

**TOPCO SCIENTIFIC CO., LTD.  
AND SUBSIDIARIES**  
**Consolidated Financial Statements**  
**for the years ended December 31, 2015 and 2014**  
**(Independent Auditors' Report)**

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## Independent Auditors' Report

The Board of Directors  
Topco Scientific Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Topco Scientific Co., Ltd. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements for certain subsidiaries and investments accounted for using equity method. The total assets of the subsidiaries amounted to \$213,471,000, constituting 2.06% of the total consolidated assets as of December 31, 2014; the total revenue of the subsidiaries amounted to \$302,074,000, constituting 1.67% of consolidated revenue for 2014. Investments accounted for using equity method amounted to \$958,096,000, and \$1,058,557,000 as of December 31, 2015 and 2014, respectively; and the share of gains of associates and joint ventures accounted for using equity method amounted to \$163,624,000 and \$103,873,000 for 2015 and 2014. These financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts of subsidiaries and investments accounted for using equity method, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the generally accepted auditing standards in the Republic of China. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of consolidated financial statement. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.



In our opinion, based on our audits and the aforementioned reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Topco Scientific Co., Ltd. as of December 31, 2015 and 2014, and the results of their consolidated operations and their consolidated cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission R.O.C.

Topco Scientific Co., Ltd. has prepared its annual parent company only financial reports as of and for the years ended December 31, 2015 and 2014, on which we have issued modified unqualified opinion.

A handwritten signature in black ink that reads 'KPMG'.

March 23, 2016

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of consolidated operations, and consolidated cash flows in accordance with the International Financial Reporting Standards, International Accounting Standards and interpretations endorsed by the Financial Supervisory Commissions in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

**December 31, 2015 and 2014**  
**(expressed in thousands of New Taiwan dollars)**

See accompanying notes to the consolidated financial statements.

# TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Consolidated statements of comprehensive income

For the years ended December 31, 2015 and 2014

(expressed in thousands of New Taiwan dollars, except net income per share amounts)

	2015		2014	
	Amount	%	Amount	%
<b>Operating revenue (note 7)</b>				
Net sales revenue	\$ 17,416,294	91	16,536,367	91
Construction revenue	1,078,932	6	995,124	6
Other operating revenue	583,644	3	560,790	3
	<u>19,078,870</u>	<u>100</u>	<u>18,092,281</u>	<u>100</u>
<b>Operating expenses: (notes 6(e), 7 and 12)</b>				
Cost of sales	15,472,760	81	14,844,916	82
Construction costs	1,001,479	5	923,814	5
Other operating costs	168,276	1	156,370	1
	<u>16,642,515</u>	<u>87</u>	<u>15,925,100</u>	<u>88</u>
<b>Gross profit</b>	<u>2,436,355</u>	<u>13</u>	<u>2,167,181</u>	<u>12</u>
<b>Operating expenses (notes 7 and 12)</b>				
Selling expenses	727,352	4	678,714	4
Administrative expense	640,610	3	571,911	3
	<u>1,367,962</u>	<u>7</u>	<u>1,250,625</u>	<u>7</u>
<b>Net operating income</b>	<u>1,068,393</u>	<u>6</u>	<u>916,556</u>	<u>5</u>
<b>Non-operating income and expenses:</b>				
Other income (notes 6(g), 6(s) and 12(b))	52,684	-	45,640	-
Other gains and losses (notes 6(g) and 6 (t))	(33,762)	-	12,165	-
Finance costs	(16,474)	-	(9,991)	-
Share of gain of associates and joint ventures accounted for using equity method (note 6(f))	168,633	-	94,299	1
Impairment loss (notes 6(b) and 6(f))	(25,706)	-	(7,331)	-
<b>Total non-operating income and expenses</b>	<u>145,375</u>	<u>-</u>	<u>134,782</u>	<u>1</u>
<b>Profit before tax</b>	<u>1,213,768</u>	<u>6</u>	<u>1,051,338</u>	<u>6</u>
<b>Less: tax expense (note 6(o))</b>	<u>254,307</u>	<u>1</u>	<u>189,425</u>	<u>1</u>
<b>Profit</b>	<u>959,461</u>	<u>5</u>	<u>861,913</u>	<u>5</u>
<b>Other comprehensive income:</b>				
<b>Items that may not be reclassified subsequently to profit or loss</b>				
Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans	(5,940)	-	(18,171)	-
Less: income tax relating to components of other comprehensive income that may not be reclassified subsequently to profit or loss	(1,010)	-	(3,089)	-
	<u>(4,930)</u>	<u>-</u>	<u>(15,082)</u>	<u>-</u>
<b>Items that may be reclassified subsequently to profit or loss</b>				
Other comprehensive income, before tax, exchange differences on translation	(15,045)	-	20,445	-
Changes in unrealized gains (losses) on available-for-sale	14,487	-	4,564	-
Share of other comprehensive income of associates and join ventures accounted for using equity method that may be reclassified subsequently to profit or loss	138	-	249	-
Less: income tax relating to components of other comprehensive income that may be reclassified subsequently to profit or loss	(1,953)	-	3,726	-
	<u>1,533</u>	<u>-</u>	<u>21,532</u>	<u>-</u>
<b>Other comprehensive income, net</b>	<u>(3,397)</u>	<u>-</u>	<u>6,450</u>	<u>-</u>
<b>Comprehensive income</b>	<u>\$ 956,064</u>	<u>5</u>	<u>\$ 868,363</u>	<u>5</u>
<b>Profit, attributable to:</b>				
Profit, attributable to owners of parent	\$ 958,221	5	859,697	5
Profit, attributable to non-controlling interests	1,240	-	2,216	-
	<u>\$ 959,461</u>	<u>5</u>	<u>\$ 861,913</u>	<u>5</u>
<b>Comprehensive income attributable to:</b>				
Comprehensive income, attributable to owners of parent	\$ 954,824	5	866,147	5
Comprehensive income, attributable to non-controlling interests	1,240	-	2,216	-
	<u>\$ 956,064</u>	<u>5</u>	<u>\$ 868,363</u>	<u>5</u>
<b>Earnings per share: (note 6(q))</b>				
Basic net income per share	\$ 5.89		\$ 5.29	
Diluted net income per share	\$ 5.84		\$ 5.25	

See accompanying notes to consolidated financial statements.

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Consolidated Statements of changes in equity**  
**For the years ended December 31, 2015 and 2014**  
(expressed in thousands of New Taiwan dollars)

	Equity attributable to owners of parent									
	Retained earnings					Other equity interest				
	Ordinary shares	Capital surplus	Legal reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Total other equity interest	Total equity	Non-controlling interests
<b>Balance on January 1, 2014</b>	\$ 1,548,131	1,463,707	646,185	1,554,014	2,200,199	40,118	2,112	42,230	5,254,267	43,105
Profit for the year ended December 31, 2014	-	-	-	859,697	859,697	-	-	-	859,697	2,216
Other comprehensive income	-	-	-	(15,082)	(15,082)	16,968	4,564	21,532	6,450	-
Comprehensive income	-	-	-	844,615	844,615	16,968	4,564	21,532	866,147	2,216
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	-	-	79,757	(79,757)	-	-	-	-	-	-
Dividends of ordinary share (cash and stock)	30,963	-	-	(588,290)	(588,290)	-	-	-	(557,327)	-
Changes in equity of associates accounted for using equity method	-	245	-	(990)	(990)	-	-	-	(745)	-
Changes in ownership interests in subsidiaries	-	-	-	(367)	(367)	-	-	-	(367)	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(6,070)
<b>Balance on December 31, 2014</b>	1,579,094	1,463,952	725,942	1,729,225	2,455,167	57,086	6,676	63,762	5,561,975	39,251
Profit for the year ended December 31, 2015	-	-	-	958,221	958,221	-	-	-	958,221	1,240
Other comprehensive income	-	-	-	(4,930)	(4,930)	(12,581)	14,114	1,533	(3,397)	-
Comprehensive income	-	-	-	953,291	953,291	(12,581)	14,114	1,533	954,824	1,240
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	-	-	85,970	(85,970)	-	-	-	-	-	-
Dividends of ordinary share (cash and stock)	47,373	-	-	(631,637)	(631,637)	-	-	-	(584,264)	-
Changes in equity of associates accounted for using equity method	-	-	-	-	-	-	-	-	-	-
Changes in ownership interests in subsidiaries	-	82	-	(105)	(105)	-	-	-	82	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(105)	-
<b>Balance on December 31, 2015</b>	\$ 1,626,467	1,464,034	811,912	1,964,804	2,776,716	44,505	20,790	65,295	5,932,512	9,069
									5,941,581	

See accompanying notes to consolidated financial statements.

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Consolidated statements of cash flows**

**For the years ended December 31, 2015 and 2014**  
(expressed in thousands of New Taiwan dollars)

	2015	2014
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 1,213,768	1,051,338
Adjustments:		
Depreciation	107,290	77,639
Amortization	7,101	4,515
Increase (decrease) in allowances for uncollectible accounts	(6,150)	12,874
Interest expense	16,474	9,991
Interest income	(5,765)	(9,617)
Dividend income	(17,651)	(13,250)
Share of gain of associates accounted for using equity method	(168,633)	(94,299)
Impairment loss on financial assets	25,706	7,331
Others	6,823	(2,435)
Adjustments to reconcile profit	<u>(34,805)</u>	<u>(7,251)</u>
<b>Changes in operating assets and liabilities:</b>		
Changes in operating assets:		
Decrease (increase) in notes and accounts receivable	(376,773)	(541,365)
Decrease (increase) in inventories	(170,308)	(166,684)
Changes in financial assets at fair value through profit or loss	132,220	344,246
Decrease (increase) in other current assets	689	(41,359)
Decrease (increase) in other current financial assets	5,454	28,462
Decrease (increase) in receivable related to construction contract	<u>(3,268)</u>	<u>(165,595)</u>
Total changes in operating assets	<u>(411,986)</u>	<u>(542,295)</u>
Changes in operating liabilities:		
Increase (decrease) in notes and accounts payable	55,152	739,320
Increase (decrease) in payable related to construction contract	(830)	23,717
Increase (decrease) in other current financial liabilities	38,311	(1,609)
Increase (decrease) in provisions	(26,793)	(3,405)
Increase (decrease) in unearned revenue	(44,596)	(147,832)
Increase (decrease) in other current liabilities	7,643	8,919
Increase (decrease) in other operating liabilities	<u>(8,100)</u>	<u>8,148</u>
Total changes in operating liabilities	<u>20,787</u>	<u>627,258</u>
Total changes in operating assets and liabilities	<u>(391,199)</u>	<u>84,963</u>
Total adjustments	<u>(426,004)</u>	<u>77,712</u>
Cash flows from operations	787,764	1,129,050
Interest received	6,335	10,138
Dividends received	122,750	89,705
Interest paid	(16,347)	(9,547)
Income taxes paid	<u>(190,444)</u>	<u>(172,322)</u>
Net Cash flows from operating activities	<u>710,058</u>	<u>1,047,024</u>
<b>Cash flows from (used in) investing activities:</b>		
Proceeds from disposal of available-for-sale financial assets	-	5,366
Proceeds from capital reduction of available-for-sale financial assets	32,752	-
Net cash flow from acquisition of subsidiaries	(19,829)	5,064
Proceeds from disposal of subsidiaries	-	2,320
Acquisition of property, plant and equipment	(626,414)	(653,710)
Decrease in restricted assets	63,551	-
Other	<u>(6,855)</u>	<u>9,284</u>
Net cash flows from (used in) investing activities	<u>(556,795)</u>	<u>(631,676)</u>
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term borrowings	306,524	93,383
Cash dividends paid	(584,264)	(557,327)
Proceeds from long-term borrowings	150,000	175,923
Repayments of long-term borrowings	(46,403)	(46,720)
Changes in non-controlling interest	<u>(32,537)</u>	<u>(1,046)</u>
Net cash flows used in financing activities	<u>(206,680)</u>	<u>(335,787)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(88)</u>	<u>9,965</u>
Net increase (decrease) in cash and cash equivalents	<u>(53,505)</u>	<u>89,526</u>
Cash and cash equivalents at beginning of period	1,427,977	1,338,451
Cash and cash equivalents at end of period	\$ <u>1,374,472</u>	<u>1,427,977</u>

See accompanying notes to consolidated financial statements.



# TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(expressed in thousands of New Taiwan dollars unless otherwise specified)

### (1) Organization

Topco Scientific Co., Ltd. (the Company) was incorporated on February 17, 1990, as a company limited by shares and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company's registered office is 6F., No. 483, Sec. 2, Tiding Blvd., Neihu District, Taipei City. The Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") engage in the trading of electronics products, high technology products and related materials and components, pollution prevention equipment, the design and installation of water purification and recycling systems, as well as solar energy materials and providing solar energy system integration services. Please refer to note 13 for related information.

### (2) Financial statements authorization date and authorization process

The consolidated financial statements were authorized for issuance by the board of directors on March 23, 2016.

### (3) New standards and interpretations adopted

- (a) Impact of the 2013 version of the International Financial Reporting Standard ("IFRS") endorsed by the Financial Supervisory Commissions R.O.C. ("FSC").

The Group has adopted the 2013 version of the IFRS endorsed by the FSC (IFRS 9 Financial instruments is excluded) in preparing its 2015 consolidated financial statements. The new standards and amendments issued by the International Accounting Standards Board ("IASB") are as follows:

<u>New standards and amendments</u>	<u>Effective date per IASB</u>
• Amended IFRS 1 " <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i> "	July 1, 2010
• Amended IFRS 1 " <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> "	July 1, 2011
• Amended IFRS 1 " <i>Government Loans</i> "	January 1, 2013
• Amended IFRS 7 " <i>Disclosure – Transfers of Financial Assets</i> "	July 1, 2011
• Amended IFRS 7 " <i>Disclosure – Offsetting Financial Assets and Financial Liabilities</i> "	January 1, 2013
• IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (Investment Entities amendments, effective January 1, 2014)

(Continued)

# TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

<u>New standards and amendments</u>	<u>Effective date per IASB</u>
•IFRS 11 <i>Joint Arrangements</i>	January 1, 2013
•IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
•IFRS 13 <i>Fair Value Measurement</i>	January 1, 2013
•Amended IAS 1 “ <i>Presentation of Items of Other Comprehensive Income</i> ”	July 1, 2012
•Amended IAS 12 “ <i>Deferred Tax: Recovery of Underlying Assets</i> ”	January 1, 2012
•Amended IAS 19 “ <i>Employee Benefits</i> ”	January 1, 2013
•Amended IAS 27 “ <i>Separate Financial Statements</i> ”	January 1, 2013
•Amended IAS 32 “ <i>Offsetting Financial Assets and Financial Liabilities</i> ”	January 1, 2014
•IFRIC 20 – <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013

The Group had assessed that the 2013 version of the IFRS may not have significant impact on the consolidated financial statements except for the following:

### 1. IAS 1 Presentation of Financial Statements

The other comprehensive income section is required to present line items which are classified by their nature, and are grouped between those items that will or will not be reclassified to profit and loss in subsequent periods. Allocation of income tax to two groups of items of other comprehensive is also required. The Group is expecting to change the presentation of its comprehensive income statements in accordance with the standard, and retrospectively adjust its 2014 financial statements.

### 2. IFRS 12 Disclosure of Interests in Other Entities

The Group has increased disclosures on its associates in accordance with the standard. Please refer to note 6(f).

### 3. IFRS 13 Fair Value Measurement

The standard defines fair value, provides a framework for measuring fair value, and requires disclosures on fair value measurement. The Group discloses the fair value measurement as the standards require (please refer to note 6(v)), and applies the fair value measurement requirement prospectively by following the transitional requirement. However, there is no need to provide the comparative period information for newly disclosed items. The standard, after evaluation, is not considered to have any significant impacts on financial position and operating results of the Group.

(Continued)

# TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### (b) Impact of IFRS issued by the IASB but not yet endorsed by the FSC

The IFRS issued by the IASB but not yet endorsed by the FSC were as follows:

<u>New standards and amendments</u>	<u>Effective date per IASB</u>
• IFRS 9 “ <i>Financial Instruments</i> ”	January 1, 2018
• Amended IFRS 10 and IAS 28 “ <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ”	Not yet approved by the IASB
• Amended IFRS 10, IFRS 12 and IFRS 28 “ <i>The application of the investment entities exceptions</i> ”	January 1, 2016
• Amended IFRS 11 “ <i>Accounting for acquisition of interests in joint operations</i> ”	January 1, 2016
• IFRS 14 “ <i>Regulatory Deferral Accounts</i> ”	January 1, 2016
• IFRS 15 “ <i>Revenue from contracts with customers</i> ”	January 1, 2018
• IFRS 16 “ <i>Lease</i> ”	January 1, 2019
• Amended IAS 1 “ <i>Disclosure-Initiative</i> ”	January 1, 2016
• Amended IAS 7 “ <i>Disclosure-Initiative</i> ”	January 1, 2017
• Amended IAS 12 “ <i>Deferred Tax: Recovery of Underlying Assets</i> ”	January 1, 2017
• Amended IAS 16 and IAS 38 “ <i>Clarification of acceptable methods of depreciation and amortization</i> ”	January 1, 2016
• Amended IAS 16 and IAS 41 “ <i>Agriculture: bearer plants</i> ”	January 1, 2016
• Amended IAS 19 “ <i>Defined Benefit Plans: Employee Contributions</i> ”	July 1, 2014
• Amended IAS 27 “ <i>Equity Method in Separate Financial Statements</i> ”	January 1, 2016
• Amended IAS 36 “ <i>Recoverable Amount Disclosures for Non-Financial Assets</i> ”	January 1, 2014
• Amended IAS 39 “ <i>Novation of Derivatives and Continuation of Hedge Accounting</i> ”	January 1, 2014
• Annual Improvements: 2010-2012 and 2011-2013 cycles	July 1, 2014
• Annual Improvements to IFRS: 2012-2014 cycles	January 1, 2016
• Amended IFRIC 21 “ <i>Levies</i> ”	January 1, 2014

The Group is in the process of assessing the impact on the financial position and the results of operations. Related impact will be disclosed following the completion of its assessments.

### (4) Significant accounting policies

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

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

(Continued)

## TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and IFRSs endorsed by the FSC.

(b) Basis of preparation

1. Basis of measurement

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

- (i) Financial instruments (including derivative financial instruments) measured at fair value through profit or loss are measured at fair value;
- (ii) Available-for-sale financial assets are measured at fair value;
- (iii) The defined benefit asset (liabilities) is recognized as plan assets, less the present value of the defined benefit obligation and the effect of the asset ceiling mentioned in note 4(r).

2. Functional and presentation currencies

The functional currency of each Group entities is determined based on the primary economic environment in which the entities operate. The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency. All financial information presented in New Taiwan Dollars has been rounded to the nearest thousand.

(c) Basis of Consolidation

1. Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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

(Continued)

# TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

### 2. List of subsidiaries in the consolidated financial statements

Investor	Name of Subsidiary	Nature of Operation	Percentage of ownership		Description
			December 31, 2015	December 31, 2014	
The Company	Taiwan E&M System Inc. (Taiwan E&M)	Sales of electronic material	100%	100%	
"	Topco Group Ltd. (Topco Group)	Investment	100%	100%	
"	Topco International Investment Co., Ltd. (Topco International Investment)	Investment	100%	100%	
"	Topco Investment Co., Ltd. (Topco Investment)	Investment	100%	100%	
"	Chien Yueh Technology Engineering Co., Ltd. (Chien Yueh)	Water purification and construction of dust-proof room	100%	100%	
"	Yasunaga Biotechnology, Inc. (Yasunaga Biotechnology)	Aquaculture and strategic partnership with fish processing	98%	97%	The Company and Topco International Investment Co., Ltd. held its 100% share.
"	Ren Yueh Trading Co., Ltd. (Ren Yueh)	Sales of electronic material	50%	50%	The Company has the authority over the personnel, business and finance of Ren Yueh. Besides, Ren Yueh was dissolved on June 22, 2015.
"	Yasunaga Fresh Mart. Inc. (Yasunaga Fresh Mart.)	Wholesale and retail sales of fishery products	100%	88%	The Company and Yasunaga Biotechnology held its 100% share.
"	Kanbo Biomedical Co., Ltd. (Kanbo Biomedical)	Sales of health food products	91%	86%	The Company and Topco International Investment held its 100% share.
"	Kuan Yueh Technology Engineering Co., Ltd. (Kuan Yueh Technology)	Development of renewable energy project Configure pipeline construction and device installation	32%	76%	The Company and Topco International Investment held its 100% share.
"	Xiang Yue Co., Ltd. (Xiang Yue)	Restaurant	100%	100%	

