highlights

In determining the recoverability of notes receivable and accounts receivable, the Corporation considered any change in the credit quality of the notes receivables and accounts receivable since the date credit was initially granted to the end of the reporting period. Due to insignificant risks on the recoverability of the Corporation's notes receivable and accounts receivable historically, allowance for impairment loss was recognized based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

For the notes receivable and accounts receivable balances that were past due at the end of the reporting period, the Corporation did not recognize an allowance for impairment loss, because there was no significant change in credit quality and the amounts were still considered recoverable. The Corporation did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

	December 31	
	2016	2015
0 days	\$ 656,672	\$ 489,212
1-60 days	11,342	13,452
61-90 days	2,111	430
More than 90 days	<u>8,003</u>	<u>-</u>
	<u>\$ 678,128</u>	<u>\$ 503,094</u>

The above aging schedule was based on the number of days past due from the end of the credit term.

The allowance for impairment loss of notes receivable and accounts receivable of the Corporation was collectively assessed, and the movements were as follows:

	2016	2015
Balance at January 1	\$ 5,022	\$ 5,644
Add: Impairment losses recognized on receivables	1,725	-
Less: Impairment losses reversed	<u>-</u>	<u>(622)</u>
Balance at December 31	<u>\$ 6,747</u>	<u>\$ 5,022</u>

11. INVENTORIES

	December 31	
	2016	2015
Finished goods	\$ 1,980,271	\$ 1,715,073
Work in progress	65,243	41,801
Raw materials	1,727,687	1,477,809
Materials in transit	<u>243,262</u>	<u>533,420</u>
	<u>\$ 4,016,463</u>	<u>\$ 3,768,103</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was \$25,259,945 thousand and \$23,402,169 thousand, respectively. The cost of goods sold for the years ended December 31, 2016 and 2015 included write-downs of inventory of \$13,997 thousand and the reversal of write-downs of inventory of \$3,700 thousand, respectively. Previous write-downs were reversed as a result of the disposal of obsolete inventories.

Financial Highlights

12. FINANCIAL ASSETS MEASURED AT COST

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Domestic unlisted ordinary shares	\$ 56,937	\$ 56,937
Overseas unlisted ordinary shares	<u>3,471</u>	<u>3,584</u>
	<u>\$ 60,408</u>	<u>\$ 60,521</u>
Classified according to financial asset measurement categories		
Available-for-sale financial assets	<u>\$ 60,408</u>	<u>\$ 60,521</u>

Management believed that the above unlisted equity investments held by the Corporation had fair values which could not be reliably measured because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of reporting period.

The Corporation recognized impairment losses of \$113 thousand and \$2,118 thousand in 2016 and 2015, respectively, on these investments based on forecasted cash flows and the market return rate.

13. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Current</u>		
Bonds	<u>\$ 32,308</u>	<u>\$ -</u>
<u>Non-current</u>		
Bonds	\$ 1,176,965	\$ 1,956,471
Principal guaranteed notes	512,487	-
Preference shares	<u>296,940</u>	<u>293,608</u>
	<u>\$ 1,986,392</u>	<u>\$ 2,250,079</u>

- a. The range of bonds' coupon rate was 1.59%-5.88% and 1.88%-5.88% per annum as of December 31, 2016 and 2015, respectively.
- b. The range of principal guaranteed notes' coupon rate was 3.85% per annum as of December 31, 2016.
- c. The range of preference shares' coupon rate was 3.70% and 3.25% per annum as of December 31, 2016 and 2015, respectively.

Financial Highlights

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2016	2015
Investments in subsidiaries	\$ 9,207,293	\$ 9,468,732
Investments in associates	19,616,928	20,051,311
Investments in joint ventures	<u>1,295,405</u>	<u>1,269,091</u>
	<u>\$ 30,119,626</u>	<u>\$ 30,789,134</u>

a. Investments in subsidiaries

Name of Subsidiaries	December 31	
	2016	2015
Listed companies		
Kian Shen	<u>\$ 1,802,753</u>	<u>\$ 1,706,806</u>
Unlisted companies		
Sino Diamond Motors	2,762,828	2,948,447
Alliance Investment & Management	1,644,020	1,745,500
China Motor Investment	1,092,175	1,173,642
COC Tooling & Stamping	756,924	677,433
Hwa Wei Holdings	721,913	774,562
Gatetech Technology	213,675	212,943
China Engine	147,964	164,924
Hwa Chung Motors	65,041	64,475
Hwa Hann	-	-
	<u>7,404,540</u>	<u>7,761,926</u>
	<u>\$ 9,207,293</u>	<u>\$ 9,468,732</u>

Name of Subsidiaries	Proportion of Ownership and Voting Rights	
	December 31	
	2016	2015
Listed company		
Kian Shen	43.87%	43.87%
Unlisted companies		
Sino Diamond Motors	100.00%	100.00%
Alliance Investment & Management	100.00%	100.00%
China Motor Investment	100.00%	100.00%
COC Tooling & Stamping	49.76%	49.76%
Hwa Wei Holdings	40.00%	40.00%
Gatetech Technology	56.53%	56.53%
China Engine	18.95%	18.95%
Hwa Chung Motors	100.00%	100.00%
Hwa Hann	48.99%	48.99%

Although the Corporation's equity interests in Kian Shen and COC Tooling & Stamping did not each exceed 50%, the Corporation had control over these investees. Thus, Kian Shen and COC Tooling & Stamping were included in the Corporation's consolidated financial statements.

Financial Highlights

The Corporation's investments in China Engine, Hwa Wei Holdings and Hwa Hann, although less than 50% of the investee's outstanding ordinary shares, was accounted for by using the equity method since the combined investments of the Corporation and its subsidiaries in these companies exceeded 50% of their respective outstanding ordinary shares.

CMC Investment's board of directors determined that it would with the Corporation. The merger occurred on March 31, 2016 with the Corporation as the acquiring company and CMC Investment as the acquired company. In compliance with "Comments on IFRS" and Interpretation 2012-301 of the Accounting Research and Development Foundation, the merger resulted in a joint control restructuring. Therefore, in preparing comparative financial statements, the merger is presented as if it had occurred on January 1, 2016, and the Corporation's financial statements as of and for the year ended December 31, 2015 are restated.

The board of Hwa Hann decided to dissolve the Corporation in April 2009. The liquidation had not been completed as of December 31, 2016.

The investments in subsidiaries accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments was based on the subsidiaries' audited financial statements audited for the same years.

b. Investments in associates

Associates	December 31	
	2016	2015
Material associates		
Yulon	\$ 11,238,239	\$ 11,552,676
Associates that are not individually material	<u>8,378,689</u>	<u>8,498,635</u>
	<u>\$ 19,616,928</u>	<u>\$ 20,051,311</u>

1) Material associates

Refer to Table 6 for the nature of activities, principal place of business and country of incorporation of the associates.

The Corporation has held 16.80% of interest in Yulon as of December 31, 2016 and 2015, respectively.

The Corporation exercises significant influence over Yulon and applies the equity method of accounting because the Corporation and Yulon share the same president of the board of directors even though the Corporation holds a less than 20% of interest in Yulon.

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments was based on the associates' financial statements audited by the auditor for the same year.

Fair value (Level 1) of investments in associates with available published price quotation are summarized as follows:

Name of Associate	December 31	
	2016	2015
Yulon	<u>\$ 7,027,715</u>	<u>\$ 7,919,291</u>

Above associates are accounted for using the equity method.

Financial Highlights

The summarized financial information below represents amounts shown in the associates' consolidated financial statements prepared in accordance with IFRSs adjusted by the Corporation for equity accounting purposes.

Yulon

	December 31	
	2016	2015
Current assets	\$ 131,584,835	\$ 122,157,795
Non-current assets	89,686,806	89,844,295
Current liabilities	(132,381,417)	(118,623,293)
Non-current liabilities	<u>(9,827,404)</u>	<u>(12,197,154)</u>
Equity	79,062,820	81,181,643
Non-controlling interests	<u>(9,348,274)</u>	<u>(9,703,719)</u>
	<u>\$ 69,714,546</u>	<u>\$ 71,477,924</u>
Proportion of the Corporation's ownership	16.80%	16.80%
Equity attributable to the Corporation	\$ 11,712,044	\$ 12,008,291
Cross shareholdings	<u>(473,805)</u>	<u>(455,615)</u>
Carrying amount	<u>\$ 11,238,239</u>	<u>\$ 11,552,676</u>
	For the Year Ended December 31	
	2016	2015
Operating revenue	<u>\$ 112,166,685</u>	<u>\$ 122,525,821</u>
Net profit for the year	\$ 1,779,223	\$ 3,919,292
Other comprehensive loss	<u>(1,928,172)</u>	<u>(907,689)</u>
Total comprehensive income (loss) for the year	<u>\$ (148,949)</u>	<u>\$ 3,011,603</u>
Dividends received from Yulon	<u>\$ 236,005</u>	<u>\$ 183,560</u>

2) Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2016	2015
The Corporation's share of:		
Net profit for the year	\$ 679,059	\$ 680,358
Other comprehensive loss	<u>(211,333)</u>	<u>(128,931)</u>
Total comprehensive income for the year	<u>\$ 467,726</u>	<u>\$ 551,427</u>

Above associates are accounted for using the equity method.

Investments in associates that are not individually material were accounted for by the equity method although the Corporation holds less than 20% interest since the Corporation exercises significant influence on their major transactions or shares the same president of the board.

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments was based on the associates' financial statements audited by the auditor for the same year.

Financial Highlights

c. Investments in joint ventures

	<u>December 31</u>	
	2016	2015
Joint ventures that are not individually material	<u>\$ 1,295,405</u>	<u>\$ 1,269,091</u>
Aggregate information of joint ventures that are not individually material		
	<u>For the Year Ended December 31</u>	
	2016	2015
The Corporation's share of:		
Net profit (loss) for the year	\$ 143,910	\$ (162,750)
Other comprehensive loss	<u>(117,596)</u>	<u>(3,673)</u>
Total comprehensive income (loss) for the year	<u>\$ 26,314</u>	<u>\$ (166,423)</u>

All joint ventures are accounted for using the equity method.

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments was based on the joint ventures' financial statements audited by the auditor for the same year.

