

Stock Code: 2634



# **Aerospace Industrial Development Corporation**

## **2017 Annual Shareholders' Meeting**

### **Meeting Handbook**

(Translated from Mandarin)

Date: 14 June 2017

Place: No. 176, Lane 20, Zhongzhen Road, Shalu District,  
Taichung City, Taiwan (AIDC Hsiang-Yuan Complex)

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**Aerospace Industrial Development Corporation (AIDC)**  
**2017 Annual Shareholders' Meeting Procedure**

I. Meeting Commencement Announced

II. Chairman's Address

III. Report Items

IV. Ratification Items

V. Discussion Items

VI. Special Motions

VII. Meeting Adjournment

# **Aerospace Industrial Development Corporation (AIDC)**

## **2017 Annual Shareholders' Meeting Agenda**

Time: 10:00 a.m., 14 June 2017 (Wednesday)

Place: No.176, Lane 20, Zhongzhen Road, Shalu District, Taichung City, Taiwan  
(AIDC Hsiang-Yuan Complex)

I. Meeting Commencement Announced

II. Chairman's Address

III. Report Items

(1) Business Report of 2016

(2) Audit Committee Review Report of 2016

(3) 2016 Compensation to Employees and Directors

IV. Ratification Items

(1) Ratification of the 2016 Business Report and Financial Statements

(2) Ratification of the proposal for Earnings Distribution of 2016 Profits

V. Discussion Items

(1) Discussion on the issuance of new share through capitalization of 2016 Earnings

(2) Discussion on amendments to Company's "Articles of Incorporation"

VI. Special Motions

VII. Meeting Adjournment

## **Report Items**

- Item 1: Report on the business of 2016, as shown in Appendix I (Pages 8-10).
- Item 2: Audit Committee Review Report of 2016, as shown in Appendix II (Page 11).
- Item 3: Report on 2016 compensation to employees and directors, as shown in Appendix III (Page 12).

## **Ratification Items**

Item 1: Ratification of the 2016 Business Report and Financial Statements (Proposed by the Board of Directors)

Description: I. AIDC's 2016 Financial Statements (including Balance Sheets, Statements of Comprehensive Income, Statements of Changes in Equity, and Statements of Cash Flows) have been reviewed and audited by Mr. Tung-Chien Tseng and Mr. Deh-Ruen Cheng, CPA of Deloitte & Touche.

II. Business Report of 2016, Auditors' Report, and aforementioned financial statements, are shown in Appendixes I and IV (Pages 8-10 and Pages 13-32).

Resolution:

Item 2: Ratification of the proposal for Earnings Distribution of 2016 Profits (Proposed by the Board of Directors)

Description: I. The company's net profit after taxes for 2016 was NT\$2,082,654,629. After setting aside 30% of the net profit as the special surplus reserve and adding the unappropriated surplus, the current distributable surplus is NT\$1,253,180,289.

II. The company plans to distribute a cash dividend of NT\$1.00 and stock dividend of NT\$0.37 per share for 2016. The proposal for earnings distribution of 2016 profit is shown in Appendix V (Page 33).

III. The distribution of cash dividend will be calculated to the nearest NT dollar. Residual amount, if any, less than one NT dollar will be transferred into and recognized as other income of the company.

Resolution:

## **Discussion Items**

Proposal 1: Discussion on the issuance of new share through capitalization of 2016 Earnings  
(Proposed by the Board of Directors)

- Description:
- I. To meet the needs for future development, the Company plans to capitalize the retained earnings through new stock issuance. The shareholders' bonus is set aside from the available appropriated earnings of 2016 and is to be capitalized through issuance of 33,605,673 new shares.
  - II. The conditions of the new share issuance:
    1. According to the proposed capital increase plan, 37 common shares will be distributed for every 1,000 common shares. Allotment of fractional shares (less than one share) shall be paid in cash. The Chairman is authorized to find specific buyers to subscribe the remaining shares at par value. Actual placement and number of shares will be released according to the number of shares of the registered shareholders on the ex-rights date.
    2. The new shares issued by the capital increase will carry the same rights and obligations as the existing outstanding shares.
    3. The ex-dividend date will be decided by the Board of Directors Meeting after approval by the competent authority.
    4. If the number of total shares outstanding, prior to the ex-dividend date for the distribution, has changed due to the repurchasing of shares by the Company, such that the ratios of the stock dividends and cash dividends are affected and must be adjusted, the Board is authorized to make such adjustments.

Resolution:

Proposal 2: Discussion on amendments to Company's "Articles of Incorporation"  
(Proposed by the Board of Directors)

Description: I. Pursuant to Articles 192-1 of the Company Act, the company thereby amends in part, the provisions of the Articles of Incorporation.  
II. Comparisons of proposed amendments with original provisions contained in company's "Articles of Incorporation" are shown in Appendix VI (Pages 34-35).

Resolution:



## **Special Motions**

## **Meeting Adjournment**

## Business Report of 2016

Dear Valued Shareholders,

The year 2016 was a challenging year for the global aerospace industry. While sluggish economic growth and oil price fluctuation had considerable impacts upon the industry, reduction and deferral of international orders, low price competition from emerging countries, and the fact that the advanced countries using high-efficient automatic machines to lower manufacturing costs added more pressure upon AIDC. To survive in such a difficult environment, AIDC has rearranged its business composition, and encouraged employees to do their best to overcome difficulties and to further pursue and explore new businesses. The results evidenced that our efforts has paid back with the revenue exceeding that of 2015.

The market outlooks released by Boeing, Airbus and Bombardier in 2016 all forecasted optimistic growth for the commercial aircraft market in the next 10 years. To meet the anticipated strong market demand and to maintain self-developed product services and core technologies, internally AIDC has completed the construction of its Engine Case Manufacturing Center (ECMC), the Taiwan Advanced Composite Center (TACC #19) and the F-16 A/B Upgrade & Maintenance Building which are all operational. In tandem we have undertaken improvements from the perspectives of business, industry, human resources and cross sector integration and have launched Lean Production practices and Industry 4.0 intelligent factory. Externally, AIDC has joined hands with nearly 300 domestic suppliers who share the similar values and concepts to form the Taiwan Aerospace Industry A-Team 4.0 Alliance to pursue and explore business opportunities and to interact with international aerospace companies. It is hoped with such dedicated effort and close coordination of the A-Team 4.0, that members can work to reduce costs, upgrade the technological level, enhance overall competitiveness and significantly benefit Taiwan's aerospace supply chain as a whole.

I would like to express my appreciation and gratitude to all our valued shareholders for your steadfast support of our programs, and the summary of the report on the operation results for FY 2016 and the business plan for FY 2017 are presented hereunder.