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

<u>Investor</u>	<u>Name of Subsidiary</u>	<u>Nature of Operation</u>	<u>Percentage of ownership</u>		<u>Description</u>
			<u>December 31, 2015</u>	<u>December 31, 2014</u>	
The Company	Jia Yi Energy Co., Ltd. (Jia Yi Energy)	Manufacture of machinery and electronic spare parts	76%	76%	The Company and Topco International Investment held its 100% share.
Topco Group	Asia Topco Investment Ltd. (Asia Topco)	Investment	100%	100%	
"	Topscience(s) Pte Ltd. (Topscience(s))	Sales of parts of semiconductor and optoelectronic industries	100%	100%	
"	Hong Kong Topco Trading Limited	Wholesale of semiconductor material and electronic material	100%	100%	
Asia Topco	Topco Scientific (Shanghai) Co., Ltd. (Topco shanghai)	Wholesale of semiconductor material and electronic material	100%	100%	
"	Suzhou Topco Construction Ltd. (Topco Suzhou)	Water purification and cleanroom construction	100%	100%	
Topco Shanghai	Shanghai Chongyao Trading Co., Ltd. (Shanghai Chongyao)	Wholesale of semiconductor material and electronic material	98%	93%	Topco Shanghai and Topco Suzhou held its 100% share.
Topco Suzhou	Shanghai Chongyao	Wholesale of semiconductor material and electronic material	2%	7%	
Topco International Investment	Cai Yan International Co., Ltd.(Cai Yan)	Wholesale and sales of cosmetic	67%	67%	
"	Topco Scientific (Japan) Co., Ltd. (Topco Japan)	Sales of facilities of semiconductor and clean room	100%	100%	
"	Kuan Yueh Technology	Sales of fishery products Development of renewable energy projects Configure pipeline construction and device installation	68%	24%	
"	Jia Yi Energy	Manufacture of machinery and electronic spare parts	24%	24%	

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

<u>Investor</u>	<u>Name of Subsidiary</u>	<u>Nature of Operation</u>	<u>Percentage of ownership</u>		<u>Description</u>
			<u>December 31, 2015</u>	<u>December 31, 2014</u>	
Topco International Investment	Kanbo Biomedical	Sales of health food products	9%	14%	
"	DIO Energy GmbH (DIO)	"	100%	100%	
"	Yasunaga Biotechnology	Aquaculture and strategic partnership with fish processing	2%	3%	
"	Qun Yueh Materials Co., Ltd. (Qun Yueh Materials)	Antifouling surface protection, light- blocking material and the manufacture of other chemicals	100%	100%	
"	Jing Yueh Energy Co., Ltd. (Jing Yueh Energy)	Development of renewable energy projects	100%	100%	
Yasunaga Biotechnology	Yasunaga Fresh Mart.	Wholesale and retail sales of fishery products	-	12%	
Topco Investment	You Fu Technology Co., Ltd. (You Fu Technology)	Wholesale of fishery products	97%	94%	Topco Investment acquired more than half of You Fu Technology's equity in July 2014.
"	Ding Yue Foods Co., Ltd. (Ding Yue Foods)	Wholesale and retail sales of food products	100%	-	It was incorporated in the third quarter of 2015
Jia Yi Energy	Jing Chen Energy Co., Ltd. (Jing Chen)	Development of renewable energy projects.	100%	100%	
"	Jing Yang Energy Co., Ltd. (Jing Yang)	"	100%	100%	
Taiwan E&M	Chinese Quartz Tech. Co., Ltd. (Chinese Quartz)	Process and sales of quartz products	95%	-	Taiwan E&M acquired more than half of Chinese Quartz's equity in July 2015.

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(d) Foreign currencies****1. Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

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

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

- available-for-sale financial assets;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedge is effective

**2. Foreign operations**

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

(Continued)



**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

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

The business cycle of the construction contracts is usually longer than a year, therefore, the balance sheet accounts related to the construction contracts are classified as current.

An entity shall classify an asset as current when:

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

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

An entity shall classify a liability as current when:

1. It expects to settle the liability in its normal operating cycle;
2. It holds the liability primarily for the purpose of trading;
3. The liability is due to be settled within twelve months after the reporting period; or

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

4. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not impact its classification.

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

(f) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

(g) Financial instruments

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

1. Financial assets

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets.

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

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

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(ii) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

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

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

**(iii) Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables, other receivables, and guarantee deposits. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

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

**(iv) Impairment of financial assets**

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

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

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

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

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before an impairment was recognized at the reversal date.

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

Loss on and reversal of doubtful accounts are included in operating expense. Impairment losses on and recoveries of financial assets other than accounts receivable are included in non-operating income and expenses.

(v) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity-unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in non-operating income and expenses.

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

2. Financial liabilities and equity instruments

(i) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less, the direct cost of issuing.

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**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(ii) Financial liabilities at fair value through profit or loss**

A financial liability is classified in this category if acquired principally for the purpose of selling in the short term. This type of financial liability is measured at fair value at the time of initial recognition, and attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss, and are included in non-operating income or expenses.

**(iii) Other financial liabilities**

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

**(iv) Derecognition of financial liabilities**

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

**(v) Offsetting of financial assets and liabilities**

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

**3. Derivative financial instruments**

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, and are included in non-operating income and expenses.

When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

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**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(h) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average-cost principle and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less, the estimated costs of completion and selling expenses.

**(i) Construction contracts**

Construction contracts in progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction contracts in progress is presented as the amount due from customers for contract work in the balance sheet for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as amount due to customers for contract work in the balance sheet.

**(j) Non-current assets held for sale**

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are reclassified as held for sale. For those non-current assets or disposal group classified into this category, the assets or disposal group must be available for immediate sale in their present condition and the sale must be highly probable within one year. Immediately before classification as held for sale, the assets, or components of a disposal group are re-measured in accordance with the Group's accounting policies. Generally the assets or disposal group are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on assets initially classified as held for sale and any subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

When the assets classified as held for sale are intangible assets or property, plant and equipment, they are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(k) Investment in associates**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition, less, any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes the changes in ownership interests of its associate in capital surplus in proportion to its ownership.

Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

When the Group subscribes to additional shares in an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the net assets of the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the additional subscription to the shares of associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate shall be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.

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**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(I) Property, plant and equipment****1. Recognition and measurement**

Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other gains and losses.

**2. Subsequent cost**

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

**3. Depreciation**

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

Land has an unlimited useful life and therefore is not depreciated.

(Continued)

## TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

- (i) Buildings: 35~51 years
- (ii) Building improvement: 1~10 years
- (iii) Machine and others: 3~20 years
- (iv) Office equipment and others: 1~10 years

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

#### 4. Reclassification to investment property

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

#### (m) Leases

##### 1. The Group as lessee

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

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

##### 2. The Group as lessor

A finance leased asset is recognized on a net basis as lease receivable. Initial direct costs incurred in negotiating and arranging an operating lease are added to the net investment in the leased asset. The finance income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the receivable.

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

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(n) Intangible assets****1. Intangible assets**

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

**2. Subsequent expenditure**

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

**3. Amortization**

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with all indefinite useful life, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

(i) Computer software: 1~3 years

(ii) Right of using: the contract period

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

**(o) Impairment – non-derivative financial assets**

The Group assesses the assets for impairment for and estimates the recoverable amounts for any impaired assets at the end of each reporting period other than the following:

1. Inventories
2. Construction contracts assets
3. Deferred tax assets
4. Non-current assets classified as held-for-sale

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for an individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

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

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount, as a reversal of a previously recognized impairment loss.

(p) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(q) Revenue

1. Goods sold

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

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

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****2. Construction Contracts**

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to the proportion that contract costs incurred for work performed to date bear the estimated total contract costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of the contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

**3. Commissions**

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Group.

**4. Electricity generating income**

Revenue from the sale of electricity is recognized after the electricity transmission is completed through the grid, and the revenue is calculated according to the fee agreed with Taiwan Power Company.

**(r) Employee benefits****1. Defined contribution plans**

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

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****2. Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on the government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested.

Re-measurement of net defined benefit liability (asset) (including actuarial gains, losses and the return on plan asset and changes in the effect of the asset ceiling, excluding any amounts included in net interest) is recognized in other comprehensive income (loss). The effect of re-measurement of the defined benefit plan is charged to retained earnings.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets and change in the present value of defined benefit obligation.

**3. Short term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(s) Share-based payment**

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

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

**(t) Income Taxes**

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

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

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

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

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

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

1. The entity has the legal right to settle tax assets and liabilities on a net basis; and
2. the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
  - i) levied by the same taxing authority; or
  - ii) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

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

The 10% surtax on the Company and the domestic subsidiaries' unappropriated earnings is recorded as current tax expense in the following year after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

The Group's income tax returns are calculated and filed based on the Company's and each subsidiary's local tax law. The Group's income tax expenses are the aggregation of all consolidated entities' income tax expenses.

(u) Business combination

Goodwill is measured as an aggregation of the consideration transferred (which generally is measured at fair value at the acquisition date) and as an amount of any non-controlling interest in the acquiree, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed (generally at fair value). If the residual balance is negative, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase thereafter.

All the transaction costs incurred for business combination are recognized immediately as the Group's expenses when incurred, except for the issuance of debt or equity instruments.

(Continued)



**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

If the business combination is achieved in stages, the Group shall measure any non-controlling equity interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other non-controlling interest is measured (1) at fair value at the acquisition date or (2) by using other valuation techniques acceptable under the IFRS as endorsed by the FSC.

In a business combination achieved in stages, the Group shall re-measure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the Group may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the Group had disposed directly of the previously held equity interest. If the disposal of the equity interest required a reclassification to profit or loss, such an amount shall be reclassified to profit or loss.

(v) Earnings per share

The Group discloses the basic and diluted earnings per share attributable to ordinary equity holders of the Group. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholder of the Group divided by weighted average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Group divided by weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise employee stock options and employee bonuses and employee compensation not yet resolved by the shareholders.

(w) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

(Continued)

# **TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

## **Notes to Consolidated Financial Statements**

### **(5) Major sources of accounting assumptions, judgments and estimation uncertainty**

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

About assumptions and estimation uncertainties, there is no significant risk of resulting in a material adjustment within the next financial year.

### **(6) Explanation of significant accounts**

#### **(a) Cash and cash equivalents**

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Cash on hand	\$ 5,556	4,712
Checking accounts and demand deposits	1,036,398	521,840
Time deposits	240,518	821,425
Bonds purchased under resale agreements	<u>92,000</u>	<u>80,000</u>
	<b><u>\$ 1,374,472</u></b>	<b><u>1,427,977</u></b>

The time deposits with maturities within a year from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used for the purpose of meeting short-term commitments, and therefore are reclassified as cash equivalents.

Please refer to note 6(v) for the disclosure of the exchange rate risk and the sensitivity analysis of the financial assets and liabilities of the Group.

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(b) Financial assets

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Financial assets at fair value through profit or loss:		
Mutual funds – open-end fund	\$ 367,962	500,182
Available-for-sale financial assets	85,394	53,199
Financial assets at cost	<u>196,077</u>	<u>249,875</u>
	<u>\$ 649,433</u>	<u>803,256</u>
Current	\$ 453,356	553,381
Non – current	<u>196,077</u>	<u>249,875</u>
	<u>\$ 649,433</u>	<u>803,256</u>

The aforementioned investments held by the Group are measured at cost less accumulated impairment losses on the reporting date given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Group management had determined that the fair value cannot be measured reliably.