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery	Other Equipment	Construction in Progress	Total
<u>Cost</u>							
Balance at January 1, 2015	\$ 665,075	\$ 74,391	\$ 3,054,461	\$ 20,807,937	\$ 1,065,276	\$ 602,404	\$ 26,269,544
Additions	-	-	-	-	11,815	771,188	783,003
Disposals	-	-	-	(375,090)	(76,647)	-	(451,737)
Reclassifications	-	10,050	931	805,694	29,732	(866,627)	(20,220)
Balance at December 31, 2015	<u>\$ 665,075</u>	<u>\$ 84,441</u>	<u>\$ 3,055,392</u>	<u>\$ 21,238,541</u>	<u>\$ 1,030,176</u>	<u>\$ 506,965</u>	<u>\$ 26,580,590</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2015		\$ 71,127	\$ 2,548,704	\$ 19,426,117	\$ 853,086	\$ -	\$ 22,899,034
Disposals		-	-	(373,474)	(31,540)	-	(405,014)
Depreciation expense		955	67,708	487,167	31,694	-	587,524
Reclassifications		236	(3,675)	(29,704)	29,704	-	(3,439)
Balance at December 31, 2015		<u>\$ 72,318</u>	<u>\$ 2,612,737</u>	<u>\$ 19,510,106</u>	<u>\$ 882,944</u>	<u>\$ -</u>	<u>\$ 23,078,105</u>
Carrying amounts at December 31, 2015	<u>\$ 665,075</u>	<u>\$ 12,123</u>	<u>\$ 442,655</u>	<u>\$ 1,728,435</u>	<u>\$ 147,232</u>	<u>\$ 506,965</u>	<u>\$ 3,502,485</u>
<u>Cost</u>							
Balance at January 1, 2016	\$ 665,075	\$ 84,441	\$ 3,055,392	\$ 21,238,541	\$ 1,030,176	\$ 506,965	\$ 26,580,590
Additions	-	-	-	1,070	73,731	581,312	656,113
Disposals	-	-	(80)	(536,933)	(51,138)	-	(588,151)
Reclassifications	-	2,945	10,893	593,100	52,643	(671,689)	(12,108)
Balance at December 31, 2016	<u>\$ 665,075</u>	<u>\$ 87,386</u>	<u>\$ 3,066,205</u>	<u>\$ 21,295,778</u>	<u>\$ 1,105,412</u>	<u>\$ 416,588</u>	<u>\$ 26,636,444</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2016		\$ 72,318	\$ 2,612,737	\$ 19,510,106	\$ 882,944	\$ -	\$ 23,078,105
Disposals		-	(80)	(536,933)	(30,497)	-	(567,510)

(Continued)

Financial Highlights

	Land	Land Improvements	Buildings	Machinery	Other Equipment	Construction in Progress	Total
Depreciation expense		\$ 4,165	\$ 67,608	\$ 547,075	\$ 35,249	\$ -	\$ 654,097
Reclassifications		<u>-</u>	<u>-</u>	<u>66</u>	<u>(66)</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2016		<u>\$ 76,483</u>	<u>\$ 2,680,265</u>	<u>\$ 19,520,314</u>	<u>\$ 887,630</u>	<u>\$ -</u>	<u>\$ 23,164,692</u>
Carrying amounts at December 31, 2016	<u>\$ 665,075</u>	<u>\$ 10,903</u>	<u>\$ 385,940</u>	<u>\$ 1,775,464</u>	<u>\$ 217,782</u>	<u>\$ 416,588</u>	<u>\$ 3,471,752</u>

(Concluded)

Except for tooling (included in machinery), which is depreciated on an expected production quantity basis, the above items of property, plant and equipment were depreciated on a straight-line basis over their estimated useful lives as follows:

Category	
Land improvements	3-20 years
Buildings	3-55 years
Machinery	3-15 years
Other equipment	3-15 years

16. INVESTMENT PROPERTIES

Cost

Balance at January 1, 2015	\$ 1,258,685
Reclassification	<u>20,220</u>
Balance at December 31, 2015	<u>\$ 1,278,905</u>

Accumulated depreciation and impairment

Balance at January 1, 2015	\$ 411,758
Depreciation expense	17,357
Reclassification	<u>3,439</u>
Balance at December 31, 2015	<u>\$ 432,554</u>
Carrying amounts at December 31, 2015	<u>\$ 846,351</u>

Cost

Balance at January 1, 2016	\$ 1,278,905
Reclassification	<u>12,108</u>
Balance at December 31, 2016	<u>\$ 1,291,013</u>

Accumulated depreciation and impairment

Balance at January 1, 2016	\$ 432,554
Depreciation expense	<u>18,382</u>
Balance at December 31, 2016	<u>\$ 450,936</u>
Carrying amounts at December 31, 2016	<u>\$ 840,077</u>

Financial Highlights

The investment properties held by the Corporation were depreciated over their estimated 10-60 years useful lives, using the straight-line method.

The fair value of investment properties of the Corporation were \$1,328,640 thousand and \$1,434,060 thousand as of December 31, 2016 and 2015, respectively. Except for a part of investment properties appraised by the independent valuer, Po Hung Chen, as of December 31, 2016 and 2015, others as of December 31, 2016 and 2015 were appraised by the Corporation's management using the valuation model, which other market participants frequently use. The valuation from management was arrived at by reference to market evidence of transaction prices for similar properties. The independent valuer's valuation referenced the weighted analysis of cost and revenue method, and assumed a discount rate of 3.04% and 3.18% as of December 31, 2016 and 2015, respectively, and a capitalization rate of 2.24% as of both dates.

17. OTHER PAYABLES

	December 31	
	2016	2015
Payable for salaries or bonus	\$ 1,063,230	\$ 999,032
Payable for warranties	154,642	138,627
Payable for taxes	150,637	170,378
Provisions for employee benefit	116,791	98,822
Payable for development costs	80,327	136,196
Others	<u>564,707</u>	<u>567,917</u>
	<u>\$ 2,130,334</u>	<u>\$ 2,110,972</u>

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Corporation adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plan adopted by the Corporation in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Corporation contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Corporation has no right to influence the investment policy and strategy.

Financial Highlights

The amounts included in the balance sheets in respect of the Corporation's defined benefit plans were as follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Present value of defined benefit obligation	\$ 2,054,800	\$ 1,868,681
Fair value of plan assets	<u>(925,618)</u>	<u>(48,011)</u>
Net defined benefit liability	<u>\$ 1,129,182</u>	<u>\$ 1,820,670</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2015	<u>\$ 1,807,076</u>	<u>\$ (67,546)</u>	<u>\$ 1,739,530</u>
Service cost			
Current service cost	39,420	-	39,420
Past service cost	18,569	-	18,569
Net interest expense (income)	<u>33,883</u>	<u>(1,446)</u>	<u>32,437</u>
Recognized in loss (profit)	<u>91,872</u>	<u>(1,446)</u>	<u>90,426</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(84)	(84)
Actuarial loss - changes in demographic assumptions	11,775	-	11,775
Actuarial loss - changes in financial assumptions	56,410	-	56,410
Actuarial loss - experience adjustments	<u>18,307</u>	<u>-</u>	<u>18,307</u>
Recognized in other comprehensive income	<u>86,492</u>	<u>(84)</u>	<u>86,408</u>
Contributions from the employer	-	(18,641)	(18,641)
Benefits paid	(39,706)	39,706	-
Portion of benefits paid by the Corporation	<u>(77,053)</u>	<u>-</u>	<u>(77,053)</u>
Balance at December 31, 2015	<u>1,868,681</u>	<u>(48,011)</u>	<u>1,820,670</u>
Service cost			
Current service cost	38,956	-	38,956
Past service cost	8,479	-	8,479
Net interest expense (income)	<u>30,366</u>	<u>(930)</u>	<u>29,436</u>
Recognized in loss (profit)	<u>77,801</u>	<u>(930)</u>	<u>76,871</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(4,109)	(4,109)
Actuarial loss - changes in demographic assumptions	6,760	-	6,760
Actuarial loss - changes in financial assumptions	147,562	-	147,562
Actuarial loss - experience adjustments	<u>48,436</u>	<u>-</u>	<u>48,436</u>
Recognized in other comprehensive income	<u>202,758</u>	<u>(4,109)</u>	<u>198,649</u>
Contributions from the employer	-	(913,836)	(913,836)
Benefits paid	(41,268)	41,268	-
Portion of benefits paid by the Corporation	<u>(53,172)</u>	<u>-</u>	<u>(53,172)</u>
Balance at December 31, 2016	<u>\$ 2,054,800</u>	<u>\$ (925,618)</u>	<u>\$ 1,129,182</u>

Financial Highlights

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	For the Year Ended December 31	
	2016	2015
Operating costs	\$ 42,666	\$ 50,300
Selling and marketing expenses	2,714	3,211
General and administrative expenses	3,742	6,403
Research and development expenses	<u>26,356</u>	<u>28,743</u>
	<u>\$ 75,478</u>	<u>\$ 88,657</u>

The amount of disbursement of defined benefit plans of associates is \$1,393 thousand and \$1,769 thousand in 2016 and 2015, respectively.

Through the defined benefit plans under the Labor Standards Law, the Corporation is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic (foreign) equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2016	2015
Discount rate	1.000%	1.625%
Expected rate of salary increase	1.000%	1.000%

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:

	December 31	
	2016	2015
Discount rate		
0.25% increase	<u>\$ (60,852)</u>	<u>\$ (56,497)</u>
0.25% decrease	<u>\$ 63,412</u>	<u>\$ 58,926</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 62,183</u>	<u>\$ 58,118</u>
0.25% decrease	<u>\$ (59,968)</u>	<u>\$ (55,984)</u>

Financial Highlights

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.

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
The expected contributions to the plan for the next year	<u>\$ 249,209</u>	<u>\$ 913,835</u>
The average duration of the defined benefit obligation	12.2 years	12.6 years

19. EQUITY

a. Ordinary shares

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Numbers of shares authorized (in thousands)	<u>1,800,000</u>	<u>1,800,000</u>
Amount of shares authorized	<u>\$ 18,000,000</u>	<u>\$ 18,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>1,384,051</u>	<u>1,384,051</u>
Shares issued	<u>\$ 13,840,508</u>	<u>\$ 13,840,508</u>

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and the right to dividends.

b. Capital surplus

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note 1)</u>		
Conversion of bonds	\$ 5,183,923	\$ 5,183,923
Issuance of ordinary shares	1,184,920	1,184,920
Others	4,666	4,666
<u>May be used to offset a deficit only</u>		
Changes in percentage of ownership interest in subsidiaries (Note 2)	2,225	2,225
Share of changes in capital surplus of associates	<u>31,486</u>	<u>29,172</u>
	<u>\$ 6,407,220</u>	<u>\$ 6,404,906</u>

Note 1: Such capital surplus may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and once a year).

Note 2: Such capital surplus arises from the effect of changes in ownership interest in a subsidiary resulted from equity transactions other than actual disposal or acquisition, or from changes in capital surplus of subsidiaries accounted for using equity method.

Financial Highlights

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting in June 2016 and, in that meeting, had resolved amendments to the Corporation's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes and offsetting losses of previous years, then for setting aside as legal reserve 10% of the remaining profit. If there is remaining profit, the profit shall be utilized for setting aside a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution. For the policies on distribution of employees' compensation and remuneration of directors after amendment, refer to Note 20.

The operating of the Corporation is considered as a mature and steady industry. In determining dividend amounts, the Corporation takes its future capital expenditures and related factors into account and also seeks to uphold the shareholders' interests and realize the Corporation's long-term financial plan. Dividends are distributed no less than 40% of profits after tax, yet dividends cannot be distributed if the Corporation has deficit. Dividends are in the form of cash or stock. The Corporation's policy is that cash dividends should be at least 20% of total dividends.

Appropriation of earnings to the legal reserve shall be made until the legal reserve equals the Corporation's paid-in capital. The legal reserve may be used to offset deficits. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reserved from a special reserve by the Corporation.

All shareholders receiving the dividends are not allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation when appropriating the earnings before 1997. Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation when appropriating the earnings after 1998.

The appropriations of earnings for 2015 and 2014 approved in the shareholders' meetings in June 2016 and 2015 respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2015	For Year 2014	For Year 2015	For Year 2014
Legal reserve	\$ 316,610	\$ 255,829	\$ -	\$ -
Cash dividends	2,076,076	1,591,658	1.50	1.15

Information on the bonus to employees and the remuneration of directors and supervisors approved in the shareholders' meetings is available on the Market Observation Post System website of the Taiwan Stock Exchange.