### FY 2016 Operation Highlights

#### Revenue and Income

The Company had consolidated revenue of NT\$27,325,514 thousand in FY 2016, which was an increase of NT\$447,358 thousand from NT\$26,878,156 thousand in FY 2015. Consolidated pre-tax income in FY 2016 amounted to NT2,594,223 thousand, which was an increase of 111,939 thousand from NT\$ 2,482,284 thousand of FY 2015.

#### Financial Structure and Profitability Analysis

As of December 31 2016, the financial structure of AIDC showed total consolidated assets of NT\$ 31,025,000 thousand and total consolidated liabilities of NT\$ 18,664,561 thousand. The analysis of overall profitability indicators are shown in the table below:

| Indicators                       | 2015  | 2016  |
|----------------------------------|-------|-------|
| ROA (%)                          | 7.92  | 7.32  |
| ROE (%)                          | 18.59 | 17.43 |
| EBT to Paid-in Capital Ratio (%) | 27.33 | 28.56 |
| Net Profit Ratio (%)             | 7.54  | 7.62  |

## Research and Development Outlook

The R&D expenses of AIDC in FY 2016 amounted to NT\$655,828 thousand with the successful development of Project “Upgrade the Process Capacity of Composite Materials and Refinement Plan” and so on, which could help to upgrade the overall technological capacity and production capacity of the Company for better business opportunity.

## Credentials and Awards

- \* Awarded the 12<sup>th</sup> term “CSR Award in Traditional Manufacturers Category” by the Global Views Magazine on May 3, 2016
- \* Selected as “Taiwan High Compensation 100 Index” stock by Taiwan Stock Exchange Corporation on June 17, 2016
- \* Selected as “TWSE Corporate Governance 100 Index” stock by Taiwan Stock Exchange Corporation on July 19, 2016
- \* Presented “Taiwan i Sport Enterprise Certification” Award by the Sports Administration of the Ministry of Education on Oct. 12, 2016
- \* Presented “Enterprise Environmental Protection Award” by the Environmental Protection Administration, Executive Yuan on Nov. 2, 2016
- \* Awarded one-star “LOHAS Workplace Award” by Taichung City Government on Nov. 18, 2016
- \* Received National Awards for both Outstanding Enterprise as well as Outstanding Personnel for Occupational Safety & Health on Nov. 29, 2016
- \* Received “Healthy Enterprise Award” and “Outstanding Personnel Award for the Promotion of Healthy Workplace” presented by Taichung City Government on Dec. 16, 2016
- \* Awarded 2016 Outstanding Labor Volunteer Service by Taichung City Government on Dec. 22, 2016

## **Business Plan for FY 2017**

### Business Development Planning

- \* In the area of defense business, AIDC seeks to successfully upgrade the performance of the jet fighters and to launch the new advanced jet trainer program as scheduled, and to make effort in securing orders for the maintenance of different types of aircraft.
- \* In the area of commercial aviation, AIDC seeks to expand its supplier system for more production sources, as well as for more business in the high value-added parts and components of aircraft segments and engines.
- \* In the area of industrial technology service, AIDC will extend its momentum of aerospace technology to green energy business, disasters prevention and rescue and atmospheric measurements flight services to support the national objective of energy saving and carbon reduction.

### Corporate Management Policy

In the face of harsh competition within the global aerospace industry, AIDC will spare no effort to secure and pursue business opportunities. Meanwhile, AIDC will continue to adopt a Balanced Scorecard (BSC) as a management tool. This BSC system helps to align and link the Company’s vision, strategy, objectives, to business activities, department tasks and action plans; with which AIDC will be able to continue to improve its business management while implementing the culture of accountability. The corporate management policy in FY 2017 will cover:

- |                                      |  |
|--------------------------------------|--|
| ▲ Optimize financial structure       | ▲ Launch the lean activity   |
| ▲ Satisfy customer value proposition | ▲ Strengthen core competence   |
| ▲ Refine core business process       | ▲ Fortify the supply chain and integration with outsourced contractors |
| ▲ Vitalize human resources           | ▲ Fulfill corporate social responsibility                              |
| ▲ Upgrade business competitive power |  |

The development of a country's aviation industry is considered an indicator of the country's industrial level. Accordingly AIDC is vigorously pursuing the new advanced jet trainer program,— which shall help sustain the pool of human resource as well as enhance Taiwan's aerospace industry capability. Internally, AIDC has completed three new facilities, namely Engine Case Manufacturing Center (ECMC), the Taiwan Advanced Composite Center (TACC #19) and the F-16 A/B Upgrade & Maintenance Building which all three are operational. In addition, the Taiwan Aerospace A-Team 4.0 Alliance which integrates domestic suppliers from diverse business sectors, including; raw material, intelligent machinery, manufacturing, logistics, academia, research, finance, to mention a few, are intended to enhance Taiwan's competitiveness in the global aerospace industry. It is hoped that through this joint effort, Taiwan will acquire an increased share of the global aerospace business, and —AIDC will be able to expand overall business opportunities while at the same time, increase both revenue and shareholders' interests.

May I wish you all good health and fortune.

Chairman: Liao, Jung-Hsin    Acting Executive Director: Shiah, Kang    Accounting Supervisor: Huang, Shu-Yuan

## Audit Committee Review Report

The Company's 2016 Financial Statements prepared by The Board of Directors have been audited by the CPA firm of Deloitte & Touche Tohmatsu and an audit report has been issued and concurred by this Audit Committee.

The Board of Directors also prepared the Company's 2016 Business Report and Proposal for Allocation of Profits. The above report and proposal have been reviewed and determined to be correct and accurate by the Audit Committee of Aerospace Industrial Development Corporation. According to Article 219 of the Company Law and Article 14-5 of the Securities and Exchange Act, we hereby submit this report.

To: Aerospace Industrial Development Corporation  
2017 Annual Shareholders' Meeting

Chairman of the Audit Committee

A handwritten signature in black ink, appearing to read "Peter Chang", is written over the date.

Date: March 27, 2017

## Appendix III

### 2016 Compensation to Employees and Directors

The Board of Directors consented to the proposal of the 2016 Employees' Compensation and Remuneration to Directors in the board meeting of March 27, 2017. The proposal will be effective upon the approval by shareholders at the Annual Shareholders' Meeting on June 14, 2017.

1. The employees' compensation and the directors remuneration are NT\$120,624,091 and NT\$15,045,586 in cash respectively.
2. The amounts, cited above as expenses of 2016 net profit before income tax, are the same as the amounts proposed by the Board of Directors.

### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Aerospace Industrial Development Corporation

#### Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

#### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

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

Key audit matters for the Company's consolidated financial statements for the year ended December 31, 2016 are stated as follows:

### Impairment loss of inventory

The Company assesses impairment of material based on individual identification. The impairment loss of the material involves the management's significant judgment, and hence its assessment is considered as a key audit matter. The Company assesses the impairment loss of the material based on current market conditions and future consumption, an assessment that ensures the valuation of material of the Company aligns to the rules denoted in the IAS 2. Refer to Note 5 and 9. Our key audit procedures performed in regard to the assessment thereof include the followings:

1. Perform the inventory aging test to assure the completeness and accuracy of inventory aging report.
2. Sample inventories which have been aging for more than a year without being provided for impairment.
3. Test the net realizable value of unimpaired inventory, and recalculate the accuracy of allowance for impairment loss.
4. Observe the inventory at year end to assess the appropriateness of allowance for impairment loss of inapplicable inventory.

### Warranties

The Company provides warranties for military product maintenance, and the percentage of certain provisions involve management's significant judgment, and hence such type of warranties provisions is considered as a key audit matter. Refer to Note 5 and 18. Our key audit procedures performed in regard to the provisions thereof include the followings:

1. Obtain the documents on management's decision of the provision rate and evaluate the reasonableness of percentage provided for abovementioned provisions.
2. Recalculate the accuracy of the amount of provision.
3. Perform a retrospective test to assure that the provisions are appropriate and sufficient.

### **Other Matter**

We have also audited the parent company only financial statements of Aerospace Industrial Development Corporation as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Done-Yuin Tseng and Te-Jun Cheng.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China  
March 27, 2017

Notice to Readers

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

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail. Also, as stated in Note X to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.*

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

|  | December 31          |            |                      |            |
|--|----------------------|------------|----------------------|------------|
|  | 2016                 |            | 2015                 |            |
| ASSETS   | Amount               | %          | Amount               | %          |
| <b>CURRENT ASSETS</b>  |                      |            |                      |            |
| Cash and cash equivalents (Notes 4 and 6)  | \$ 2,560,098         | 8          | \$ 1,554,739         | 5          |
| Notes receivable (Note 4)  | 4,749                | -          | 19,823               | -          |
| Trade receivables from unrelated parties (Notes 4 and 8)   | 7,256,164            | 23         | 6,479,638            | 23         |
| Trade receivables from related parties (Note 29)   | 220,669              | 1          | 202,531              | 1          |
| Other receivables (Notes 4 and 8)  | 179,253              | 1          | 153,957              | -          |
| Current tax asset (Notes 4 and 24)   | -                    | -          | 162,372              | 1          |
| Inventories (Notes 4, 5 and 9)   | 7,599,577            | 25         | 8,795,613            | 31         |
| Other financial asset - current (Notes 4, 14 and 30)   | 2,000,102            | 6          | 2,554,657            | 9          |
| Other current assets (Note 4 and 15)   | 634,878              | 2          | 1,262,414            | 4          |
| Total current assets   | 20,455,490           | 66         | 21,185,744           | 74         |
| <b>NON-CURRENT ASSETS</b>  |                      |            |                      |            |
| Financial assets measured at cost - non-current (Notes 4 and 7)  | 79,200               | -          | 46,200               | -          |
| Investment accounted for using equity method (Notes 4 and 11)  | 779,331              | 3          | 665,521              | 2          |
| Property, plant and equipment (Notes 4 and 12)   | 8,244,072            | 27         | 5,713,002            | 20         |
| Intangible assets (Notes 4 and 13)   | 734,805              | 2          | 412,054              | 2          |
| Deferred tax assets (Notes 4 and 24)   | 305,776              | 1          | 298,563              | 1          |
| Prepayments for equipment  | 380,150              | 1          | 327,952              | 1          |
| Other financial asset - non-current (Notes 4, 14 and 30)   | 24,517               | -          | 24,517               | -          |
| Other non-current assets (Notes 4 and 15)  | 21,659               | -          | 30,629               | -          |
| Total non - current assets   | 10,569,510           | 34         | 7,518,438            | 26         |
| <b>TOTAL</b>   | <u>\$ 31,025,000</u> | <u>100</u> | <u>\$ 28,704,182</u> | <u>100</u> |
| <b>LIABILITIES AND EQUITY</b>  |                      |            |                      |            |
| <b>CURRENT LIABILITIES</b>   |                      |            |                      |            |
| Short-term borrowings (Note 16)  | \$ 7,200,000         | 23         | \$ 5,650,000         | 20         |
| Short-term bills payable (Note 16)   | 1,998,882            | 6          | 1,697,592            | 6          |
| Trade payables to unrelated parties  | 1,395,632            | 5          | 1,420,746            | 5          |
| Trade payables to related parties (Note 29)  | 19,836               | -          | 25,050               | -          |
| Other payables (Notes 18 and 29)   | 4,131,171            | 13         | 3,400,616            | 12         |
| Current tax liabilities (Notes 4 and 24)   | 332,954              | 1          | 367,499              | 1          |
| Unearned receipts  | 208,316              | 1          | 212,217              | 1          |
| Current portion of long-term borrowings (Note 16)  | 1,167,606            | 4          | 964,400              | 3          |
| Finance lease payables-current (Notes 4 and 17)  | 5,131                | -          | 6,637                | -          |
| Other current liabilities  | 40,361               | -          | 20,821               | -          |
| Total current liabilities  | 16,499,889           | 53         | 13,765,578           | 48         |
| <b>NON-CURRENT LIABILITIES</b>   |                      |            |                      |            |
| Long-term borrowings (Note 16)   | 748,240              | 2          | 1,915,846            | 7          |
| Provisions - non-current (Notes 4, 5 and 19)   | 1,043,511            | 3          | 1,108,956            | 4          |
| Deferred tax liabilities (Notes 4 and 24)  | 160,658              | 1          | 154,714              | -          |
| Finance lease payable - non-current (Notes 4 and 17)   | -                    | -          | 5,131                | -          |
| Guarantee deposits   | 212,263              | 1          | 227,362              | 1          |
| Total non-current liabilities  | 2,164,672            | 7          | 3,412,009            | 12         |
| Total liabilities  | 18,664,561           | 60         | 17,177,587           | 60         |
| <b>EQUITY</b>  |                      |            |                      |            |
| Common stock- at par value of \$10 each authorized 1,500,000 thousand shares, issued 908,262 thousand shares | 9,082,615            | 29         | 9,082,615            | 32         |
| Retained earnings  |                      |            |                      |            |
| Legal reserve  | 322,880              | 1          | 119,963              | -          |
| Special reserve  | 848,678              | 3          | 239,927              | 1          |
| Unappropriated earnings  | 2,086,241            | 7          | 2,053,475            | 7          |
| Other equity   | 20,025               | -          | 30,615               | -          |
| Total equity   | 12,360,439           | 40         | 11,526,595           | 40         |
| <b>TOTAL</b>   | <u>\$ 31,025,000</u> | <u>100</u> | <u>\$ 28,704,182</u> | <u>100</u> |