The value of part of the Group's investments classified as current available-for-sale financial assets declined materially and permanently, and the Group therefore recognized an impairment loss amounting to \$3,339 and \$7,331 for the years ended December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, the Group did not provide financial assets as collateral for its loans.

If the equity securities price changes, and if it is on the same basis for both years and assumes that all other variables remain the same, the impact on other comprehensive income will be as follows:

	<u>2015</u>		<u>2014</u>	
<u>Price of equity securities at reporting date</u>	<u>Other comprehensive income (pre-tax)</u>	<u>Profit (loss) (pre-tax)</u>	<u>Other comprehensive income (pre-tax)</u>	<u>Profit (loss) (pre-tax)</u>
Increase 5%	\$ <u>4,270</u>	<u>-</u>	<u>2,660</u>	<u>-</u>
Decrease 5%	\$ <u>(4,270)</u>	<u>-</u>	<u>(2,660)</u>	<u>-</u>

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(c) Notes and accounts receivable and other receivables

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Notes receivable	\$ 14,917	71,598
Accounts receivable	3,159,513	2,702,447
Other receivables	<u>37,136</u>	<u>40,687</u>
	3,211,566	2,814,732
Less: allowance for uncollectible accounts	<u>(102,648)</u>	<u>(108,798)</u>
	<b><u>\$ 3,108,918</u></b>	<b><u>2,705,934</u></b>
Notes and account receivable	<b><u>\$ 3,014,568</u></b>	<b><u>2,622,315</u></b>
Notes and account receivable – related parties	<b><u>\$ 62,080</u></b>	<b><u>54,385</u></b>
Other receivables – current (recorded as other current financial assets)	<b><u>\$ 32,270</u></b>	<b><u>29,234</u></b>

As of December 31, 2015 and 2014, the Group did not provide any aforementioned notes and accounts receivable and other receivables as collaterals for its loans.

The ageing analysis of accounts receivable and other receivables which were past due but not impaired was as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Overdue 1 to 120 days	\$ 172,197	143,212
Overdue over 121 days	<u>33,122</u>	<u>20,118</u>
	<b><u>\$ 205,319</u></b>	<b><u>163,330</u></b>

The change of allowance for receivable and other receivable for the years ended December 31, 2015 and 2014 were as follows:

	<b>Individually assessed impairment</b>	<b>Collectively assessed impairment</b>	<b>Total</b>
Balance at 1 January 2015	\$ 23,753	85,045	108,798
Impairment loss recognized	-	5,394	5,394
Impairment loss reversed	(8,687)	(1,500)	(10,187)
Effect of changes in exchange rates	-	(1,357)	(1,357)
Balance at 31 December 2015	<b><u>\$ 15,066</u></b>	<b><u>87,582</u></b>	<b><u>102,648</u></b>

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance at 1 January 2014	\$ 52,677	83,624	136,301
Impairment loss recognized	11,453	4,474	15,927
Impairment loss reversed	-	(3,053)	(3,053)
Reclassified to allowance for overdue accounts receivable	<u>(40,377)</u>	<u>-</u>	<u>(40,377)</u>
Balance at 31 December 2014	\$ <u><u>23,753</u></u>	<u><u>85,045</u></u>	<u><u>108,798</u></u>

(d) Construction contracts

Construction contract revenue of the Group has been determined based on the stage-of-completion method (the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs). Any expected excess of total contract costs over total contract revenue for the contract is recognized as an expense immediately.

	<u>2015</u>	<u>2014</u>
Construction revenue recognized in current profit or loss	\$ <u><u>1,078,932</u></u>	<u><u>995,124</u></u>
	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Accumulated cost incurred	\$ 1,792,900	1,457,103
Add: accumulated profit and losses recognized arising from the construction	<u>108,821</u>	<u>93,223</u>
Accumulated costs and profit recognized (less losses recognized)	1,901,721	1,550,326
Less: progress billings	<u>1,633,657</u>	<u>1,286,360</u>
Net amount due from customers for contract work	\$ <u><u>268,064</u></u>	<u><u>263,966</u></u>
Amount due from customers for contract work-presented as an asset	\$ 294,918	291,650
Amount due to customers for contract work-presented as a liability	<u>26,854</u>	<u>27,684</u>
	\$ <u><u>268,064</u></u>	<u><u>263,966</u></u>
Advance received	\$ <u>-</u>	<u>-</u>
Retention payable from construction contract	\$ <u>-</u>	<u>-</u>

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The material construction in progress as of December 31, 2015 and 2014, is summarized below (contract price in excess of \$150,000):

<b>2015.12.31</b>					
<b>Construction item</b>	<b>Estimated construction revenue</b>	<b>Estimated construction cost</b>	<b>% of completion</b>	<b>Estimated year of completion</b>	<b>Accumulated gain (loss)</b>
W08012	\$ 157,956	157,206	94.07	2016	706
CW13016	234,520	244,514	95.99	2016	(9,994)
CW14001	548,000	496,926	84.54	2016	43,181
CW14004	222,000	240,201	93.26	2016	(18,201)
CW15011	255,000	221,121	8.44	2016	2,860
RPC14004R	205,893	191,110	82.43	2016	11,613
RPW15017R	262,593	90,818	19.14	2017	28,124

<b>2014.12.31</b>					
<b>Construction item</b>	<b>Estimated construction revenue</b>	<b>Estimated construction cost</b>	<b>% of completion</b>	<b>Estimated year of completion</b>	<b>Accumulated gain (loss)</b>
PW10015	\$ 204,706	198,041	96.62	2015	6,124
W08012	157,956	157,206	Note	Note	705
CW13016	245,520	235,208	89.90	2015	9,271
CW14004	222,000	222,000	71.21	2015	-
CW14001	548,000	483,816	23.53	2016	15,105
RPC14004R	202,786	188,226	67.00	2015	9,714

Note: As of December 31, 2014, the amount due from customers for contract work was \$2,476. The construction had been suspended due to the customer's request.

(e) Inventories

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Merchandise inventories	\$ 1,708,715	1,532,247
Work in progress	1,482	316
Raw materials	14,126	2,170
Goods in transit	<u>48,827</u>	<u>45,069</u>
	<b><u>\$ 1,773,150</u></b>	<b><u>1,579,802</u></b>

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Inventory-related expenses were as follows:

	<u>2015</u>	<u>2014</u>
Cost of sales	\$ 15,639,945	14,837,517
Provision (recovery) for inventory valuation loss and obsolescence	(171,820)	7,530
Loss on scrapping of inventory and others	4,635	(131)
	\$ <u>15,472,760</u>	<u>14,844,916</u>

1. In 2015, the Group reversed allowance for inventory valuation loss and obsolescence because of disposal of obsolete inventories.
2. As of December 31, 2015 and 2014, the Group did not provide inventories as collateral for its loans.

(f) Investments accounted for using equity method

1. The Group's equity-accounted investment in all individually immaterial associates and the Group's share of the operating results are summarized below:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
The carrying amount of the Group's interests in all individually immaterial associates	\$ <u>1,134,242</u>	<u>1,102,645</u>
The Group's share of the net gain of associates	<u>2015</u>	<u>2014</u>
Profit (loss) from continuing operations	\$ 168,633	94,299
Other comprehensive income	138	249
Total comprehensive income	\$ <u>168,771</u>	<u>94,548</u>

2. The value of part of the Group's investment accounted for using equity method declined materially and permanently. The Group recognized an impairment loss amounting to \$22,367, which was recorded as other gains and losses for the year ended December 31, 2015.
3. As of December 31, 2015 and 2014, the Group did not provide any investments accounted for using equity method as collaterals for its loans.

(Continued)

# TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### (g) Subsidiaries and non-controlling interests

#### 1. Acquisition of subsidiary

- (i) The Group purchased 95% of Chinese Quartz's equity in April and July of 2015 for a total of \$25,266. Therefore, the Group has taken control over Chinese Quartz starting July 2015.

As of the acquisition date, the identifiable assets acquired and liabilities assumed were as follows:

Cash and cash equivalents	\$	5,437
Notes and accounts receivable, net		23,612
Inventories, net		23,040
Other current assets		5,390
Property, plant and equipment		12,888
Other non-current assets		123
Short-term borrowing		(30,000)
Notes and accounts payable		(9,267)
Accrued expenses and other current liabilities		(5,843)
<b>Total net identifiable assets</b>	<b>\$</b>	<b><u>25,380</u></b>

- (ii) The Group purchased 94% of You Fu Technology's equity for \$8,000 in July 2014.

As of the acquisition date, the identifiable assets acquired and liabilities assumed were as follows:

Cash and cash equivalents	\$	13,064
Notes receivable and accounts receivable, net		6,092
Inventories, net		1,789
Other current assets		1,010
Property, plant and equipment		130
Other non-current assets		75
Notes payables and accounts payables		(6,669)
Accrued expenses and other current liabilities		(1,562)
Other liabilities		(4,612)
<b>Total net identifiable assets</b>	<b>\$</b>	<b><u>9,317</u></b>

The consideration transferred amounting to \$8,000, less, the net amounts of the identifiable assets acquired and liabilities assumed was \$(770), which was recognized as other income in the third quarter of 2014.

(Continued)



# TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### 2. Disposal of subsidiary

The Group disposed all of CG's equity on September 30, 2014 for \$7,098, and resulted in losing its control over CG. The gain on disposal for \$11 was recognized as gain on disposal of investments in 2014. Due to the uncollectable receivables, the Group recognized a loss of \$2,919, which was recognized as other gain or loss in 2015.