Financial Highlights

The appropriation of earnings for 2016 had been proposed by the Corporation's board of directors on March 27, 2017. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 318,910	\$ -
Cash dividends	2,214,481	1.6

The appropriation of earnings for 2016 are subject to the resolution in the shareholders meeting to be held in June 2017.

d. Special reserves

	For the Year Ended December 31	
	2016	2015
Beginning at January 1	\$ 1,051,673	\$ 1,057,002
Reversal:		
Disposal of property, plant and equipment	(15)	(14)
Disposal of subsidiaries and associates	<u>-</u>	<u>(5,315)</u>
Balance at December 31	<u>\$ 1,051,658</u>	<u>\$ 1,051,673</u>

e. Others equity items

1) Exchange differences on translating the financial statements of foreign operations

	2016	2015
Balance at January 1	\$ 571,137	\$ 750,561
Share of exchange differences on of subsidiaries, associates and joint ventures accounted for using the equity method	<u>(839,195)</u>	<u>(179,424)</u>
Balance at December 31	<u>\$ (268,058)</u>	<u>\$ 571,137</u>

2) Unrealized gain (loss) on available-for-sale financial assets

	2016	2015
Balance at January 1	\$ 897,338	\$ 1,035,801
Unrealized gain arising on revaluation of available-for-sale financial assets	(57,706)	(49,343)
Share of unrealized gain (loss) on revaluation of available-for-sale financial assets of subsidiaries and associates accounted for using the equity method	<u>11,352</u>	<u>(89,120)</u>
Balance at December 31	<u>\$ 850,984</u>	<u>\$ 897,338</u>

Financial Highlights

3) Total gain (loss) on effective portion of cash flow hedges

	2016	2015
Balance at January 1	\$ 1,402	\$ -
Transferred to initial carrying amount of hedged items		
Foreign exchange rate swaps	(19,326)	-
Foreign exchange forward contracts	(16,864)	1,689
Related income tax	<u>6,153</u>	<u>(287)</u>
Balance at December 31	<u>\$ (28,635)</u>	<u>\$ 1,402</u>

20. NET PROFIT

Net profit concludes as follow:

a. Depreciation and amortization

	<u>For the Year Ended December 31</u>	
	2016	2015
An analysis of depreciation by function		
Operating costs	\$ 574,377	\$ 517,822
Operating expenses	<u>98,102</u>	<u>87,059</u>
	<u>\$ 672,479</u>	<u>\$ 604,881</u>
An analysis of amortization by function		
Operating expenses	<u>\$ 37,676</u>	<u>\$ 29,178</u>
An analysis of amortization in intangible assets by function		
Research and development expenses	<u>\$ 37,808</u>	<u>\$ 37,808</u>

b. Rental income and operating expenses directly related to investment properties

	<u>For the Year Ended December 31</u>	
	2016	2015
Rental income from investment properties	<u>\$ 42,376</u>	<u>\$ 41,872</u>
Direct operating expenses from investment properties that generated rental income	<u>\$ 20,809</u>	<u>\$ 19,477</u>

c. Employee benefits expense

	<u>For the Year Ended December 31</u>	
	2016	2015
Short-term benefits	\$ 2,533,883	\$ 2,383,909
Post-employment benefits		
Defined contribution plans	42,716	40,037
Defined benefit plans	<u>75,478</u>	<u>88,657</u>
	<u>\$ 2,652,077</u>	<u>\$ 2,512,603</u>

(Continued)

Financial Highlights

	<u>For the Year Ended December 31</u>	
	2016	2015
An analysis of employee benefits expense by function		
Operating costs	\$ 1,346,098	\$ 1,242,999
Operating expenses	<u>1,305,979</u>	<u>1,269,604</u>
	<u>\$ 2,652,077</u>	<u>\$ 2,512,603</u>
		(Concluded)

For the years ended December 31, 2016 and 2015, the Corporation's number of employees was 2,038 and 1,965, respectively.

In compliance with the Company Act as amended in May 2015, and the amended Articles of Incorporation of the Corporation approved by the shareholders in their meeting in June 2016, the Corporation accrued employees' compensation and remuneration of directors at rates of no less than 0.1% and no higher than 0.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors (including directors with the term of service ended on June 30, 2016). The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Corporation's board of directors in March 2017 and 2016, respectively, were as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	2016	2015
Employees' compensation	0.52%	0.60%
Remuneration of directors and supervisors	0.50%	0.50%

Amount

	<u>For the Year Ended December 31</u>	
	2016	2015
	Cash	Cash
Employees' compensation	\$ 18,426	\$ 21,054
Remuneration of directors and supervisors	17,822	17,468

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

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

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

Financial Highlights

The bonuses to employees and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meetings in June 2015, were as follows:

	For the Year Ended December 31, 2014
	<u>Cash</u>
Bonus to employees	\$ 12,876
Remuneration of directors and supervisors	11,512

There was no difference between the amounts of bonus to employees and the remuneration of directors and supervisors approved in the shareholders' meetings in June 2015 and the amounts recognized in the financial statements for the year ended December 31, 2014.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the shareholders' meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

21. INCOME TAXES

a. Income tax recognized in profit or loss

Major components of tax expense were as follows:

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current year	\$ 218,928	\$ 234,206
Adjustments for the prior years	<u>(389)</u>	<u>(17,678)</u>
	<u>218,539</u>	<u>216,528</u>
Deferred tax		
In respect of the current year	125,393	73,795
Adjustments for the prior years	<u>(4,932)</u>	<u>-</u>
	<u>120,461</u>	<u>73,795</u>
Income tax expense recognized in profit or loss	<u>\$ 339,000</u>	<u>\$ 290,323</u>

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year Ended December 31	
	2016	2015
Profit before tax	<u>\$ 3,528,100</u>	<u>\$ 3,456,427</u>
Income tax expense calculated at the tax rate (17%)	\$ 599,777	\$ 587,593
Tax-exempt income	(210,549)	(210,984)
Additional income tax on unappropriated earnings	59,127	69,570
Investment credits	(75,390)	(78,036)
Unrecognized investment credits	-	1,136
Unrecognized deductible temporary differences	(28,644)	(61,638)
Adjustments for prior years' tax	(5,321)	(17,678)
Others	<u>-</u>	<u>360</u>
Income tax expense recognized in profit or loss	<u>\$ 339,000</u>	<u>\$ 290,323</u>

Financial Highlights

The applicable tax rate used above is the corporate tax rate of 17% payable by the Corporation in ROC.

As the status of the 2017 appropriation of earnings is uncertain, the potential income tax consequences of the 2016 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
<u>Deferred tax</u>		
Remeasurement on defined benefit plans	\$ 33,770	\$ 14,689
Total gain (loss) on effective portion of cash flow hedges	<u>6,153</u>	<u>(287)</u>
Total income tax recognized in other comprehensive income	<u>\$ 39,923</u>	<u>\$ 14,402</u>

c. Current tax assets and liabilities

	December 31	
	2016	2015
<u>Current tax assets</u>		
Tax refund receivable (included in other current assets)	<u>\$ 6,889</u>	<u>\$ 2,295</u>
<u>Current tax liabilities</u>		
Income tax payable	<u>\$ 129,135</u>	<u>\$ 136,533</u>

d. 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

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Closing Balance
<u>Deferred tax assets</u>					
Temporary difference					
Defined benefit plans	\$ 288,887	\$ (151,319)	\$ 33,770	\$ -	\$ 171,338
Other payables	40,139	5,560	-	-	45,699
Inventories	11,391	2,380	-	-	13,771
Others	<u>11,221</u>	<u>13,586</u>	<u>5,866</u>	-	<u>30,673</u>
	351,638	(129,793)	39,636	-	261,481
Loss carryforwards	<u>63,971</u>	<u>4,932</u>	-	-	<u>68,903</u>
	<u>\$ 415,609</u>	<u>\$ (124,861)</u>	<u>\$ 39,636</u>	<u>\$ -</u>	<u>\$ 330,384</u>
<u>Deferred tax liabilities</u>					
Temporary difference					
Cash flow hedges	\$ 287	\$ -	\$ (287)	\$ -	\$ -
Others	<u>4,516</u>	<u>(4,400)</u>	-	-	<u>116</u>
	<u>\$ 4,803</u>	<u>\$ (4,400)</u>	<u>\$ (287)</u>	<u>\$ -</u>	<u>\$ 116</u>

Financial Highlights

For the year ended December 31, 2015

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Closing Balance
<u>Deferred tax assets</u>					
Temporary difference					
Defined benefit plans	\$ 275,089	\$ (891)	\$ 14,689	\$ -	\$ 288,887
Other payables	35,209	4,930	-	-	40,139
Inventories	12,020	(629)	-	-	11,391
Others	<u>49,201</u>	<u>(37,980)</u>	<u>-</u>	<u>-</u>	<u>11,221</u>
	371,519	(34,570)	14,689	-	351,638
Loss carryforwards	<u>50,395</u>	<u>(50,366)</u>	<u>-</u>	<u>63,942</u>	<u>63,971</u>
	<u>\$ 421,914</u>	<u>\$ (84,936)</u>	<u>\$ 14,689</u>	<u>\$ 63,942</u>	<u>\$ 415,609</u>
<u>Deferred tax liabilities</u>					
Temporary difference					
Cash flow hedges	\$ -	\$ -	\$ 287	\$ -	\$ 287
Others	<u>15,657</u>	<u>(11,141)</u>	<u>-</u>	<u>-</u>	<u>4,516</u>
	<u>\$ 15,657</u>	<u>\$ (11,141)</u>	<u>\$ 287</u>	<u>\$ -</u>	<u>\$ 4,803</u>

- e. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the balance sheets

	<u>December 31</u>	
	2016	2015
Loss carryforwards - expire in 2021	\$ -	\$ 13,093
Deductible temporary differences	<u>\$ 1,293,252</u>	<u>\$ 1,461,743</u>

- f. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2016 comprised of:

Unused Amount	Expiry Year
<u>\$ 405,316</u>	2018

- g. Integrated income tax

	<u>December 31</u>	
	2016	2015
Unappropriated earnings		
Generated before January 1, 1998	\$ 4,328,589	\$ 4,342,276
Generated on and after January 1, 1998	<u>15,071,006</u>	<u>14,554,332</u>
	<u>\$ 19,399,595</u>	<u>\$ 18,896,608</u>
Shareholder-imputed credit accounts ("ICA")	<u>\$ 2,037,910</u>	<u>\$ 1,946,054</u>

Financial Highlights

The creditable ratios for the distribution of the earnings of 2016 and 2015 were 14.38% (expected ratio) and 15.08% (actual ratio), respectively. However, based on the revised Article 66-6 of the Income Tax Law, which will take effect on January 1, 2015, the creditable ratio for individual shareholders residing in the ROC will be half of the original creditable ratio.

Under the Income Tax Law, for the distribution of earnings generated on or after January 1, 1998, the imputation credits allocable to ROC resident shareholders of the Corporation are calculated on the basis of the creditable ratio as of the date of dividends distribution. The actual imputation credits allocable to shareholders of the Corporation are based on the balance of ICA as of the date of dividends distribution. Thus, the expected creditable ratio for the 2016 earnings may differ from the actual creditable ratio to be used in allocating imputation credits to the shareholders.

h. Income tax assessments

The tax returns of the Corporation through 2013 have been assessed by the tax authorities.

22. EARNINGS PER SHARE

	For the Year Ended December 31	
	2016	2015
Basic earnings per share	<u>\$ 2.34</u>	<u>\$ 2.32</u>
Diluted earnings per share	<u>\$ 2.34</u>	<u>\$ 2.32</u>

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

Net Profit for the Year

	For the Year Ended December 31	
	2016	2015
Profit for the year of the Corporation	<u>\$ 3,189,100</u>	<u>\$ 3,166,104</u>

Weighted Average Number of Ordinary Shares Outstanding (In Thousand Shares)

	For the Year Ended December 31	
	2016	2015
Weighted average number of ordinary shares in computation of basic earnings per share		
Weighted average number of ordinary shares	1,384,051	1,384,051
Adjustment for associates holding shares	<u>(20,599)</u>	<u>(20,599)</u>
	1,363,452	1,363,452
Effect of potentially dilutive ordinary shares		
Compensation to employees	<u>936</u>	<u>1,235</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>1,364,388</u>	<u>1,364,687</u>

When calculating EPS, the Corporation considers the shares which associates hold as the treasury shares to reduce the outstanding shares.

Financial Highlights

If the Corporation offered to settle compensation paid to employees in cash or shares, the Corporation assumed the entire amount of the compensation will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

23. CAPITAL MANAGEMENT

The Corporation manages its capital to ensure that entities in the Corporation will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Corporation's overall strategy remains unchanged in the future.

24. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

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

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2016

	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Financial assets at FVTPL				
Derivative financial instruments	\$ -	\$ -	\$ 812	\$ 812
Available-for-sale financial assets				
Listed securities - ROC	\$ 112,132	\$ -	\$ -	\$ 112,132
Unlisted securities - ROC	-	-	732,680	732,680
Mutual funds	<u>573,314</u>	<u>-</u>	<u>-</u>	<u>573,314</u>
	<u>\$ 685,446</u>	<u>\$ -</u>	<u>\$ 732,680</u>	<u>\$ 1,418,126</u>
Derivative financial assets for hedging				
Derivative financial instruments (included in other current assets)	\$ -	\$ -	\$ 1,371	\$ 1,371
<u>Financial liabilities</u>				
Derivative financial liabilities for hedging				
Derivative financial instruments (included in other current liabilities)	\$ -	\$ -	\$ 16,546	\$ 16,546

Financial Highlights

December 31, 2015

	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Financial assets at FVTPL				
Derivative financial instruments	\$ 61,103	\$ -	\$ 1,913	\$ 63,016
Non-derivative financial assets held for trading	<u>82,049</u>	<u>-</u>	<u>-</u>	<u>82,049</u>
	<u>\$ 143,152</u>	<u>\$ -</u>	<u>\$ 1,913</u>	<u>\$ 145,065</u>
Available-for-sale financial assets				
Listed securities - ROC	\$ 57,754	\$ -	\$ -	\$ 57,754
Unlisted securities - ROC	119,195	-	725,538	844,733
Mutual funds	<u>622,739</u>	<u>-</u>	<u>-</u>	<u>622,739</u>
	<u>\$ 799,688</u>	<u>\$ -</u>	<u>\$ 725,538</u>	<u>\$ 1,525,226</u>
Derivative financial assets for hedging				
Derivative financial instruments (included in other current assets)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,916</u>	<u>\$ 1,916</u>
<u>Financial liabilities</u>				
Financial liabilities at FVTPL				
Derivative financial instruments (included in other current liabilities)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 299</u>	<u>\$ 299</u>
Derivative financial liabilities for hedging				
Derivative financial instruments (included in other current liabilities)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 227</u>	<u>\$ 227</u>

There were no transfers between Levels 1 and 2 in the current and prior periods.

Financial Highlights

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2016

Financial Assets	Financial Instruments at Fair Value Through Profit or Loss Derivatives	Available-for-sale Financial Assets	Derivative Financial Instruments for Hedging	Total
Balance at January 1	\$ 1,913	\$ 725,538	\$ 1,916	\$ 729,367
Recognized in profit or loss	(1,101)	-	(1,916)	(3,017)
Recognized in other comprehensive income	-	7,142	1,371	8,513
Balance at December 31	<u>\$ 812</u>	<u>\$ 732,680</u>	<u>\$ 1,371</u>	<u>\$ 734,863</u>

Financial Liabilities	Financial Instruments at Fair Value Through Profit or Loss Derivatives	Derivative Financial Instruments for Hedging	Total
Balance at January 1	\$ 299	\$ 227	\$ 526
Recognized in profit or loss	(299)	(227)	(526)
Recognized in other comprehensive income	-	16,546	16,546
Balance at December 31	<u>\$ -</u>	<u>\$ 16,546</u>	<u>\$ 16,546</u>

For the year ended December 31, 2015

Financial Assets	Financial Instruments at Fair Value Through Profit or Loss Derivatives	Available-for-sale Financial Assets	Derivative Financial Instruments for Hedging	Total
Balance at January 1	\$ 56	\$ 667,025	\$ -	\$ 667,081
Recognized in profit or loss	1,857	-	-	1,857
Recognized in other comprehensive income	-	58,513	1,916	60,429
Balance at December 31	<u>\$ 1,913</u>	<u>\$ 725,538</u>	<u>\$ 1,916</u>	<u>\$ 729,367</u>

Financial Highlights

Financial Liabilities	Financial Instruments at Fair Value Through Profit or Loss Derivatives	Derivative Financial Instruments for Hedging	Total
Balance at January 1	\$ -	\$ -	\$ -
Recognized in profit or loss	299	-	299
Recognized in other comprehensive income	<u>-</u>	<u>227</u>	<u>227</u>
Balance at December 31	<u>\$ 299</u>	<u>\$ 227</u>	<u>\$ 526</u>

3) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

- a) Derivative financial instruments: The fair values of warrants are determined using option pricing models where the significant unobservable inputs are historical volatility. An increase in the historical volatility used in isolation would result in an increase in the fair value.
- b) Derivative financial instruments: The fair values of foreign exchange rate swaps and foreign exchange forward contracts of future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
- c) Domestic unlisted securities to which the market approach was applied: The fair values of domestic unlisted shares were determined using the P/E (price-earnings) ratio and the P/B (price-to-book) ratio while referring to stock prices of listed companies with operating activities that were similar to those of the Corporation. The material unobservable inputs were as follows:

	December 31	
	2016	2015
P/E ratio	13.83-21.65 times	14.85-20.87 times
P/B ratio	1.72-2.31 times	1.44-1.65 times
Discount rate for lack of marketability	20%	20%

If the inputs to the valuation model were changed to reflect reasonably possible alternative assumptions while all the other variables were held constant, the fair values of the shares would have increased (decreased) as follows:

	December 31	
	2016	2015
P/E ratio		
1 time increase	<u>\$ 55,161</u>	<u>\$ 56,896</u>
1 time decrease	<u>\$ (55,161)</u>	<u>\$ (56,896)</u>
P/B ratio		
0.1 time increase	<u>\$ 73,268</u>	<u>\$ 72,554</u>
0.1 time decrease	<u>\$ (73,268)</u>	<u>\$ (72,554)</u>

Financial Highlights

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Designated as at FVTPL	\$ -	\$ 61,103
Held for trading	812	83,962
Derivative instruments in designated hedge accounting relationships (included in other current assets)	1,371	1,916
Loans and receivables (Note 1)	14,778,676	14,334,103
Available-for-sale financial assets (Note 2)	1,478,534	1,585,747
<u>Financial liabilities</u>		
Amortized cost (Note 3)	4,684,521	4,648,000
Fair value through profit or loss (FVTPL) (included in other current liabilities)		
Held for trading	-	299
Derivative instruments in designated hedge accounting relationships (included in other current liabilities)	16,546	227

Note 1: The balances included cash and cash equivalents, debt investments with no active market, notes receivable, accounts receivable (related parties included), other receivables (related parties included), other financial assets (included in other current assets) and guarantee deposits (included in other non-current assets).

Note 2: The balances included the carrying amounts of available-for-sale financial assets and financial assets measured at cost.

Note 3: The balances included accounts payable (related parties included), other payables and deposits received (included in other non-current liabilities).

d. Financial risk management objectives and policies

The Corporation's major financial instruments include equity and debt investments, accounts receivables, accounts payables and borrowings. Financial risks include market risk, credit risk, and liquidity risk.

1) Market risk

The Corporation's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and other market-related factors.

a) Foreign currency risk

Holding foreign currency-denominated assets and liabilities exposes the Corporation to adverse fluctuations of cash flows and the reduction of foreign currency assets due to the exchange rate changes. The Corporation avoids cash flow risk resulting from the adverse exchange rate changes by using derivative contracts.

Financial Highlights

Sensitivity analysis

The Corporation is mainly exposed to the U.S. dollar (USD), Japanese yen (JPY) and Renminbi (RMB).

The following table details the Corporation's sensitivity to a 1% increase and decrease in New Taiwan dollars against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items, and their translation at the end of the reporting period is adjusted for a 1% change in exchange rates. A positive number below indicates an increase in pre-tax profit and equity due to a 1% strengthening of the New Taiwan dollar against the relevant currency. For a 1% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and equity and the balances below would be negative.

	USD to NTD	
	For the Year Ended December 31	
	2016	2015
Loss	\$ (2,378)	\$ (1,787)
	JPY to NTD	
	For the Year Ended December 31	
	2016	2015
Gain	\$ 334	\$ 2,604
Equity	(5,980)	(1,916)
	RMB to NTD	
	For the Year Ended December 31	
	2016	2015
Loss	\$ (15,533)	\$ (18,439)

b) Interest rate risk

The carrying amount of the Corporation's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	December 31	
	2016	2015
Fair value interest rate risk		
Financial assets	\$ -	\$ 61,103
Cash flows interest rate risk		
Financial assets	10,932,311	10,469,750

Sensitivity analysis

The sensitivity analyses below were based on the Corporation's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. The sensitivity rate of 1% was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Financial Highlights

Had interest rates been 1% higher and had all other variables been held constant, the Corporation's pre-tax profit would have increased by \$109,323 thousand in 2016 and \$104,698 thousand in 2015.

The increase in the Corporation's sensitivity to interest rates during the current period was mainly due to the increase in variable rate asset instruments.

c) Other price risk

The Corporation was exposed to equity price risk on its investments in listed securities, emerging securities and mutual funds.

Sensitivity analysis

The Corporation assesses equity price risk using sensitivity analysis.

The following sensitivity analysis was based on the exposure to equity price risks at the end of the reporting period. Had equity prices been 5% lower, the fair values of available-for-sale investments and held-for-trading investments would have decreased by \$34,272 thousand and \$44,087 thousand as of December 31, 2016 and 2015, respectively.

2) Credit risk

The amounts of financial assets were potentially affected by the Group if the counter-parties or third parties breach financial instrument contracts. The affection includes the concentrated degrees, composition parts and contracts amounts of the financial instruments and other receivables. The Group believes the risk is low because the trading parties were creditworthy banks, brokers and dealers.

3) Liquidity risk

The Corporation has sufficient operating capital to meet cash requirements for settling derivative transactions. Thus, liquidity risk is low.

25. TRANSACTIONS WITH RELATED PARTIES

In addition to those disclosed in other notes, the Corporation had business transactions with related parties:

a. Trading transactions

1) Revenue

Related-Party Types	For the Year Ended December 31	
	2016	2015
Associates	\$ 21,336,895	\$ 19,890,890
Investors that have significant influence	919,972	590,567
Subsidiaries	<u>405,624</u>	<u>371,548</u>
	<u>\$ 22,662,491</u>	<u>\$ 20,853,005</u>

Financial Highlights

2) Purchases of goods

Related-Party Types	For the Year Ended December 31	
	2016	2015
Investors that have significant influence	\$ 2,069,009	\$ 1,999,222
Associates	2,049,464	1,738,827
Subsidiaries	<u>1,102,864</u>	<u>962,755</u>
	<u>\$ 5,221,337</u>	<u>\$ 4,700,804</u>

3) Technical service expense (included in cost of goods sold and marketing expenses)

Related-Party Types	For the Year Ended December 31	
	2016	2015
Investors that have significant influence	<u>\$ 218,712</u>	<u>\$ 186,423</u>

4) Development expense (included in research and development expenses)

Related-Party Types	For the Year Ended December 31	
	2016	2015
Investors that have significant influence	\$ 105,778	\$ 78,799
Subsidiaries	<u>12</u>	<u>-</u>
	<u>\$ 105,790</u>	<u>\$ 78,799</u>

5) Acquisition of property, plant and equipment

Related-Party Types	For the Year Ended December 31	
	2016	2015
Associates	\$ 17,635	\$ 87,467
Subsidiaries	<u>11,262</u>	<u>66,573</u>
	<u>\$ 28,897</u>	<u>\$ 154,040</u>

6) Disposal of property, plant and equipment

Related-Party Types	Proceeds of Disposal		Gain on Disposal (Included in Other Income)	
	For the Year Ended December 31		For the Year Ended December 31	
	2016	2015	2016	2015
Subsidiaries	\$ 3,038	\$ 12,220	\$ 235	\$ 223
Associates	<u>762</u>	<u>936</u>	<u>(35)</u>	<u>205</u>
	<u>\$ 3,800</u>	<u>\$ 13,156</u>	<u>\$ 200</u>	<u>\$ 428</u>

Financial Highlights

7) Receivables from related parties

Related-Party Types	December 31	
	2016	2015
Associates	\$ 875,742	\$ 875,287
Subsidiaries	127,231	129,554
Investors that have significant influence	<u>81,241</u>	<u>46,058</u>
	<u>\$ 1,084,214</u>	<u>\$ 1,050,899</u>

8) Prepayments (included in other current assets)

Related-Party Types	December 31	
	2016	2015
Investors that have significant influence	\$ 11,295	\$ 51,774
Subsidiaries	6,119	12,495
Associates	<u>-</u>	<u>5,797</u>
	<u>\$ 17,414</u>	<u>\$ 70,066</u>

9) Payables to related parties

Related-Party Types	December 31	
	2016	2015
Associates	\$ 480,171	\$ 375,139
Investors that have significant influence	150,919	157,555
Subsidiaries	<u>144,865</u>	<u>170,376</u>
	<u>\$ 775,955</u>	<u>\$ 703,070</u>

10) Deposit in advance (included in other current liabilities)

Related-Party Types	December 31	
	2016	2015
Subsidiaries	\$ 34,180	\$ 2,576
Investors that have significant influence	24,610	-
Associates	<u>6,737</u>	<u>20,423</u>
	<u>\$ 65,527</u>	<u>\$ 22,999</u>

The outstanding payables to related parties had unsecured guarantees and would be paid in cash. The Corporation receives guarantees of the receivables from part of the related parties. In addition, the Corporation did not recognize allowance for doubtful accounts for 2016 and 2015.