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

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|   | For the Year Ended December 31 |            |                     |            |
|---|--------------------------------|------------|---------------------|------------|
|   | 2016                           |            | 2015                |            |
|   | Amount                         | %          | Amount              | %          |
| SALES (Notes 4, 22 and 29)  | \$ 27,325,514                  | 100        | \$ 26,878,156       | 100        |
| COST OF GOODS SOLD (Notes 9, 23 and 29)                             | <u>23,210,018</u>              | <u>85</u>  | <u>23,626,449</u>   | <u>88</u>  |
| GROSS PROFIT  | <u>4,115,496</u>               | <u>15</u>  | <u>3,251,707</u>    | <u>12</u>  |
| OPERATING EXPENSES (Notes 23 and 29)                                |                                |            |                     |            |
| Selling and marketing expenses                                      | 146,684                        | 1          | 159,167             | -          |
| General and administrative expenses                                 | 587,051                        | 2          | 499,561             | 2          |
| Research and development expenses                                   | <u>655,828</u>                 | <u>2</u>   | <u>439,262</u>      | <u>2</u>   |
| Total operating expenses  | <u>1,389,563</u>               | <u>5</u>   | <u>1,097,990</u>    | <u>4</u>   |
| PROFIT FROM OPERATIONS  | <u>2,725,933</u>               | <u>10</u>  | <u>2,153,717</u>    | <u>8</u>   |
| NON-OPERATING INCOME AND EXPENSES                                   |                                |            |                     |            |
| Other income (Notes 4 and 23)                                       | 189,197                        | 1          | 155,102             | 1          |
| Other gains and losses (Notes 4 and 23)                             | (371,188)                      | (1)        | 4,232               | -          |
| Share of profit of associates (Note 4)                              | 177,625                        | 1          | 302,673             | 1          |
| Finance costs   | <u>(127,344)</u>               | <u>(1)</u> | <u>(133,440)</u>    | <u>(1)</u> |
| Total non-operating income and expenses                             | <u>(131,710)</u>               | <u>-</u>   | <u>328,567</u>      | <u>1</u>   |
| PROFIT BEFORE INCOME TAX  | 2,594,223                      | 10         | 2,482,284           | 9          |
| INCOME TAX EXPENSE (Notes 4 and 24)                                 | <u>511,568</u>                 | <u>2</u>   | <u>453,115</u>      | <u>1</u>   |
| NET PROFIT FOR THE YEAR   | <u>2,082,655</u>               | <u>8</u>   | <u>2,029,169</u>    | <u>8</u>   |
| OTHER COMPREHENSIVE INCOME  |                                |            |                     |            |
| Items that will not be reclassified subsequently to profit or loss: |                                |            |                     |            |
| Remeasurement of defined benefit plans                              | (2,985)                        | -          | 20,164              | -          |
| Items that may be reclassified subsequently to profit or loss:      |                                |            |                     |            |
| Exchange differences on translating foreign operations              | <u>(10,590)</u>                | <u>-</u>   | <u>19,361</u>       | <u>-</u>   |
| Other comprehensive income (loss) for the year, net of income tax   | <u>(13,575)</u>                | <u>-</u>   | <u>39,525</u>       | <u>-</u>   |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR                             | <u>\$ 2,069,080</u>            | <u>8</u>   | <u>\$ 2,068,694</u> | <u>8</u>   |

(Continued)

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|                              | For the Year Ended December 31 |   |         |   |
|------------------------------|--------------------------------|---|---------|---|
|                              | 2016                           |   | 2015    |   |
|                              | Amount                         | % | Amount  | % |
| EARNINGS PER SHARE (Note 25) |                                |   |         |   |
| Basic                        | \$ 2.29                        |   | \$ 2.23 |   |
| Diluted                      | \$ 2.28                        |   | \$ 2.23 |   |

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

(Concluded)

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

|   | Equity Attributable to Owners of the Corporation |                             |                 |                            |   | Total Equity  |
|---|--|-----------------------------|-----------------|----------------------------|---|---------------|
|   | Common Stock                                     | Retained Earnings (Note 21) |                 |                            | Other Equity<br>Exchange<br>Differences on<br>Translating Foreign<br>Operations |               |
|   |  | Legal Reserve               | Special Reserve | Unappropriated<br>Earnings |   |               |
| BALANCE AT JANUARY 1, 2015  | \$ 9,082,615                                     | \$ -                        | \$ -            | \$ 1,199,633               | \$ 11,254   | \$ 10,293,502 |
| Appropriation of 2014 earnings  | -  | 119,963                     | -               | (119,963)                  | -   | -             |
| Legal reserve   | -  | -                           | 239,927         | (239,927)                  | -   | -             |
| Special reserve   | -  | -                           | -               | (835,601)                  | -   | (835,601)     |
| Cash dividends distributed by the Company   | -  | -                           | -               | -                          | -   | -             |
| Profit for the year ended December 31, 2015                                       | -  | -                           | -               | 2,029,169                  | -   | 2,029,169     |
| Other comprehensive income for the year ended December 31, 2015 net of income tax | -  | -                           | -               | 20,164                     | 19,361  | 39,525        |
| Total comprehensive income for the year ended December 31, 2015                   | -  | -                           | -               | 2,049,333                  | 19,361  | 2,068,694     |
| BALANCE AT DECEMBER 31, 2015  | 9,082,615  | 119,963                     | 239,927         | 2,053,475                  | 30,615  | 11,526,595    |
| Appropriation of 2015 earnings  | -  | 202,917                     | -               | (202,917)                  | -   | -             |
| Legal reserve   | -  | -                           | 608,751         | (608,751)                  | -   | -             |
| Special reserve   | -  | -                           | -               | (1,235,236)                | -   | (1,235,236)   |
| Cash dividends distributed by the Company   | -  | -                           | -               | -                          | -   | -             |
| Profit for the year ended December 31, 2016                                       | -  | -                           | -               | 2,082,655                  | -   | 2,082,655     |
| Other comprehensive income for the year ended December 31, 2016 net of income tax | -  | -                           | -               | (2,985)                    | (10,590)  | (13,575)      |
| Total comprehensive income for the year ended December 31, 2016                   | -  | -                           | -               | 2,079,670                  | (10,590)  | 2,069,080     |
| BALANCE AT DECEMBER 31, 2016  | \$ 9,082,615                                     | \$ 322,880                  | \$ 848,678      | \$ 2,086,241               | \$ 20,025   | \$ 12,360,439 |

