

**KD HOLDING CORPORATION AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2016 AND 2015**

For the convenience of readers and for information purpose only, the 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. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of KD HOLDING CORPORATION AND SUBSIDIARIES

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers”, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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



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Key audit matters

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

Accuracy of service revenue

A. Description

Please refer to Note 4(26) for accounting policies on operating revenue, and Note 6(20) for details of service revenue.

Operating revenue mainly arise from service revenue and electricity sales revenue. The service revenue mainly arises from contracts entered into with certain governments (grantors) that involve charging for the service per unit in accordance with contracts. The cash amount of service revenue (including waste disposal revenue, part of electricity sales revenue and service concession revenue) was NT\$ 2,443,535 thousand for the year ended December 31, 2016, presenting 49% of operating revenue for the year ended December 31, 2016. Thus, we consider the accuracy of service revenue a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

- (A) Obtained understanding of the procedures of waste treatment and tested relevant internal controls, including randomly checking the actual amount of disposals that are treated at the waste treatment plant monthly, the consistency of monthly statements that management used in calculating revenue, and the consistency between service fees per unit and contract.
- (B) Verified the accuracy of statements that management used in calculating revenue, including the amount of disposals treated and the service fees per unit, recalculating the accuracy of cash amount and ascertained whether it was in agreement with recorded revenue.



Electricity sales adjustment

B. Description

Please refer to Note 6(12) for details of electricity sales adjustment.

SINOGAL-Waste Services Co.,Ltd., which was reinvested by the Company, entered into a contract, “Provision of Services for Operation and Maintenance of the Macao Refuse Incineration Plant”, with Região Administrativa Especial de Macau (“referred herein as the owner”). Due to the change in the electricity sales calculation which was specified in the contract, after clarification and approval by the owner, since the result of the calculation formula of adjustment of electricity sales is a loss, the adjustment of electricity sales was transferred from other current liabilities to operating revenue, and the amount is NT\$ 569,291, representing 34% of profit before tax. We consider the accuracy of relevant revenue recognition a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

- (A) Obtaining and examining contracts, and discussing relevant calculation with management.
- (B) Obtaining the clarification letter which was replied by the owner about the compensation of “Provision of Services for Operation and Maintenance of the Macao Refuse Incineration Plant” service agreement.
- (C) Obtaining the detail of other current liability, randomly checking and verifying the cash amounts on relevant evidence against with the carrying amounts, and examining the consistence of calculation between original contract and clarification letter.

Other matter – Non-consolidated financial statements

We have audited and expressed an unqualified opinion on the non-consolidated financial statements of KD Holding Corporation as at and for the years ended December 31, 2016 and 2015.



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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 Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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 audit committee, are responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS 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.



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As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- A. 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.
- B. 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.
- C. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- D. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- E. 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.
- F. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

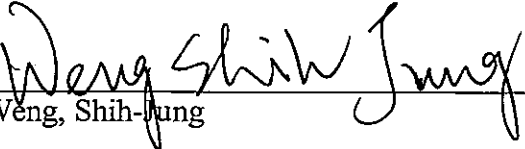


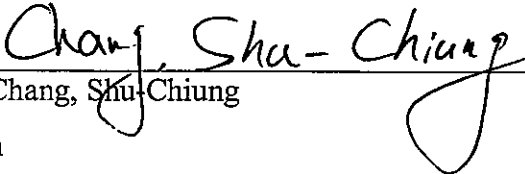
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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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


Weng, Shih-Jung


Chang, Shu-Chiung

For and on behalf of PricewaterhouseCoopers, Taiwan

March 15, 2017

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

KD HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

| Assets | Notes | December 31, 2016 | | December 31, 2015 | |
|---------------------------|------------------------------------------|---------------------|------------|---------------------|------------|
| | | AMOUNT | % | AMOUNT | % |
| Current assets | | | | | |
| 1100 | Cash and cash equivalents 6(1) | \$ 1,229,944 | 17 | \$ 1,231,547 | 16 |
| 1110 | Financial assets at fair value 6(2) | | | | |
| | through profit or loss - current | 767,378 | 10 | 320,700 | 4 |
| 1125 | Available-for-sale financial assets 6(3) | | | | |
| | - current | 99,660 | 1 | 132,388 | 2 |
| 1150 | Notes receivable, net | 138 | - | 529 | - |
| 1170 | Accounts receivable, net 6(4) | 847,258 | 12 | 906,575 | 12 |
| 1180 | Accounts receivable, net - related 7 | | | | |
| | parties | 84,531 | 1 | 138,457 | 2 |
| 1200 | Other receivables | 10,066 | - | 11,637 | - |
| 1210 | Other receivables - related parties 7 | 269,308 | 4 | 47,151 | 1 |
| 130X | Inventories | 52,287 | 1 | 54,325 | 1 |
| 1410 | Prepayments | 110,972 | 1 | 112,312 | 1 |
| 1470 | Other current assets 6(6) | 409,591 | 6 | 927,583 | 12 |
| 11XX | Current Assets | <u>3,881,133</u> | <u>53</u> | <u>3,883,204</u> | <u>51</u> |
| Non-current assets | | | | | |
| 1543 | Financial assets carried at cost - 6(5) | | | | |
| | non-current | 556 | - | 475 | - |
| 1550 | Investments accounted for under 6(7) | | | | |
| | equity method | 594,024 | 8 | 618,183 | 8 |
| 1600 | Property, plant and equipment, 6(8) | | | | |
| | net | 54,433 | 1 | 51,075 | 1 |
| 1840 | Deferred income tax assets 6(23) | 17,851 | - | 15,811 | - |
| 1900 | Other non-current assets 6(9) and 8 | 2,773,230 | 38 | 3,087,366 | 40 |
| 15XX | Non-current assets | <u>3,440,094</u> | <u>47</u> | <u>3,772,910</u> | <u>49</u> |
| 1XXX | Total assets | <u>\$ 7,321,227</u> | <u>100</u> | <u>\$ 7,656,114</u> | <u>100</u> |

(Continued)

KD HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

| Liabilities and Equity | Notes | December 31, 2016 | | December 31, 2015 | | |
|---------------------------------------------------------------------------------|----------------------------------------------------|-------------------|---------------------|-------------------|---------------------|------------|
| | | AMOUNT | % | AMOUNT | % | |
| Current liabilities | | | | | | |
| 2170 | Accounts payable | 6(10) | \$ 700,941 | 9 | \$ 772,390 | 10 |
| 2180 | Accounts payable - related parties | 7 | 27,604 | - | 27,196 | 1 |
| 2200 | Other payables | 6(11) | 342,228 | 5 | 297,973 | 4 |
| 2220 | Other payables - related parties | 7 | 2,201 | - | 2,674 | - |
| 2230 | Current income tax liabilities | | 131,283 | 2 | 74,794 | 1 |
| 2300 | Other current liabilities | 6(12)(13) | 213,024 | 3 | 783,647 | 10 |
| 21XX | Current Liabilities | | <u>1,417,281</u> | <u>19</u> | <u>1,958,674</u> | <u>26</u> |
| Non-current liabilities | | | | | | |
| 2540 | Long-term borrowings | 6(13) | 180,000 | 3 | 356,000 | 5 |
| 2570 | Deferred income tax liabilities | 6(23) | 171,185 | 2 | 161,105 | 2 |
| 2600 | Other non-current liabilities | 6(14) | 287,987 | 4 | 268,687 | 3 |
| 25XX | Non-current liabilities | | <u>639,172</u> | <u>9</u> | <u>785,792</u> | <u>10</u> |
| 2XXX | Total Liabilities | | <u>2,056,453</u> | <u>28</u> | <u>2,744,466</u> | <u>36</u> |
| Equity attributable to owners of parent | | | | | | |
| Share capital | | | | | | |
| 3110 | Common stock | 6(12)(17) | 664,614 | 9 | 658,394 | 9 |
| 3140 | Capital collected in advance | | - | - | 233 | - |
| Capital surplus | | | | | | |
| 3200 | Capital surplus | 6(12)(18) | 2,126,850 | 29 | 2,069,266 | 26 |
| Retained earnings | | | | | | |
| 3310 | Legal reserve | 6(19)(23) | 442,686 | 6 | 371,649 | 5 |
| 3320 | Special reserve | | 145 | - | 145 | - |
| 3350 | Unappropriated retained earnings | | 1,445,777 | 20 | 1,314,258 | 17 |
| Other equity interest | | | | | | |
| 3400 | Other equity interest | | 1,985 | - | 25,009 | 1 |
| 31XX | Equity attributable to owners of the parent | | <u>4,682,057</u> | <u>64</u> | <u>4,438,954</u> | <u>58</u> |
| 36XX | Non-controlling interest | | <u>582,717</u> | <u>8</u> | <u>472,694</u> | <u>6</u> |
| 3XXX | Total equity | | <u>5,264,774</u> | <u>72</u> | <u>4,911,648</u> | <u>64</u> |
| Significant contingent liabilities and unrecognised contract commitments | | | | | | |
| Significant events after the balance sheet date | | | | | | |
| 3X2X | Total liabilities and equity | | <u>\$ 7,321,227</u> | <u>100</u> | <u>\$ 7,656,114</u> | <u>100</u> |

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

KD HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share amount)

| Items | Notes | Year ended December 31 | | | | |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|---------------------|-------------|-------------------|-------------|
| | | 2016 | | 2015 | | |
| | | AMOUNT | % | AMOUNT | % | |
| 4000 | Operating revenue | 6(20) and 7 | \$ 4,955,565 | 100 | \$ 4,078,753 | 100 |
| 5000 | Operating costs | 6(21)(22) and 7 | (3,155,153) | (64) | (3,018,765) | (74) |
| 5900 | Gross profit | | <u>1,800,412</u> | <u>36</u> | <u>1,059,988</u> | <u>26</u> |
| | Operating expenses | 6(21)(22) | | | | |
| 6200 | General & administrative expenses | | (173,229) | (3) | (165,874) | (4) |
| 6000 | Total operating expenses | | <u>(173,229)</u> | <u>(3)</u> | <u>(165,874)</u> | <u>(4)</u> |
| 6900 | Operating profit | | <u>1,627,183</u> | <u>33</u> | <u>894,114</u> | <u>22</u> |
| | Non-operating income and expenses | | | | | |
| 7010 | Other income | | 33,034 | 1 | 53,521 | 1 |
| 7020 | Other gains and losses | | (3,361) | - | 6,071 | - |
| 7050 | Finance costs | | (5,823) | - | (10,114) | - |
| 7060 | Share of profit of associates and joint ventures accounted for under equity method | 6(7) | <u>7,093</u> | - | <u>25,287</u> | <u>1</u> |
| 7000 | Total non-operating income and expenses | | <u>30,943</u> | <u>1</u> | <u>74,765</u> | <u>2</u> |
| 7900 | Profit before income tax | | <u>1,658,126</u> | <u>34</u> | <u>968,879</u> | <u>24</u> |
| 7950 | Income tax expense | 6(23) | (227,458) | (5) | (130,320) | (3) |
| 8200 | Profit for the period | | <u>\$ 1,430,668</u> | <u>29</u> | <u>\$ 838,559</u> | <u>21</u> |
| | Other comprehensive income | | | | | |
| | Components of other comprehensive income that will not be reclassified to profit or loss | | | | | |
| 8311 | Other comprehensive income, before tax, actuarial gains on defined benefit plans | 6(15) | (\$ 6,741) | - | (\$ 13,694) | - |
| 8320 | Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss | | (115) | - | 969 | - |
| 8349 | Income tax related to components of other comprehensive income that will not be reclassified to profit or loss | 6(23) | 620 | - | 2,578 | - |
| | Components of other comprehensive income that will be reclassified to profit or loss | | | | | |
| 8361 | Cumulative translation differences of foreign operations | | (24,968) | (1) | 32,259 | 1 |
| 8362 | Unrealized loss on valuation of available-for-sale financial assets | 6(3) | (457) | - | (16,434) | (1) |
| 8300 | Total other comprehensive (loss) income for the year | | <u>(\$ 31,661)</u> | <u>(1)</u> | <u>\$ 5,678</u> | <u>-</u> |
| 8500 | Total comprehensive income for the year | | <u>\$ 1,399,007</u> | <u>28</u> | <u>\$ 844,237</u> | <u>21</u> |
| | Profit attributable to: | | | | | |
| 8610 | Owners of the parent | | \$ 848,097 | 17 | \$ 710,370 | 18 |
| 8620 | Non-controlling interest | | 582,571 | 12 | 128,189 | 3 |
| | Total | | <u>\$ 1,430,668</u> | <u>29</u> | <u>\$ 838,559</u> | <u>21</u> |
| | Comprehensive income attributable to: | | | | | |
| 8710 | Owners of the parent | | \$ 818,884 | 16 | \$ 714,133 | 18 |
| 8720 | Non-controlling interest | | 580,123 | 12 | 130,104 | 3 |
| | Total | | <u>\$ 1,399,007</u> | <u>28</u> | <u>\$ 844,237</u> | <u>21</u> |
| | Earnings per share (in dollars): | | | | | |
| 9750 | Total basic earnings per share | 6(24) | <u>\$ 12.80</u> | | <u>\$ 10.84</u> | |
| 9850 | Total diluted earnings per share | 6(24) | <u>\$ 12.75</u> | | <u>\$ 10.77</u> | |

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

KD HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

| | Equity attributable to owners of the parent | | | | | | | | | | | |
|-----------------------------------------------------------------------------|---------------------------------------------|-------------------|------------------------------|---------------------|-------------------|-----------------|----------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------------|--------------------------|---------------------|
| | Share Capital | | | Retained Earnings | | | | Other equity interest | | | | |
| | Notes | Common stock | Capital collected in advance | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Financial statement translation differences of foreign operations | Unrealized gain or loss on valuation of available-for-sale financial assets | Total | Non-controlling interest | Total equity |
| For the year ended December 31, 2015 | | | | | | | | | | | | |
| Balance at January 1, 2015 | | \$ 648,708 | \$ 1,157 | \$ 1,977,434 | \$ 304,245 | \$ 762 | \$ 1,287,692 | \$ 27,650 | (\$ 16,172) | \$ 4,231,476 | \$ 453,315 | \$ 4,684,791 |
| Capital collected in advance transferred to common stock | | 1,157 | (1,157) | - | - | - | - | - | - | - | - | - |
| Appropriation of 2014 earnings | 6(19) | - | - | - | 67,404 | - | (67,404) | - | - | - | - | - |
| Legal reserve | | - | - | - | 67,404 | - | (67,404) | - | - | - | - | - |
| Special reserve | | - | - | - | - | (617) | 617 | - | - | - | - | - |
| Cash dividends | | - | - | - | - | - | (607,249) | - | - | (607,249) | (111,214) | (718,463) |
| Profit for the year | | - | - | - | - | - | 710,370 | - | - | 710,370 | 128,189 | 838,559 |
| Convertible bonds transferred to common stock | 6(17)(18) | 1,502 | 233 | 16,063 | - | - | - | - | - | 17,798 | - | 17,798 |
| Share-based payment transactions | 6(16)(18) | - | - | 8,224 | - | - | - | - | - | 8,224 | 489 | 8,713 |
| Employee stock options exercised | 6(17)(18) | 7,027 | - | 67,624 | - | - | - | - | - | 74,651 | - | 74,651 |
| Cumulative translation differences of foreign operations | | - | - | - | - | - | - | 29,705 | - | 29,705 | 2,554 | 32,259 |
| Unrealized gain or loss on valuation of available-for-sale financial assets | 6(3) | - | - | - | - | - | - | - | (16,174) | (16,174) | (260) | (16,434) |
| Other comprehensive income for the year | | - | - | - | - | - | (9,768) | - | - | (9,768) | (379) | (10,147) |
| Adjustments due to capital transfer of investees | | - | - | (79) | - | - | - | - | - | (79) | - | (79) |
| Balance at December 31, 2015 | | <u>\$ 658,394</u> | <u>\$ 233</u> | <u>\$ 2,069,266</u> | <u>\$ 371,649</u> | <u>\$ 145</u> | <u>\$ 1,314,258</u> | <u>\$ 57,355</u> | <u>(\$ 32,346)</u> | <u>\$ 4,438,954</u> | <u>\$ 472,694</u> | <u>\$ 4,911,648</u> |
| For the year ended December 31, 2016 | | | | | | | | | | | | |
| Balance at January 1, 2016 | | \$ 658,394 | \$ 233 | \$ 2,069,266 | \$ 371,649 | \$ 145 | \$ 1,314,258 | \$ 57,355 | (\$ 32,346) | \$ 4,438,954 | \$ 472,694 | \$ 4,911,648 |
| Capital collected in advance transferred to common stock | | 233 | (233) | - | - | - | - | - | - | - | - | - |
| Appropriation of 2015 earnings | 6(19) | - | - | - | 71,037 | - | (71,037) | - | - | - | - | - |
| Legal reserve | | - | - | - | 71,037 | - | (71,037) | - | - | - | - | - |
| Cash dividends | | - | - | - | - | - | (639,352) | - | - | (639,352) | (470,202) | (1,109,554) |
| Profit for the year | | - | - | - | - | - | 848,097 | - | - | 848,097 | 532,571 | 1,430,668 |
| Share-based payment transactions | 6(16)(18) | - | - | 1,761 | - | - | - | - | - | 1,761 | 102 | 1,863 |
| Employee stock options exercised | 6(17)(18) | 5,987 | - | 55,823 | - | - | - | - | - | 61,810 | - | 61,810 |
| Cumulative translation differences of foreign operations | | - | - | - | - | - | - | (22,755) | - | (22,755) | (2,213) | (24,968) |
| Unrealized gain or loss on valuation of available-for-sale financial assets | 6(3) | - | - | - | - | - | - | - | (269) | (269) | (188) | (457) |
| Other comprehensive income for the year | | - | - | - | - | - | (6,189) | - | - | (6,189) | (47) | (6,236) |
| Balance at December 31, 2016 | | <u>\$ 664,614</u> | <u>\$ -</u> | <u>\$ 2,126,850</u> | <u>\$ 442,686</u> | <u>\$ 145</u> | <u>\$ 1,445,777</u> | <u>\$ 34,600</u> | <u>(\$ 32,615)</u> | <u>\$ 4,682,057</u> | <u>\$ 582,717</u> | <u>\$ 5,264,774</u> |