Except for the accounts receivable to Y.M.Hi-Tech Industry Ltd., other transactions with related parties have the same terms for pricing, receipts and payments as of those for third parties. Lease contracts with related parties are based on market conditions, and the terms of payment or receivables were the same as those for third parties.

The Corporation signed contract with Mitsubishi Motor Corp. (MMC). Refer to Note 27.

Financial Highlights

b. Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	\$ 109,935	\$ 123,963
Post-employment benefits	<u>1,145</u>	<u>1,321</u>
	<u>\$ 111,080</u>	<u>\$ 125,284</u>

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

26. ASSETS PLEDGED AS COLLATERAL

The following assets were provided as the tariff of importing vehicle parts and materials and escrows:

	December 31	
	2016	2015
Time deposits (included in other current assets)	<u>\$ 81,821</u>	<u>\$ 84,540</u>

27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant commitments and contingencies of the Corporation as of December 31, 2016 were as follows:

- a. Guarantee notes amounted to \$4,913,600 thousand, which had been issued to financial institutions as collaterals for loans.
- b. The Company entered into an agreement with Mitsubishi Motor Corporation (MMC) as stated below:

Project	Content	Date of Agreement/ Expiry Date	Agreement Price	Payment
Technical royalty	Technical cooperation and manufacture of Delica, Lancer and other car models	2005. 7. 1-2025. 9. 7	Royalty was agreed to be 3% of the FOB price of automobiles sold and manufactured parts repaired	Paid every 6 months within 90 days

Financial Highlights

28. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2016

	Foreign Currencies	Exchange Rate (Note)	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 8,868	32.2500	\$ 285,996
RMB	349,225	4.6170	1,612,371
JPY	1,271,006	0.2756	350,289
Non-monetary items			
Joint venture accounted for using equity method			
EUR	38,213	33.9000	1,295,405

Financial liabilities

Monetary items			
JPY	539,090	0.2756	148,573

December 31, 2015

	Foreign Currencies	Exchange Rate (Note)	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 8,353	32.8250	\$ 274,179
RMB	372,755	4.9950	1,861,911
Non-monetary items			
Joint venture accounted for using equity method			
EUR	35,370	35.8800	1,269,091

Financial liabilities

Monetary items			
JPY	959,997	0.2727	261,791

Note: Exchange rate represents the number of N.T. dollars for which one foreign currency could be exchanged, unless stated otherwise.

For the years ended December 31, 2016 and 2015, net foreign exchange losses (realized and unrealized) were \$158,377 thousand and \$5,715 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions.

29. SEPARATELY DISCLOSED ITEMS

Excluded in Notes 7, 9, 24 and Tables 1 to 7, there are no other separately disclosed items.

Financial Highlights

VI. Financial Difficulties during the 2016 Calendar Year and up to March 31, 2017:

None

Review of Financial Status, Operating Results, and Risk Management

I. Analysis of Financial Status

Brief Presentation on Financial Status Analysis

Unit: NT\$ thousands

Item \ Year	December 31, 2016	December 31, 2015	Variation	
			Amount	%
Current assets	24,001,876	23,381,141	620,735	2.65
Long-term Investments	29,528,944	30,441,435	(912,491)	(3.00)
Property, plant and equipment	6,432,443	6,543,123	(110,680)	(1.69)
Intangible assets	142,571	208,051	(65,480)	(31.47)
Other assets	2,073,639	2,108,281	(34,642)	(1.64)
Total assets	62,179,473	62,682,031	(502,558)	(0.80)
Current liabilities	7,877,685	7,694,923	182,762	2.38
Non-current liabilities	1,580,426	2,327,897	(747,471)	(32.11)
Total liabilities	9,458,111	10,022,820	(564,709)	(5.63)
Capital stock	13,840,508	13,840,508	-	-
Capital surplus	6,407,220	6,404,906	2,314	0.04
Retained earnings	28,619,636	27,800,054	819,582	2.95
Other equity	554,291	1,469,877	(915,586)	(62.29)
Treasury stock	-	-	-	-
Equity attributable to owners of the Corporation	49,421,655	49,515,345	(93,690)	(0.19)
Non-Controlling Interests	3,299,707	3,143,866	155,841	4.96
Total equity	52,721,362	52,659,211	62,151	0.12
Analysis of Variation (for variation over 20% in the latest 2 years and with an amount up to NT\$10 million): <ol style="list-style-type: none"> 1. The decrease in “Intangible assets” were mainly due to the reduction of “Intangible assets under development”. 2. The decrease in “Non-current liabilities” were mainly due to the reduction of “Accrued pension liabilities”. 3. The decrease in “Other equity” were mainly due to the recognition of “Exchange differences on translating foreign operations”. 				

Review of Financial Status, Operating Results, and Risk Management

II. Analysis of Operating Results

Brief Presentation on Operating Performance Analysis

Unit: NT\$ thousands

Item \ Year	2016	2015	Increase (Decrease)	Ratio of Variation%
Operating Revenue	40,733,485	36,884,447	3,849,038	10.44
Operating costs	33,529,684	30,181,234	3,348,450	11.09
Gross Profit	7,203,801	6,703,213	500,588	7.47
Realized Gross Profit	7,195,521	6,713,127	482,394	7.19
Operating expenses	4,596,897	4,497,712	99,185	2.21
Profit from Operations	2,598,624	2,215,415	383,209	17.30
Non-operating income and expenses	1,493,705	1,675,814	(182,109)	(10.87)
Continuously operating divisions' profit before income tax	4,092,329	3,891,229	201,100	5.17
Income tax expense	(494,957)	(386,541)	(108,416)	28.05
Cautiously operating divisions' net profit	3,597,372	3,504,688	92,684	2.64
Net profit of the year	3,597,372	3,504,688	92,684	2.64
Other comprehensive income (Loss) (after-tax)	(1,370,347)	(544,138)	(826,209)	(151.84)
Total Comprehensive income	2,227,025	2,960,550	(733,525)	(24.78)
Analysis of Variation (for a variation over 20% in the latest 2 years with an amount up to NT\$10 million): 1. The increase in "Income tax expense" were mainly due to the raise of profit from Operations. 2. The decrease in "Other comprehensive income (Loss) (after-tax)" was mainly due to the changes of "Remeasurement of defined benefit plans", "Share of other comprehensive income of associates and joint ventures" and "Exchange differences on translating foreign operations". 3. The decrease in "Total Comprehensive income" was mainly due to the above-mentioned decrease in "Other comprehensive income (Loss) (after-tax)"				

Review of Financial Status, Operating Results, and Risk Management

III. Analysis of Cash Flow

(I) Liquidity analysis for the latest two years

Item \ Year	2016	2015	Ratio of Increase (Decrease)
Cash flow ratio(%)	41.31	38.48	2.83
Cash flow adequacy ratio(%)	87.44	N/A	N/A
Cash flow reinvestment ratio(%)	1.44	1.66	(0.22)
Analysis of the Ratio of Increase/Decrease:			
1. The increase in “Cash flow ratio” were mainly due to the raise in “profit before income tax” and “Other current assets”, resulting in a raise on “Cash Provided by Operating Activities”.			
2. The decrease in “Cash flow reinvestment ratio” were mainly due to the raise in “Cash dividends paid”.			

(II) Liquidity analysis of cash for the next year

Unit: NT\$ thousands

Beginning cash balance	Net cash generated expected from operating activities of the whole year	Expected cash outflows from Investing and Financing activities the whole year	Expected remaining cash (shortage)	Expected measures to be taken for cash shortage	
				Investment plan	Financial plan
10,850,490	2,011,282	2,303,727	10,558,046	-	-
1. Analysis of variation in cash flows for the next year:					
(1) Operating activities: Expected cash inflows from operating income NT\$ 2,011,282 thousand.					
(2) Investing activities: Expected net cash outflows from investing activities NT\$ 89,246 thousand.					
(3) Financing activities: Expected net cash outflows from financing activities NT\$ 2,214,481 thousand.					
2. Expected measures to be taken for cash shortage and liquidity analysis: Not applicable					

IV. Major Capital Expenditure

The important capital expenditure was NT\$ 840,971 thousand in 2016. Its effects are expected as follows:

- (I) Introducing new products: The market share of the Corporation’s products will increase and turnover and sales will rise.
- (II) Introducing parts and components: Self-manufacturing rate of parts will rise and production cost will be reduced.
- (III) Strengthening sales: The reputation of the Corporation and its products will be developed and the quality of after-sale service will be enhanced to facilitate sales.

Review of Financial Status, Operating Results, and Risk Management

- (IX) Increasing productivity: The equipment for production lines will be upgraded and automatized and layout will be rationalized to increase productivity and enhance technology.
- (X) Enhancing quality: Cooperative companies will increase their ability in quality assurance. Quality assurance systems will be operated more effectively to eliminate PONC (Price of Non Conformance) and have customers be more satisfied with the quality of products. Source management and fool-proofing measures will be conducted more effectively.
- (XI) Improving work environment: Computer equipment will be upgraded. Old office equipment and company vehicles will be replaced with new ones. Office planning construction and air quality will be improved. Pollution prevention equipment will be installed.

V. Re-investment policies in last year and major causes for profit/loss and improvement, and investment plans in the coming year

Looking back in 2016, re-investments were mainly placed in automobile-related business. In return of investment, although there's the downturn of the macro environment, the overall auto market (including trucks) in Taiwan approximately equal during the past 2 years. In 2016, there was a slight profit growth for both upstream and downstream suppliers of the auto industry in Taiwan and the profit of re-investment in China, especially SEM with hot sale DX7 model, increased. Therefore, the recognized overall profit from re-investments in 2016 was NT\$1,170 million, 2% up from NT\$1,145 million in 2015.

Although the 2016 economic growth of China by 6.7% was the lowest during the last few years, thanks to the policy halved purchase tax, the total car sale in 2016 was 28.03 million cars, 13.7% up from 2015. In re-investments in China, SEM, a CMC re-invested enterprise, continued with the dual brand marketing strategy, due to hot sale of new DX7 model, 120 thousand cars were sold in 2016. As for Fujian Benz Automotive, a total of 12.6 thousand cars were sold in 2016, nearly 80% up from 2015.