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

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

|   | <b>For the Year Ended December 31</b> |                  |
|---|---------------------------------------|------------------|
|   | <b>2016</b>                           | <b>2015</b>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                   |                                       |                  |
| Income before income tax  | \$ 2,594,223                          | \$ 2,482,284     |
| Adjustments for:  |                                       |                  |
| Depreciation expenses   | 653,783                               | 585,420          |
| Amortization expenses   | 804,933                               | 884,687          |
| Impairment loss recognized (reversal of impairment loss) on trade receivables | (3,398)                               | 797              |
| Finance costs   | 127,344                               | 133,440          |
| Interest income   | (33,714)                              | (21,519)         |
| Dividend income   | (614)                                 | (880)            |
| Share of profit of associate  | (177,625)                             | (302,673)        |
| Loss on disposal of property, plant and equipment                             | 116                                   | 166              |
| Impairment loss recognized on non-financial assets                            | 136,660                               | 89,833           |
| Unrealized net gain on foreign currency exchange                              | (99,418)                              | (197,814)        |
| Recognized provisions   | 69,995                                | 105,018          |
| Other income from liabilities   | (23,281)                              | (27,272)         |
| Net changes in operating assets and liabilities                               |                                       |                  |
| Notes receivable  | 15,074                                | 3,083            |
| Trade receivables   | (714,060)                             | (824,864)        |
| Other receivables   | (22,742)                              | (22,377)         |
| Inventories   | 1,002,931                             | (1,443,886)      |
| Other current assets  | 784,702                               | 526,337          |
| Trade payables  | (31,238)                              | 21,224           |
| Other payables  | 47,078                                | 544,570          |
| Unearned receipts   | (3,901)                               | (34,323)         |
| Other current liabilities   | 42,820                                | 23,786           |
| Cash generated from operations  | 5,169,668                             | 2,525,037        |
| Interest received   | 31,791                                | 19,704           |
| Interest paid   | (124,881)                             | (137,777)        |
| Income tax paid   | (542,992)                             | (1,942)          |
| Net cash generated from operating activities                                  | <u>4,533,586</u>                      | <u>2,405,022</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                   |                                       |                  |
| Proceeds from sale of financial assets carried at cost                        | (33,000)                              | -                |
| Payments for property, plant and equipment                                    | (1,940,330)                           | (1,059,011)      |
| Increase in refundable deposits   | (15,509)                              | (28,363)         |
| Decrease in refundable deposits   | 23,469                                | 33,420           |
| Payments for intangible assets  | (1,139,396)                           | (955,551)        |
| Increase in other financial assets  | -                                     | (1,596,965)      |
| Decrease in other financial assets  | 578,071                               | 9,479            |
|   |                                       | (Continued)      |

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

|  | <b>For the Year Ended December 31</b> |                     |
|--|---------------------------------------|---------------------|
|  | <b>2016</b>                           | <b>2015</b>         |
| Increase in prepayments for equipment  | \$ (689,758)                          | \$ (362,240)        |
| Dividend received  | <u>52,135</u>                         | <u>143,551</u>      |
| Net cash used in investing activities  | <u>(3,164,318)</u>                    | <u>(3,815,680)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                                       |                     |
| Proceeds from short-term borrowings  | 51,080,000                            | 50,948,000          |
| Repayments of short-term borrowings  | (49,530,000)                          | (51,198,000)        |
| Proceeds from short-term bills payable   | 7,688,961                             | 6,586,538           |
| Repayments of short-term bills payable   | (7,387,671)                           | (7,383,822)         |
| Proceeds from long-term borrowings   | -                                     | 2,200,000           |
| Repayments of long-term borrowings   | (964,399)                             | (139,400)           |
| Proceeds of guarantee deposits received  | 214,271                               | 306,953             |
| Refund of guarantee deposits received  | (229,370)                             | (240,604)           |
| Dividends paid to owners of the Company  | <u>(1,235,236)</u>                    | <u>(835,601)</u>    |
| Net cash generated from (used in) financing activities   | <u>(363,444)</u>                      | <u>244,064</u>      |
| <b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE<br/>OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN<br/>CURRENCIES</b> | <u>(465)</u>                          | <u>-</u>            |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH<br/>EQUIVALENTS</b>  | 1,005,359                             | (1,166,594)         |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE<br/>YEAR</b>  | <u>1,554,739</u>                      | <u>2,721,333</u>    |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>  | <u>\$ 2,560,098</u>                   | <u>\$ 1,554,739</u> |

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

(Concluded)



### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Aerospace Industrial Development Corporation

#### Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

#### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

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

Key audit matters for the Company's financial statements for the year ended December 31, 2016 are stated as follows:

##### Impairment loss of inventory

The Company assesses impairment of material based on individual identification. The impairment loss of the material involves the management's significant judgment, and hence its assessment is considered as a key audit matter. The Company assesses the impairment loss of the material

based on current market conditions and future consumption, an assessment that ensures the valuation of material of the Company aligns to the rules denoted in the IAS 2. Refer to Note 5 and 9. Our key audit procedures performed in regard to the assessment thereof include the followings:

1. Perform the inventory aging test to assure the completeness and accuracy of inventory aging report.
2. Sample inventories which have been aging for more than a year without being provided for impairment.
3. Test the net realizable value of unimpaired inventory, and recalculate the accuracy of allowance for impairment loss.
4. Observe the inventory at year end to assess the appropriateness of allowance for impairment loss of inapplicable inventory.

#### Warranties

The Company provides warranties for military product maintenance, and the percentage of certain provisions involve management's significant judgment, and hence such type of warranties provisions is considered as a key audit matter. Refer to Note 5 and 18. Our key audit procedures performed in regard to the provisions thereof include the followings:

1. Obtain the documents on management's decision of the provision rate and evaluate the reasonableness of percentage provided for abovementioned provisions.
2. Recalculate the accuracy of the amount of provision.
3. Perform a retrospective test to assured that the provisions are appropriate and sufficient.

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

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

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

#### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements

can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Done-Yuin Tseng and Te-Jun Cheng.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 27, 2017