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

KD HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

| | Notes | Year ended December 31, | |
|------------------------------------------------------------------------------------|----------|-------------------------|------------------|
| | | 2016 | 2015 |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | |
| Profit before tax | | \$ 1,658,126 | \$ 968,879 |
| Adjustments | | | |
| Adjustments to reconcile profit (loss) | | | |
| Depreciation | 6(8)(21) | 15,246 | 16,470 |
| Amortization | 6(21) | 13,936 | 14,274 |
| Interest expense | | 5,823 | 9,933 |
| Interest income | | (17,567) | (29,196) |
| Dividend income | | (5,128) | (15,823) |
| Salary expense-employee stock options | 6(16) | 1,863 | 8,713 |
| Gain on valuation of financial assets | 6(2) | (932) | (1,524) |
| Loss on disposal of investment | | 129 | - |
| Share of profit of associates and joint ventures accounted for under equity method | 6(7) | (7,093) | (25,287) |
| (Gain) loss on disposal of property, plant and equipment | | (2,607) | 286 |
| Discount on convertible bonds recognized as interest expense | | - | 181 |
| Impairment loss | 6(5) | - | 157 |
| Other income | 6(5) | (540) | - |
| Changes in operating assets and liabilities | | | |
| Changes in operating assets | | | |
| Financial assets at fair value through profit or loss | | (449,335) | (63,344) |
| Notes receivable, net | | 391 | 161 |
| Accounts receivable, net | | 59,317 | (83,237) |
| Accounts receivable, net - related parties | | 53,926 | (19,715) |
| Other receivables | | (2,820) | (2,335) |
| Other receivables-related parties | | (17,768) | (2,786) |
| Inventories | | 2,038 | (10,067) |
| Prepayments | | 1,340 | (59,806) |
| Other non-current assets | | 303,485 | 241,594 |
| Changes in operating liabilities | | | |
| Accounts payable | | (71,449) | 170,448 |
| Accounts payable - related parties | | 408 | (2,737) |
| Other payables | | 45,245 | 7,487 |
| Other payables - related parties | | (473) | (984) |
| Other current liabilities | | (579,422) | 150,689 |
| Other non-current liabilities | | 501 | 10,541 |
| Cash inflow generated from operations | | 1,006,640 | 1,282,972 |
| Interest received | | 19,293 | 31,189 |
| Dividends received | | 16,842 | 40,753 |
| Interest paid | | (6,813) | (9,392) |
| Income tax paid | | (161,722) | (124,489) |
| Net cash flows from operating activities | | <u>874,240</u> | <u>1,221,033</u> |

(Continued)

KD HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

| | Notes | Year ended December 31, | |
|-------------------------------------------------------------------------------|-------|-------------------------|---------------------|
| | | 2016 | 2015 |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | |
| Decrease in available-for-sale financial assets-current | | \$ 29,771 | \$ - |
| Increase in other receivables-related parties | | (204,188) | - |
| Interest received | | 2,464 | 464 |
| Decrease (increase) in current assets | 6(6) | 517,992 | (22,053) |
| Increase in financial assets at cost | 6(5) | (81) | - |
| Proceeds from disposal of investee company | 6(5) | 540 | - |
| Increase in investments accounted for under equity method-non-subsidiaries | 6(7) | - | (94,500) |
| Acquisition of property, plant and equipment | 6(8) | (19,530) | (9,322) |
| Proceeds from disposal of property, plant and equipment | | 3,360 | 164 |
| Increase in refundable deposits | | (3,285) | (2,339) |
| Payments for redemption of bonds payable | | - | (1,500) |
| Net cash flows from (used in) investing activities | | <u>327,043</u> | <u>(129,086)</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | | |
| Repayment of long-term loans | | (167,200) | (158,400) |
| Increase in deposits received (shown in other non-current liabilities) | | 12,058 | 17,291 |
| Employee stock options exercised | | 61,810 | 74,651 |
| Cash dividends paid | | (1,109,554) | (718,463) |
| Net cash flows used in financing activities | | <u>(1,202,886)</u> | <u>(784,921)</u> |
| Net (decrease) increase in cash and cash equivalents | | (1,603) | 307,026 |
| Cash and cash equivalents at beginning of year | | <u>1,231,547</u> | <u>924,521</u> |
| Cash and cash equivalents at end of year | | <u>\$ 1,229,944</u> | <u>\$ 1,231,547</u> |

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

KD HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

- 1) KD Holding Corporation (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.) on December 13, 1999, and consolidated investee-Chang Ting Corporation in December, 2005.
- 2) The main business activity of the Company was waste management. However, the Board of Directors resolved to change its main activity to investment holding on March 27, 2007. The Company’s shares were issued through an initial public offering on December 3, 2007, and have been listed in the Taiwan OTC market since May 27, 2010.
- 3) CTCI Corporation, the Company’s ultimate parent company, holds 57.89% equity interest in the Company as of December 31, 2016.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were reported to the Board of Directors on March 15, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

None.

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

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

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

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

Amendments to IAS 1, 'Disclosure initiative'

This amendment clarifies the presentation of materiality, aggregation and subtotals, the framework of financial report, and the guide for accounting disclosure. The Group will change presentation and disclosures in its financial statements and reports in accordance with the accounting principle.

3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC effective from 2017:

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

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

A) IFRS 9, 'Financial instruments'

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

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

B) IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' replaces IAS 11 'Construction contracts', IAS18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognized when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

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

Step 1: Identify contracts with customer

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

Step 3: Determine the transaction price

Step 4: Allocate the transaction price.

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

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

C) Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from Contracts with Customers'

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

D) IFRS 16, 'Leases'

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

E) Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

1) Compliance statement

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

2) Basis of preparation

A) Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- b) Available-for-sale financial assets measured at fair value.
- c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B) The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

3) Basis of consolidation

A) Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

B) Subsidiaries included in the consolidated financial statements:

| Name of the investor | Name of the investee | Main Activities | Ownership percentage (%) | | Note |
|----------------------------------|------------------------------------------------------|---------------------------|--------------------------|-------------------|------|
| | | | December 31, 2016 | December 31, 2015 | |
| KD Holding Corp. | HD Resources Management Corp. | Environmental engineering | 100.00 | 100.00 | |
| KD Holding Corp. | Fortune Energy Corp. | Environmental engineering | 74.999 | 74.999 | |
| Sino Environmental Service Corp. | | | 0.001 | 0.001 | |
| KD Holding Corp. | Sino Environmental Service Corp. | Environmental engineering | 93.15 | 93.15 | |
| HD Resources Management Corp. | | | 0.01 | 0.01 | |
| KD Holding Corp. | Leading Energy Corp. | Environmental engineering | 98.00 | 98.00 | |
| Sino Environmental Service Corp. | | | 2.00 | 2.00 | |
| KD Holding Corp. | Yuan Ding Resources Corp. | Environmental engineering | 60.00 | 60.00 | |
| HD Resources Management Corp. | | | 40.00 | 40.00 | |
| Sino Environmental Service Corp. | SINOGAL-Waste Services Co., Ltd. | Environmental engineering | 30.00 | 30.00 | Note |
| Sino Environmental Service Corp. | Xiang Ding Environmental Consultant (Shanghai) Corp. | Environmental engineering | 100.00 | 100.00 | |

Note: Included in the consolidated financial statements due to the Company's control of subsidiary's finance, operation and personnel.

C) Subsidiaries not included in the consolidated financial statements: None.

D) Adjustments for subsidiaries with different balance sheet dates: None.

E) Significant restrictions: None.

F) Subsidiaries that have non-controlling interests that are material to the Group:

As of December 31, 2016 and 2015, the non-controlling interest amounted to \$582,717 and \$472,694, respectively. The information of non-controlling interest and respective subsidiaries is as follows:

| Name of subsidiary | Principal place of business | Non-controlling interest | | | |
|----------------------------------|-----------------------------|--------------------------|---------------|-------------------|---------------|
| | | December 31, 2016 | | December 31, 2015 | |
| | | Amount | Ownership (%) | Amount | Ownership (%) |
| Fortune Energy Corp. | Taiwan | \$ 333,686 | 25.00% | \$ 334,774 | 25.00% |
| SINOGAL-Waste Services Co., Ltd. | Macau | 179,496 | 70.00% | 80,617 | 70.00% |

Summarized financial information of the subsidiaries:

Balance sheets

| | Fortune Energy Corp. | |
|-------------------------|----------------------|-------------------|
| | December 31, 2016 | December 31, 2015 |
| Current assets | \$ 233,261 | \$ 214,693 |
| Non-current assets | 1,587,043 | 1,754,572 |
| Current liabilities | (240,728) | (200,280) |
| Non-current liabilities | (244,832) | (429,890) |
| Total net assets | \$ 1,334,744 | \$ 1,339,095 |

| | SINOGAL-Waste Services Co., Ltd. | |
|-------------------------|----------------------------------|-------------------|
| | December 31, 2016 | December 31, 2015 |
| Current assets | \$ 422,535 | \$ 805,743 |
| Non-current assets | 15,569 | 21,818 |
| Current liabilities | (127,214) | (661,228) |
| Non-current liabilities | (54,467) | (51,166) |
| Total net assets | \$ 256,423 | \$ 115,167 |

Statements of comprehensive income

| | Fortune Energy Corp. | |
|------------------------------------------------------------------|---------------------------------|---------------------------------|
| | Year ended December 31, 2016 | Year ended December 31, 2015 |
| Revenue | \$ 360,797 | \$ 366,722 |
| Profit before income tax | 188,060 | 179,161 |
| Income tax expense | (32,219) | (1,073) |
| Profit for the period | 155,841 | 178,088 |
| Other comprehensive (loss) income, net of tax | (3) | 2,047 |
| Total comprehensive income for the period | <u>\$ 155,838</u> | <u>\$ 180,135</u> |
| Comprehensive income attributable to non-controlling interest | <u>\$ 38,959</u> | <u>\$ 45,034</u> |
| Dividends paid to non-controlling interest | <u>\$ 40,072</u> | <u>\$ 41,113</u> |

| | SINOGAL-Waste Services Co., Ltd. | |
|------------------------------------------------------------------|----------------------------------|---------------------------------|
| | Year ended December 31, 2016 | Year ended December 31, 2015 |
| Revenue | \$ 1,274,862 | \$ 570,227 |
| Profit before income tax | 749,154 | 88,631 |
| Income tax expense | (20,458) | (2,239) |
| Profit for the period | 728,696 | 86,392 |
| Other comprehensive (loss) income, net of tax | (2,784) | 3,176 |
| Total comprehensive income for the period | <u>\$ 725,912</u> | <u>\$ 89,568</u> |
| Comprehensive income attributable to non-controlling interest | <u>\$ 508,138</u> | <u>\$ 62,698</u> |
| Dividends paid to non-controlling interest | <u>\$ 409,260</u> | <u>\$ 50,694</u> |

Statements of cash flows

| | Fortune Energy Corp. | |
|-----------------------------------------------------|---------------------------------|---------------------------------|
| | Year ended December 31, 2016 | Year ended December 31, 2015 |
| Net cash provided by operating activities | \$ 341,555 | \$ 260,565 |
| Net cash used in (provided by) investing activities | (15,837) | 43,630 |
| Net cash used in financing activities | (327,479) | (322,843) |
| Decrease in cash and cash equivalents | (1,761) | (18,648) |
| Cash and cash equivalents, beginning of period | 7,431 | 26,079 |
| Cash and cash equivalents, end of period | \$ 5,670 | \$ 7,431 |

| | SINO GAL-Waste Services Co., Ltd. | |
|-----------------------------------------------------|-----------------------------------|---------------------------------|
| | Year ended December 31, 2016 | Year ended December 31, 2015 |
| Net cash provided by operating activities | \$ 278,756 | \$ 229,789 |
| Net cash provided by (used in) investing activities | 99,779 | (14,165) |
| Net cash used in financing activities | (583,438) | (78,712) |
| (Decrease) increase in cash and cash equivalents | (204,903) | 136,912 |
| Cash and cash equivalents, beginning of period | 293,026 | 156,114 |
| Cash and cash equivalents, end of period | \$ 88,123 | \$ 293,026 |

4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional and the Group's presentation currency.

A) Foreign currency transactions and balances

- a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.

- b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

B) Translation of foreign operations

The operating results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- c) All resulting exchange differences are recognised in other comprehensive income.

5) Classification of current and non-current items

- A) Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - b) Assets held mainly for trading purposes;
 - c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B) Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - a) Liabilities that are expected to be settled within the normal operating cycle;
 - b) Liabilities arising mainly from trading activities;
 - c) Liabilities that are to be settled within twelve months from the balance sheet date;
 - d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

7) Financial assets at fair value through profit or loss

- A) Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.
- B) On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C) Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss.

8) Available-for-sale financial assets

- A) Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B) On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- C) Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

9) Receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as effect of discounting is immaterial.

10) Impairment of financial assets

A) The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B) The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

- a) Significant financial difficulty of the issuer or debtor;
- b) A breach of contract, such as a default or delinquency in interest or principal payments;
- c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
- d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- e) The disappearance of an active market for that financial asset because of financial difficulties;
- f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
- g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C) When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

- a) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. 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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance

account.

b) Financial assets measured at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset through the use of an impairment allowance account.

c) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

11) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

12) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

13) Investments accounted for under the equity method / associates

- A) Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- B) The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds

its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

- C) When changes in an associate's equity that are not recognised in profit or loss or other comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognises the Group's share of change in equity of the associate in "capital surplus" in proportion to its ownership.
- D) Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

14) Investment accounted for using the equity method- joint ventures

The Group accounts for its interest in a joint venture using the equity method. Unrealised profits and losses arising from the transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. However, when the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, all such losses shall be recognised immediately. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture together with any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

15) Property, plant and equipment

- A) Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B) Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C) Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D) The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic

benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

The estimated useful lives of property, plant and equipment are as follows:

| | |
|--------------------------|------------|
| Machinery and equipment | 3~20 years |
| Transportation equipment | 3~7 years |
| Other equipment | 3~5 years |

16) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss shall be reversed to the extent of the loss previously recognised in profit or loss. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

17) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

18) Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

19) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

20) Provisions for other liabilities

Provisions-decommissioning are recognised when the Group has a present legal or constructive

obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are not recognised for future operating losses.

21) Employee benefits

A) Pensions

a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

b) Defined benefit plans

- i) Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds (at the balance sheet date).
- ii) Remeasurement arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii) Past service costs are recognised immediately in profit or loss.

B) Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognises expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

C) Employees' compensation directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequent actual distributed amounts is accounted for as a change in estimate.

22) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

23) Income tax

- A) The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B) The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C) Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.
- D) Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.
- E) Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred

tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

- F) A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from research and development expenditures, to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

24) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

25) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities.