In the 2-wheeled business, a total of 4,632 e-scooters were registered in 2016, maintaining at top of the e- scooter market with 48% market share. As the green energy industry is one of our

Review of Financial Status, Operating Results, and Risk Management

key investments in the future, after launching the first e-scooter EM50 in 2010, the Corporation continued to launch the EM80 and EM100 in 2012 and 2013. In 2013, the Corporation launched the registration-free, driver license free, fuel-tax free, and fuel-free EM25. In the future, the Corporation will fulfil consumer demand with multifaceted products.

VI. Risk Management

(I) Impact on profits/losses of Interest rate volatility, Exchange rate volatility and Inflation and the Future Countermeasures:

Interest rate volatility mainly affects the financial assets hold by the Corporation. Although the United States Federal Reserve System plans to raise interest rates 3 times this year (2017), the Taiwanese economy has yet to embark upon large scale improvements. The exchange rates for the New Taiwan Dollar are likely to remain the same for this year. With every decrease / increase of 0.25% of interest rates, CMC will lose / gain NT\$ 26,379 thousand.

As key parts and components are imported from Japan, the exchange rate volatility of JPY will bring a bigger effect on the income of the Corporation. If the USD to NTD rate devaluates(appreciates) by NT\$1, the profit (loss) before tax will increase(decrease) by NT\$122,509 thousand; if the USD to JPY rate devaluates(appreciates) by JPY1, the profit (loss) before tax will decrease(increase) by NT\$37,043 thousand; if the RMB to NTD rate devaluates(appreciates) by NT\$1, the profit (loss) before tax will increase(decrease) by NT\$43,785 thousand.

As global interest rate tends to run low and the weak demand, emerging countries show the signs of overcapacity and the shadow of deflation. As deflation affects buying intention, the central banks of countries in the world will lower interest rate or launch new policies to stimulate economic growth. Either high inflation or high deflation will reduce market efficiency and interfere on savings and investment decisions to discourage macroeconomics and microeconomics and bring adverse effect to our operating cost. Therefore, the Corporation will continue to watch closely the trend of inflation or deflation, so as to adjust our products and services in response.

Review of Financial Status, Operating Results, and Risk Management

(II) Risks Associated with High-risk/High-leveraged Investment; Lending, Endorsement and Guarantees; and Derivative Transactions:

1. The Corporation does not engage in high risk or high leveraged investments.
2. The funds loaned to others, endorsement guarantee and derivative product transactions are made in accordance with the policy provided in the Procedure of Loaning of Funds and Procedure of Endorsements/Guarantees, and the Procedure of Engaging for Derivative Trading.

(III) Future R&D Plans and Expected R&D Spending:

The task of CARTEC, the Corporation's Research and Development Center, and the product lines are developed pursuant to the guiding principle made by the Corporation. Technological research and development is executed to (1) develop vehicle-related technologies that meet the needs of the market and the requirements of the law, (2) develop the systemic integrating ability of differentiation and high value added products, (3) modify products to meet the demand by different foreign regions, (4) develop new energy and energy-saving related products, and focus on advanced power system, electric control system, and the design integration and analysis and verification technology for automobile electronic (5) develop green energy two-wheeler products with advanced characteristics.

The R&D expenses of the Corporation estimates NT\$1,597 million in 2017.

(IV) Effects of and Response to Changes of Government Policies and Regulatory Environment:

The Corporation consistently paid attention to any change in laws, statutes and policies that might influence the business or operation of this Corporation. No change in domestic and foreign policies and laws has had significant influence on the financial business of the Corporation since 2016.

(V) Effects of and Response to Changes in Technology and Industry: None

(VI) Effects of and Response to Changes in Corporate Image on Company's Crisis Management:

None

(VII) Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans:

None

(VIII) Expected Benefits from, Risks Relating to and Response to Capacity Expansion: None

Review of Financial Status, Operating Results, and Risk Management

(IX) Risks Associated with Sales and Purchase Concentration:

The Corporation purchases from hundreds of cooperative suppliers instead of from only particular ones. Though the Corporation sells products through only two main distributors, yet it is one of the characteristics of this industry that the products are distributed by limited distributors. The Corporation has also entered into a contract with each distributor and has stock equity of each distributor. The Corporation has worked the distributors for years. There is no risk of centralized sales.

(X) Effects of, Risks Relating to and Response to Sales of Significant Numbers of Shares by Directors, and/ or Major Shareholders Who Own 10% or More of the Corporation's Total Outstanding Share : None

(XI) Effects of, Risks Relating to and Response to Changes in Control over the Corporation:

None

(XII) Risks Associated with Litigation or Non-litigation Matters : None

(XIII) Other Risks: None

VII. Other Important Matters: None

I. Summary of Affiliated Companies

(I) Consolidated business report of affiliated enterprises

1. Organization charts of affiliated enterprises: Please see page 195.

2. Basic information of each affiliated enterprise

December 31, 2016

Unit: NT\$ thousands

No.	Name of Company	Date of Establishment	Address	Paid-in Capital			Major business or production item
				Currency	Amount	Exchange Rate	
1	Kian Shen Corporation	May 30, 1963	No. 100, Xinjiang Road, Yangmei City, Taoyuan County	NT	\$ 734,001	1.000	Manufacturing of large car racks and molds
2	Kian Shen Investment Co., Ltd.	March 13, 2002	Trust Net Chambers, P. O. Box 3444, Road Town, Tortola, British Virgin Island	US	\$ 10,296	32.25	Investment in production and service businesses
3	Kian Shen Investment Hong Kong Co. Limited	November 15, 2007	Suite 2303 23/F Great Eagle Centre 23 Harbour Road Wanchai HK	US	\$ 25,907	32.25	General investment
4	COC Tooling & Stamping Co., Ltd.	December 2, 1982	No. 412, Sec. 2, Renhe Road, Daxi Township, Taoyuan County	NT	\$ 674,591	1.000	Molds, examination tools and clamping apparatus for cars
5	Y. M. Hi-Tech Industry Ltd.	October 1, 2003	No. 412, Sec. 2, Renhe Road, Daxi Township, Taoyuan County	NT	\$ 50,000	1.000	Steel cutting
6	Shye Shinn Corporation (British Virgin Islands)	January 26, 1996	Tortola, British Virgin Island	US	\$ 968	32.25	General investment
7	Zhengzhou Tooling & Stamping Co., Ltd.	December 29, 2006	No. 1405, Hanghai E. Road, Zhengzhou City, Henan Province	CNY	\$ 12,500	4.617	Design and manufacture of molds, stamping part, hardware
8	China Engine Corporation	July 24, 1995	No. 3, Chiniudiao, Neighborhood 30, Hengfeng Village, Dayuan Township, Taoyuan County	NT	\$ 1,689,000	1.000	Manufacture of car engines and accessories
9	Advance Power Machinery Co., Ltd.	June 3, 2008	No. 39-1, Bogongkeng, Xihu Village, Sanyi Township, Miaoli County	NT	\$ 5,000	1.000	Manufacture of cars and accessories
10	Advance Power Investment Co., Ltd.	April 26, 2002	2nd Floor, Felix House, 24 Dr. Joseph Riviere Street, Port Louis, Mauritius	US	\$ 3,750	32.25	Reinvestment and general sales business
11	Gatetech Technology Inc.	May 20, 1988	No. 1-1, Datong First Road, Guanyin Industrial Zone, Guanyin Township, Taoyuan County	NT	\$ 437,372	1.000	Aluminum-magnesium alloy foundry industry
12	Gatech Holding Co. Ltd.	January 22, 2002	TrustNet Chambers, Lotemau Centre, P.O. Box 1225, Apia, Samoa	US	\$ 20,130	32.25	General investment

(To be continued)

Special Disclosure

(Continued)

No.	Name of Company	Date of Establishment	Address	Paid-in Capital			Major business or production item
				Currency	Amount	Exchange Rate	
13	Gatech International Co. Ltd	January 22, 2002	TrustNet Chambers, Lotemau Centre, P.O.Box 1225, Apia, Samoa	US	\$ 20,268	32.25	General investment
14	Gatetech (Suzhou) Technology Inc.	June 27, 2002	No. 6, Yanshan W. Road, Chengqu Industrial Park, Chengxiang Township, Taicang City, Jiangsu Province, Chian	US	\$ 24,300	32.25	Aluminum-magnesium alloy foundry industry
15	Hwa Chung Motor Co., Ltd.	February 15, 2006	No. 618, Xiucai Road, Yangmei City, Taoyuan County	NT	\$ 87,900	1.000	Sale of cars and accessories
16	GreenTrans Co., Ltd.	December 24, 2009	11F, No. 2, Sec. 2, Dunhua S. Road, Daan Dist., Taipei City	NT	\$ 10,000	1.000	Sale of motorcycles and bicycles
17	Ling Wei Motor Co., Ltd.	November 19, 2007	11F, No. 2, Sec. 2, Dunhua S. Road, Daan Dist., Taipei City	NT	\$ 36,084	1.000	Sale of used cars
18	Green Trans Investment Co., Ltd.	March 14, 2012	Offshore Chambers, P.O.Box 217, Apia, Samoa	US	\$ 11,200	32.25	General investment
19	Jiangsu Greentrans Electronics Technology Co., Ltd.	July 10, 2012	No. 130, Yanshan W. Road, Chengqu Industrial Park, Chenxiang Township, Taicang City, Jiangsu Province, Chian	US	\$ 11,200	32.25	Production and sale of electric vehicles and relevant parts and accessories
20	Brilliant Insight International Consultancy Service Co., Ltd.	January 16, 2014	11F, No. 2, Sec. 2, Dunhua S. Road, Daan Dist., Taipei City	NT	\$ 22,000	1.000	Consulting and service
21	Fujian Rui Hua Consulting Co., Ltd.	April 24, 2013	General Office Building, South East (Jujian) Car Industrial Co., Ltd., South East Investment Zone, Minhou County	US	\$ 3,400	32.25	Consulting and service
22	Hwa Wei Holdings Co., Ltd.	May 26, 1995	Citco Building, Wickhams Cay, P. O. Box 662, Road Town, Tortola, British Virgin Island	US	\$ 100	32.25	Overseas investment in production and service businesses
23	China Motor Investment Co., Ltd.	November 8, 2005	Level 2, Lotemau Centre, Vaea Street, Apia, Samoa	US	\$ 40	32.25	General investment
24	Alliance Investment & Management Co., Ltd.	January 11, 1999	13F, No. 2, Sec. 2, Dunhua S. Road, Daan Dist., Taipei City	NT	\$ 1,830,000	1.000	General investment
25	Sino Diamond Motor Corporation	June 5, 1993	11F, No. 2, Sec. 2, Dunhua S. Road, Daan Dist., Taipei City	NT	\$ 3,257,862	1.000	Sale of automobiles and provision of after-sale service
26	Hwa Yu Co., Ltd.	November 12, 2003	Level 2, Lotemau Centre, Vaea Street, Apia, Samoa	US	\$ 45,643	32.25	Overseas investments in production and service businesses

(To be continued)

Special Disclosure

(Continued)