As of September 30, 2014, the assets and liabilities of CG were as follows:

Prepayments	\$	12,696
Other payables		(19)
<b>Total net identifiable assets</b>	<b>\$</b>	<b><u>12,677</u></b>

### (h) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2015 and 2014 were as follows:

	<u>Land</u>	<u>Buildings and building improvement</u>	<u>Machinery and others</u>	<u>Total</u>
<b>Cost or deemed cost:</b>				
Balance at January 1, 2015	\$ 577,566	767,846	984,809	2,330,221
Additions	254,580	1,334	370,500	626,414
Acquisition through business combination	-	-	69,208	69,208
Disposals	-	-	(14,601)	(14,601)
Reclassifications	78	2,302	(3,174)	(794)
Effect of movements in exchange rates	-	(5,435)	(432)	(5,867)
Balance at December 31, 2015	<u>\$ 832,224</u>	<u>766,047</u>	<u>(1,406,310)</u>	<u>(3,004,581)</u>
Balance at January 1, 2014	\$ 298,848	632,643	697,047	1,628,538
Additions	222,947	116,511	314,245	653,703
Acquisition through business combination	-	-	137	137
Disposals	-	-	(18,544)	(18,544)
Reclassifications	55,771	10,806	(9,164)	57,413
Effect of movements in exchange rates	-	7,886	1,088	8,974
Balance at December 31, 2014	<u>\$ 577,566</u>	<u>767,846</u>	<u>984,809</u>	<u>2,330,221</u>
<b>Depreciation and impairment loss:</b>				
Balance at January 1, 2015	\$ -	105,768	111,819	217,587
Depreciation for the period	-	35,547	71,743	107,290
Acquisition through business combination	-	-	56,320	56,320
Disposals	-	-	(11,543)	(11,543)
Effect of movements in exchange rates	-	2,066	(207)	1,859
Balance at December 31, 2015	<u>\$ -</u>	<u>143,381</u>	<u>228,132</u>	<u>371,513</u>

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

	<u>Land</u>	<u>Buildings and building improvement</u>	<u>Machinery and others</u>	<u>Total</u>
Balance at January 1, 2014	\$ -	77,515	71,407	148,922
Depreciation for the period	-	26,620	51,012	77,632
Disposals	-	-	(10,742)	(10,742)
Acquisition through business combination	-	-	7	7
Effect of movements in exchange rates	-	1,633	135	1,768
Balance at December 31, 2014	\$ <u>-</u>	<u>105,768</u>	<u>111,819</u>	<u>217,587</u>
<b>Carrying amounts:</b>				
Balance at December 31, 2015	\$ <u>832,224</u>	<u>622,666</u>	<u>1,178,178</u>	<u>2,633,068</u>
Balance at January 1, 2014	\$ <u>298,848</u>	<u>555,128</u>	<u>625,640</u>	<u>1,479,616</u>
Balance at December 31, 2014	\$ <u>577,566</u>	<u>662,078</u>	<u>872,990</u>	<u>2,112,634</u>

In order to expand its business, the Group purchased pieces of land to build a plant, a fish processing factory, and a logistics warehouse. The registration procedures of the land have been completed and the payment was fully paid. According to the law, the land in Yilan is an agricultural land and cannot be owned by any legal corporation, thus, the title is temporarily held by the citizen, with whom the Group entered into an agreement clarifying the rights and obligations of both parties. The construction of the factory was still in progress.

As of December 31, 2015 and 2014, part of the Group's property, plant and equipment are provided as collateral for long-term borrowings. Please see note 8.

(i) Other non-current assets

The other non-current assets of the Group were as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Restricted assets – pledged deposit	\$ 1,404	63,400
Refundable deposits	25,262	30,731
Computer software cost and others	16,451	10,092
	\$ <u>43,117</u>	<u>104,223</u>

(Continued)

## TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (j) Short-term borrowings

The short-term borrowings of the Group were as follows:

	December 31, 2015	December 31, 2014
Loans for purchase of materials	\$ 11,604	25,653
Unsecured bank loans	<u>558,672</u>	<u>255,907</u>
	\$ <u>570,276</u>	<u>281,560</u>
Unused credit line for short-term borrowings	\$ <u>4,376,090</u>	<u>3,750,713</u>
Annual interest rates	<u>0.6%~5%</u>	<u>0.7%~3.05%</u>

For information on the Group's interest risk, foreign currency risk and liquidity risk, please see note 6(v).

## (k) Long-term borrowings

December 31, 2015				
	Currencies	Annual interest rate	Maturity year	Amount
Unsecured bank loans	TWD	2.15%~2.5%	2020.9~2030.3	\$ 416,396
Secured bank loans	SGD	1.25%~1.5%	2019.5	<u>16,773</u>
				433,169
Less: long-term borrowings current portion				<u>(40,518)</u>
Total				\$ <u>392,651</u>
Unused credit line for long-term borrowings				<u>-</u>

December 31, 2014				
	Currencies	Annual interest rate	Maturity year	Amount
Unsecured bank loans	TWD	2.15%~2.5%	2020.9~2024.4	\$ 299,432
Secured bank loans	SGD	1.25%~1.5%	2016.6	<u>35,909</u>
				335,341
Less: long-term borrowings current portion				<u>(25,536)</u>
Total				\$ <u>309,805</u>
Unused credit line for long-term borrowings				<u>41,090</u>

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

1. As of December 31, 2015, the repayment schedule for the long-term borrowings was as follows:

<u>Period</u>	<u>Amount</u>
2016.1.1~2016.12.31	\$ 40,518
2017.1.1~2017.12.31	40,518
2018.1.1~2018.12.31	40,518
2019.1.1~2019.12.31	37,362
After 2020.1.1	274,253
	<u>\$ 433,169</u>

2. The Group paid part of the long-term borrowings in advance for \$13,950 and \$24,352 in 2015 and 2014, respectively.
3. The Group provides part of the property, plant and equipment as collateral for its long-term borrowings. Please see note 8.

(l) Provisions

	<u>Warranties</u>	<u>Sales returns and allowances</u>	<u>Total</u>
Balance at January 1, 2015	\$ 10,536	38,524	49,060
Provisions made during the period	1,405	92,948	94,353
Provisions used during the period	(3,010)	(115,156)	(118,166)
Provisions reversed during the period	(2,980)	-	(2,980)
Balance at December 31, 2015	<u>\$ 5,951</u>	<u>16,316</u>	<u>22,267</u>
Balance at January 1, 2014	\$ 10,041	42,424	52,465
Provisions made during the period	4,188	91,539	95,727
Provisions used during the period	(2,457)	(95,439)	(97,896)
Provisions reversed during the period	(1,236)	-	(1,236)
Balance at December 31, 2014	<u>\$ 10,536</u>	<u>38,524</u>	<u>49,060</u>

Provisions relate to construction revenue and sales of products, and are assessed based on historical experience. The aforementioned provisions are expected to occur over the next year.

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(m) Operating leases

Significant non-cancellable operating lease rentals that were payable were as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Less than one year	\$ 46,173	47,378
Between one and five years	87,886	96,069
More than five years	<u>86,872</u>	<u>75,832</u>
	\$ <u>220,931</u>	<u>219,279</u>

The Group leased several office space, warehouses, operational sites and buildings for erecting solar power generation equipment under operating leases with lease terms of 1 to 20 years and had an option to renew the leases.

The lease period of the building lease contracts for erecting solar power generation equipment systems is 20 years. According to the contracts, the monthly rent is 7% of the revenue which Taiwan Power Company paid to the Group for sale of power.

The office space and buildings were combined leases of the land and buildings. The rent paid to the lessor is increased to market rent at regular intervals, and ownership of the land and buildings were not transferred. As a result, it was determined that substantially, all the risks and rewards of the land and buildings are attributed to the lessor. Therefore, the Group determined that the land, office space, and building leases are accounted for as operating leases.

For the years ended December 31, 2015 and 2014, expenses recognized in profit or loss in respect of operating leases amounted to \$105,780 and \$92,325, respectively.

(n) Employee benefits

1. Defined benefit plans

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Present value of defined benefit obligations	\$ (200,262)	(192,819)
Fair value of plan assets	<u>42,642</u>	<u>39,657</u>
Net defined benefit liabilities	\$ <u>(157,620)</u>	<u>(153,162)</u>

(Continued)

# TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

### (i) Composition of plan assets

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

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$42,642 at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

### (ii) Movements in present value of the defined benefit obligations

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

	<u>2015</u>	<u>2014</u>
Balance at January 1	\$ (192,819)	(167,595)
Current service costs and interest	(7,707)	(6,898)
Effect of plan amendment	(5,918)	-
Remeasurements of net defined liabilities	(6,227)	(18,326)
Benefits paid by the plan	<u>12,409</u>	<u>-</u>
Balance at December 31	\$ <u><u>(200,262)</u></u>	<u><u>(192,819)</u></u>

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(iii) Movements of defined benefit plan assets

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

	<u>2015</u>	<u>2014</u>
Fair value of plan assets at 1 January	\$ 39,657	38,300
Contributions made	1,920	452
Expected return on plan assets	778	750
Remeasurements of net defined benefit liabilities	<u>287</u>	<u>155</u>
Fair value of plan assets at 31 December	\$ <u><u>42,642</u></u>	<u><u>39,657</u></u>
Actual return on plan assets	\$ <u><u>1,065</u></u>	<u><u>905</u></u>

(iv) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the years ended December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Service cost	\$ 9,789	3,567
Net interest on the net defined benefit liability	<u>3,059</u>	<u>2,581</u>
	\$ <u><u>12,848</u></u>	<u><u>6,148</u></u>
Selling expenses	\$ 10,234	215
Administrative expenses	<u>2,614</u>	<u>5,933</u>
	\$ <u><u>12,848</u></u>	<u><u>6,148</u></u>

(v) The remeasurements of the net defined benefit liability recognized in other comprehensive income

The Group's remeasurements of the net defined benefit liability recognized in other comprehensive income, before tax, for the years ended December 31, 2015 and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Cumulative amount at 1 January	\$ 4,016	(14,155)
Recognized during the period	<u>5,940</u>	<u>18,171</u>
Cumulative amount at 31 December	\$ <u><u>9,956</u></u>	<u><u>4,016</u></u>

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(vi) Actuarial assumptions

The following are the Group's principal actuarial assumptions at the reporting date:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Discount rate at December 31	1.875%	2.00%
Future salary increases	3.00%	3.00%

The expected allocation payment made by the Group to the defined benefit plans for the one year period after the reporting date is \$2,400.

The weighted-average duration of the defined benefit obligation is 16.84 years.

(vii) Sensitivity analysis

When calculating the present value of the defined benefit obligations, the Group uses judgments and estimations to determine the actuarial assumptions, including discount rate, employee turnover rates and future salary changes, as of the financial statement date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

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

	<u>Effects to the defined benefit obligation</u>	
	<u>Increased 0.25%</u>	<u>Decreased 0.25%</u>
Discount rate	\$ (5,756)	5,989
Future salary increasing rate	5,812	(5,617)

There is no change in other assumptions when performing the above-mentioned sensitivity analysis. In practice, assumptions may be interactive with each other. The method used on sensitivity analysis is consistent with the calculation on the net defined benefit liability.

2. Defined contribution plans

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

(Continued)



**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The domestic Group entities recognized the pension costs under the defined contribution method amounting to \$31,333 and \$27,186 for the years ended December 31, 2015 and 2014, respectively. Payment was made to the Bureau of Labor Insurance.

Other subsidiaries recognized the pension expense, basic endowment insurance expense, and social welfare expenses amounting to \$7,670 and \$5,817 for the years ended December 31, 2015 and 2014, respectively.