26) Revenue recognition

A) Service concession arrangements

- (a) The Group contracted with the government (grantor) a service concession arrangement whereby the Group shall provide construction of the government's infrastructure assets for public services and operate those assets during the term of the arrangement, and when the term of the operating period expires, the underlying infrastructure assets will be transferred to the government without consideration. The Group allocates the fair value of the consideration received or receivable in respect of the service concession arrangement between construction services and operating services provided based on their relative fair values, and recognises such allocated amounts as revenues in accordance with IAS 11, 'Construction Contracts', and IAS 18, 'Revenue', respectively.
- (b) The consideration received or receivable from the grantor in respect of the service concession arrangement is recognised at its fair value. Such considerations are recognised as a financial asset or an intangible asset based on how the considerations from the grantor to the operator are made as specified in the arrangement. The Group recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services, and recognised profit or loss the effective interest method in accordance with IAS 39.

B) Other revenue (except for aforementioned)

Revenues are recognised when the earning process is substantially completed and is realised or realisable. Costs and expenses are recognised as incurred.

27) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants related to property, plant and equipment are recognised as non-current liabilities and are amortised to profit or loss over the estimated useful lives of the related assets using the straight-line method.

28) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Judgements and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

1) Critical judgements in applying the Group's accounting policies

None.

2) Critical accounting estimates and assumptions

None.

6. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---------------------------------------|--------------------------|--------------------------|
| Cash on hand and petty cash | \$ 9,815 | \$ 9,408 |
| Checking accounts and demand deposits | 516,032 | 221,308 |
| Time deposits | <u>704,097</u> | <u>1,000,831</u> |
| Total | <u>\$ 1,229,944</u> | <u>\$ 1,231,547</u> |

A) The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B) Details of the Group's cash and cash equivalents pledged to others as collateral are provided in Note 8.

2) Financial assets at fair value through profit or loss

| <u>Items</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|------------------------------------------------------------|--------------------------|--------------------------|
| Current items | | |
| Financial assets held for trading | | |
| Mutual funds | \$ 766,850 | \$ 320,368 |
| Valuation adjustments of financial assets held for trading | <u>528</u> | <u>332</u> |
| Total | <u>\$ 767,378</u> | <u>\$ 320,700</u> |

A) The Group recognized net gain of \$932 and \$1,592 on financial assets held for trading for the years ended December 31, 2016 and 2015, respectively.

B) The Group recognized net loss of \$0 and (\$68) on financial assets for non-hedging derivatives for the years ended December 31, 2016 and 2015, respectively.

3) Available-for-sale financial assets

| Items | December 31, 2016 | December 31, 2015 |
|----------------------|-------------------|-------------------|
| Currents items | | |
| Listed stocks | \$ 105,228 | \$ 105,228 |
| Bonds | 30,394 | 60,294 |
| Valuation adjustment | (35,962) | (33,134) |
| Total | <u>\$ 99,660</u> | <u>\$ 132,388</u> |

A) The Group recognized changes in fair value in other comprehensive loss amounting to \$457 and \$16,434, respectively, for the years ended December 31, 2016 and 2015.

B) Due to the global financial crisis in year 2008, listed stocks amounting to \$60,304 that were initially classified as 'financial assets at fair value through profit or loss' were reclassified to 'available-for-sale financial assets' on July 1, 2008 in accordance with paragraph 50(c) of IAS 39. The relevant information is set forth below:

a) The above reclassified assets that have not yet been disposed of are as follows:

| | December 31, 2016 | December 31, 2015 |
|---------------|-----------------------|-----------------------|
| | Book value/Fair value | Book value/Fair value |
| Listed stocks | \$ <u>52,216</u> | \$ <u>40,555</u> |

b) The changes in fair value of the above listed stocks that were recognized in profit or loss and other comprehensive income (loss) were \$0 and \$11,661, respectively, for the year ended December 31, 2016, and were \$0 and (\$23,916), respectively, for the year ended December 31, 2015. The accumulated total changes in fair value of the above listed stocks that were recognized in profit or loss and other comprehensive income before January 1, 2015 were \$0 and \$4,167, respectively.

c) If the above listed stocks had not been reclassified to 'available-for-sale financial assets' on July 1, 2008, the gain (loss) from changes in fair value of these assets that should have been recognised in profit or loss is as follows:

| | For the years ended December 31, | |
|---------------|----------------------------------|---------------------|
| | 2016 | 2015 |
| Listed stocks | \$ <u>11,661</u> | (\$ <u>23,916</u>) |

4) Accounts receivable

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|----------------------------------------------------|--------------------------|--------------------------|
| Accounts receivable | \$ 589,993 | \$ 659,318 |
| Long-term accounts receivable - due in one year | <u>257,265</u> | <u>247,257</u> |
| | <u>\$ 847,258</u> | <u>\$ 906,575</u> |

For details on the long-term accounts receivable – due in one year, please refer to Note 6(9).

5) Financial assets carried at cost

| <u>Items</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|------------------------------------------|--------------------------|--------------------------|
| Non-current items: | | |
| -TSC Venture Management, Inc. | \$ 2,160 | \$ 2,700 |
| -Team Win Opto- Electronics Co., Ltd. | 2,261 | 2,261 |
| -Eastern Pacific Energy Sdn. Bhd. | 81 | - |
| Less: Accumulated impairment | <u>(3,946)</u> | <u>(4,486)</u> |
| Total | <u>\$ 556</u> | <u>\$ 475</u> |

- A) Based on the Group's intention, its investment in the above stocks should be classified as 'available-for-sale financial assets'. However, as the above stocks are not traded in an active market, and no sufficient industry information of companies similar to above stocks or above stock's financial information can be obtained, the fair value of the investment in above stocks cannot be measured reliably. Thus, the Group classified such stocks as 'financial assets measured at cost'.
- B) As of December 31, 2016 and 2015, no financial assets carried at cost held by the Group were pledged to others.
- C) The Group invested and owned 10% equity of the Eastern Pacific Energy Sdn. Bhd. amounting to \$81 (RM\$10 thousand) in August 1, 2016.
- D) As the Group has assessed that objective evidence of impairment exists for its investment in Team Win Opto-Electronics Co., Ltd., the Company recognized impairment loss of \$0 and \$157 for the years ended December 31, 2016 and 2015, respectively. Full impairment loss for TSC Venture Management, Inc. has been recognized in the prior year.
- E) TSC Venture Management, Inc. has resolved at the stockholders' meeting in June, 2016 to reduce the capital and return the amount of \$540. The difference with book value of \$0 is \$540, which is shown in other income.

6) Other current assets

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|------------------------|--------------------------|--------------------------|
| Other financial assets | <u>\$ 409,591</u> | <u>\$ 927,583</u> |

The above assets consists of time deposits with maturity over three months.

7) Investments accounted for under the equity method

| | <u>2016</u> | <u>2015</u> |
|------------------------------------------------------------------------------|-------------------|-------------------|
| At January 1 | \$ 618,183 | \$ 497,296 |
| Addition of investments accounted for using the equity method | - | 94,500 |
| Share of profit or loss of investments accounted for using the equity method | 7,093 | 25,287 |
| Earnings distribution of investments accounted for using the equity method | (11,714) | (24,930) |
| Changes in capital surplus | - | (79) |
| Changes in other equity items | (19,538) | 26,109 |
| At December 31 | <u>\$ 594,024</u> | <u>\$ 618,183</u> |

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-----------------------------------------------------------|--------------------------|--------------------------|
| Associates: | | |
| CTCI Chemicals Corp. | \$ 59,325 | \$ 56,430 |
| GranSino Environmental Technology Co., Ltd. | 5,411 | 6,339 |
| Boretech Resource Recovery Engineering Co., Ltd. (Cayman) | 307,197 | 341,371 |
| Joint ventures: | | |
| G.D. Development Corp. | <u>222,091</u> | <u>214,043</u> |
| | <u>\$ 594,024</u> | <u>\$ 618,183</u> |

A) Associates

(a) The basic information of the associates that is material to the Group is as follows:

| <u>Company name</u> | <u>Principal place of business</u> | <u>Shareholding ratio</u> | | <u>Nature of relationship</u> | <u>Method of measurement</u> |
|-----------------------------------------------------------|------------------------------------|---------------------------|--------------------------|-------------------------------|------------------------------|
| | | <u>December 31, 2016</u> | <u>December 31, 2015</u> | | |
| Boretech Resource Recovery Engineering Co., Ltd. (Cayman) | Cayman Is. | 20.00% | 20.00% | Associates | Equity method |

(b) The summarized financial information of the associate that is material to the Group is as follows:

Balance sheet

| | <u>Boretech Resource Recovery Engineering Co., Ltd. (Cayman)</u> | |
|----------------------------------|------------------------------------------------------------------|--------------------------|
| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
| Current assets | \$ 671,333 | \$ 602,129 |
| Non-current assets | 672,862 | 748,886 |
| Current liabilities | (201,038) | (57,546) |
| Total net assets | <u>\$ 1,143,157</u> | <u>\$ 1,293,469</u> |
| Share in associate's net assets | <u>\$ 228,631</u> | <u>\$ 258,694</u> |
| Carrying amount of the associate | <u>\$ 307,197</u> | <u>\$ 341,371</u> |

Statement of comprehensive income

| | <u>Boretech Resource Recovery Engineering Co., Ltd. (Cayman)</u> | |
|------------------------------------------------|------------------------------------------------------------------|--------------------------|
| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
| Revenue | \$ 1,328,848 | \$ 1,210,735 |
| Loss for the period from continuing operations | (80,300) | (23,834) |
| Other comprehensive (loss) income, net of tax | (60,888) | 95,925 |
| Total comprehensive (loss) income | <u>(\$ 141,188)</u> | <u>\$ 72,091</u> |
| Dividends received from associate | <u>\$ -</u> | <u>\$ 9,908</u> |

(c) The carrying amount of the Group's interests in all individually immaterial associates and the Group's share of the operating results are summarized below:

As of December 31, 2016 and 2015, the carrying amount of the Group's individually immaterial associates amounted to \$64,736 and \$62,769, respectively.

| | <u>Year ended December 31,</u> | <u>Year ended December 31,</u> |
|----------------------------|--------------------------------|--------------------------------|
| | <u>2016</u> | <u>2015</u> |
| Total comprehensive income | <u>\$ 54,564</u> | <u>\$ 64,126</u> |

B) Joint venture

(a) The basic information of the joint venture that is material to the Group is as follows:

| Company name | Principal place of business | Shareholding ratio | | Nature of relationship | Method of measurement |
|------------------------|-----------------------------|--------------------|-------------------|------------------------|-----------------------|
| | | December 31, 2016 | December 31, 2015 | | |
| G.D. Development Corp. | Taiwan | 50% | 50% | Joint venture | Equity method |

(b) The summarized financial information of the joint venture that is material to the Group is as follows:

Balance sheet

| | G.D. Development Corp. | |
|--------------------------------------|------------------------|-------------------|
| | December 31, 2016 | December 31, 2015 |
| Cash and cash equivalents | \$ 18,271 | \$ 26,151 |
| Other current assets | 51,128 | 44,725 |
| Current assets | 69,399 | 70,876 |
| Non-current assets | 875,101 | 782,366 |
| Total assets | \$ 944,500 | \$ 853,242 |
| Current financial liabilities | \$ 160,402 | \$ 128,006 |
| Other current liabilities | 71,867 | 70,684 |
| Current liabilities | \$ 232,269 | \$ 198,690 |
| Non-current liabilities | 268,049 | 226,466 |
| Total liabilities | 500,318 | 425,156 |
| Total net assets | \$ 444,182 | \$ 428,086 |
| Share in joint venture's net assets | \$ 222,091 | \$ 214,043 |
| Carrying amount of the joint venture | \$ 222,091 | \$ 214,043 |

Statement of comprehensive income

| | G.D. Development Corp. | |
|--------------------------------------------------|----------------------------------|-------------|
| | For the years ended December 31, | |
| | 2016 | 2015 |
| Revenue | \$ 38,754 | \$ 43,014 |
| Depreciation and amortisation | (\$ 14,829) | (\$ 14,900) |
| Interest income | \$ 920 | \$ 966 |
| Interest expense | (\$ 5,614) | (\$ 5,952) |
| Profit before income tax | \$ 26,416 | 23,916 |
| Income tax expense | (2,865) | (515) |
| Profit for the period | 23,551 | 23,401 |
| Other comprehensive (loss) income, net of tax | (7,455) | 13,767 |
| Total comprehensive income | \$ 16,096 | \$ 37,168 |
| Dividends received from joint venture | \$ - | \$ 2,474 |

C) The Group holds 50% equity of the joint venture – G.D. Development Corp., the main activity of which is energy technology services.

D) The Board of Directors had resolved to invest in G.D. Development Corp., in December, 2016 and December, 2014. The Group invested in G.D. Development Corp., amounting to \$89,474 and \$94,500 in February, 2017 and January, 2015, respectively.

8) Property, plant and equipment

| | <u>Machinery</u> | <u>Transportation</u> | <u>Others</u> | <u>Total</u> |
|-------------------------------------|------------------|-----------------------|-----------------|------------------|
| <u>At January 1, 2016</u> | | | | |
| Cost | \$ 86,383 | \$ 104,058 | \$ 4,864 | \$ 195,305 |
| Accumulated depreciation | (48,929) | (91,521) | (3,780) | (144,230) |
| | <u>\$ 37,454</u> | <u>\$ 12,537</u> | <u>\$ 1,084</u> | <u>\$ 51,075</u> |
| <u>Year ended December 31, 2016</u> | | | | |
| Opening net book amount | \$ 37,454 | \$ 12,537 | \$ 1,084 | \$ 51,075 |
| Additions | 7,371 | 9,416 | 2,743 | 19,530 |
| Disposals | (249) | (504) | - | (753) |
| Depreciation charge | (10,534) | (4,079) | (633) | (15,246) |
| Net exchange differences | (137) | (21) | (15) | (173) |
| Closing net book amount | <u>\$ 33,905</u> | <u>\$ 17,349</u> | <u>\$ 3,179</u> | <u>\$ 54,433</u> |
| <u>At December 31, 2016</u> | | | | |
| Cost | \$ 82,439 | \$ 99,240 | \$ 6,115 | \$ 187,794 |
| Accumulated depreciation | (48,534) | (81,891) | (2,936) | (133,361) |
| | <u>\$ 33,905</u> | <u>\$ 17,349</u> | <u>\$ 3,179</u> | <u>\$ 54,433</u> |
| | <u>Machinery</u> | <u>Transportation</u> | <u>Others</u> | <u>Total</u> |
| <u>At January 1, 2015</u> | | | | |
| Cost | \$ 86,500 | \$ 103,512 | \$ 4,489 | \$ 194,501 |
| Accumulated depreciation | (43,940) | (86,273) | (3,373) | (133,586) |
| | <u>\$ 42,560</u> | <u>\$ 17,239</u> | <u>\$ 1,116</u> | <u>\$ 60,915</u> |
| <u>Year ended December 31, 2015</u> | | | | |
| Opening net book amount | \$ 42,560 | \$ 17,239 | \$ 1,116 | \$ 60,915 |
| Additions | 7,926 | 426 | 970 | 9,322 |
| Disposals | (2,793) | - | (157) | (2,950) |
| Depreciation charge | (10,429) | (5,184) | (857) | (16,470) |
| Net exchange differences | 190 | 56 | 12 | 258 |
| Closing net book amount | <u>\$ 37,454</u> | <u>\$ 12,537</u> | <u>\$ 1,084</u> | <u>\$ 51,075</u> |
| <u>At December 31, 2015</u> | | | | |
| Cost | \$ 86,383 | \$ 104,058 | \$ 4,864 | \$ 195,305 |
| Accumulated depreciation | (48,929) | (91,521) | (3,780) | (144,230) |
| | <u>\$ 37,454</u> | <u>\$ 12,537</u> | <u>\$ 1,084</u> | <u>\$ 51,075</u> |

9) Other non-current assets

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-------------------------------|--------------------------|--------------------------|
| Long-term accounts receivable | \$ 2,939,908 | \$ 3,187,165 |
| Less: current portion | (257,265) | (247,257) |
| | 2,682,643 | 2,939,908 |
| Long-term prepaid rents | 49,273 | 55,249 |
| Restricted bank deposits | - | 50,000 |
| Accrued recovery cost | 25,764 | 34,022 |
| Refundable deposits | 11,472 | 8,187 |
| Others | 4,078 | - |
| | <u>\$ 2,773,230</u> | <u>\$ 3,087,366</u> |

A) The Group entered into contracts with certain governments grantors for service concession arrangements. The consideration received or receivable from the grantor in respect of the service concession arrangement is recognized at its fair value. Such considerations are recognized as a financial asset based on how the considerations from the grantor to the operator are made as specified in the arrangement. Assets that are expected to be realized within twelve months from the balance sheet date are classified as “accounts receivable” (please refer to Note 6(4)); assets that are expected to be realized over twelve months from the balance sheet date are classified as “long-term accounts receivable”. The other terms of the agreement is as follows:

- a) The subsidiary, Leading Energy Corp., obtained the operation for the construction of Wujih Refuse Incineration Plant by build - operate - transfer (BOT) mode since April, 2000. In September, 2000, the “Waste incineration, Taichung City commission contract” between Leading Energy Corp. and Taichung City Government had been signed. The operating period is for 20 years starting from September 6, 2004. However, according to the contract, if it is expired in advance or extended during construction or operation, duration of the operation will be deemed to be matured or extended, but not to exceed 50 years. In order to work the “Waste Incineration Taichung City Commission Contract”, Leading Energy Corp. obtained the land-use right of Wujih Refuse Incineration Plant. Therefore, duration of the land-use right has continued for 20 years since the plant began operating.
- b) The subsidiary, Fortune Energy Corp., obtained the operation for the construction of Miaoli County Refuse Incineration Plant by build - operate - transfer (BOT) mode since August, 2002. In September, 2002, the “Waste Incineration Commission Contract” between Fortune Energy Corp. and Miaoli County Government had been signed. The operating period is for 20 years starting February 29, 2008. However, according to the contract, if it is expired in advance or extended during construction or operation, duration of the operation will be deemed to be matured or extended. In order to work the “Waste Incineration Miaoli County Commission Contract”, Fortune Energy Corp. obtained the land-use right of Miaoli Refuse

Incineration Plant. Therefore, duration of the land-use right is from September 13, 2002 to March 12, 2026.