No.	Name of Company	Date of Establishment	Address	Paid-in Capital			Major business or production item
				Currency	Amount	Exchange Rate	
27	Hwa Lin Investment Ltd.	December 14, 1999	P.O. Box 3152, Road Town, Tortola, British Virgin Island	US	\$ 42,093	32.25	Overseas investment in production and service businesses
28	Guangzhou Huayou Motor Maintenance Co., Ltd.	February 19, 2004	Guangzhou Automobile Market, Yuangang Sec., Guangshan Highway, Tianhe Dist., Guangzhou City	US	\$ 12,810	32.25	Car repair and supporting service
29	Guangzhou Huayou Motor Sale Co., Ltd.	September 9, 2002	Guangzhou Automobile Market, Yuangang Sec., Guangshan Highway, Tianhe Dist., Guangzhou City	CNY	\$ 43,000	4.617	Sale of cars and parts
30	Sichuan Huafeng Hanwei Cars Service And Maintenance Co., Ltd.	November 10, 2004	(Shipping Ave., Wuhou Dist.) Shuangfeng Village, Jinhua Township, Wuhou Dist., Chengdu City	US	\$ 13,330	32.25	Car repair and supporting service, and the sale of cars and parts
31	Sichuan Houwei Cars Service And Maintenance Co., Ltd.	December 17, 2010	No. 76, Shuxi Road, Jinniu Dist., Chengdu City	CNY	\$ 3,000	4.617	Sale of cars and parts
32	Sichuan Lingwei Cars Service And Maintenance Co., Ltd.	January 16, 2003	(Shipping Ave., Wuhou Dist.) Shuangfeng Village, Jinhua Township, Wuhou Dist., Chengdu City	CNY	\$ 2,000	4.617	Sale of cars and parts
33	Tianjin Hwarui Maintenance Co., Ltd.	September 22, 2003	Block A, Car Town, Wanglan Manor, Weijin S. Road, Xiqing Dist., Tianjin City	US	\$ 8,020	32.25	Car repair and supporting service
34	Tianjin Hwahong Sale Co., Ltd.	January 19, 2003	Block A, Car Town, Wanglan Manor, Weijin S. Road, Xiqing Dist., Tianjin City	CNY	\$ 60,000	4.617	Sale of cars and parts
35	Dongguan Huayi Motor Maintenance Co., Ltd.	July 11, 2006	Baotun Sec., Guantai Road, Houjie Township, Dongguan City	US	\$ 4,450	32.25	Car repair and supporting service, and the sale of cars and parts
36	Dongguan Huashun Motor Sale Co., Ltd.	October 18, 2002	Baotun Sec., Guantai Road, Houjie Township, Dongguan City	CNY	\$ 15,000	4.617	Sale of cars and parts、Car repair and supporting service
37	Hwa Hann Corporation (Note)	November 19, 2002	2nd deck Penthouse, Salamin Building 197 Salcedo St. Legaspi Village, Makati City 1229, Philippines	PHP	\$ 10,636	0.6684	Purchase and sale of car accessories

Note: Hwa Hann Corporation is in the course of liquidation.

Special Disclosure

3. Information of the shareholders in a controlling or affiliated entity: None

4. Information of directors, supervisors and presidents of each affiliated enterprise

December 31, 2016

Unit:Share : %

Name of Company	Title	Name or Representative	Number of shares held(Note 1,2)	
			Number of shares	Shareholding ratio
Kian Shen Corporation	Chairperson	China Motor Corporation Representative: Ching-Long Jan	32,201,367	43.87%
	Director	China Motor Corporation Representative: Shao-Pao Mai	32,201,367	43.87%
	Director	Yulon Business Management Company Representative: Hung-Ching Yang Chiung-chih Tseng	10,600	0.01%
	Director	Kuozui Motors, Ltd. Representative: Yong-Yu Lin Hisa Hashimoto Guo-Yan Chen	24,178,711	32.94%
	Independent Director	Chen-Chi Hsiao		
	Independent Director	De-Chang Ye		
	Supervisor	Wei Tai Investment Co., Ltd. Representative: Yong-Yuan Wang Zhi-Ming Zheng	740,857	1.01%
President	Shao-Pao Mai			
Kian Shen Investment Co., Ltd. (British Virgin Islands)	Director	Kian Shen Corporation Representative: Shao-Pao Mai	10,296,105 (US\$1 per share)	100.00%
Kian Shen Investment Hong Kong Co.Limited	Director	Kian Shen Investment Co., Ltd. (British Virgin Islands) Representative: Shao-Pao Mai	25,907,038 (US\$1 per share)	100.00%
COC Tooling & Stamping Co., Ltd.	Chairperson	China Motor Corporation Representative: Hsi-Yuan Chung	33,564,678	49.76%
	Director	China Motor Corporation Representative: Ching-Ya Chen Shing JuChen Chiung-chih Tseng	33,564,678	49.76%
	Director	Yulon Motor Co., Ltd. Representative: Zhen-Xiang Yao Zeng-Ciang Huang Yong-Yuan Wang	25,469,581	37.76%
	Supervisor	Tai-Yuan Textile Co., Ltd. Representative: Chung-Chen Liu	8,421,863	12.48%
	President	Hsi-Yuan Chung		

(To be continued)

Special Disclosure

(Continued)

Name of Company	Title	Name or Representative	Number of shares held(Note 1,2)	
			Number of shares	Shareholding ratio
Y. M. Hi-Tech Industry Ltd.	Chairperson	COC Tooling & Stamping Co., Ltd. Representative: Hsi-Yuan Chung	4,250,000	85.00%
	Director	COC Tooling & Stamping Co., Ltd. Representative: Chia-Pin Lin Shui-Hsing Luo Zong-Jih Chen	4,250,000	85.00%
	Director	Metal One (Japan) Representative: Makoto Morita	750,000	15.00%
	Supervisor	Mei-Ching Wu		
	President	Hsi-Yuan Chung		
Shye Shinn Corporation	Chairperson	COC Tooling & Stamping Co., Ltd. Representative: Hsi-Yuan Chung	968,000 (Contribution: US\$)	100.00%
Zhengzhou Tooling & Stamping Co., Ltd.	Director	Shye Shinn Corporation Representative: Hsi-Yuan Chung	7,500,000 (Contribution: RMB)	60.00%
China Engine Corporation	Chairperson	China Motor Corporation Representative: Jin-Chung Lee	32,000,000	18.95%
	Director	China Motor Corporation Representative: Hsin-Tai Liu Ching-Ya Chen Shing Ju Chen Shih-Hsien Lin	32,000,000	18.95%
	Director	Yulon Motor Co., Ltd. Representative: Zhen-Xiang Yao Ching-Chi Chen	32,000,000	18.95%
	Director	National Development Fund, Executive Yuan Representative: Wei-Hsien Lee Jin-Piao Lin	32,000,000	18.95%
	Supervisor	Sino Diamond Motor Corporation Representative: Mei-Chu Tai	56,000,000	33.16%
	Supervisor	Sentec E&E Co., Ltd. Representative: Chao-Hui Huang	6,000,000	3.55%
	Supervisor	Ministry of Economic Affairs Representative: Wei-Yu Yeh	8,900,000	5.27%
	President	Shih-Hsien Lin		
Advance Power Machinery Co., Ltd.	Chairperson	China Engine Corporation Representative: Ching-Chi Chen	500,000	100.00%
	Director	China Engine Corporation Representative: Jin-Chung Lee Shih-Hsien Lin	500,000	100.00%
	Supervisor	China Engine Corporation Representative: Wun-Yi Luo,	500,000	100.00%
	President	Ching-Chi Chen		
Advance Power Investment Co., Ltd.	Director	China Engine Corporation Representative: Jin-Chung Lee	3,750,000 (US\$1 per share)	100.00%

(To be continued)

Special Disclosure

(Continued)

Name of Company	Title	Name or Representative	Number of shares held(Note 1,2)	
			Number of shares	Shareholding ratio
Gatetech Technology Inc.	Chairperson	China Motor Corporation Representative: Hsin-Tai Liu	24,725,155	56.53%
	Director	China Motor Corporation Representative: Ya-Cheng Hsiao Te-Chao Huang Chun-Hung Hu	24,725,155	56.53%
	Director	Jing Yu Co., Ltd. Representative: Bai-Chuan Cheng	1,010,048	2.31%
	Supervisor	Sino Diamond Motor Corporation Representative: Mei-Chu Tai	3,945,760	9.02%
	Supervisor President	Sheng-Le Lin Ya-Cheng Hsiao	330,023	0.75%
Gatech Holding Co. Ltd..	Director	Gatetech Technology Inc. Representative: Hsin-Tai Liu	20,130,389 (US\$1 per share)	100.00%
Gatech International Co. Ltd.	Director	Gatech Holding Co. Ltd. Representative: Hsin-Tai Liu	20,268,460 (US\$1 per share)	100.00%
Gatetech (Suzhou) Technology Inc.	Chairperson	Gatech International Co. Ltd. Representative: Hsin-Tai Liu	24,300,000 (Contribution:US\$)	100.00%
	President	Ya-Cheng Hsiao		
Hwa Chung Motor Co., Ltd.	Chairperson	China Motor Corporation Representative: Kenneth K. T. Yen	8,790,000	100.00%
	Director	China Motor Corporation Representative: Hsin-Tai Liu Chao-Wen Chen Te-Jun Lo Ching-Wu Chien	8,790,000	100.00%
	Supervisor	China Motor Corporation Representative: Mei-Chu Tai	8,790,000	100.00%
	President	Te-Jun Lo		
GreenTrans Co., Ltd.	Chairperson	Hwa Chung Motor Co., Ltd. Representative: Te-Jun Lo	1,000,000	100.00%
	Director	Hwa Chung Motor Co., Ltd. Representative: Kuo-Hsiung Peng I-Yuan Huang	1,000,000	100.00%
	Supervisor	Hwa Chung Motor Co., Ltd. Representative: Mei-Chu Tai	1,000,000	100.00%
	President	Kuo-Hsiung Peng		
Ling Wei Motor Co., Ltd.	Chairperson	Hwa Chung Motor Co., Ltd. Representative: Te-Jun Lo	3,608,397	100.00%
	Director	Hwa Chung Motor Co., Ltd. Representative: Li-Wei Wang Alex Chen	3,608,397	100.00%
	Supervisor	Hwa Chung Motor Co., Ltd. Representative: Mei-Chu Tai	3,608,397	100.00%
	President	Te-Jun Lo		

(To be continued)

Special Disclosure

(Continued)

Name of Company	Title	Name or Representative	Number of shares held(Note 1,2)	
			Number of shares	Shareholding ratio
Green Trans Investment Co., Ltd.	Director	Alliance Investment & Management Co., Ltd. Representative: Chao-Wen Chen	11,200,000 (US\$1 per share)	100.00%
Jiangsu Greentrans Electronics Technology Co., Ltd.	Director	Green Trans Investment Co., Ltd. Representative: Hsin-Tai Liu	11,200,000 (Contribution: US\$)	100.00%
	Supervisor	Green Trans Investment Co., Ltd. Representative: Mei-Chu Tai	11,200,000 (Contribution: US\$)	100.00%
	President	Shih-Cing Yao		
Brilliant Insight International Consultancy Service Co., Ltd.	Chairperson	Sino Diamond Motor Corporation Representative: Te-Chao Huang	2,200,000	100.00%
	Director	Sino Diamond Motor Corporation Representative: Tien-Fu Chang Meng-Yan Liao	2,200,000	100.00%
	Supervisor	Sino Diamond Motor Corporation Representative: Mei-Chu Tai	2,200,000	100.00%
	President	Te-Chao Huang		
Fujian Rui Hua Consulting Co., Ltd.	Executive Director	Hwa Yu Ltd. Representative: Te-Chao Huang	3,400,000 (Contribution: US\$)	100.00%
	Supervisor	Hwa Yu Ltd. Representative: Mei-Chu Tai	3,400,000 (Contribution: US\$)	100.00%
	President	Te-Chao Huang		
Hwa Wei Holdings Co., Ltd.	Director	China Motor Corporation Representative: Kenneth K. T. Yen Chao-Wen Chen	40,000 (US\$1 per share)	40.00%
China Motor Investment Co., Ltd.	Director	China Motor Corporation Representative: Kenneth K. T. Yen Chao-Wen Chen	40,000 (US\$1 per share)	100.00%
Alliance Investment & Management Co., Ltd.	Chairperson	China Motor Corporation Representative: Kenneth K. T. Yen	183,000,000	100.00%
	Director	China Motor Corporation Representative: Li-Lien Chen Kuo-Rong Chen Chao-Wen Chen Ching-Wu Chien	183,000,000	100.00%
	Supervisor	China Motor Corporation Representative: Mei-Chu Tai	183,000,000	100.00%
	President	Chao-Wen Chen		

(To be continued)

Special Disclosure

(Continued)