Notice to Readers

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

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

## BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

|  | December 31          |            |                      |            |
|--|----------------------|------------|----------------------|------------|
|  | 2016                 |            | 2015                 |            |
| ASSETS   | Amount               | %          | Amount               | %          |
| <b>CURRENT ASSETS</b>  |                      |            |                      |            |
| Cash and cash equivalents (Notes 4 and 6)  | \$ 2,545,007         | 8          | \$ 1,554,739         | 5          |
| Notes receivable (Note 4)  | 4,749                | -          | 19,823               | -          |
| Trade receivables from unrelated parties (Notes 4, 5 and 8)  | 7,256,164            | 23         | 6,479,638            | 23         |
| Trade receivables from related parties (Note 28)   | 220,669              | 1          | 202,531              | 1          |
| Other receivables (Notes 4 and 8)  | 179,253              | 1          | 153,957              | -          |
| Current tax asset (Notes 4 and 23)   | -                    | -          | 162,372              | 1          |
| Inventories (Notes 4, 5 and 9)   | 7,599,577            | 25         | 8,795,613            | 31         |
| Other financial asset - current (Notes 4, 13 and 29)   | 2,000,102            | 6          | 2,554,657            | 9          |
| Other current assets (Notes 4, 5, 14 and 28)   | 634,703              | 2          | 1,262,414            | 4          |
| Total current assets   | 20,440,224           | 66         | 21,185,744           | 74         |
| <b>NON-CURRENT ASSETS</b>  |                      |            |                      |            |
| Financial assets measured at cost - non-current (Notes 4 and 7)  | 79,200               | -          | 46,200               | -          |
| Investment accounted for using equity method (Notes 4 and 10)  | 795,692              | 3          | 665,521              | 2          |
| Property, plant and equipment (Notes 4, 5 and 11)  | 8,242,666            | 27         | 5,713,002            | 20         |
| Intangible assets (Notes 4, 5 and 12)  | 734,805              | 2          | 412,054              | 2          |
| Deferred tax assets (Notes 4, 5 and 23)  | 305,776              | 1          | 298,563              | 1          |
| Prepayments for equipment  | 380,150              | 1          | 327,952              | 1          |
| Other financial asset - non-current (Notes 4, 13 and 29)   | 24,517               | -          | 24,517               | -          |
| Other non-current assets (Notes 4, 5, and 14)  | 21,587               | -          | 30,629               | -          |
| Total non - current assets   | 10,584,393           | 34         | 7,518,438            | 26         |
| <b>TOTAL</b>   | <b>\$ 31,024,617</b> | <b>100</b> | <b>\$ 28,704,182</b> | <b>100</b> |
| <b>LIABILITIES AND EQUITY</b>  |                      |            |                      |            |
| <b>CURRENT LIABILITIES</b>   |                      |            |                      |            |
| Short-term borrowings (Note 15)  | \$ 7,200,000         | 23         | \$ 5,650,000         | 20         |
| Short-term bills payable (Note 15)   | 1,998,882            | 6          | 1,697,592            | 6          |
| Trade payables to unrelated parties  | 1,395,632            | 5          | 1,420,746            | 5          |
| Trade payables to related parties (Note 28)  | 19,836               | -          | 25,050               | -          |
| Other payables (Notes 17 and 28)   | 4,131,262            | 13         | 3,400,616            | 12         |
| Current tax liabilities (Notes 4 and 23)   | 332,915              | 1          | 367,499              | 1          |
| Unearned receipts  | 208,316              | 1          | 212,217              | 1          |
| Current portion of long-term borrowings (Note 15)  | 1,167,606            | 4          | 964,400              | 3          |
| Finance lease payables-current (Notes 4 and 16)  | 5,131                | -          | 6,637                | -          |
| Other current liabilities  | 40,042               | -          | 20,821               | -          |
| Total current liabilities  | 16,499,622           | 53         | 13,765,578           | 48         |
| <b>NON-CURRENT LIABILITIES</b>   |                      |            |                      |            |
| Long-term borrowings (Note 15)   | 748,240              | 2          | 1,915,846            | 7          |
| Provisions - non-current (Notes 4, 5 and 18)   | 1,043,511            | 3          | 1,108,956            | 4          |
| Deferred tax liabilities (Notes 4 and 23)  | 160,542              | 1          | 154,714              | -          |
| Finance lease payable - non-current (Notes 4 and 16)   | -                    | -          | 5,131                | -          |
| Guarantee deposits   | 212,263              | 1          | 227,362              | 1          |
| Total non-current liabilities  | 2,164,556            | 7          | 3,412,009            | 12         |
| Total liabilities  | 18,664,178           | 60         | 17,177,587           | 60         |
| <b>EQUITY</b>  |                      |            |                      |            |
| Common stock- at par value of \$10 each authorized 1,500,000 thousand shares, issued 908,262 thousand shares | 9,082,615            | 29         | 9,082,615            | 32         |
| Retained earnings  |                      |            |                      |            |
| Legal reserve  | 322,880              | 1          | 119,963              | -          |
| Special reserve  | 848,678              | 3          | 239,927              | 1          |
| Unappropriated earnings  | 2,086,241            | 7          | 2,053,475            | 7          |
| Other equity   | 20,025               | -          | 30,615               | -          |
| Total equity   | 12,360,439           | 40         | 11,526,595           | 40         |
| <b>TOTAL</b>   | <b>\$ 31,024,617</b> | <b>100</b> | <b>\$ 28,704,182</b> | <b>100</b> |

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

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

## STATEMENTS OF COMPREHENSIVE INCOME

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

|   | For the Year Ended December 31 |            |                     |            |
|---|--------------------------------|------------|---------------------|------------|
|   | 2016                           |            | 2015                |            |
|   | Amount                         | %          | Amount              | %          |
| SALES (Notes 4, 21 and 28)  | \$ 27,325,514                  | 100        | \$ 26,878,156       | 100        |
| COST OF GOODS SOLD (Notes 9, 22 and 28)                             | <u>23,210,018</u>              | <u>85</u>  | <u>23,626,449</u>   | <u>88</u>  |
| GROSS PROFIT  | <u>4,115,496</u>               | <u>15</u>  | <u>3,251,707</u>    | <u>12</u>  |
| OPERATING EXPENSES (Notes 22 and 28)                                |                                |            |                     |            |
| Selling and marketing expenses                                      | 146,684                        | 1          | 159,167             | -          |
| General and administrative expenses                                 | 587,442                        | 2          | 499,561             | 2          |
| Research and development expenses                                   | <u>655,828</u>                 | <u>2</u>   | <u>439,262</u>      | <u>2</u>   |
| Total operating expenses  | <u>1,389,954</u>               | <u>5</u>   | <u>1,097,990</u>    | <u>4</u>   |
| PROFIT FROM OPERATIONS  | <u>2,725,542</u>               | <u>10</u>  | <u>2,153,717</u>    | <u>8</u>   |
| NON-OPERATING INCOME AND EXPENSES                                   |                                |            |                     |            |
| Other income (Notes 4 and 22)                                       | 189,183                        | 1          | 155,102             | 1          |
| Other gains and losses (Notes 4 and 22)                             | (371,175)                      | (1)        | 4,232               | -          |
| Share of profit of associates (Note 4)                              | 177,861                        | 1          | 302,673             | 1          |
| Finance costs   | <u>(127,344)</u>               | <u>(1)</u> | <u>(133,440)</u>    | <u>(1)</u> |
| Total non-operating income and expenses                             | <u>(131,475)</u>               | <u>-</u>   | <u>328,567</u>      | <u>1</u>   |
| PROFIT BEFORE INCOME TAX  | 2,594,067                      | 10         | 2,482,284           | 9          |
| INCOME TAX EXPENSE (Notes 4 and 23)                                 | <u>511,412</u>                 | <u>2</u>   | <u>453,115</u>      | <u>1</u>   |
| NET PROFIT FOR THE YEAR   | <u>2,082,655</u>               | <u>8</u>   | <u>2,029,169</u>    | <u>8</u>   |
| OTHER COMPREHENSIVE INCOME  |                                |            |                     |            |
| Items that will not be reclassified subsequently to profit or loss: |                                |            |                     |            |
| Remeasurement of defined benefit plans                              | (2,985)                        | -          | 20,164              | -          |
| Items that may be reclassified subsequently to profit or loss:      |                                |            |                     |            |
| Exchange differences on translating foreign operations              | <u>(10,590)</u>                | <u>-</u>   | <u>19,361</u>       | <u>-</u>   |
| Other comprehensive income (loss) for the year, net of income tax   | <u>(13,575)</u>                | <u>-</u>   | <u>39,525</u>       | <u>-</u>   |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR                             | <u>\$ 2,069,080</u>            | <u>8</u>   | <u>\$ 2,068,694</u> | <u>8</u>   |