- c) Leading Energy Corp. and Fortune Energy Corp. needs to deal with the guarantee tonnage of waste from government according to the contract during construction or operation.
 - d) Per Service cost is calculated and adjusted based on the “Waste Incineration Commission Contract”, “Index of Average Regular Earnings of Employees–Manufacturing” and “Consumer Price Index”.
- B) Long-term prepaid rents are due to Leading Energy Corp. and Fortune Energy Corp. obtaining the land-use right according to the “BOT”. As of December 31, 2016 and 2015, Leading Energy Corp needs to pay long-term prepaid rent amounting to \$28,130 and \$31,800, respectively. As of December 31, 2016 and 2015, Fortune Energy Corp. needs to pay long-term prepaid rent amounting to \$21,143 and \$23,449, respectively.
- C) Accrued recovery cost are due to the contracts for the operation and maintenance service of refuse incineration plant between the subsidiaries, Sino Environmental Service Corp. and SINO GAL -Waste Services Co., Ltd., and the grantors, requiring recovery of refuse incineration plant, related machinery and equipment when the contract expires. The Group has estimated the related recovery cost when the service contracts expire and amortizes it over the contract lives.
- D) For details of the restricted bank deposits and refundable deposits, please refer to Note 8.

10) Accounts payable

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-------------------------------------|--------------------------|--------------------------|
| Materials payable | \$ 62,559 | \$ 35,716 |
| Sub-contract costs payable | 101,738 | 110,471 |
| Incinerator equipment costs payable | 57,672 | 43,519 |
| Maintenance costs payable | 402,384 | 540,243 |
| Others | 76,588 | 42,441 |
| | <u>\$ 700,941</u> | <u>\$ 772,390</u> |

11) Other payables

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-----------------|--------------------------|--------------------------|
| Accrued payroll | \$ 256,035 | \$ 232,721 |
| Others | 86,193 | 65,252 |
| | <u>\$ 342,228</u> | <u>\$ 297,973</u> |

12) Other current liabilities / Bonds payable

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---------------------------------------|--------------------------|--------------------------|
| Other current liabilities | | |
| Long-term liabilities-current portion | \$ 176,000 | \$ 167,200 |
| Receipts in advance | 37,024 | 36,111 |
| Adjustments of electricity sales | - | 580,336 |
| | <u>\$ 213,024</u> | <u>\$ 783,647</u> |

A) The Group issued the first unsecured domestic convertible bonds in November, 2010. Relevant information is as follows:

The Group issued the first zero-coupon, five-year unsecured convertible bond with the principal amount of \$500,000. The bond is listed on the Taiwan Over-The-Counter Securities Exchange.

- a) Conversion right and objectives: The bond shall be converted to common stock of the Company using the conversion price at the conversion time.
- b) Conversion periods: The bond is convertible at any time from December 15, 2010 to November 5, 2015.
- c) Conversion price adjustment: The initial conversion price per share was set at NT\$135.58 (in New Taiwan Dollars). After the issuance of the bonds, the conversion price can be adjusted downward based on the terms of the contract. As of November 5, 2015, the conversion price of the bond is adjusted to NT\$103.06 (in New Taiwan Dollars).
- d) Redemption:
 - i) Redemption at maturity: The bond will be redeemed at the principal amount.
 - ii) Redemption at the option of the Company: The Company may redeem the bond, in whole but not in part, on or after December 15, 2010 to October 6, 2015 at the principal amount, provided that the bond may not be so redeemed, unless (i) the closing price of the shares on the Taiwan Over-The-Counter Securities Exchange, for a period of 30 consecutive trading days, is 30% higher than (or equal to) the conversion price or (ii) at least 90% in principal amount of the bond has already been converted, redeemed or purchased and cancelled.
 - iii) The bondholders have the right to require the Company to redeem any bonds at the price of the bonds' face value upon three years from the issue date.
- e) Under the terms of the bond, the rights and obligations of the new shares converted from the bond are the same as the issued and outstanding common stock.

- f) The fair value of convertible option is separated from bonds payable, which the related trading costs are recognized by the proportion of original amount of the elements of liability and equity, and the amount recognized in “capital reserve from stock warrants” amounted to \$38,643 in accordance with IAS 32 “Financial Instruments: Presentation”. The fair value of put options and call options due to market value change of conversion object embedded in bonds payable was separated from bonds payable, and was recognized in “financial assets or liabilities at fair value through profit or loss” in accordance with IAS 39 “Financial Instrument: Presentation and Management ”. The effective interest rate of bonds payable was 1.57% after separation.
- B) As of December 31, 2015, the fair value of put and call options embedded in bonds payable was recognized in “financial assets at fair value through profit or loss-current” amounting to \$0.
- C) As of December 31, 2015, the bonds at par value amounting to \$498,500 have been converted to 4,163,398 shares of common stock. The abovementioned bond conversion transaction resulted in “capital reserve-common stock” amounting to \$469,833 and “capital reserve-stock warrants” and “financial assets at fair value through profit or loss-current” have been reversed amounting to \$38,528 and \$4,851, respectively. As of November 15, 2015, the Company redeemed the bonds at maturity at par value amounting to \$1,500, resulted in loss on disposals of investments amounting to \$2.
- D) Adjustments of electricity sales is the amount of revenue deduction for electricity sales determined by the project price calculation and the related index under the subcontract of Provision of Services for Operation and Maintenance of the Macao Refuse Incineration Plant to SINO GAL – Waste Service Co., Ltd.. As of March, 2016, SINO GAL – Waste Service Co., Ltd. has clarified to the owners and the price calculation has been approved. All adjustments of electricity sales recorded in other current liabilities were reclassified to operating revenue.

13) Long-term borrowings

| Type of borrowings | Borrowing period and repayment term | Interest rate range | Financing amount | Actual spending | December 31, 2016 | December 31, 2015 |
|--------------------------------------------------|------------------------------------------------------------------------------|---------------------|------------------|-----------------|-------------------|-------------------|
| Mega International Commercial Bank secured loans | From September, 2010 to April, 2019, interest is calculated and paid monthly | 1.3862% | \$ 681,600 | \$681,600 | \$ 356,000 | \$ 523,200 |
| Less: current portion | | | | | (176,000) | (167,200) |
| | | | | | <u>\$ 180,000</u> | <u>\$ 356,000</u> |

- a) Collateral: Secured by the assets, including machineries and other equipment constructed or acquired, under the Miaoli County Government project of “Miaoli BOT Incinerator Build-operate plan”.

- b) Fortune Energy Corp. committed to maintain the following financial ratios and criteria during the period of the contract:
- i) Current ratio is above 100%,
 - ii) Debt ratio (Total Liabilities/Net Value) is under 190%,
 - iii) Time interest earned is above 150%.

14) Other non-current liabilities

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-----------------------------|--------------------------|--------------------------|
| Accrued pension liabilities | \$ 28,248 | \$ 20,867 |
| Accrued recovery costs | 106,942 | 110,895 |
| Deposits received | 127,674 | 115,616 |
| Others | 25,123 | 21,309 |
| | <u>\$ 287,987</u> | <u>\$ 268,687</u> |

For details of the accrued recovery costs, please refer to Note 6(9) C.

15) Pensions

A) Defined benefit pension plan

- a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standard Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

- b) The amounts recognised in the balance sheet are as follows:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|----------------------------------------------|--------------------------|--------------------------|
| Present value of defined benefit obligations | \$ 241,839 | \$ 242,255 |
| Fair value of plan assets | (213,591) | (221,388) |
| Net defined benefit liability | <u>\$ 28,248</u> | <u>\$ 20,867</u> |

c) Movements in net defined benefit liabilities are as follows:

| | Present value of defined benefit obligations | Fair value of plan assets | Net defined benefit liability |
|-----------------------------------------|----------------------------------------------------|---------------------------------|----------------------------------|
| For the year ended December 31, 2016 | | | |
| At January 1 | \$ 242,255 | (\$ 221,388) | \$ 20,867 |
| Current service cost | 6,858 | - | 6,858 |
| Interest expense (income) | 4,118 | (3,763) | 355 |
| | <u>253,231</u> | <u>(225,151)</u> | <u>28,080</u> |
| Remeasurements: | | | |
| Change in financial assumptions | 5,733 | - | 5,733 |
| Experience adjustments | (650) | 1,658 | 1,008 |
| | <u>5,083</u> | <u>1,658</u> | <u>6,741</u> |
| Pension fund contribution | - | (6,573) | (6,573) |
| Paid pension | (16,475) | 16,475 | - |
| At December 31 | <u>\$ 241,839</u> | <u>(\$ 213,591)</u> | <u>\$ 28,248</u> |

| | Present value of defined benefit obligations | Fair value of plan assets | Net defined benefit liability |
|-----------------------------------------|----------------------------------------------------|---------------------------------|----------------------------------|
| For the year ended December 31, 2015 | | | |
| At January 1 | \$ 226,917 | (\$ 219,027) | \$ 7,890 |
| Current service cost | 7,715 | - | 7,715 |
| Interest expense (income) | 4,519 | (4,373) | 146 |
| | <u>239,151</u> | <u>(223,400)</u> | <u>15,751</u> |
| Remeasurements: | | | |
| Change in financial assumptions | 8,095 | - | 8,095 |
| Experience adjustments | 7,006 | (1,407) | 5,599 |
| | <u>15,101</u> | <u>(1,407)</u> | <u>13,694</u> |
| Pension fund contribution | - | (7,562) | (7,562) |
| Paid pension | (11,997) | 10,981 | (1,016) |
| At December 31 | <u>\$ 242,255</u> | <u>(\$ 221,388)</u> | <u>\$ 20,867</u> |

- d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2016 and 2015 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government. Expected return on plan assets was a projection of overall return for the obligations period, which was estimated based on historical returns and by reference to the status of Labor Retirement Fund utilisation by the Labor Pension Fund Supervisory Committee and taking into account the effect that the Fund's minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks.
- e) The principal actuarial assumptions used were as follows:

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|-------------------------|---------------------------------|---------------------------------|
| Discount rate | 1.30~1.50% | 1.70% |
| Future salary increases | 2.50%~3.00% | 2.50%~3.00% |

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

| | <u>Discount rate</u> | | <u>Future salary increases</u> | |
|-------------------------------------------------------|-----------------------|-----------------------|--------------------------------|-----------------------|
| | <u>Increase 0.25%</u> | <u>Decrease 0.25%</u> | <u>Increase 0.25%</u> | <u>Decrease 0.25%</u> |
| December 31, 2016 | | | | |
| Effect on present value of defined benefit obligation | (\$ 6,888) | \$ 7,170 | \$ 6,444 | (\$ 6,236) |
| | <u>Discount rate</u> | | <u>Future salary increases</u> | |
| | <u>Increase 1.00%</u> | <u>Decrease 1.00%</u> | <u>Increase 1.00%</u> | <u>Decrease 1.00%</u> |
| December 31, 2015 | | | | |
| Effect on present value of defined benefit obligation | (\$ 25,932) | \$ 30,554 | \$ 27,211 | (\$ 23,745) |

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2017 amounts to \$6,638.

B) Defined contribution pension plan

- a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- b) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2016 and 2015 were \$25,694 and \$23,016, respectively.
- c) SINO GAL-Waste Services Co., Ltd. has a funded defined contribution plan, covering all regular employees. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the local government are based on employees' monthly salaries and wages. The pension costs under the defined contribution pension plan for the years ended December 31, 2016 and 2015, were \$8,119 and \$7,262, respectively.

16) Share-based payment-employee compensation plan

A) For the years ended December 31, 2016 and 2015, the Group's share-based payment arrangements were as follows:

| <u>Type of arrangement</u> | <u>Grant date</u> | <u>Quantity granted</u> | <u>Contract period</u> | <u>Vesting conditions</u> |
|---------------------------------------|-------------------|-------------------------|------------------------|---------------------------|
| Second plan of employee stock options | 2009.7.16 | 1,200 units | 6 years | Service of 2 years |
| Third plan of employee stock options | 2010.6.18 | 1,200 units | 6 years | Service of 2 years |
| Fourth plan of employee stock options | 2011.6.17 | 1,200 units | 6 years | Service of 2 years |
| Fifth plan of employee stock options | 2012.6.28 | 1,200 units | 6 years | Service of 2 years |

B) The above employee stock options are as follows:

- a) Details of the second plan of employee stock options outstanding as of December 31, 2016 and 2015, are as follows: This plan has been completed.

| Stock options | For the years ended December 31, | | | |
|---------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------------------------|--------------------------------|----------------------------------------------------|
| | 2016 | | 2015 | |
| | No. of units (in thousands) | Weighted-average exercise price (in dollars) | No. of units (in thousands) | Weighted-average exercise price (in dollars) |
| Options outstanding at beginning of period | - | NT\$ - | 75.75 | NT\$ 53.90 |
| Options granted | - | - | - | - |
| Distribution of stock dividends / adjustments for number of shares granted for one unit of option | - | - | - | - |
| Options waived | - | - | - | - |
| Options exercised | - | - | (75.75) | 53.90 |
| Options revoked | - | - | - | - |
| Options outstanding at end of period | - | - | - | - |
| Options exercisable at end of period | - | - | - | - |

- b) Details of the third plan of employee stock options outstanding as of December 31, 2016 and 2015, are as follows: This plan has been completed.

| Stock options | For the years ended December 31, | | | |
|---------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------------------------|--------------------------------|----------------------------------------------------|
| | 2016 | | 2015 | |
| | No. of units (in thousands) | Weighted-average exercise price (in dollars) | No. of units (in thousands) | Weighted-average exercise price (in dollars) |
| Options outstanding at beginning of period | 131.75 | NT\$ 67.50 | 220.75 | NT\$ 71.40 |
| Options granted | - | - | - | - |
| Distribution of stock dividends / adjustments for number of shares granted for one unit of option | - | - | - | - |
| Options waived | - | - | - | - |
| Options exercised | (131.75) | 67.50 | (89.00) | 70.90 |
| Options revoked | - | - | - | - |
| Options outstanding at end of period | - | 67.50 | 131.75 | 67.50 |
| Options exercisable at end of period | - | 67.50 | 131.75 | 67.50 |

- c) Details of the fourth plan of employee stock options outstanding as of December 31, 2016 and 2015, are as follows:

| Stock options | For the years ended December 31, | | | |
|---------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------------------------|--------------------------------|----------------------------------------------------|
| | 2016 | | 2015 | |
| | No. of units (in thousands) | Weighted-average exercise price (in dollars) | No. of units (in thousands) | Weighted-average exercise price (in dollars) |
| Options outstanding at beginning of period | 413.25 | NT\$ 112.30 | 699.00 | NT\$ 118.70 |
| Options granted | - | - | - | - |
| Distribution of stock dividends / adjustments for number of shares granted for one unit of option | - | - | - | - |
| Options waived | (0.25) | - | (1.50) | - |
| Options exercised | (197.75) | 111.30 | (284.25) | 117.50 |
| Options revoked | - | - | - | - |
| Options outstanding at end of period | <u>215.25</u> | 106.30 | <u>413.25</u> | 112.30 |
| Options exercisable at end of period | <u>215.25</u> | 106.30 | <u>413.25</u> | 112.30 |