Name of Company	Title	Name or Representative	Number of shares held(Note 1,2)	
			Number of shares	Shareholding ratio
Sino Diamond Motor Corporation	Chairperson	China Motor Corporation Representative: Kenneth K. T. Yen	325,786,161	100.00%
	Director	China Motor Corporation Representative: Chao-Wen Chen Te-Jun Lo Ching-Wu Chien Alex Chen	325,786,161	100.00%
	Supervisor	China Motor Corporation Representative: Mei-Chu Tai	325,786,161	100.00%
	President	Te-Jun Lo		
Hwa Yu Co., Ltd.	Director	Sino Diamond Motor Corporation Representative: Kenneth K. T. Yen	45,642,942 (US\$1 per share)	100.00%
Hwa Lin Investment Ltd.	Director	Hwa Yu Ltd. Representative: Kenneth K. T. Yen Te-Jun Lo	42,092,942 (US\$1 per share)	100.00%
Guangzhou Huayou Motor Maintenance Co., Ltd.	Chairperson	Hwa Lin Investment Ltd. Representative: Te-Jun Lo	12,810,000 (Contribution: US\$)	100.00%
	Director	Hwa Lin Investment Ltd. Representative: Ching-Wu Chien Ying-Jhong Tseng	12,810,000 (Contribution: US\$)	100.00%
	Supervisor	Hwa Lin Investment Ltd. Representative: Mei-Chu Tai	12,810,000 (Contribution: US\$)	100.00%
	President	Li-Kuo Chang		
Guangzhou Huayou Motor Sale Co., Ltd.	Executive Director President	Hwa Lin Investment Ltd. Representative: Li-Kuo Chang Li-Kuo Chang	43,000,000 (Contribution: RMB)	100.00%
Sichuan Huafeng Hanwei Cars Service And Maintenance Co., Ltd.	Chairperson	Hwa Lin Investment Ltd. Representative: Te-Jun Lo	13,330,000 (Contribution: US\$)	100.00%
	Director	Hwa Lin Investment Ltd. Representative: Ching-Wu Chien Ying-Jhong Tseng	13,330,000 (Contribution: US\$)	100.00%
	Supervisor	Hwa Lin Investment Ltd. Representative: Mei-Chu Tai	13,330,000 (Contribution: US\$)	100.00%
	President	Guang-Jing Wu		
Sichuan Houwei Cars Service And Maintenance Co., Ltd.	Executive Director President	Sichuan Huafeng Hanwei Cars Service And Maintenance Co., Ltd. Representative: Guang-Jing Wu Guang-Jing Wu	3,000,000 (Contribution: RMB)	100.00%
Sichuan Lingwei Cars Service And Maintenance Co., Ltd.	Executive Director President	Sichuan Huafeng Hanwei Cars Service And Maintenance Co., Ltd. Representative: Guang-Jing Wu Guang-Jing Wu	2,000,000 (Contribution: RMB)	100.00%

(To be continued)

Special Disclosure

(Continued)

Name of Company	Title	Name or Representative	Number of shares held(Note 1,2)	
			Number of shares	Shareholding ratio
Tianjin Hwarui Maintenance Co., Ltd.	Chairperson	Hwa Lin Investment Ltd. Representative: Te-Jun Lo	8,000,000 (Contribution: US\$)	99.75%
	Vice Chairperson	Dongguan Huayi Motor Maintenance Co., Ltd. Representative: Ching-Wu Chien	20,000 (Contribution: US\$)	0.25%
	Director	Hwa Lin Investment Ltd. Representative: Ying-Jhong Tseng	8,000,000 (Contribution: US\$)	99.75%
	Supervisor	Hwa Lin Investment Ltd. Representative: Mei-Chu Tai	8,000,000 (Contribution: US\$)	99.75%
	President	Sa-He Wang		
Tianjin Hwahong Sale Co., Ltd.	Executive Director	Tianjin Hwarui Maintenance Co., Ltd. Representative: Sa-He Wang	60,000,000 (Contribution: RMB)	100.00%
	President	Sa-He Wang		
Dongguan Huayi Motor Maintenance Co., Ltd.	Chairperson	Hwa Lin Investment Ltd. Representative: Te-Jun Lo	4,450,000 (Contribution: US\$)	100.00%
	Director	Hwa Lin Investment Ltd. Representative: Ching-Wu Chien Ying-Jhong Tseng	4,450,000 (Contribution: US\$)	100.00%
	Supervisor	Hwa Lin Investment Ltd. Representative: Mei-Chu Tai	4,450,000 (Contribution: US\$)	100.00%
	President	Ming-Jhang Wang		
Dongguan Huashun Motor Sale Co., Ltd.	Executive Director	Dongguan Huayi Motor Maintenance Co., Ltd. Representative: Ming-Jhang Wang	15,000,000 (Contribution: RMB)	100.00%
	President	Ming-Jhang Wang		
Hwa Hann Corporation (Ntoe 3)	Chairperson	Sino Diamond Motor Corporation Representative: Chung-Chou Huang	542,429	51.00%
	Director	China Motor Corporation Representative: Pu-yang Liu	521,161	48.99%
	Director	Josefina K.Beltran	1	0.00%
	Director	Leonora C.Ventura	1	0.00%
	Director	Lourdes G.Labao	1	0.00%
			(10 PESO per share)	

Note: 1. If the invested company is a company limited by shares, number of shares and shareholding ratio will be disclosed. As for other types of companies, contribution and contribution ratio will be disclosed.

2. If the director or supervisor is a corporation, the information of its representative will also be disclosed.

3. Hwa Hann Corporation is in the course of liquidation.

Special Disclosure

5. Business Status of Each Related Enterprise

December 31, 2016

Unit: NT\$ thousands; except earnings per share in NT\$

Name of Company	Capital	Total Assets	Total Liabilities	Equity	Operating Income	Operating Profit	This year's profit (loss) (After tax)	Earnings per share (After tax)
Kian Shen Corporation	734,001	4,338,509	786,319	3,552,190	1,194,399	16,489	529,412	7.21
Kian Shen Investment Co., Ltd.	328,888	3,492,298	506	3,491,792	-	-	625,017	60.70
Kian Shen Investment Hong Kong Co. Limited	835,501	3,542,320	50,027	3,492,293	-	(172)	625,434	24.14
COC Tooling & Stamping Co., Ltd.	674,591	2,203,546	846,668	1,356,878	1,672,350	275,876	209,770	3.11
Y. M. Hi-Tech Industry Ltd.	50,000	200,249	131,373	68,876	315,692	5,601	4,074	0.81
Shye Shinn Corporation (British Virgin Islands)	31,218	42,941	-	42,941	-	(265)	2,743	-
Zhengzhou Tooling & Stamping Co., Ltd.	57,713	87,586	16,017	71,569	149,062	6,731	5,001	-
China Engine Corporation	1,689,000	1,381,406	374,077	1,007,329	999,804	(13,963)	1,812	0.01
Advance Power Machinery Co., Ltd.	5,000	45,268	37,596	7,672	118,644	3,267	2,721	5.44
Advance Power Investment Co., Ltd.	120,938	100,231	-	100,231	-	-	3,036	0.81
Gatetech Technology Inc.	437,372	1,031,110	653,034	378,076	237,113	14,751	47,730	1.09
Gatech Holding Co. Ltd.	647,041	582,849	-	582,849	-	-	33,184	1.65
Gatech International Co. Ltd.	657,284	582,824	3	582,821	-	-	32,346	1.60
Gatetech (Suzhou) Technology Inc.	783,675	680,173	98,806	581,367	531,857	23,967	32,368	-
Hwa Chung Motor Co., Ltd.	87,900	65,141	100	65,041	-	(202)	566	0.06
GreenTrans Co., Ltd.	10,000	17,791	7,120	10,671	11,109	(408)	464	0.46
Ling Wei Motor Co., Ltd.	36,084	72,911	45,056	27,855	139,168	(2,426)	47	0.01
Green Trans Investment Co., Ltd.	344,369	321,413	-	321,413	-	(8,570)	(8,573)	(0.77)
Jiangsu Greentrans Electronics Technology Co., Ltd.	361,200	349,591	28,349	321,242	64,646	(12,521)	(8,536)	-

(To be continued)

Special Disclosure

(Continued)

Name of Company	Capital	Total Assets	Total Liabilities	Equity	Operating Income	Operating Profit	This year's profit (loss) (After tax)	Earnings per share (After tax)
Brilliant Insight International Consultancy Service Co., Ltd.	22,000	31,394	12,661	18,733	70,357	174	240	0.11
Fujian Rui Hua Consulting Co., Ltd.	109,650	98,021	1,758	96,263	13,731	465	476	-
Hwa Wei Holdings Co., Ltd.	3,080	1,908,113	91,454	1,816,659	2,036	(60,378)	(9,134)	(91.34)
China Motor Investment Co., Ltd.	1,402	1,092,175	-	1,092,175	-	-	(5,514)	(137.84)
Alliance Investment & Management Co., Ltd.	1,830,000	1,640,912	176	1,640,736	-	(189)	(70,605)	(0.39)
Sino Diamond Motor Corporation	3,257,862	3,255,500	439,725	2,815,775	1,719,167	32,487	(105,437)	(0.32)
Hwa Yu Co., Ltd.	1,450,378	947,517	-	947,517	476	(72,166)	(72,174)	(1.58)
Hwa Lin Investment Ltd.	1,328,660	851,212	-	851,212	38,757	(50,162)	(72,642)	(1.73)
Guangzhou Huayou Motor Maintenance Co., Ltd.	413,123	184,792	80,984	103,808	257,237	(3,093)	(5,115)	-
Guangzhou Huayou Motor Sale Co., Ltd.	198,531	138,778	125,953	12,825	816,333	823	3,341	-
Sichuan Huafeng Hanwei Cars Service And Maintenance Co., Ltd.	429,893	216,595	90,403	126,192	1,193,277	12,792	3,894	-
Sichuan Houwei Cars Service And Maintenance Co., Ltd.	13,851	123	1,109	(986)	-	(332)	(339)	-
Sichuan Lingwei Cars Service And Maintenance Co., Ltd.	9,234	8,315	12,720	(4,405)	61,977	(5,181)	(4,670)	-
Tianjin Hwarui Maintenance Co., Ltd.	258,645	233,224	93,695	139,529	35,385	899	14,574	-
Tianjin Hwahong Sale Co., Ltd.	277,020	285,095	17,793	267,302	788,348	11,418	13,286	-
Dongguan Huayi Motor Maintenance Co., Ltd.	143,513	231,070	151,311	79,759	196,541	(8,794)	33,614	-
Dongguan Huashun Motor Sale Co., Ltd.	69,255	133,037	137,072	(4,035)	1,673,688	44,011	44,892	-
Hwa Hann Corporation (Note)	-	-	-	-	-	-	-	-

Note: Hwa Hann Corporation is in the course of liquidation.

(II) Consolidated Financial Statements of Affiliated Enterprises: Same as the financial report of parent company and its subsidiaries.

Special Disclosure

Declaration of the Consolidated Financial Statements of Affiliates

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2016 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

China Motor Corporation



Chairperson: Kenneth Kenneth K. T. Yen



March 27, 2017

(III) Affiliation Report: None

- II. Private Placement Securities during the 2016 Calendar Year and up to March 31, 2017: None
- III. Status of Shares Held or, Disposed of, by Subsidiaries during the 2016 Calendar Year and up to March 31, 2017: None
- IV. Other Special Notes: None
- V. Impacts of Significant Events on Shareholders' Rights or Stock Value during the 2016 Calendar Year and up to March 31, 2017: None

China Motor Corporation



Chairperson: Kenneth K.T. YEN

A handwritten signature in black ink, appearing to be the Chinese characters '嚴凱泰' (Yan Kai Tai), which corresponds to the name Kenneth K.T. Yen.



中華汽車工業股份有限公司
CHINA MOTOR CORPORATION