(o) Income taxes

1. Income tax expenses

- (i) The amount of income tax for the years ended December 31, 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Current tax expense		
Recognized during the period	\$ 186,883	159,912
10% surtax on unappropriated earnings	<u>12,701</u>	<u>12,010</u>
	199,584	171,922
Deferred tax expense		
Recognition and reversal of temporary differences	<u>54,723</u>	<u>17,503</u>
	<u>54,723</u>	<u>17,503</u>
Income tax expense	\$ <u><u>254,307</u></u>	<u><u>189,425</u></u>

- (ii) The amount of income tax recognized in other comprehensive income for the years ended December 31, 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Items that may not be reclassified subsequently to profit or loss:		
Remeasurements of the net defined benefit liability	\$ (1,010)	(3,089)
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences of foreign operations	2,326	3,726
Unrealized gain (loss) of available-for-sale financial assets	<u>(373)</u>	<u>-</u>
	\$ <u><u>943</u></u>	<u><u>637</u></u>

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

- (iii) The income tax that was reconciled with the actual income tax expense for the years ended December 31, 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Profit before tax	\$ <u>1,213,768</u>	<u>1,051,338</u>
Income tax calculated based on local tax rate	228,882	195,702
Estimated tax effect of tax exemption on investment income, net	(9,355)	(28,742)
Changes in unrecognized temporary differences	8,628	16,835
Estimated difference adjustment and other	13,451	(6,380)
10% surtax on unappropriated earnings	<u>12,701</u>	<u>12,010</u>
	\$ <u><u>254,307</u></u>	<u><u>189,425</u></u>

2. Deferred tax assets and liabilities

- (i) Unrecognized deferred tax assets and liabilities

Deferred tax assets have not been recognized in respect of the following items:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Tax effect of deductible temporary differences	\$ 24,568	40,920
Tax effect of loss carryforward	<u>66,105</u>	<u>35,491</u>
	\$ <u><u>90,673</u></u>	<u><u>76,411</u></u>

Deferred tax assets were not recognized because the deductible temporary differences may not be realized in the future.

The ROC Income Tax Act allows losses for tax purposes, as assessed by the tax authorities, to be offset against taxable income in the following ten years. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits.

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**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

As of December 31, 2015, the loss carry forward not recognized as deferred tax assets was as follows:

<u>Year of loss</u>	<u>Expiry year</u>	<u>Deductible amount</u>
2005 (Assessed)	2015	\$ 5,543
2007 (Assessed)	2017	91
2008 (Assessed)	2018	63
2009 (Assessed)	2019	679
2010 (Assessed)	2020	1,006
2011 (Assessed)	2021	4,710
2012 (Assessed)	2022	30,666
2013 (Assessed)	2023	57,103
2014 (Filed/Assessed)	2024	102,932
2015 (Estimated)	2025	<u>186,061</u>
		<b>\$ <u>388,854</u></b>

(ii) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2015 and 2014 were as follows:

	<u>Deferred benefit plan</u>	<u>Loss on inventory valuation</u>	<u>Others</u>	<u>Total</u>
Deferred tax assets:				
Balance on January 1, 2015	\$ 26,775	18,802	18,931	64,508
Recognized in profit or loss	1,858	(15,017)	(6,999)	(20,158)
Recognized in other comprehensive income	<u>1,010</u>	<u>-</u>	<u>-</u>	<u>1,010</u>
Balance on December 31, 2015	<b>\$ <u>29,643</u></b>	<b><u>3,785</u></b>	<b><u>11,932</u></b>	<b><u>45,360</u></b>
Balance on January 1, 2014	\$ 22,718	18,404	20,702	61,824
Recognized in profit or loss	968	398	(1,771)	(405)
Recognized in other comprehensive income	<u>3,089</u>	<u>-</u>	<u>-</u>	<u>3,089</u>
Balance on December 31, 2014	<b>\$ <u>26,775</u></b>	<b><u>18,802</u></b>	<b><u>18,931</u></b>	<b><u>64,508</u></b>

(Continued)

## TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	Foreign investment income under equity method	Foreign currency translation adjustment	Others	Total
Deferred tax liabilities:				
Balance on January 1, 2015	\$ (38,459)	(12,756)	(1,072)	(52,287)
Recognized in profit or loss	(35,426)	-	861	(34,565)
Recognized in other comprehensive income	-	2,326	(373)	1,953
Balance on December 31, 2015	\$ <u>(73,885)</u>	<u>(10,430)</u>	<u>(584)</u>	<u>(84,899)</u>
Balance on January 1, 2014	\$ (22,433)	(9,030)	-	(31,463)
Recognized in profit or loss	(16,026)	-	(1,072)	(17,098)
Recognized in other comprehensive income	-	(3,726)	-	(3,726)
Balance on December 31, 2014	\$ <u>(38,459)</u>	<u>(12,756)</u>	<u>(1,072)</u>	<u>(52,287)</u>

3. The ROC tax authorities have examined the income tax returns of the Company through 2013, of Chien Yueh, Topco International Investment, Kuan Yueh, You Fu Technology, Taiwan E&M, Cai Yan, Jia Yi Energy, Yasunaga Biotechnology, Jing Yuen Energy, Chinese Quartz and Qun Yueh Materials through 2013, Topco Investment, Kanbo Biomedical, Yasunaga Fresh Mart and Jing Chen through 2014.
4. The Company's imputation credit account and creditable ratio

	December 31, 2015	December 31, 2014
Unappropriated earnings prior to January 1, 1997	\$ 8,871	8,976
Unappropriated earnings after January 1, 1997	<u>1,955,933</u>	<u>1,720,249</u>
	<u>\$ 1,964,804</u>	<u>1,729,225</u>
ICA balance	<u>\$ 288,308</u>	<u>264,303</u>
	<u>2015</u>	<u>2014</u>
Creditable ratio for earnings distribution	<u>18.29% (expected)</u>	<u>21.41% (actual)</u>

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

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**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(p) Capital and other equities

1. Common stock

As of December 31, 2015 and 2014, the authorized common stock was \$1,700,000 and \$1,600,000 (both including \$100,000 for the issuance of employee stock options), with a par value of \$10 (dollars) per share. All issued shares were paid up upon issuance. Reconciliations of shares outstanding for 2015 and 2014 are as follows (in thousands of shares):

	<b>Ordinary Shares</b>	
	<b>2015</b>	<b>2014</b>
Balance at 1 January	157,909	154,813
Stock dividends	<u>4,738</u>	<u>3,096</u>
Balance at 31 December	<u><b>162,647</b></u>	<u><b>157,909</b></u>

2. Capital surplus

The balances of capital surplus were as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Additional paid-in capital	\$ 1,462,556	1,462,556
Changes in equity of associates and joint ventures accounted for using equity method	1,162	1,080
Others	<u>316</u>	<u>316</u>
	<u><b>\$ 1,464,034</b></u>	<u><b>1,463,952</b></u>

In accordance with the ROC Company Act amended in 2012, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10 percent of the actual share capital amount.

3. Retained earnings

In accordance with the Company's articles of incorporation, 10% of the Company's annual net income after paying all taxes and deducting losses from the prior years, if any, should be set aside as legal reserve. The unappropriated earnings after legal reserve shall be allocated as follows:

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

- a. At least 5% of the balance as employee bonuses;
- b. No more than 3% of the balance as remuneration to directors and supervisors; and
- c. The remaining portion and the prior years' retained earnings together shall be distributed as dividends to all stockholders in proportion to their individual holding as proposed by the board of directors and approved at the stockholders' meeting. No less than 10% of total stockholders' dividends may be distributed in the form of cash dividends.

In the case of employee stock bonuses, the employees of the subsidiaries meeting certain terms set by the board of directors are included.

According to the Company Act which was amended in May 2015, employee bonuses and directors' and supervisors' remuneration are no longer subject to earnings distribution, and the Company will make all the necessary amendments to its articles of association before the deadline specified by the authorities.

(i) Legal reverse

In accordance with the amended Company Act in 2012, 10% of net income should be set aside as statutory earnings reserve until it is equal to share capital. When a company incurs no loss, it may, in pursuant to a resolution to be adopted by the shareholders' meeting as required, distribute its legal reserve by issuing new shares and distributing stock dividends or distributing cash to shareholders. Only the portion of the legal reserve which exceeds 25% of the paid-in capital may be distributed.

(ii) Special reverse

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

(Continued)

# TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### (iii) Earnings distribution

The Company recognized its employee bonuses, and directors' and supervisors' remuneration of \$58,024 for the years ended December 31, 2014. There was no difference between the actual distribution and the estimation in the 2014 consolidated financial statements.

Earnings distribution for 2014 and 2013 was approved by the shareholders during their annual meeting held on June 9, 2015 and June 24, 2014, respectively. The relevant information was as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Amount per</u>	<u>Total</u>	<u>Amount per</u>	<u>Total</u>
	<u>share</u>	<u>amount</u>	<u>share</u>	<u>amount</u>
	<u>NT (dollars)</u>		<u>NT (dollars)</u>	
Distributed to common shareholder:				
Cash dividends	\$ 3.7	584,264	3.6	557,327
Stock dividends	0.3	<u>47,373</u>	0.2	<u>30,963</u>
Total		\$ <u>631,637</u>		<u>588,290</u>

The information of employee bonuses, and directors' and supervisors' remuneration can be accessed from the Market observation Post System after the shareholders' meeting.

Earnings distributed using cash and stock dividends amounting to \$666,851 for 2015 was approved at the board of directors' meeting held on March 23, 2016. The relevant information was as follows:

	<u>2015</u>	
	<u>Amount</u>	<u>Total</u>
	<u>per share</u>	<u>amount</u>
	<u>NT (dollars)</u>	
Dividends to common shareholder:		
Cash dividends	\$ 3.9	634,322
Stock dividends	0.2	<u>32,529</u>
Total		\$ <u>666,851</u>

The information on 2015 earning distribution can be accessed from the Market Observation Post System after the shareholders' meeting.

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**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(q) Earnings per share

The Group's basic and diluted earnings per share are calculated as follows:

	<u>2015</u>	<u>2014</u>
<b>Basic earnings per share:</b>		
Profit attributable to ordinary shareholders of the Company	\$ <u>958,221</u>	<u>859,697</u>
Weighted-average number of outstanding ordinary shares (thousands)	<u>162,647</u>	<u>162,647</u>
Basic earnings per share (dollars)	\$ <u>5.89</u>	<u>5.29</u>
<b>Diluted earnings per share:</b>		
Profit attributable to ordinary shareholders of the Company (after adjustment of potential diluted ordinary shares)	\$ <u>958,221</u>	<u>859,697</u>
Weighted-average number of outstanding ordinary shares of potential diluted ordinary shares (thousands)	162,647	162,647
Effect of dilutive ordinary shares		
Employee bonuses	380	1,261
Employee compensation	<u>1,067</u>	<u>-</u>
Weighted-average number of ordinary shares (after adjustment of potential diluted ordinary shares)	<u>164,094</u>	<u>163,908</u>
Diluted earnings per share (dollars)	\$ <u>5.84</u>	<u>5.25</u>

(r) Compensation of employee, directors and supervisors

The Company recognized its employees' directors' and supervisors' compensation of \$65,988, which were recorded as operation expenses for the year ended December 31, 2015. The employees' directors' and supervisors' compensation were estimated based on a percentage of the pre-tax net profit for the period before deducting any employees', director's and supervisors' compensation. The number of the shares of the employee compensation is based on the closing price of the day before the Board of Directors' meeting in 2016. The differences between the amounts approved in the shareholders' meeting and those recognized in the consolidated financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the following year.