- d) Details of the fifth plan of employee stock options outstanding as of December 31, 2016 and 2015, are as follows:

| Stock options | For the years ended December 31, | | | |
|---------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------------------------|--------------------------------|----------------------------------------------------|
| | 2016 | | 2015 | |
| | No. of units (in thousands) | Weighted-average exercise price (in dollars) | No. of units (in thousands) | Weighted-average exercise price (in dollars) |
| Options outstanding at beginning of period | 713.50 | NT\$ 116.20 | 974.00 | NT\$ 122.80 |
| Options granted | - | - | - | - |
| Distribution of stock dividends / adjustments for number of shares granted for one unit of option | - | - | - | - |
| Options waived | (9.00) | - | (6.75) | - |
| Options exercised | (269.25) | 114.80 | (253.75) | 121.60 |
| Options revoked | - | - | - | - |
| Options outstanding at end of period | <u>435.25</u> | 110.00 | <u>713.50</u> | 116.20 |
| Options exercisable at end of period | <u>435.25</u> | 110.00 | <u>280.00</u> | 116.20 |

- C) The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2016 and 2015 was NT\$172.65 and NT\$165.88 (in dollars), respectively.
- D) As of December 31, 2016 and 2015, the range of exercise prices of stock options outstanding was NT\$67.5~NT\$110 and NT\$53.9~NT\$116.2 (in dollars), respectively; the weighted-average remaining contractual period was as follows:

| Type of arrangement | December 31, 2016 | December 31, 2015 |
|---------------------------------------|-------------------|-------------------|
| Second plan of employee stock options | - | - |
| Third plan of employee stock options | - | 0.50 years |
| Fourth plan of employee stock options | - | 1.50 years |
| Fifth plan of employee stock options | - | 2.50 years |

E) For the stock options granted after January 1, 2008, with compensation cost accounted for using the fair value method, their fair value on the grant date is estimated using the Black-Scholes option-pricing model. The information is as follows:

| Type of arrangement | Grant date | Market value (Note) | Exercise price | Expected price volatility | Expected duration | Expected dividend yield rate | Risk-free interest rate | Fair value per unit |
|---------------------------------------|------------|---------------------|----------------|---------------------------|-------------------|------------------------------|-------------------------|---------------------|
| Second plan of employee stock options | 2009.7.16 | NT\$ 91.5 | NT\$ 71.0 | 33.68% | 3.42 years | 0% | 0.67% | NT\$ 32.56 |
| Third plan of employee stock options | 2010.6.18 | NT\$ 94.0 | NT\$ 94.0 | 33.68% | 4.50 years | 0% | 0.93% | NT\$ 27.66 |
| Fourth plan of employee stock options | 2011.6.17 | NT\$ 146.0 | NT\$ 146.0 | 38.65% | 4.50 years | 0% | 1.05% | NT\$ 48.82 |
| Fifth plan of employee stock options | 2012.6.28 | NT\$ 145.0 | NT\$ 145.0 | 33.63% | 4.60 years | 0% | 1.00% | NT\$ 42.79 |

Note: The Company had been officially listed in the OTC market on May 27, 2010 whose net value was measured at fair value before being listed in the OTC market and measured at market value after being listed in the OTC market.

F) Expenses incurred on share-based payment transactions are shown below:

| | For the year ended December 31, 2016 | For the year ended December 31, 2015 |
|----------------|-----------------------------------------|-----------------------------------------|
| Equity-settled | \$ 1,863 | \$ 8,713 |

17) Share capital

A) Movements in the number of the Company's ordinary shares outstanding are as follows:

| | 2016 | 2015 |
|----------------------------------|------------|------------|
| At January 1 | 65,839,365 | 64,870,750 |
| Convertible bonds | 23,283 | 265,865 |
| Employee stock options exercised | 598,750 | 702,750 |
| At December 31 | 66,461,398 | 65,839,365 |

- B) As of December 31, 2016, the Company's authorized capital was \$800,000, consisting of 80,000 thousand shares of ordinary stock (including 6,000 thousand shares reserved for employee stock options), and the paid-in capital was \$664,614 with a par value of NT\$10 (in dollars) per share. All proceeds from shares issued have been collected.
- C) As of December 31, 2016 and 2015, 0 shares and 23,283 shares, respectively, of those converted common stock have been shown as "capital collected in advance" because the date of capital increase has not yet been approved by the Board of Directors.

18) Capital surplus

- A) Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.
- B) Changes in capital surplus are as follows:

| | <u>Share premium</u> | <u>Employee stock options</u> | <u>Stock warrants</u> | <u>Others</u> | <u>Total</u> |
|--------------------------------------------------|--------------------------|-----------------------------------|---------------------------|---------------|---------------------|
| At January 1, 2016 | \$ 1,877,736 | \$ 191,217 | \$ - | \$ 313 | \$ 2,069,266 |
| Share-based payment transaction | - | 1,761 | - | - | 1,761 |
| Employee stock options exercised | <u>58,915</u> | <u>(3,092)</u> | <u>-</u> | <u>-</u> | <u>55,823</u> |
| At December 31, 2016 | <u>\$ 1,936,651</u> | <u>\$ 189,886</u> | <u>\$ -</u> | <u>\$ 313</u> | <u>\$ 2,126,850</u> |
| At January 1, 2015 | \$ 1,782,815 | \$ 192,914 | \$ 1,507 | \$ 198 | \$ 1,977,434 |
| Convertible bonds transferred to common stock | 17,455 | - | (1,392) | - | 16,063 |
| Expired employee stock options | - | - | (115) | 115 | - |
| Share-based payment transaction | - | 8,224 | - | - | 8,224 |
| Employee stock options exercised | 77,545 | (9,921) | - | - | 67,624 |
| Adjustments due to capital transfer of investees | <u>(79)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(79)</u> |
| At December 31, 2015 | <u>\$ 1,877,736</u> | <u>\$ 191,217</u> | <u>\$ -</u> | <u>\$ 313</u> | <u>\$ 2,069,266</u> |

- C) Please refer to Note 6(16) for detailed information about capital reserve from employee stock warrants.

19) Retained earnings

As of December 31, 2016 and 2015, the Company's retained earnings are set forth below:

| | <u>2016</u> | <u>2015</u> |
|------------------------------------------------------------------|---------------------|---------------------|
| At January 1 | \$ 1,314,258 | \$ 1,287,692 |
| Profit for the period | 848,097 | 710,370 |
| Legal reserve | (71,037) | (67,404) |
| Reversal of special reserve | - | 617 |
| Appropriation of earnings | (639,352) | (607,249) |
| Remeasurement on post employment benefit obligations, net of tax | (6,189) | (9,768) |
| At December 31 | <u>\$ 1,445,777</u> | <u>\$ 1,314,258</u> |

- A) When net profit occurs in the annual accounts, the Company may, after reserving a sufficient amount of the income before tax to cover the accumulated losses, with the resolution of the board of directors, distribute at least 0.01% of the income before tax to pay to the employees as remuneration, and distribute no more than 2% of the income before tax to pay to the board of directors as remuneration. The remuneration could be stock or cash, and the employee remuneration could be distributed to the employees of subsidiaries of the Company under certain conditions. A report of the distribution of employee remuneration or the board of directors' remuneration shall be submitted to the shareholders at the shareholders' meeting.
- B) The Company shall, after all taxes and dues have been paid and its losses have been covered and at the time of allocating surplus profits, first set aside ten percent of such profits as a legal reserve. However, when the legal reserve amounts to the authorized capital, this shall not apply. Furthermore, in accordance with the provisions of laws and regulations and the rules prescribed by the central competent authority, a special reserve shall be set aside. If there is recovery of the balance of special reserve, the recovered amount shall be included in the distribution of the profit for the current year.

The allocable profit for the current year, which is the balance after the profit distribution and covering losses aforementioned in the preceding paragraph, together with the undistributed retained earnings accrued from prior years shall be referred to as accumulated distributable earnings, which shall be distributed as dividends to shareholders according to shareholders' resolutions.

In order to meet the requirements of business expansion and industry growth, fulfilling future operating needs and stabilizing financial structure is the priority of the Company's dividend policy. Thus, the distribution of the accumulated distributable earnings corresponds with the

shareholders' resolutions. And, the amount of shareholders' bonus shall not be less than 20% of accumulated distributable earnings of the Company, and in particular cash dividend shall not be less than 5%.

- C) Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.
- D) Special reserve
 - a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
 - b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Order No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land.
- E) The imputation tax system requires that any undistributed current earnings of the Company are subject to an additional 10% corporate income tax if the earnings are not distributed in the following year.
- F) The Company recognized dividends of \$639,352 (NT \$ 9.6934 per share) and \$607,249 (NT \$ 9.257 per share) in 2016 and 2015, respectively. In addition, based on the Board of Directors' meeting in July 7, 2016, outstanding stocks will be influenced by convertible bonds and employees' share rights. Thus, the Board of Directors gave the right to adjust the rate of distributed dividends from NT\$9.6934 per share to NT\$9.63352407 per share.

- G) The appropriation of 2015 and 2014 earnings had been resolved at the stockholders' meeting on June 21, 2016 and June 22, 2015, respectively.

Details are summarized below:

| | 2015 | 2014 |
|-----------------------------|-------------------|-------------------|
| Legal reserve | \$ 71,037 | \$ 67,404 |
| Reversal of special reserve | - | (617) |
| Cash dividends | 639,352 | 607,249 |
| Total | <u>\$ 710,389</u> | <u>\$ 674,036</u> |

- H) The appropriation of 2016 earnings had been proposed by Board of Directors during their meeting on March 15, 2017. Details are summarized below:

| | 2016 | |
|----------------|-------------------|----------------------------------------|
| | Amount | Dividends per share (in NT dollars) |
| Legal reserve | \$ 84,810 | \$ - |
| Cash dividends | 757,172 | 11.37 |
| Total | <u>\$ 841,982</u> | <u>\$ 11.37</u> |

The appropriation of 2016 earnings has not been resolved at the stockholders' meeting as of March 15, 2017.

- I) For information relating to employees' remuneration (bonuses) and directors' and supervisors' remuneration, please refer to Note 6 (22).

20) Operating revenue

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|--------------------|---------------------------------|---------------------------------|
| Waste Treatment | \$ 1,352,508 | \$ 1,253,246 |
| Electricity | 1,939,443 | 1,295,926 |
| Concession Service | 604,171 | 611,354 |
| Waste Collection | 123,040 | 120,487 |
| Others | 936,403 | 797,740 |
| Total | <u>\$ 4,955,565</u> | <u>\$ 4,078,753</u> |

21) Expenses by nature

| | For the years ended December 31, | |
|-------------------------------------------------------|----------------------------------|--------------|
| | 2016 | 2015 |
| Employee benefit expense | \$ 1,025,145 | \$ 930,324 |
| Depreciation charges on property, plant and equipment | 15,246 | 16,470 |
| Amortisation | 13,936 | 14,274 |
| Incinerator equipment costs | 306,224 | 340,852 |
| Material | 749,618 | 667,800 |
| Sub-contract costs | 698,586 | 732,921 |
| Insurances | 36,594 | 36,023 |
| Other expenses | 483,033 | 445,975 |
| Total cost of operating and operating expenses | \$ 3,328,382 | \$ 3,184,639 |

22) Employee benefit expense

| | For the years ended December 31, | |
|---------------------------------|----------------------------------|------------|
| | 2016 | 2015 |
| Salaries | \$ 874,010 | \$ 785,245 |
| Employee stock options | 1,863 | 8,713 |
| Labor and health insurance fees | 54,196 | 51,482 |
| Pension costs | 41,026 | 38,139 |
| Other personnel expenses | 54,050 | 46,745 |
| | \$ 1,025,145 | \$ 930,324 |

- A) As of December 31, 2016 and 2015, the Group had 929 and 928 employees, respectively.
- B) When net profit occurs in the annual accounts, the Company may, after reserving a sufficient amount of the income before tax to cover the accumulated losses, with the resolution of the board of directors, distribute at least 0.01% of the income before tax to pay to the employees as remuneration, and distribute no more than 2% of the income before tax to pay to the board of directors as remuneration. The remuneration could be stock or cash, and the employee remuneration could be distributed to the employees of subsidiaries of the Company under certain conditions. A report of the distribution of employee remuneration or the board of directors' remuneration shall be submitted to the shareholders at the shareholders' meeting.
- C) For the years ended December 31, 2016 and 2015, employees' compensation (bonus) was accrued at \$475 and \$228, respectively; directors' and supervisors' remuneration was accrued at \$5,200 and \$5,200, respectively. The aforementioned amounts were recognized in salary and other expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 0.01% and 2% of distributable profit of current year as of the end of December 31, 2016. The employees' compensation and directors' and supervisors' remuneration has not been resolved by the Board of Directors and the differences are adjusted in the next year. The employees' compensation will be distributed in the form of cash.

Employees' compensation and directors' and supervisors' remuneration of 2015 as resolved by the meeting of board of directors were in agreement with those amounts recognised in the 2015 financial statements.

Information about employees' compensation (bonus) and directors' and supervisors' remuneration of the Company as resolved at the shareholders' meeting will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

23) Income tax

A) Components of income tax expense:

| | For the years ended December 31, | |
|---------------------------------------------------------|----------------------------------|-------------------|
| | 2016 | 2015 |
| Current tax on profits for the period | \$ 218,595 | \$ 140,484 |
| Prior year income tax under (over) estimation | 35 | (8,669) |
| Total current tax | 218,630 | 131,815 |
| Deferred tax: | | |
| Change in deferred income tax assets and liabilities | 8,660 | (1,471) |
| Foreign exchange adjustments | 168 | (24) |
| Income tax expense | <u>\$ 227,458</u> | <u>\$ 130,320</u> |

B) Reconciliation between income tax expense and accounting profit

| | Year ended December 31, | Year ended December 31, |
|---------------------------------------------------------------------|-------------------------|-------------------------|
| | 2016 | 2015 |
| Tax calculated based on profit before tax and statutory tax rate | \$ 222,382 | \$ 161,622 |
| Expenses disallowed by tax regulation | (3,619) | (3,953) |
| Prior year income tax under (over) estimation | 35 | (8,669) |
| Tax exempted income by tax regulation | - | (17,209) |
| Change in deferred tax assets and liabilities | 8,660 | (1,471) |
| Income tax expense | <u>\$ 227,458</u> | <u>\$ 130,320</u> |

C) Amounts of deferred tax assets or liabilities as a result of temporary difference, tax losses and investment tax credit are as follows:

| | 2016 | | | |
|-----------------------------------------|---------------------|------------------------------|------------------------------------------|---------------------|
| | January 1 | Recognised in profit or loss | Recognised in other comprehensive income | December 31 |
| Temporary differences: | | | | |
| – Deferred tax assets: | | | | |
| Unused absences costs | \$ 3,204 | \$ 28 | \$ - | \$ 3,232 |
| Unrealised pension costs | 2,326 | 8 | 620 | 2,954 |
| Unrealised maintenance costs | 10,281 | 662 | - | 10,943 |
| Unrealised exchange loss | - | 722 | - | 722 |
| Subtotal | <u>\$ 15,811</u> | <u>\$ 1,420</u> | <u>\$ 620</u> | <u>\$ 17,851</u> |
| – Deferred tax liabilities: | | | | |
| Unrealised exchange gain | (\$ 358) | \$ 358 | \$ - | \$ - |
| Unrealised foreign investment gain | (5,233) | (9,162) | - | (14,395) |
| Unrealised concession arrangements gain | (155,514) | (1,276) | - | (156,790) |
| Subtotal | <u>(\$ 161,105)</u> | <u>(\$ 10,080)</u> | <u>\$ -</u> | <u>(\$ 171,185)</u> |
| Total | <u>(\$ 145,294)</u> | <u>(\$ 8,660)</u> | <u>\$ 620</u> | <u>(\$ 153,334)</u> |

| | 2015 | | | |
|-----------------------------------------|---------------------|------------------------------|----------------------|---------------------|
| | January 1 | Recognised in other | | |
| | | Recognised in profit or loss | comprehensive income | December 31 |
| Temporary differences: | | | | |
| – Deferred tax assets: | | | | |
| Unused absences costs | \$ 2,905 | \$ 299 | \$ - | \$ 3,204 |
| Unrealised pension costs | 15 | (267) | 2,578 | 2,326 |
| Unrealised maintenance costs | 9,609 | 672 | - | 10,281 |
| Subtotal | <u>\$ 12,529</u> | <u>\$ 704</u> | <u>\$ 2,578</u> | <u>\$ 15,811</u> |
| – Deferred tax liabilities: | | | | |
| Unrealised exchange gain | (\$ 1,974) | \$ 1,616 | \$ - | (\$ 358) |
| Unrealised foreign investment gain | (7,877) | 2,644 | - | (5,233) |
| Unrealised concession arrangements gain | (152,021) | (3,493) | - | (155,514) |
| Subtotal | <u>(\$ 161,872)</u> | <u>\$ 767</u> | <u>\$ -</u> | <u>(\$ 161,105)</u> |
| Total | <u>(\$ 149,343)</u> | <u>\$ 1,471</u> | <u>\$ 2,578</u> | <u>(\$ 145,294)</u> |

D) As of December 31, 2016, the Company's and its subsidiaries' income tax returns through 2014 have been assessed and approved by the Tax Authority except for Sino Environmental Services Corporation which have been assessed and approved by the Tax Authority through 2013.