(Continued)

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

## STATEMENTS OF COMPREHENSIVE INCOME

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

|                              | For the Year Ended December 31 |   |         |   |
|------------------------------|--------------------------------|---|---------|---|
|                              | 2016                           |   | 2015    |   |
|                              | Amount                         | % | Amount  | % |
| EARNINGS PER SHARE (Note 24) |                                |   |         |   |
| Basic                        | \$ 2.29                        |   | \$ 2.23 |   |
| Diluted                      | \$ 2.28                        |   | \$ 2.23 |   |

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

(Concluded)



# **AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION**

## **CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)**

|   | Equity Attributable to Owners of the Corporation |                             |                 |                            |   | Total Equity  |
|---|--|-----------------------------|-----------------|----------------------------|---|---------------|
|   | Common Stock                                     | Retained Earnings (Note 20) |                 |                            | Other Equity<br>Exchange<br>Differences on<br>Translating Foreign<br>Operations |               |
|   |  | Legal Reserve               | Special Reserve | Unappropriated<br>Earnings |   |               |
| BALANCE AT JANUARY 1, 2015  | \$ 9,082,615                                     | \$ -                        | \$ -            | \$ 1,199,633               | \$ 11,254   | \$ 10,293,502 |
| Appropriation of 2014 earnings  | -  | 119,963                     | -               | (119,963)                  | -   | -             |
| Legal reserve   | -  | -                           | 239,927         | (239,927)                  | -   | -             |
| Special reserve   | -  | -                           | -               | (835,601)                  | -   | (835,601)     |
| Cash dividends distributed by the Company   | -  | -                           | -               | -                          | -   | -             |
| Profit for the year ended December 31, 2015                                       | -  | -                           | -               | 2,029,169                  | -   | 2,029,169     |
| Other comprehensive income for the year ended December 31, 2015 net of income tax | -  | -                           | -               | 20,164                     | 19,361  | 39,525        |
| Total comprehensive income for the year ended December 31, 2015                   | -  | -                           | -               | 2,049,333                  | 19,361  | 2,068,694     |
| BALANCE AT DECEMBER 31, 2015  | 9,082,615  | 119,963                     | 239,927         | 2,053,475                  | 30,615  | 11,526,595    |
| Appropriation of 2015 earnings  | -  | 202,917                     | -               | (202,917)                  | -   | -             |
| Legal reserve   | -  | -                           | 608,751         | (608,751)                  | -   | -             |
| Special reserve   | -  | -                           | -               | (1,235,236)                | -   | (1,235,236)   |
| Cash dividends distributed by the Company   | -  | -                           | -               | -                          | -   | -             |
| Profit for the year ended December 31, 2016                                       | -  | -                           | -               | 2,082,655                  | -   | 2,082,655     |
| Other comprehensive income for the year ended December 31, 2016 net of income tax | -  | -                           | -               | (2,985)                    | (10,590)  | (13,575)      |
| Total comprehensive income for the year ended December 31, 2016                   | -  | -                           | -               | 2,079,670                  | (10,590)  | 2,069,080     |
| BALANCE AT DECEMBER 31, 2016  | \$ 9,082,615                                     | \$ 322,880                  | \$ 848,678      | \$ 2,086,241               | \$ 20,025   | \$ 12,360,439 |

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



# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

## STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

|  | <b>For the Year Ended December 31</b> |                    |
|--|---------------------------------------|--------------------|
|  | <b>2016</b>                           | <b>2015</b>        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>            |                                       |                    |
| Income before income tax                               | \$ 2,594,067                          | \$ 2,482,284       |
| Adjustments for:                                       |                                       |                    |
| Depreciation expenses                                  | 653,628                               | 585,420            |
| Amortization expenses                                  | 804,933                               | 884,687            |
| Impairment loss recognized on trade receivables        | (3,398)                               | 797                |
| Finance costs  | 127,344                               | 133,440            |
| Interest income  | (33,712)                              | (21,519)           |
| Dividend income  | (614)                                 | (880)              |
| Share of profit of associate                           | (177,861)                             | (302,673)          |
| Loss on disposal of property, plant and equipment      | 116                                   | 166                |
| Impairment loss recognized on non-financial assets     | 136,660                               | 89,833             |
| Unrealized net gain on foreign currency exchange       | (99,418)                              | (197,814)          |
| Recognized provisions                                  | 69,995                                | 105,018            |
| Other income from liabilities                          | (23,281)                              | (27,272)           |
| Net changes in operating assets and liabilities        |                                       |                    |
| Notes receivable                                       | 15,074                                | 3,083              |
| Trade receivables                                      | (714,060)                             | (824,864)          |
| Other receivables                                      | (22,742)                              | (22,377)           |
| Inventories  | 1,002,931                             | (1,443,886)        |
| Other current assets                                   | 784,878                               | 526,337            |
| Trade payables   | (31,238)                              | 21,224             |
| Other payables   | 47,169                                | 544,570            |
| Unearned receipts                                      | (3,901)                               | (34,323)           |
| Other current liabilities                              | 42,501                                | 23,786             |
| Cash generated from operations                         | 5,169,071                             | 2,525,037          |
| Interest received                                      | 31,789                                | 19,704             |
| Interest paid  | (124,881)                             | (137,777)          |
| Income tax paid  | (542,992)                             | (1,942)            |
| Net cash generated from operating activities           | <u>4,532,987</u>                      | <u>2,405,022</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>            |                                       |                    |
| Proceeds from sale of financial assets carried at cost | (33,000)                              | -                  |
| Equity interest in subsidiary                          | (16,590)                              | -                  |
| Payments for property, plant and equipment             | (1,938,769)                           | (1,059,011)        |
| Increase in refundable deposits                        | (15,437)                              | (28,363)           |
| Decrease in refundable deposits                        | 23,469                                | 33,420             |
| Payments for intangible assets                         | (1,139,396)                           | (955,551)          |
| Increase in other financial assets                     | -                                     | (1,596,965)        |
| Decrease in other financial assets                     | 578,071                               | 9,479              |
| Increase in prepayments for equipment                  | (689,758)                             | (362,240)          |
| Dividend received                                      | <u>52,135</u>                         | <u>143,551</u>     |
| Net cash used in investing activities                  | <u>(3,179,275)</u>                    | <u>(3,815,680)</u> |