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**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(s) Other income

The other income for the years ended December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Interest income of bank deposits	\$ 5,765	9,617
Dividend income	17,651	13,250
Government grants	9,059	11,871
Overdue payable reserved as other income	10,411	73
Other	<u>9,798</u>	<u>10,829</u>
	\$ <u><u>52,684</u></u>	<u><u>45,640</u></u>

(t) Other gains and losses

The other gains and losses for the years ended December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Foreign currency exchange gains (losses), net	\$ (24,331)	(1,883)
Gain on valuation of financial asset	2,590	3,253
Other	<u>(12,021)</u>	<u>10,795</u>
	\$ <u><u>(33,762)</u></u>	<u><u>12,165</u></u>

(u) Reclassification adjustments of the components of other comprehensive income

The reclassification adjustments of the components of other comprehensive income for the years ended December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Available-for-sale financial assets		
Net change in fair value (net of tax)	\$ 10,775	326
Net change in fair value reclassified to profit or loss (net of tax)	<u>3,339</u>	<u>4,238</u>
Net change in fair value recognized in other comprehensive income (net of tax)	\$ <u><u>14,114</u></u>	<u><u>4,564</u></u>

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# TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### (v) Financial instruments

#### 1. Credit risk

##### (i) Credit risk – exposure to credit risk

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

##### (ii) Concentration to credit risk

The customers of the Group are diverse instead of concentrating on specific customers; therefore, the Group has never suffered any significant credit loss. The Group periodically evaluates the financial positions of these customers to reduce the credit risk of accounts receivables.

#### 2. Liquidity risk

The following are the contractual maturities of financial liabilities, excluding estimated interest payments.

	Carrying Amount	Contractual cash flows	Within a year	1 ~ 2 years	Over 2 years
<b>December 31, 2015</b>					
Short-term and long-term borrowings	\$ 1,003,445	(1,003,445)	(610,794)	(40,518)	(352,133)
Notes and accounts payable (including related parties)	3,391,771	(3,391,771)	(3,391,771)	-	-
Amount due to customers for contract work	26,854	(26,854)	(26,854)	-	-
Other financial liabilities	113,230	(113,230)	(113,230)	-	-
	<u>\$ 4,535,300</u>	<u>(4,535,300)</u>	<u>(4,142,649)</u>	<u>(40,518)</u>	<u>(352,133)</u>
<b>December 31, 2014</b>					
Short-term and long-term borrowings	\$ 616,901	(616,901)	(307,096)	(25,536)	(284,269)
Notes and accounts payable (including related parties)	3,279,544	(3,279,544)	(3,279,544)	-	-
Amount due to customers for contract work	27,684	(27,684)	(27,684)	-	-
Other financial liabilities	106,115	(106,115)	(106,115)	-	-
	<u>\$ 4,030,244</u>	<u>(4,030,244)</u>	<u>(3,720,439)</u>	<u>(25,536)</u>	<u>(284,269)</u>

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

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

3. Currency risk

(i) Exposure to foreign currency risk

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

	December 31, 2015			December 31, 2014		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
USD	\$ 34,019	USD/TWD =32.825	1,116,674	44,028	USD/TWD =31.65	1,393,486
USD	19,842	USD/CNY =6.5716	651,316	10,825	USD/CNY =6.2156	342,611
JPY	1,970,088	JPY/TWD =0.2727	537,243	2,283,370	JPY/TWD =0.2646	604,180
JPY	207,424	JPY/CNY =0.0546	56,570	135,360	JPY/CNY =0.052	35,816
Financial liabilities						
USD	31,745	USD/TWD =32.825	1,042,030	40,455	USD/TWD =31.65	1,280,401
USD	32,471	USD/CNY =6.5716	1,065,865	17,802	USD/CNY =6.2156	563,433
JPY	1,965,059	JPY/TWD =0.2727	535,872	2,666,826	JPY/TWD =0.2646	705,642
JPY	69,842	JPY/CNY =0.0546	19,048	71,841	JPY/CNY =0.052	19,009

(ii) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, loans and borrowings, and trade and other payables that are denominated in foreign currency. A weakening (strengthening) 5% of appreciation (depreciation) of the each major foreign currency against the TWD as of December 31, 2015 and 2014 would have increased (decreased) the net profit before tax as follows. The analysis is performed on the same basis for both periods.

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**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
USD (against the TWD)		
Strengthening 5%	\$ 3,732	\$ 5,654
Weakening 5%	(3,732)	(5,654)
JPY (against the TWD)		
Strengthening 5%	69	(5,073)
Weakening 5%	(69)	5,073
USD (against the CNY)		
Strengthening 5%	(20,727)	(11,041)
Weakening 5%	20,727	11,041
JPY (against the CNY)		
Strengthening 5%	1,876	840
Weakening 5%	(1,876)	(840)

As the Group deals in diverse foreign currencies, gains and losses on foreign exchange were summarized as a single amount. In 2015 and 2014, the foreign exchange gains or losses, including both realized and unrealized, were as follows:

	<u>2015</u>	<u>2014</u>
Foreign exchange gains (losses)	\$ <u>(24,331)</u>	<u>(1,883)</u>

4. Interest rate analysis

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

	<u>Carrying amount</u>	
	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Variable rate instruments:		
Financial assets	\$ 1,170,477	617,541
Financial liabilities	406,097	301,070

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

(Continued)

# TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have decreased or increased by the amounts listed below for the years ended December 31, 2015 and 2014, respectively, which would be mainly resulted from the bank savings and time deposits with variable interest rates.

	December 31, 2015	December 31, 2014
Interest rate increased by 0.25%	\$ 2,926	791
Interest rate decreased by 0.25%	(2,926)	(791)

### 5. Fair value

#### (i) Categories and fair values of financial instruments

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It shall not include fair value information of the financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value and investments in equity instruments which do not have any quoted price in an active market in which the fair value cannot be reasonably measured.

	December 31, 2015			
	Fair value			
	Book value	Level 1	Level 2	Level 3
				Total
<b>Financial assets at fair value through profit or loss</b>	\$ 367,962	367,962	-	-
<b>Available-for-sale financial assets</b>				
Stocks listed on domestic market and other	85,394	85,394	-	-
Non-current financial assets at cost	196,077	-	-	-
Subtotal	<u>281,471</u>			
<b>Loans and receivables</b>				
Cash and cash equivalents	1,374,472	-	-	-
Notes and accounts receivable (including related parties)	3,076,648	-	-	-
Amount due from customers for contract work	294,918	-	-	-
Other current financial assets	45,541	-	-	-
Other non-current assets (refundable deposits and pledged assets-time deposits)	26,666	-	-	-
Subtotal	<u>4,818,245</u>			
Total	<u>\$ 5,467,678</u>			
<b>Financial liabilities at amortized cost through profit or loss</b>				
Long-term and short-term borrowings	\$ 1,003,445	-	-	-
Notes and accounts payable (including related parties)	3,391,771	-	-	-
Amount due to customers for contract work	26,854	-	-	-
Other current financial liabilities	113,230	-	-	-
Total	<u>\$ 4,535,300</u>	-	-	-

(Continued)

## TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	December 31, 2014				
	Book value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through profit or loss</b>	\$ 500,182	500,182	-	-	500,182
<b>Available-for-sale financial assets</b>					
Stock listed on domestic markets and other	53,199	53,199	-	-	53,199
Non-current financial assets at cost	249,875				
Subtotal	303,074				
<b>Loans and receivables</b>					
Cash and cash equivalents	1,427,977	-	-	-	-
Notes and accounts receivable (including related parties)	2,676,700	-	-	-	-
Amount due from customers for contract work	291,650	-	-	-	-
Other current financial assets	46,521	-	-	-	-
Other non-current assets (refundable deposits and pledged assets-time deposits)	94,131	-	-	-	-
Subtotal	4,536,979				
Total	\$ 5,340,235				
<b>Financial liabilities at amortized cost through profit or loss</b>					
Long-term and short-term borrowings	\$ 616,901	-	-	-	-
Notes and accounts payable (including related parties)	3,279,544	-	-	-	-
Amount due to customers for contract work	27,684	-	-	-	-
Other current financial liabilities	106,115	-	-	-	-
Total	\$ 4,030,244	-	-	-	-

## (ii) Fair value valuation technique of financial instruments not measured at fair value

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

## A. Financial liabilities at amortized cost

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

## (iii) Fair value valuation technique of financial instruments measured at fair value

## A. Non-derivative financial instruments

Financial instruments traded in active markets are based on quoted market prices. The quoted price of a financial instrument obtained from main exchanges and the government bond with high trading volume can be used as a basis to determine the fair value of the listed companies' equity instrument and the debt instrument of the quoted price in an active market.

(Continued)

**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

(w) Financial risk management

1. Briefings

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

(i) Credit risk

(ii) Liquidity risk

(iii) Market risk

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

2. Structure of risk management

The Group's finance department provides business services for the overall internal department. It sets the objectives, policies and processes for managing the risk and the methods used to measure the risk arising from both the domestic and international financial market operations.

The Group minimizes the risk exposure through derivative financial instruments. The board of directors regulated the use of derivative and non-derivative financial instruments in accordance with the Group's policy about risks arising from financial instruments such as currency risk, interest rate risk, credit risk, the use of derivative and non-derivative financial instruments and the investments of excess liquidity. The internal auditors of the Group continue with the review of the amount of the risk exposure in accordance with the Group's policies and the risk management policies and procedures. The Group has no transactions in financial instruments (including derivative financial instruments) for the purpose of speculation.

3. Credit risk

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

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**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(i) Accounts receivable and other receivables**

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, and these limits are reviewed periodically. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

Trade and other receivables mainly relate to a wide range of customers from different industries and geographic regions. The Group continued to assess the financial condition and credit risk of its customers, by grouping trade and other receivables based on their characteristics.

The Group set the allowance for bad debt account to reflect the estimated losses for trade receivable, other receivables, and investment. The allowance for bad debt account consists of individually assessed impairment and collectively assessed impairment. Collectively assessed impairment is based on the historical collection record of similar financial assets.

**(ii) Investments**

The credit risks exposure in the bank deposits, investments with fixed income and other financial instruments are measured and monitored by the Group's finance department. Since the Group's transaction counterparties and the contractually obligated counterparties are banks and financial institutes with good credits, there are no compliance issues, and therefore, no significant credit risk.