E) Unappropriated retained earnings:

| | December 31, 2016 | December 31, 2015 |
|--------------------------------------|---------------------|---------------------|
| Earnings generated in and after 1998 | <u>\$ 1,445,777</u> | <u>\$ 1,314,258</u> |

F) As of December 31, 2016 and 2015, the balance of the imputation tax credit account was \$132,344 and \$81,228, respectively. The creditable tax rate was 6.38% for 2015 and is estimated to be 9.16% for 2016.

24) Earnings per share

| | For the year ended December 31, 2016 | | |
|----------------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------------------------------------|------------------------------------------------|
| | <u>Net income</u> | <u>Weighted-average outstanding shares (in thousands)</u> | <u>Earnings per share (in dollars)</u> |
| <u>Basic earnings per share:</u> | | | |
| Profit attributable to owners of the parent | \$ 848,097 | 66,271 | NT\$ 12.80 |
| <u>Diluted earnings per share:</u> | | | |
| Dilutive effect of common stock equivalents | | | |
| Employee stock options | - | 241 | |
| Employee bonus | - | 3 | |
| Profit attributable to owners of the parent plus dilutive effect of common stock equivalents | <u>\$ 848,097</u> | <u>66,515</u> | <u>NT\$ 12.75</u> |

| | For the year ended December 31, 2015 | | |
|----------------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------------------------------------|------------------------------------------------|
| | <u>Net income</u> | <u>Weighted-average outstanding shares (in thousands)</u> | <u>Earnings per share (in dollars)</u> |
| <u>Basic earnings per share:</u> | | | |
| Profit attributable to owners of the parent | \$ 710,370 | 65,510 | NT\$ 10.84 |
| <u>Diluted earnings per share:</u> | | | |
| Dilutive effect of common stock equivalents | | | |
| Employee stock options | - | 425 | |
| Employee bonus | - | 2 | |
| Profit attributable to owners of the parent plus dilutive effect of common stock equivalents | <u>\$ 710,370</u> | <u>65,937</u> | <u>NT\$ 10.77</u> |

25) Operating leases

- A) The Group leases offices and dormitories under non-cancellable operating lease agreements. These leases have terms expiring between 1 year and 16 years. The Group recognized rental expenses of \$35,162 and \$30,998, for these leases for the years ended December 31, 2016 and 2015, respectively.

- B) In order to build the refuse incineration plant, the Group obtained the land-use right amounting to \$114,902. For the years ended December 31, 2016 and 2015, the rent is amortized on a straight-line basis during construction or operation both amounting to \$5,976 and \$5,976, respectively.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-------------------------------------------------|--------------------------|--------------------------|
| Less than one year | \$ 10,907 | \$ 8,717 |
| More than one year but not less than five years | 10,122 | 10,264 |
| More than five years | <u>6,761</u> | <u>8,582</u> |
| | <u>\$ 27,790</u> | <u>\$ 27,563</u> |

7. RELATED PARTY TRANSACTIONS

1) Parent and ultimate controlling party

The Company is controlled by CTCI Corporation (incorporated in R.O.C.), which owns 57.89% of the Company's shares. The remaining 42.11% of the shares are widely held by the public.

2) Significant transactions and balances with related parties

A) Sales of services

| | <u>For the years ended December 31,</u> | |
|---------------------|-----------------------------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| The ultimate parent | \$ 436,350 | \$ 450,078 |
| Associates | 1,994 | 529 |
| | <u>\$ 438,344</u> | <u>\$ 450,607</u> |

- a) The prices on the operating, removal and transportation contracts entered into with related parties are set through negotiation by both parties. The collection terms were 30 days and approximately the same as those with third parties.

- b) According to Financial-Supervisory-Securities-Firms No. 0990100279 of the GreTai Securities Market:

Although the Group discloses operating revenues from CTCI as above, the related costs include equipment maintenance cost and employee salary of Sino Environmental Services Corp. when performing operation service, which are not related party transactions.

B) Purchases of services

| | For the years ended December 31, | |
|---------------------|----------------------------------|-------------------|
| | 2016 | 2015 |
| The ultimate parent | \$ 14,545 | \$ 8,800 |
| Associates | 133,722 | 140,231 |
| | <u>\$ 148,267</u> | <u>\$ 149,031</u> |

The prices on the purchase and operating contracts entered into with related parties are set through negotiation by both parties. The payment terms were 30 days and approximately the same as those with third parties.

C) Period-end balances arising from sales of services

| | December 31, 2016 | December 31, 2015 |
|---------------------|-------------------|-------------------|
| The ultimate parent | \$ 84,531 | \$ 138,428 |
| Associates | - | 29 |
| | <u>\$ 84,531</u> | <u>\$ 138,457</u> |

D) Period-end balances arising from purchases of services

| | December 31, 2016 | December 31, 2015 |
|---------------------|-------------------|-------------------|
| The ultimate parent | \$ 5,126 | \$ 3,830 |
| Associates | 22,478 | 23,366 |
| | <u>\$ 27,604</u> | <u>\$ 27,196</u> |

E) Other receivables-related parties

a) Reclassified from accounts receivable

| | December 31, 2016 | December 31, 2015 |
|---------------------|-------------------|-------------------|
| The ultimate parent | <u>\$ 17,886</u> | <u>\$ 14,598</u> |

Certain accounts receivable from related parties which are not on regular collection terms, were reclassified to "other receivables-related parties" whose aging is from 121 to 365 days.

b) Others

| | December 31, 2016 | December 31, 2015 |
|-----------------------|-------------------|-------------------|
| Associates (Note) | \$ 792 | \$ 542 |
| Joint ventures (Note) | 3,630 | 3,001 |
| | <u>\$ 4,422</u> | <u>\$ 3,543</u> |

Note : The receivable is a result of the personnel's transfer from related parties and apportioned office expenses.

F) Loans to related parties

a) Receivables from related parties

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|----------------|--------------------------|--------------------------|
| Associates | \$ 218,000 | \$ - |
| Joint ventures | <u>29,000</u> | <u>29,010</u> |
| | <u>\$ 247,000</u> | <u>\$ 29,010</u> |

b) Interest income

| | <u>For the years ended December 31,</u> | |
|------------------------------|-----------------------------------------|---------------|
| | <u>2016</u> | <u>2015</u> |
| The ultimate parent (Note 1) | \$ 213 | \$ - |
| Associates (Note 2) | 1,986 | - |
| Joint ventures (Note 3) | <u>465</u> | <u>455</u> |
| | <u>\$ 2,664</u> | <u>\$ 455</u> |

Note 1: The terms of lending include interest to be calculated and received monthly, using the annual rate of 0.87% for the year ended December 31, 2016.

Note 2: The terms of lending include interest to be calculated and received monthly, using the annual rate of 1.01%~1.09% for the year ended December 31, 2016.

Note 3: The terms of lending include interest to be calculated and received monthly, using the annual rate of 1.8% and 1.6% for the years ended December 31, 2016 and 2015, respectively.

G) Other payables-related parties

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|----------------------------|--------------------------|--------------------------|
| The ultimate parent (Note) | \$ 2,193 | \$ 2,408 |
| Associates (Note) | <u>8</u> | <u>266</u> |
| | <u>\$ 2,201</u> | <u>\$ 2,674</u> |

Note: The payable is due to the personnel transfers from related parties, estimated directors' and supervisors' remuneration for the years ended December 31, 2016 and 2015, and the related expenses amounted to \$8,403 and \$8,273, respectively.

H) Endorsements and guarantees for others

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|----------------|--------------------------|--------------------------|
| Joint ventures | \$ 667,708 | \$ 629,076 |

3) Key management compensation

| | For the years ended December 31, | |
|-------------------------------------------------|----------------------------------|------------------|
| | 2016 | 2015 |
| Salaries and other short-term employee benefits | \$ 40,826 | \$ 42,485 |
| Post-employment benefits | 403 | 499 |
| Share-based payments | 327 | 2,506 |
| Total | <u>\$ 41,556</u> | <u>\$ 45,490</u> |

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

| Assets | Book value | | Purposes |
|-----------------------------------------|-------------------|-------------------|-------------------------------------------------------|
| | December 31, 2016 | December 31, 2015 | |
| Other financial assets - non-current | | | |
| Restricted bank deposits | \$ - | \$ 50,000 | Guarantee for long-term loans |
| Long-term prepaid rents- land-use right | 21,143 | 23,449 | Guarantee for long-term loans |
| Refundable deposits | 11,472 | 8,187 | Guarantee for rent, service contracts and tender bond |
| | <u>\$ 32,615</u> | <u>\$ 81,636</u> | |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

In addition to those items which have been disclosed in Notes 6(9), (13), (25), and 7(2)H, the significant commitments and contingent liabilities of the Group as of December 31, 2016 were as follows:

- 1) The subsidiaries had entered into lines of credit agreements with several banks for guarantee payments under various service contracts. The subsidiaries had either issued guarantee notes or promissory notes for amounts drawn down under the line of credit agreements. The total amount of guarantee notes and promissory notes issued amounted to \$941,416.
- 2) As of December 31, 2016, the subsidiaries had outstanding commitments for service contracts amounting to \$107,031.
- 3) As of December 31, 2016, the subsidiaries had unused letters of credit for importing materials and sub-contract amounting to \$27,891.

4) On October 28, 2014, the Environmental Protection Bureau New Taipei City Government requested the subsidiary, Sino Environmental Services Corp. (Sino), to pay a substantial amount of air pollution control fee of \$54,267 in accordance with the action stated in Bei-Huan-Kong-Zi Letter No. 1031588875 (the original action) and the judgement rendered by an administrative court of New Taipei City Government. The subsidiary, Sino, disagreed and filed an appeal for revocation of the original action and administrative decision on July 6, 2015. The case is under the judgement of Taiwan High Administrative Court.

Sino's appointed lawyers believed that the original action is unlawful and ineffective, thus, no expense was accrued.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The appropriation of 2016 earnings had been proposed at the Board of Directors' meeting on March 15, 2017, please refer to Note 6(19)H for detailed information.

12. OTHERS

1) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The gearing ratios at December 31, 2016 and 2015 were as follows:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|------------------|--------------------------|--------------------------|
| Total borrowings | \$ 356,000 | \$ 523,200 |
| Total equity | \$ 5,264,774 | \$ 4,911,648 |
| Gearing ratio | 7% | 11% |

2) Financial instruments

A) Fair value information of financial instruments

Except for those listed in the table below, the carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, other receivables, accounts payable, other payables and current portion of long-term borrowings) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

B) Financial risk management policies

- a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.
- b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C) Significant financial risks and degrees of financial risks

a) Market risk

Foreign exchange risk

- i) The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and CNY. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.
- ii) Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward foreign exchange contracts, transacted with Group treasury. Foreign exchange risk arises when future commercial

transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

- iii) The Group has certain investments in foreign operations, therefore, does not hedge the risk.
- iv) The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: MOP and CNY. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| | <u>December 31, 2016</u> | | |
|------------------------------------------|--------------------------|-----------------|-------------------|
| | Foreign Currency | | |
| | <u>Amount</u> | <u>Exchange</u> | <u>Book value</u> |
| | <u>(in thousands)</u> | <u>rate</u> | <u>(NTD)</u> |
| (Foreign currency : functional currency) | | | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD : NTD | \$ 5,640 | 32.199 | \$ 181,602 |
| HKD : NTD | 3 | 4.152 | 12 |
| JPY : NTD | 31,816 | 0.277 | 8,813 |
| EUR : NTD | 64 | 33.920 | 2,171 |
| GBP : NTD | 2 | 39.528 | 79 |
| CNY : NTD | 2 | 4.622 | 9 |
| MOP : NTD | 33,587 | 4.032 | 135,423 |
| <u>Financial Liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| MOP : NTD | 177 | 4.032 | 714 |

| December 31, 2015 | | | |
|------------------------------------------|--------------------------|------------------|---------------------|
| Foreign Currency | | | |
| | Amount (in thousands) | Exchange rate | Book value (NTD) |
| (Foreign currency : functional currency) | | | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD : NTD | \$ 4,332 | 32.895 | \$ 142,501 |
| HKD : NTD | 3 | 4.244 | 13 |
| JPY : NTD | 497 | 0.273 | 136 |
| EUR : NTD | 10 | 35.938 | 359 |
| GBP : NTD | 2 | 48.741 | 97 |
| CNY : NTD | 253 | 4.995 | 1,264 |
| MOP : NTD | 15,630 | 4.119 | 64,380 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| MOP : NTD | 569 | 4.119 | 2,344 |

- v) The unrealised exchange (loss) gain arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2016 and 2015 amounted to (\$4,026) and \$2,105, respectively.

vi) Analysis of foreign currency market risk arising from significant foreign exchange variation:

| For the year ended December 31, 2016 | | | | |
|------------------------------------------|---------------------|----|--------------------------|------------------|
| Sensitivity analysis | | | | |
| | Extent of variation | | Effect on profit or loss | Effect on equity |
| (Foreign currency : functional currency) | | | | |
| <u>Financial assets</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD : NTD | 1.00% | \$ | 1,816 | \$ - |
| JPY : NTD | 1.00% | | 88 | - |
| EUR : NTD | 1.00% | | 22 | - |
| GBP : NTD | 1.00% | | 1 | - |
| MOP : NTD | 1.00% | | 1,354 | - |

Financial liabilities

Monetary items

| | | | | |
|-----------|-------|--|---|---|
| MOP : NTD | 1.00% | | 7 | - |
|-----------|-------|--|---|---|

| For the year ended December 31, 2015 | | | | |
|------------------------------------------|---------------------|----|--------------------------|------------------|
| Sensitivity analysis | | | | |
| | Extent of variation | | Effect on profit or loss | Effect on equity |
| (Foreign currency : functional currency) | | | | |
| <u>Financial assets</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD : NTD | 1.00% | \$ | 1,425 | \$ - |
| JPY : NTD | 1.00% | | 1 | - |
| EUR : NTD | 1.00% | | 4 | - |
| GBP : NTD | 1.00% | | 1 | - |
| CNY : NTD | 1.00% | | 13 | - |
| MOP : NTD | 1.00% | | 644 | - |

Financial liabilities

Monetary items

| | | | | |
|-----------|-------|--|----|---|
| MOP : NTD | 1.00% | | 23 | - |
|-----------|-------|--|----|---|

Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. During the years ended December 31, 2016 and 2015, the Group's borrowings at variable rate were denominated in NTD.

b) Credit risk

- i) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors.
- ii) The credit quality information of financial assets that are neither past due nor impaired is as follows:

| | December 31, 2016 | | |
|-------------------------------------|---------------------|------------------|-------------------|
| | Group 1 | Group 2 | Group 3 |
| Notes receivable | \$ - | \$ - | \$ 138 |
| Accounts receivable | 671,466 | 1,501 | 174,291 |
| Accounts receivable-related parties | - | 84,531 | - |
| Other receivables | - | - | 10,066 |
| Other receivables-related parties | - | - | 251,422 |
| Long-term other receivables | 2,686,721 | - | - |
| | <u>\$ 3,358,187</u> | <u>\$ 86,032</u> | <u>\$ 435,917</u> |

| | December 31, 2015 | | |
|-------------------------------------|---------------------|-------------------|-------------------|
| | Group 1 | Group 2 | Group 3 |
| Notes receivable | \$ - | \$ - | \$ 529 |
| Accounts receivable | 787,699 | 1,532 | 117,344 |
| Accounts receivable-related parties | - | 138,428 | 29 |
| Other receivables | - | - | 11,637 |
| Other receivables-related parties | - | - | 32,553 |
| Long-term other receivables | 2,939,908 | - | - |
| | <u>\$ 3,727,607</u> | <u>\$ 139,960</u> | <u>\$ 162,092</u> |

Group 1: Government.

Group 2: Listed companies.