(Continued)

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

## STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

|  | <b>For the Year Ended December 31</b> |                     |
|--|---------------------------------------|---------------------|
|  | <b>2016</b>                           | <b>2015</b>         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>            |                                       |                     |
| Proceeds from short-term borrowings                    | \$ 51,080,000                         | \$ 50,948,000       |
| Repayments of short-term borrowings                    | (49,530,000)                          | (51,198,000)        |
| Proceeds from short-term bills payable                 | 7,688,961                             | 6,586,538           |
| Repayments of short-term bills payable                 | (7,387,671)                           | (7,383,822)         |
| Proceeds from long-term borrowings                     | -                                     | 2,200,000           |
| Repayments of long-term borrowings                     | (964,399)                             | (139,400)           |
| Proceeds of guarantee deposits received                | 214,271                               | 306,953             |
| Refund of guarantee deposits received                  | (229,370)                             | (240,604)           |
| Dividends paid to owners of the Company                | <u>(1,235,236)</u>                    | <u>(835,601)</u>    |
| Net cash generated (used in) from financing activities | <u>(363,444)</u>                      | <u>244,064</u>      |
| <b>NET DECREASE (INCREASE) IN CASH</b>                 | 990,268                               | (1,166,594)         |
| <b>CASH AT THE BEGINNING OF THE YEAR</b>               | <u>1,554,739</u>                      | <u>2,721,333</u>    |
| <b>CASH AT THE END OF THE YEAR</b>                     | <u>\$ 2,545,007</u>                   | <u>\$ 1,554,739</u> |

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

(Concluded)

## Appendix V

| Aerospace Industrial Development Corporation<br>Proposal for Earnings Distribution of 2016 Profits |                 |
|--|-----------------|
| Currency: in NTD   |                 |
| Item   | Amounts         |
| Undistributed earnings at beginning of period  | 6,572,192       |
| Remeasurement of defined benefit plans   | (2,984,680)     |
| Undistributed earnings after adjustment  | 3,587,512       |
| Annual net profit after tax  | 2,082,654,629   |
| Less Items :   |                 |
| Legal reserve ( 10% )  | (208,265,463)   |
| Special reserve ( 30% )  | (624,796,389)   |
| Accumulate available for distribution surplus  | 1,253,180,289   |
| Distribution Items   |                 |
| Shareholder cash dividend (NT\$ 1.00 per share)  | (908,261,428)   |
| Shareholder stock dividend (NT\$ 0.37 per share)   | (336,056,730)   |
| Total current surplus distribution   | (1,244,318,158) |
| Undistributed earnings at the end of period  | 8,862,131       |
|  |                 |

## Appendix VI

### Mapping of the original provisions of the Articles of Incorporation of AIDC and the provisions after amendment

| After amendment   | Before amendment   | Cause of amendment  |
|---|--|---|
| <p>Article 18-1 The number of seats for Independent Directors as mentioned in the preceding article shall be at least 3 seats. The professional qualification, quantity of shareholding, restriction on holding other positions, method of nomination, and other particulars to follow shall be subject to the regulation of the competent authority.</p>   | <p>Article 18-1 The number of seats for Independent Directors as mentioned in the preceding article shall be 3 <u>and they shall be elected under a nomination system. A list of prospective candidates shall be proposed before the General Meeting of Shareholders and Independent Directors shall be elected among the candidates on the list.</u> The professional qualification, quantity of shareholding, restriction on holding other positions, method of nomination, and other particulars to follow shall be subject to the regulation of the competent authority.</p> <p><u>To reduce of the legal liability risk of the Directors, the company shall take appropriate professional liability insurance for each Director for the protection of their respective assigned duties.</u></p> | <ol style="list-style-type: none"> <li>1. Amendment to the provision.</li> <li>2. Pursuant to Company Act. Article 192-1, Revised words in Paragraph 1 and 2.</li> </ol>    |
| <p>Article 18-2 <u>AIDC Directors shall be elected under a nomination system by the Company Act of ROC. A list of prospective candidates of directors shall be proposed before the General Meeting of Shareholders, and directors shall be elected among the candidates on the list.</u> AIDC elects its Directors by the accumulation of single votes system whereby each share shall be relevant with the number of seats for the</p> | <p>Article 18-2 AIDC elects its Directors by the accumulation of single votes system whereby each share shall be relevant with the number of the seats for the Directors. Each shareholder may vote in favor of particular candidate with all their votes on hand or distribute to a number of preferred candidates. Candidates wining the majority of the voting rights shall be elected to the seats of</p>  | <ol style="list-style-type: none"> <li>1. Amendment to the provision.</li> <li>2. Pursuant to Company Act. Article 192-1, Revised words in Paragraph 1, 2 and 3.</li> </ol> |

| After amendment  | Before amendment   | Cause of amendment   |
|--|--|--|
| <p>Directors. Each shareholder may vote in favor of particular candidate with all their votes on hand or distribute to a number of preferred candidates. Candidates winning the majority of the voting rights shall be elected to the seats of Directors.</p> <p><u>Independent and non-independent directors shall be nominated separately and elected at the same time. The numbers of elected independent and non-independent directors shall be calculated separately.</u></p> <p><u>To reduce of the legal liability risk of the Directors, the company shall take appropriate professional liability insurance for each Director for the protection of their respective assigned duties.</u></p> | <p>Directors.</p> <p><u>The election of Independent Directors is under the nomination system and shall be made simultaneously as the election of the Directors for calculation of number of votes earned to the seats.</u></p>   |  |
| <p>Article 30 The Articles of Incorporation of AIDC was instituted on March 5, 1996 with amendment for the 1<sup>st</sup> instance on June 14, 1996 and several subsequent amendments being followed. ..., the amendment for the 20<sup>th</sup> instance was made on June 23, 2015; the amendment for the 21<sup>st</sup> instance was made on June 14, 2016; <u>and the amendment for the 22<sup>nd</sup> instance was made on June 14, 2017.</u></p>  | <p>Article 30 The Articles of Incorporation of AIDC was instituted on March 5 1996 with amendment for the 1<sup>st</sup> instance on June 14, 1996 and several subsequent amendments being followed. ...the amendment for the 20<sup>th</sup> instance was made on June 23 2015, and the amendment for the 21<sup>th</sup> instance was made on June 14, 2016.____</p> | <ol style="list-style-type: none"> <li>1. Amendment to the provision.</li> <li>2. Addition of the note on amendment (22<sup>nd</sup> instance) and the date of amendment.</li> </ol> |