**(iii) Guarantees**

Pursuant to the Group's policies, it is only permissible to provide financial guarantees to subsidiaries, companies that the Group has business with, and the investees, based on the percentage of ownership by each shareholder. As of December 31, 2015 and 2014, the guarantees provided to non-subsidiaries amounted to \$111,000 and \$150,600, respectively.

**4. Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The loans and borrowings from the bank is an important source of liquidity for the Group. The Group has unused short-term bank facilities of \$4,376,090 and \$3,750,713 as of December 31, 2015 and 2014, respectively.

**5. Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks.

**(i) Currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the Group, primarily USD and JPY.

As for monetary assets and liabilities denominated in foreign currencies, when short-term imbalance takes place, the Group buys or sells foreign currencies at spot rate to ensure that the net exposure is kept on an acceptable level.

**(ii) Interest rate risk**

The Group borrows funds on fixed and variable interest rates, which has a risk exposure to changes in fair value and cash flow.

**(iii) Other price risk**

The Group is exposed to equity price risk arising from mutual funds, listed companies equity investments and emerging stock investments.

**(x) Capital management**

The policy of board of directors is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, retained earnings and non-controlling interests. The board of directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

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# TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The Group monitors the capital structure by way of periodical review on the liability ratio. The target set by the Group is its debt to total assets ratio of less than 50%. The capital of the Group represents the total equity stated in the consolidated balance sheet, that is equal to the total assets, minus, total liabilities.

As of December 31, 2015 and 2014, the liability ratio was as follows:

	December 31, 2015	December 31, 2014
Total liabilities	\$ 5,286,694	4,767,093
Total assets	11,228,275	10,368,319
Liability ratio	47%	46%

As of December 31, 2015, there were no changes in the Group's approach to capital management during the year ended December 31, 2015.

### (7) Related-party transactions

#### (a) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

#### (b) Transactions with key management personnel

Key management personnel compensation comprised:

	2015	2014
Short-term employee benefits	\$ 143,087	148,444
Post-employment benefits	3,293	2,240
	<u>\$ 146,380</u>	<u>150,684</u>

#### (c) Significant related party transactions

##### 1. Sale of goods and services provided to related parties

The amounts of significant transactions between the Group and related parties were as follows:

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**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

	<u>Sales</u>		<u>Services</u>		<u>Receivable to related parties</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Associates	\$ <u>12,642</u>	<u>808</u>	<u>102,897</u>	<u>94,155</u>	<u>30,626</u>	<u>24,085</u>
Other related parties	\$ <u>45,815</u>	<u>39,636</u>	<u>151,499</u>	<u>141,723</u>	<u>31,454</u>	<u>30,300</u>

Sales prices for related parties were similar to those of the third-party customers. The collection period was within 60 to 90 days after monthly closing, and within 30 to 90 days after monthly closing for third-parties.

The terms of services provided to relate parties is based on the contracts signed between both parties, and there is no significant difference between the related parties and the third-parties.

2. Purchase of goods from related parties

The amounts of significant purchase transactions between the Group and related parties were as follows:

	<u>Purchases and construction cost</u>		<u>Payable to related parties</u>	
	<u>2015</u>	<u>2014</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Associates	\$ <u>348,221</u>	<u>316,550</u>	<u>94,481</u>	<u>88,481</u>
Other related parties	\$ <u>1,934,195</u>	<u>1,451,405</u>	<u>596,418</u>	<u>362,263</u>

Purchase prices from related parties were similar to those from third-party suppliers. Besides some trading terms are prepaid before transactions, the payment period were within 45 to 60 days after monthly closing for related parties, and within to 30 to 60 days after monthly closing for third-parties.

3. Guarantees

As of December 31, 2015 and 2014, the Group provided guarantees to associates amounting to \$111,000 and \$150,600, respectively.

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**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(8) Pledged Assets**

The carrying values of pledged assets were as follows:

<u>Assets</u>	<u>Subject</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Other current financial assets –time deposits	Guarantees for construction contracts	\$ 8,745	10,300
Other non-current assets –time deposits	Guarantees for lawsuit deposits	1,404	63,400
Property, plant and equipment – Building	Long-term borrowings	<u>108,654</u>	<u>114,600</u>
		<b>\$ <u>118,803</u></b>	<b><u>188,300</u></b>

**(9) Commitments and Contingencies**

(a) The Group's unrecognized contractual commitments as follow:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Commitments for construction contracts	<u>\$ 561,767</u>	<u>645,221</u>
Bank guarantees to construction contract	<u>\$ 149,240</u>	<u>132,611</u>

(b) The Group's unused and outstanding letters for purchasing are as follow: :

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Unused and outstanding letters of credit	<u>\$ 560,578</u>	<u>905,031</u>

(c) As of December 31, 2015 and 2014, the Group provided guarantees to its associates amounting to \$111,000 and \$150,600, respectively.

**(10) Losses due to major disasters: none**

**(11) Subsequent events: none**

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**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(12) Others**

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

By item	Year ended December 31, 2015			Year ended December 31, 2014		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	235,894	763,344	999,238	190,682	687,760	878,442
Labor and health insurance	13,172	51,795	64,967	6,364	46,508	52,872
Pension	4,675	47,176	51,851	2,778	36,373	39,151
Others	3,603	33,761	37,364	2,234	31,221	33,455
Depreciation	43,681	63,609	107,290	30,910	46,729	77,639
Amortization	30	7,071	7,101	8	4,507	4,515

(b) Dispute on contract performance

The Company had a contractual dispute with a certain customer (the Customer) and filed an application for arbitration against the customer with the International Chamber of Commerce (ICC) on February 8, 2008. On January 27, 2010, the Company received an award of ICC regarding the aforementioned dispute. In the award, the arbitrators held that the Company was not in default nor liable for the dispute in issue. On October 12, 2011, the Company received the outcome of arbitration, and therein, the arbitrators decided the Customer shall pay to the Company damage indemnification about US\$1,716,000. In May 2013, the Company recovered parts of the aforementioned indemnification amounting to \$21,110, which was recognized as other income. The Customer had suffered bankruptcy in 2015, and had no residual assets after its liquidation, the remaining amount of the Company's receivables has no possibility of recovery.

**(13) Operating Segment Information**

(a) General information

The basis of segmentation of the Group are different products and services. The Group has five reportable segments: advanced material division, semiconductor division, environmental engineering group, electronics division, and wafer material division. Other segments engage mainly in sales of used machine equipment business and retail sales. Segments revenue means revenue from external customers (includes sell products and other revenue, exclude investment revenue accounted for using equity method). There was no transfer of revenue between segments.

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# TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### (b) Reportable segments and operating segment information

The Group did not allocate tax expense to the reportable segments. The amounts of the Group's reportable segments are the same as those in the reports used by the chief operating decision maker. The accounting policies for the operating segments are the same as those in Note 2. The profit or loss of the Group's operating segments is measured by profit or loss before tax, and is considered as the basis for performance assessment.

2015	Advanced material div.	Semiconductor div.	Environmental engineering group	Electronics div.	Wafer material div.	Other segment	Adjustment and elimination	Total
<b>Revenue</b>								
Revenue from external customers	\$ 7,625,150	7,746,254	1,483,388	1,027,580	490,622	705,876	-	19,078,870
Revenue from segments	-	-	-	-	-	-	-	-
Interest revenue	-	-	-	-	-	-	-	5,765
Total revenue	<u>\$ 7,625,150</u>	<u>7,746,254</u>	<u>1,483,388</u>	<u>1,027,580</u>	<u>490,622</u>	<u>705,876</u>	<u>-</u>	<u>19,084,635</u>
Interest expenses	\$ -	-	-	-	-	-	-	16,474
Depreciation and amortization	5,511	26,199	1,808	1,181	-	79,692	-	114,391
Share of profit of equity-accounted investees (associates, and jointly controlled entities)	-	-	-	-	-	-	-	168,633
Reportable segment profit or loss	<u>\$ 809,119</u>	<u>578,217</u>	<u>53,181</u>	<u>113,043</u>	<u>142,718</u>	<u>(482,510)</u>	<u>-</u>	<u>1,213,768</u>
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reportable segment liabilities	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>2014</b>	<b>Advanced material div.</b>	<b>Semiconductor div.</b>	<b>Environmental engineering group</b>	<b>Electronics div.</b>	<b>Wafer material div.</b>	<b>Other segment</b>	<b>Adjustment and elimination</b>	<b>Total</b>
<b>Revenue</b>								
Revenue from external customers	\$ 8,196,682	6,561,500	1,017,018	1,119,695	477,983	719,403	-	18,092,281
Revenue from segments	-	-	-	-	-	-	-	-
Interest revenue	-	-	-	-	-	-	-	9,617
Total revenue	<u>\$ 8,196,682</u>	<u>6,561,500</u>	<u>1,017,018</u>	<u>1,119,695</u>	<u>477,983</u>	<u>719,403</u>	<u>-</u>	<u>18,101,898</u>
Interest expenses	\$ -	-	-	-	-	-	-	9,991
Depreciation and amortization	4,543	19,381	988	1,341	37	55,864	-	82,154
Share of profit of equity-accounted investees (associates, and jointly controlled entities)	-	-	-	-	-	-	-	94,299
Reportable segment profit or loss	<u>\$ 743,942</u>	<u>506,422</u>	<u>25,742</u>	<u>121,800</u>	<u>150,370</u>	<u>(496,938)</u>	<u>-</u>	<u>1,051,338</u>
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reportable segment liabilities	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

### (c) Industry information

#### 1. Product and service information

The Group's segment information is based on different products and services. Product and service information does not have to be disclosed.

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**TOPCO SCIENTIFIC CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

2. Geographical information

Stated below are the geographic information on the Group's sales presented by destination of sales and non-current assets presented by location.

(i) Revenue from external customers:

	<u>2015</u>	<u>2014</u>
Location		
Taiwan	\$ 12,571,791	12,594,677
China	5,585,342	4,376,482
Other countries	<u>921,737</u>	<u>1,121,122</u>
	\$ <u><b>19,078,870</b></u>	<u><b>18,092,281</b></u>

(ii) Non-current assets:

	<u>2015</u>	<u>2014</u>
Taiwan	\$ 2,345,264	1,800,636
Other countries	<u>329,517</u>	<u>352,821</u>
	\$ <u><b>2,674,781</b></u>	<u><b>2,153,457</b></u>

3. Information about major customers

Sales to individual customers constituting over 10% of the total revenue in the consolidated statements of income of 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
A Company	\$ <u><b>3,694,888</b></u>	<u><b>4,573,520</b></u>

The sales revenue of A Company is from advanced material division, semiconductor division, electronics division and wafer material division.