Group 3: Others.

iii) The ageing analysis of financial assets that were past due but not impaired is as follows:

| | December 31, 2016 | December 31, 2015 |
|--------------------------|-------------------|-------------------|
| <u>Other receivables</u> | | |
| <u>-related parties</u> | | |
| Up to 30 days | \$ 3,061 | \$ 4,555 |
| 31 to 90 days | 9,551 | 5,901 |
| 91 to 180 days | 3,600 | 2,574 |
| Over 181 days | 1,674 | 1,568 |
| | <u>\$ 17,886</u> | <u>\$ 14,598</u> |

c) Liquidity risk

- i) Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets.
- ii) The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

| <u>Non-derivative financial liabilities</u> | | |
|---------------------------------------------------|---------------------|--------------------|
| December 31, 2016 | <u>Up to 1 year</u> | <u>Over 1 year</u> |
| Accounts payable | \$ 728,545 | \$ - |
| Other payables | 344,429 | - |
| Long-term borrowings (including current portion) | 178,440 | 184,990 |
| Other non-current liabilities | 127,674 | - |
| | | |
| <u>Non-derivative financial liabilities</u> | | |
| December 31, 2015 | <u>Up to 1 year</u> | <u>Over 1 year</u> |
| Accounts payable | \$ 799,586 | \$ - |
| Other payables | 300,647 | - |
| Other current liabilities | 580,336 | - |
| Long-term borrowings (including current portion) | 169,708 | 372,020 |
| Other non-current liabilities | 115,616 | - |

3) Fair value estimation

- A) Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(2) A.
- B) The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities. A market is regarded as active if it meets all the following conditions: the items traded in the market are homogeneous; willing buyers and sellers can normally be found at any time; and prices are available to the public. The fair value of the Group's investment in listed stocks and beneficiary certificates is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The fair value of the Group's investment in corporate bonds and convertible bonds is included in Level 2.

Level 3: Inputs for the asset or liability that are not based on observable market data. The Group has no investments in any financial instruments belonging to level 3.

The following table presents the Group's financial assets and liabilities that are measured at fair value at December 31, 2016 and 2015:

| December 31, 2016 | <u>Book value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------------------------------|-------------------|-------------------|------------------|----------------|-------------------|
| Financial assets: | | | | | |
| Financial assets at fair value through profit or loss | | | | | |
| Equity securities | \$ 767,378 | \$ 767,378 | \$ - | \$ - | \$ 767,378 |
| Available-for-sale financial assets | | | | | |
| Equity securities | 72,332 | 72,332 | - | - | 72,332 |
| Bond securities | <u>27,328</u> | <u>-</u> | <u>27,328</u> | <u>-</u> | <u>27,328</u> |
| Total | <u>\$ 867,038</u> | <u>\$ 839,710</u> | <u>\$ 27,328</u> | <u>\$ -</u> | <u>\$ 867,038</u> |
| | | | | | |
| December 31, 2015 | <u>Book value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Financial assets: | | | | | |
| Financial assets at fair value through profit or loss | | | | | |
| Equity securities | \$ 320,700 | \$ 320,700 | \$ - | \$ - | \$ 320,700 |
| Available-for-sale financial assets | | | | | |
| Equity securities | 73,827 | 73,827 | - | - | 73,827 |
| Bond securities | <u>58,561</u> | <u>-</u> | <u>58,561</u> | <u>-</u> | <u>58,561</u> |
| Total | <u>\$ 453,088</u> | <u>\$ 394,527</u> | <u>\$ 58,561</u> | <u>\$ -</u> | <u>\$ 453,088</u> |

C) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

| | <u>Listed shares</u> | <u>Open-end fund</u> |
|---------------------|----------------------|----------------------|
| Market quoted price | Closing price | Net asset value |

D) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques method can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).

E) If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

F) For the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2.

G) For the years ended December 31, 2016 and 2015, there were no input and output into Level 3.

H) Specific valuation techniques used to value financial instruments include:

a) Quoted market prices or dealer quotes for similar instruments.

b) Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: Please refer to table 1.

B. Provision of endorsements and guarantees to others: Please refer to table 2.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.

D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: Please refer to table 4.

E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 5.

H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: None.

I. Trading in derivative instruments undertaken during the reporting periods: None.

J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 7.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 9.

14. OPERATING SEGMENT FINANCIAL INFORMATION

1) General information

The Group's main business is only in a single industry. The Board of Directors, which allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

2) Segmental income, assets and liabilities

The segmental financial information provided to the Chief Operating Decision-Maker is as follows:

| | <u>Environmental Resource Department</u> | |
|---------------------------------|------------------------------------------|---------------------|
| | <u>For the years ended December 31,</u> | |
| | <u>2016</u> | <u>2015</u> |
| Revenue from external customers | \$ 4,955,565 | \$ 4,078,753 |
| Inter-segment revenue | 1,281,276 | 1,185,882 |
| Total segment revenue | <u>\$ 6,236,841</u> | <u>\$ 5,264,635</u> |
| Segment income | <u>\$ 1,627,183</u> | <u>\$ 894,114</u> |
| Depreciation | <u>\$ 15,246</u> | <u>\$ 16,470</u> |
| Amortisation | <u>\$ 13,936</u> | <u>\$ 14,274</u> |

3) Reconciliation information of segmental income

A reconciliation of adjusted EBITDA for reportable segment and income from continuing operations before income tax is provided as follows:

| | <u>For the years ended December 31,</u> | |
|-----------------------------------------------------|-----------------------------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| Adjusted EBITDA for reportable segment | \$ 1,627,183 | \$ 894,114 |
| Unrealized gain on financial instruments | 195 | 17 |
| Financial cost, net | (5,823) | (10,114) |
| Others | 36,571 | 84,862 |
| Income from continuing operations before income tax | <u>\$ 1,658,126</u> | <u>\$ 968,879</u> |

4) Information on products and services

The Company and its associates are operating in an environmental-friendly industry. In addition, no product information is disclosed.

5) Geographical information

Geographical information for the years ended December 31, 2016 and 2015 is as follows:

| | <u>2016</u> | | <u>2015</u> | |
|--------|--------------------------|---------------------------|--------------------------|---------------------------|
| | <u>Operating revenue</u> | <u>Non-current assets</u> | <u>Operating revenue</u> | <u>Non-current assets</u> |
| Taiwan | \$ 3,623,152 | \$ 2,807,028 | \$ 3,419,223 | \$ 3,114,669 |
| Macau | 1,330,841 | 16,076 | 655,086 | 22,324 |
| China | 1,572 | 4,559 | 4,444 | 1,448 |
| Total | <u>\$ 4,955,565</u> | <u>\$ 2,827,663</u> | <u>\$ 4,078,753</u> | <u>\$ 3,138,441</u> |

6) Major customer information

Major customer information of the Group for the years ended December 31, 2016 and 2015 is as follows:

| | For the years ended December 31, | |
|------------|----------------------------------|------------|
| | 2016 | 2015 |
| Customer A | \$ 252,014 | \$ 290,554 |
| Customer B | 436,350 | 450,078 |
| Customer C | 438,520 | 473,864 |
| Customer D | 360,797 | 366,722 |

KD HOLDING CORPORATION AND SUBSIDIARIES

Loans to others

For the year ended December 31, 2016

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

| No. (Note 1) | Creditor | Borrower | General ledger account (Note 2) | Is a related party | Maximum outstanding balance during the year ended December 31, 2016 (Note 3) | Balance at December 31, 2016 (Note 8) | Actual amount drawn down | Interest rate | Nature of loan (Note 4) | Amount of transactions with the borrower (Note 5) | Reason for short-term financing (Note 6) | Allowance for doubtful accounts | | Limit on loans granted to a single party (Note 7) | Ceiling on total loans granted (Note 7) | Footnote | |
|-----------------|----------------------------------|-------------------------------------|------------------------------------|--------------------|---------------------------------------------------------------------------------|------------------------------------------|--------------------------|---------------|----------------------------|------------------------------------------------------|---------------------------------------------|---------------------------------|-------|------------------------------------------------------|--------------------------------------------|--------------|---|
| | | | | | | | | | | | | Item | Value | | | | |
| 0 | KD Holding Corp. | G.D. Development Corp. | Other receivables-related parties | Yes | \$ 30,000 | \$ 30,000 | \$ 29,000 | 1.80% | 2 | \$ - | For operational needs | \$ - | - | \$ - | \$ 468,206 | \$ 1,872,823 | - |
| 0 | " | CTCI Corp. | " | " | 430,000 | 430,000 | - | - | " | " | " | " | " | " | 468,206 | 1,872,823 | " |
| 1 | HD Resources Management Corp. | CTCI Corp. | " | " | 14,000 | 14,000 | - | - | " | " | " | " | " | " | 8,880 | 35,519 | " |
| 1 | " | CTCI Machinery Corp. | " | " | 14,000 | 14,000 | 7,000 | 1.09% | " | " | " | " | " | " | 8,880 | 35,519 | " |
| 1 | " | E&C Engineering Corp. | " | " | 14,000 | 14,000 | 7,000 | 1.09% | " | " | " | " | " | " | 8,880 | 35,519 | " |
| 2 | Sino Environmental Service Corp. | CTCI Corp. | " | " | 156,000 | 156,000 | - | - | " | " | " | " | " | " | 101,639 | 406,555 | " |
| 2 | " | CTCI Machinery Corp. | " | " | 156,000 | 156,000 | 48,000 | 1.07~1.09% | " | " | " | " | " | " | 101,639 | 406,555 | " |
| 2 | " | E&C Engineering Corp. | " | " | 156,000 | 156,000 | 78,000 | 1.07~1.09% | " | " | " | " | " | " | 101,639 | 406,555 | " |
| 2 | " | Resources Engineering Services Inc. | " | " | 156,000 | 156,000 | 78,000 | 1.01~1.09% | " | " | " | " | " | " | 101,639 | 406,555 | " |

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1)The Company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: Fill in the name of account in which the loans are recognised, such as receivables-related parties, current account with stockholders, prepayments, temporary payments, etc.

Note 3: Fill in the maximum outstanding balance of loans to others during the year ended December 31, 2016.

Note 4: The column of 'Nature of loan' shall fill in 'Business transaction or 'Short-term financing:

(1)The Business association is '1'.

(2) The Short-term financing are numbered in order starting from '2'

Note 5: Fill in the amount of business transactions when nature of the loan is related to business transactions, which is the amount of business transactions occurred between the creditor and borrower in the current year.

Note 6: Fill in purpose of loan when nature of loan is for short-term financing, for example, repayment of loan, acquisition of equipment, working capital, etc.

Note 7: The calculation and amount on ceiling of loans are as follows:

(1)The limit on loans granted to a single party shall not exceed 10% of the Company's net assets value.

(2) The ceiling on totals loans shall not exceed 40% of the Company's net assets value.

Note 8: The amounts of funds to be loaned to others which have been approved by the board of directors of a public company in accordance with Article 14, Item 1 of the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" should be included in its published balance of loans to others at the end of the reporting period to reveal the risk of loaning the public company bears, even though they have not yet been appropriated. However, this balance should exclude the loans repaid when repayments are done subsequently to reflect the risk adjustment. In addition, if the board of directors of a public company has authorized the chairman to loan funds in instalments or in revolving within certain lines and within one year in accordance with Article 14, Item 2 of the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies", the published balance of loans to others at the end of the reporting period should also include these lines of loaning approved by the board of directors, and these lines of loaning should not be excluded from this balance even though the loans are repaid subsequently, for taking into consideration they could be loaned again thereafter.

KD HOLDING CORPORATION AND SUBSIDIARIES

Provision of endorsements and guarantees to others

For the year ended December 31, 2016

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

| Number (Note 1) | Endorser/ guarantor | Party being endorsed/guaranteed Company name | Relationship with the endorser/ guarantor (Note 2) | Limit on endorsements/ guarantees provided for a single party (Note 3) | Maximum outstanding endorsement/ guarantee amount as of December 31, 2016 (Note 4) | Outstanding endorsement/ guarantee amount at December 31, 2016 (Note 5) | Actual amount drawn down (Note 6) | Amount of endorsements/ guarantees secured with collateral | Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company | Ceiling on total amount of endorsements/ guarantees provided (Note 3) | Provision of endorsements/ guarantees by parent company to subsidiary (Note 7) | Provision of endorsements/ guarantees by subsidiary to parent company (Note 7) | Provision of endorsements/ guarantees to the party in Mainland China (Note 7) | Footnote |
|--------------------|------------------------|----------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|-----------------------------------------|------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|----------|
| | | | | | | | | | | | | | | |
| 0 | KD Holding Corp. | G.D. Development Corp. | 6 | \$ 9,364,114 | \$ 703,726 | \$ 667,708 | \$ 518,823 | \$ - | 14.26% | \$ 14,046,171 | N | N | N | - |

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

(1)The Company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following six categories; fill in the number of category each case belongs to:

(1)Having business relationship.

(2)The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(3)The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.

(4)The endorsed/guaranteed parent company directly or indirectly owns more than 50% voting shares of the endorser/guarantor subsidiary.

(5)Mutual guarantee of the trade as required by the construction contract.

(6)Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

Note 3: Fill in limit on endorsements/guarantees provided for a single party and ceiling on total amount of endorsements/guarantees provided as prescribed in the endorser/guarantor company's "Procedures for Provision of Endorsements and Guarantees", and state each individual party to which the endorsements/guarantees have been provided and the calculation for ceiling on total amount of endorsements/guarantees provided in the footnote.

(1)The limit on endorsements and guarantees granted to a single party shall not exceed 200% of the Company's net assets value in last financial statement which was reviewed or audited by accountant.

(2) The ceiling on total endorsements and guarantees shall not exceed 300% of the Company's net assets value in last financial statement which was reviewed or audited by accountant.

Note 4: Fill in the year-to-date maximum outstanding balance of endorsements/guarantees provided as of the reporting period.

Note 5: Once endorsement/guarantee contracts or promissory notes are signed/issued by the endorser/guarantor company to the banks, the endorser/guarantor company bears endorsement/guarantee liabilities. And all other events involve endorsements and guarantees should be included in the balance of outstanding endorsements and guarantees.

Note 6: Fill in the actual amount of endorsements/guarantees used by the endorsed/guaranteed company.

Note 7: Fill in 'Y' for those cases of provision of endorsements/guarantees by listed parent company to subsidiary and provision by subsidiary to listed parent company, and provision to the party in Mainland China.

KD HOLDING CORPORATION AND SUBSIDIARIES
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)
December 31, 2016

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

| Marketable securities (Note 1) | | | | December 31, 2016 | | | | | |
|--------------------------------|--------------|------------------------------------|-------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------|---------------------|---------------|-------------------|-------------------|
| Securities held by | Type | Name | Relationship with the securities issuer (Note 2) | General ledger account | Shares/ denominations (thousand share) | Book value (Note 3) | Ownership (%) | Fair value | Footnote (Note 4) |
| KD Holding Corp. | Fund | Capital Money Market Fund | N/A | Financial assets at fair value through profit or loss-current | 343 | \$ 5,489 | - | \$ 5,489 | - |
| " | " | FSITC Taiwan Money Market Fund | " | " | 10,798 | 163,565 | - | 163,565 | - |
| " | " | FSITC Money Market Fund | " | " | 1,129 | 199,456 | - | 199,456 | - |
| " | " | Nomura Taiwan Money Market Fund | " | " | 441 | 7,124 | - | 7,124 | - |
| " | " | CTBC Hua Win Money Market Fund | " | " | 2,449 | 26,728 | - | 26,728 | - |
| | | | | | | <u>\$ 402,362</u> | | <u>\$ 402,362</u> | |
| " | Common Stock | Taiwan Cement Corp. | " | Available-for-sale financial assets-current | 180 | \$ 7,298 | - | \$ 6,319 | - |
| " | " | Gintech Energy Corp. | The Chairman of CTCI Corp. is the director | " | 462 | 19,949 | - | 8,940 | - |
| | | | | Adjustment | | (11,988) | | <u>\$ 15,259</u> | |
| | | | | | | <u>\$ 15,259</u> | | | |
| " | " | TSC Venture Management, Inc. | The Company is the Board of director | Financial assets carried at cost-non-current | 216 | \$ 2,160 | 5.88% | \$ - | - |
| " | " | Teamwin Opto-Electronics Co., Ltd. | N/A | " | 150 | 2,261 | 2.46% | 475 | - |
| " | " | Eastern Pacific Energy Sdn. Bhd | The General Manager of the Company is the Board of director | " | 10 | 81 | 10.00% | 81 | - |
| | | Less: Accumulated impairment | | | | (3,946) | | <u>\$ 556</u> | |
| | | | | | | <u>\$ 556</u> | | | |
| Leading Energy Corp. | Fund | FSITC Taiwan Money Market Fund | N/A | Financial assets at fair value through profit or loss-current | 2,294 | \$ 34,751 | - | \$ 34,751 | - |
| " | Common Stock | Taiwan Cement Corp. | " | Available-for-sale financial assets-current | 432 | 15,195 | - | 15,195 | - |

| Marketable securities (Note 1) | | | | December 31, 2016 | | | | | | |
|-----------------------------------|--------------|---------------------------------------------|--------------------------------------------------|---------------------------------------------------------------|----------------------------------------|---------------------|---------------|------------|-------------------|--|
| Securities held by | Type | Name | Relationship with the securities issuer (Note 2) | General ledger account | Shares/ denominations (thousand share) | Book value (Note 3) | Ownership (%) | Fair value | Footnote (Note 4) | |
| Sino Environmental Services Corp. | Fund | Franklin Templeton Sinoam Money Market Fund | N/A | Financial assets at fair value through profit or loss-current | 25,361 | \$ 259,519 | - | \$ 259,519 | - | |
| " | Common Stock | CTCI Corp. | Ultimate parent company | Available-for-sale financial assets-current | 1 | 50 | - | 50 | - | |
| " | " | Taiwan Cement Corp. | N/A | " | 438 | 15,401 | - | 15,401 | - | |
| " | " | Gintech Energy Corp. | The Chairman of CTCI Corp. is the director | " | 575 | 11,126 | - | 11,126 | - | |
| " | Bonds | BP capital PLC | N/A | " | 6,000 | 27,328 | - | 27,328 | Note 5 | |
| HD Resources Management Corp. | Fund | Prudential Financial Money Market | N/A | Financial assets at fair value through profit or loss-current | 512 | 8,014 | - | 8,014 | - | |
| " | " | FSITC Taiwan Money Market Fund | " | " | 990 | 15,002 | - | 15,002 | - | |
| " | " | Jih Sun Money Market Fund | " | " | 412 | 6,043 | - | 6,043 | - | |
| " | " | Mega Diamond Money Market Fund | " | " | 1,705 | 21,174 | - | 21,174 | - | |
| " | Common Stock | Taiwan Cement Corp. | " | Available-for-sale financial assets-current | 435 | 15,301 | - | 15,301 | - | |
| Fortune Energy Corp. | Fund | FSITC Taiwan Money Market Fund | " | Financial assets at fair value through profit or loss-current | 1,354 | 20,511 | - | 20,511 | - | |

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities within the scope of IAS 39 'Financial instruments : recognition and measurement'.

Note 2: Leave the column blank if the issuer of marketable securities is non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

Note 5: The book value of bonds and funds are denominated in CNY.

KD HOLDING CORPORATION AND SUBSIDIARIES

Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital

For the year ended December 31, 2016

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investor | Marketable securities (Note 1) | General ledger account | Counterparty (Note 2) | Relationship with the investor (Note 2) | Balance as at January 1, 2016 | | Addition (Note 3) | | Number of shares (thousand share) | Disposal (Note 3) | | Gain (loss) on disposal | Balance as at December 31, 2016 | |
|-----------------------------------|---------------------------------------------|-------------------------------------------------------|-----------------------|-----------------------------------------|-----------------------------------|---------|-----------------------------------|------------|-----------------------------------|-------------------|------------|-------------------------|-----------------------------------|------------|
| | | | | | Number of shares (thousand share) | Amount | Number of shares (thousand share) | Amount | | Selling price | Book value | | Number of shares (thousand share) | Amount |
| KD Holding Corp. | FSITC Taiwan Money Market Fund | Financial assets at fair value through profit or loss | - | - | - | \$ - | 10,798 | \$ 163,520 | - | \$ - | \$ - | \$ - | 10,798 | \$ 163,520 |
| " | FSITC Money Market Fund | " | - | - | - | - | 1,129 | 199,400 | - | - | - | - | 1,129 | 199,400 |
| Leading Energy Corp. | Taishin Ta-Chong Money Market Fund | " | - | - | - | - | 9,657 | 135,700 | 9,657 | 135,733 | 135,700 | 33 | - | - |
| Sino Environmental Services Corp. | Jih Sun Money Market Fund | " | - | - | 7,048 | 103,000 | 5,126 | 75,000 | 12,174 | 178,128 | 178,000 | 128 | - | - |
| " | Mega Diamond Money Market Fund | " | - | - | 407 | 5,031 | 12,258 | 152,000 | 12,665 | 157,096 | 157,031 | 65 | - | - |
| " | Franklin Templeton Sinoam Money Market Fund | " | - | - | - | - | 47,912 | 490,000 | 22,551 | 230,561 | 230,500 | 61 | 25,361 | 259,500 |
| Fortune Energy Corp. | FSITC Taiwan Money Market Fund | " | - | - | 233 | 3,507 | 11,236 | 170,000 | 10,115 | 153,031 | 153,003 | 28 | 1,354 | 20,504 |

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Fill in the columns the counterparty and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.

Note 3: Aggregate purchases and sales amounts should be calculated separately at their market values to verify whether they individually reach NT\$300 million or 20% of paid-in capital or more.

Note 4: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

KD HOLDING CORPORATION AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more

For the year ended December 31, 2016

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

| Purchaser/seller | Counterparty | Relationship with the counterparty | Purchases (sales) | Transaction | | | Differences in transaction terms compared to third party transactions | | Notes/accounts receivable (payable) | | Footnote |
|----------------------------------|----------------------------------|------------------------------------|---------------------|--------------|---------------------------------------|-------------------|-----------------------------------------------------------------------|-------------|-------------------------------------|---------------------------------------------------------|----------|
| | | | | Amount | Percentage of total purchases (sales) | Credit term | Unit price | Credit term | Balance | Percentage of total notes/accounts receivable (payable) | |
| Leading Energy Corp. | HD Resources Management Corp. | Affiliate | (Operating revenue) | (\$ 328,926) | (50%) | 30 days quarterly | No significant difference | " | \$ 56,874 | 23% | - |
| " | Sino Environmental Service Corp. | " | Service cost | 217,825 | 70% | " | " | " | (38,776) | (85%) | - |
| Sino Environmental Service Corp. | CTCI Corp. | Ultimate parent company | (Operating revenue) | (418,637) | (15%) | " | " | " | 98,843 | 16% | - |
| " | Leading Energy Corp. | Affiliate | " | (217,825) | (8%) | " | " | " | 38,776 | 6% | - |
| " | Fortune Energy Corp. | " | " | (145,547) | (5%) | " | " | " | 24,192 | 4% | - |
| " | HD Resources Management Corp. | " | " | (457,541) | (16%) | " | " | " | 95,965 | 16% | - |
| " | CTCI Chemicals Corp. | " | Purchase | 115,070 | 5% | " | " | " | (19,651) | (3%) | - |
| HD Resources Management Corp. | Sino Environmental Service Corp. | " | Waste disposal cost | 457,541 | 49% | " | " | " | (95,965) | (61%) | - |
| " | Leading Energy Corp. | " | " | 328,926 | 35% | " | " | " | (56,874) | (36%) | - |
| Fortune Energy Corp. | Sino Environmental Service Corp. | " | Service cost | 145,547 | 91% | " | " | " | (24,192) | (100%) | - |

KD HOLDING CORPORATION AND SUBSIDIARIES
 Significant inter-company transactions during the reporting period
 For the year ended December 31, 2016

Table 6

Expressed in thousands of NTD
 (Except as otherwise indicated)

| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | Transaction | | | Percentage of consolidated total operating revenues or total assets (Note 3) |
|--------------------|----------------------------------|-------------------------------|--------------------------|------------------------|------------|-------------------|---------------------------------------------------------------------------------|
| | | | | General ledger account | Amount | Transaction terms | |
| 1 | Sino Environmental Service Corp. | HD Resources Management Corp. | 3 | Operating revenue | \$ 457,541 | 30 days quarterly | 9.23% |
| 1 | " | Leading Energy Corp. | " | " | 217,825 | " | 4.40% |
| 1 | " | Fortune Energy Corp. | " | " | 145,547 | " | 2.94% |
| 1 | " | HD Resources Management Corp. | " | Accounts receivable | 95,965 | " | 1.31% |
| 2 | Leading Energy Corp. | HD Resources Management Corp. | " | Operating revenue | 328,926 | " | 6.64% |

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1)Parent company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

(1)Parent company to subsidiary.

(2)Subsidiary to parent company.

(3)Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: The Company may decide to disclose or not to disclose transaction details in this table based on the Materiality Principle.

KD HOLDING CORPORATION AND SUBSIDIARIES

Information on investees

For the year ended December 31, 2016

Table 7 Expressed in thousands of NTD
(Except as otherwise indicated)

| Investor | Investee | Location | Main business activities | Initial investment amount | | Shares held as at December 31, 2016 | | | Net profit (loss) of the investee for the year ended December 31, 2016 | Investment income(loss) recognised by the Company for the year ended December 31, 2016 | Footnote |
|------------------|-----------------------------------------------------------|---------------|--------------------------------------------------------------------------------------------------------------------------------|------------------------------------|---------------------------------------|-------------------------------------|---------------|--------------|---------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|---------------------------------|
| | | | | Balance as at December 31, 2016 | Balance as at December 31, 2015 | Number of shares | Ownership (%) | Book value | | | |
| KD Holding Corp. | Leading Energy Corp. | Taiwan | Waste services equipment installation, co-generation, waste services and other environmental services, etc. | \$ 601,485 | \$ 797,485 | 47,040,000 | 98.00% | \$ 1,367,122 | \$ 282,563 | \$ 276,911 | A subsidiary |
| KD Holding Corp. | Sino Environmental Services Corp. | Taiwan | Refuse incineration plant's operation, machinery and equipment maintenance, etc. | 339,921 | 339,921 | 14,065,936 | 93.15% | 946,785 | 489,858 | 456,312 | A subsidiary |
| KD Holding Corp. | HD Resources Management Corp. | Taiwan | Waste services, equipment and mechanical installation, waste clear, international trade and other environmental services, etc. | 20,000 | 20,000 | 2,000,000 | 100.00% | 88,797 | 37,634 | 37,634 | A subsidiary |
| KD Holding Corp. | Fortune Energy Corp. | Taiwan | Waste services equipment installation, co-generation, waste services and other environmental services, etc. | 1,012,483 | 1,012,483 | 56,249,000 | 74.999% | 1,001,040 | 155,841 | 116,879 | A subsidiary |
| KD Holding Corp. | Yuan Ding Resources Corp. | Taiwan | Waste services, waste clean, other environmental services, and environmental pollution services, etc. | 27,000 | 27,000 | 2,700,000 | 60.00% | 23,470 | 118 | 71 | A subsidiary |
| KD Holding Corp. | Boretech Resource Recovery Engineering Co., Ltd. (Cayman) | Cayman Island | Share holding and investment. | 309,489 | 309,489 | 13,333,333 | 20.00% | 307,197 (| 80,300) (| 18,905) | An investee under equity method |

| Investor | Investee | Location | Main business activities | Initial investment amount | | Shares held as at December 31, 2016 | | | Net profit (loss) of the investee for the year ended December 31, 2016 | Investment income(loss) recognised by the Company for the year ended December 31, 2016 | Footnote |
|-----------------------------------|-----------------------------------|----------|-------------------------------------------------------------------------------------------------------------|------------------------------------|---------------------------------------|-------------------------------------|---------------|------------|---------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|---------------------------------------------------------|
| | | | | Balance as at December 31, 2016 | Balance as at December 31, 2015 | Number of shares | Ownership (%) | Book value | | | |
| KD Holding Corp. | G.D. Development Corp. | Taiwan | Energy technology services etc. | \$ 189,991 | \$ 189,991 | 20,051,545 | 50.00% | \$ 222,079 | \$ 23,551 | \$ 11,775 | An investee which has a 50% interest in a joint venture |
| Sino Environmental Services Corp. | Leading Energy Corp. | Taiwan | Waste services equipment installation, co-generation, waste services and other environmental services, etc. | 9,600 | 13,600 | 960,000 | 2.00% | 27,900 | 282,563 | 5,652 | Affiliate |
| Sino Environmental Services Corp. | CTCI Chemicals Corp. | Taiwan | Industrial chemicals' wholesale manufacturing and retail. | 24,851 | 24,851 | 1,910,241 | 26.9048% | 59,325 | 54,727 | 14,724 | Affiliate |
| Sino Environmental Services Corp. | Fortune Energy Corp. | Taiwan | Waste services equipment installation, co-generation, waste services and other environmental services, etc. | 13 | 13 | 1,000 | 0.001% | 18 | 155,841 | 2 | Affiliate |
| Sino Environmental Services Corp. | G.D. Development Corp. | Taiwan | Energy technology services etc. | 8 | 8 | 1,055 | 0.003% | 12 | 23,551 | 1 | Affiliate |
| Sino Environmental Services Corp. | SINOGAL-Waste Services Co., Ltd. | Macau | Management of waste recycling site and maintenance of related mechanical and equipment etc. | 4,964 | 4,964 | - | 30.00% | 76,927 | 728,696 | 218,609 | A subsidiary |
| HD Resources Management Corp. | Sino Environmental Services Corp. | Taiwan | Refuse incineration plant's operation, machinery and equipment maintenance, etc. | 53 | 53 | 1,000 | 0.01% | 68 | 489,858 | 22 | Affiliate |
| HD Resources Management Corp. | Yuan Ding Resources Corp. | Taiwan | Waste services, waste clean, other environmental services, and environmental pollution services, etc. | 18,000 | 18,000 | 1,800,000 | 40.00% | 15,646 | 118 | 47 | A subsidiary |

KD HOLDING CORPORATION AND SUBSIDIARIES

Information on investments in Mainland China

For the year ended December 31, 2016

Table 8

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investee in Mainland China | Main business activities | Paid-in capital | Investment method (Note 1) | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2016 | Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2016 | | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016 | Net income of investee as of December 31, 2016 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognised by the Company for the year ended December 31, 2016 (Note 2) 2.(2)B | Book value of investments in Mainland China as of December 31, 2016 | Accumulated amount of investment income remitted back to Taiwan as of December 31, 2016 | Footnote | |
|----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|----------|--|
| | | | | | Remitted to Mainland China | Remitted back to Taiwan | | | | | | | | |
| GranSino Environmental Technology Co., Ltd. | Environmental technical advisory, urban environmental sanitation and processing equipment technology R&D, environmental pollution control equipment maintenance, and construction management, etc. | \$ 22,193 | 1 | \$ 10,874 | \$ - | \$ - | \$ 10,874 | \$ 263 | 45.65% | (\$ 468) | \$ 5,411 | \$ 3,377 | Note 4 | |
| Xiang Ding Environmental Consultant (Shanghai) Co., Ltd. | Technical development, advisory and service in environmental field; environmental pollution control equipment and related parts wholesale, import and export, etc. | 4,147 | 1 | 4,147 | - | - | 4,147 | 7,266 | 93.16% | 6,769 | 14,398 | - | " | |
| <u>Company name</u> | <u>Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016</u> | <u>Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)</u> | <u>Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA</u> | | | | | | | | | | | |
| KD Holding Corp. | \$ 15,021 | \$ 15,021 | \$ 2,809,234 | | | | | | | | | | | |

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

- (1) Directly invest in a company in Mainland China.
- (2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
- (3) Others

Note 2: In the 'Investment income (loss) recognised by the Company for the year ended December 31, 2016' column:

- (1) It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.
- (2) Indicate the basis for investment income (loss) recognition in the number of one of the following three categories:
 - A. The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
 - B. Investment income (loss) of non-significant subsidiaries was recognized based on the audited financial statements.
 - C. Others.

Note 3: The numbers in this table are expressed in New Taiwan Dollars.

Note 4: Invested by Sino Environmental Service Corp.

KD HOLDING CORPORATION AND SUBSIDIARIES

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

For the year ended December 31, 2016

Table 9

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investee in Mainland China | Sale (purchase) | | Property transaction | | Accounts receivable (payable) | | Provision of endorsements/guarantees or collaterals | | Financing | | | Interest during the year ended December 31, 2016 | Others |
|-------------------------------------------------------------------|-----------------|-------|----------------------|------|------------------------------------|-------|-----------------------------------------------------------|---------|---------------------------------------------------------------|---------------------------------|---------------|--------------------------------------------------------|--------|
| | Amount | % | Amount | % | Balance at December 31, 2016 | % | Balance at December 31, 2016 | Purpose | Maximum balance during the year ended December 31, 2016 | Balance at December 31, 2016 | Interest rate | | |
| Xiang Ding Environmental Consultant (Shanghai) Co., Ltd. | \$ 43,395 | 1.51% | \$ - | \$ - | \$ 55,345 | 9.05% | \$ - | - | \$ - | \$ - | - | \$ - | - |