TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Address: No.1, Huanqu 3rd Rd., Kaohsiung Export Processing Zone, Kaohsiung City
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Notice to readers

This English-version consolidated financial statement is a summary translation of the Chinese version. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of Taiflex Scientific Company Limited as of and for the year ended December 31, 2016, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No. 10, “Consolidated Financial Statements”. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiflex Scientific Company Limited does not prepare a separate set of combined financial statements.

Very truly yours,
Taiflex Scientific Company Limited
By

Ta-Wen Sun
Chairperson

February 23, 2017

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015
(In Thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2016	December 31, 2015
Current assets			
Cash and cash equivalents	4, 6(1)	$ 2,982,208	$ 2,729,235
Financial assets at fair value through profit or loss, current	4, 6(2)	36,007	19,300
Notes receivable, net	4, 6(3)	1,542,759	858,370
Accounts receivable, net	4, 6(4)	2,797,975	3,647,625
Other receivables		47,260	242,562
Inventories, net	4, 6(5)	1,132,399	1,116,052
Prepayments		101,573	75,357
Other current assets	8	43,676	168,108
Total current assets		8,683,857	8,856,609
Non-current assets			
Financial assets carried at cost, non-current	4, 6(6)	-	-
Investments accounted for under the equity method	4, 6(7)	-	-
Property, plant and equipment	4, 6(8)	2,789,520	2,694,435
Intangible assets	4, 6(9)	113,598	119,480
Deferred income tax assets	4, 6(21)	129,825	125,309
Other non-current assets	4, 6(10)	80,854	82,874
Total non-current assets		3,113,797	3,022,098
Total assets		$ 11,797,654	$ 11,878,707

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

(Continued)

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS-(Continued)
December 31, 2016 and 2015
(In Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	December 31, 2016	December 31, 2015
Current liabilities			
Short-term loans	6(12)	$ 939,783	$ 881,178
Notes payable		177,893	51,896
Accounts payable		2,133,276	1,901,621
Other payables		560,381	624,655
Current income tax liabilities	4, 6(21)	84,828	96,804
Current portion of long-term loans	6(14)	27,372	303,561
Other current liabilities		15,899	6,317
Total current liabilities		3,939,432	3,866,032
Non-current liabilities			
Long-term loans	6(14)	743,426	888,173
Deferred income tax liabilities	4, 6(21)	159,115	194,169
Net defined benefit liabilities, non-current	4, 6(15)	190,276	111,009
Other non-current liabilities	4, 12	46	47
Total non-current liabilities		1,092,863	1,193,398
Total liabilities		5,032,295	5,059,430
Equity attributable to shareholders of the parent			
Capital	6(16)		
Common stock		2,083,252	2,042,858
Capital surplus	6(16)	1,407,558	1,447,952
Retained earnings			
Legal capital reserve		684,163	611,177
Special capital reserve		102,158	102,158
Unappropriated earnings		2,561,335	2,518,408
Total retained earnings		3,347,656	3,231,743
Others	4	(74,673)	61,375
Treasury stock	6(16)	(98,744)	(98,744)
Total equity attributable to shareholders of the parent		6,665,049	6,685,184
Non-controlling interests	4, 6(16)	100,310	134,093
Total equity		6,765,359	6,819,277
Total liabilities and equity		$ 11,797,654	$ 11,878,707

(Concluded)

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2016 and 2015
(In Thousands of New Taiwan Dollars)

	Notes	2016	2015
Net revenue	4, 6(18)	$ 10,283,979	$ 10,267,868
Cost of revenue	4, 6(5), 6(19)	(8,388,233)	(8,103,053)
Gross profit		1,895,746	2,164,815
Unrealized sales profit or loss		(95)	(95)
Realized sales profit or loss		-	-
Gross profit, net		1,895,651	2,164,720
Operating expenses	4, 6(19)		
Sales and marketing expenses		(383,184)	(497,436)
General and administrative expenses		(340,322)	(399,605)
Research and development expenses		(217,559)	(218,559)
Total operating expenses		(941,065)	(1,115,600)
Operating income		954,586	1,049,120
Non-operating income and expenses	6(20)		
Other income		25,257	44,983
Other gains and losses		(203,996)	(152,161)
Finance costs		(92,449)	(68,999)
Share of profit or loss of associates under the equity method	4, 6(7)	-	(5,673)
Total non-operating income and expenses		(271,188)	(181,850)
Income before income tax		683,398	867,270
Income tax expense	4, 6(21)	(136,788)	(159,962)
Net income of continuing operations		546,610	707,308
Net income		546,610	707,308
Other comprehensive income (loss)	6(20)		
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit obligation		(72,083)	(22,995)
Income tax benefit (expense) related to components of other comprehensive income that will not be reclassified subsequently		12,254	3,909
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(164,774)	(23,246)
Income tax benefit (expense) related to components of other comprehensive income that may be reclassified subsequently to profit or loss		28,011	3,951
Total other comprehensive income, net of tax		(196,592)	(38,381)
Total comprehensive income		$ 350,018	$ 668,927
Net income (loss) attributable to:	4, 6(22)	$ 579,678	$ 729,856
Shareholders of the parent		(33,068)	(22,548)
Non-controlling interests		$ 546,610	$ 707,308

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

(Continued)

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME-(Continued)
For the Years Ended December 31, 2016 and 2015
(In Thousands of New Taiwan Dollars)

	Notes	2016		2015	
Total comprehensive income (loss) attributable to:		$	383,801	$	691,601
Shareholders of the parent			(33,783)		(22,674)
Non-controlling interests		$	350,018	$	668,927
Earnings per share (NT$)	4, 6(22)				
Earnings per share - basic		$	2.81	$	3.54
Earnings per share - diluted		$	2.79	$	3.51

(Concluded)

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2016 and 2015

(In Thousands of New Taiwan Dollars)

	Equity Attributable to Shareholders of the Parent										
				Retained Earnings			Others				
	Common Stock	Capital Collected in Advance	Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Treasury Stock	Total	Non-Controlling Interests	Total Equity
Balance as of January 1, 2015	$ 2,042,608	$ 70	$ 1,447,619	$ 522,935	$ 102,158	$ 2,501,729	$ 80,544	$ (98,744)	$ 6,598,919	$ 156,767	$ 6,755,686
Appropriation and distribution of 2014 earnings											
Legal capital reserve				88,242		(88,242)			-		-
Cash dividends for common shares						(605,849)			(605,849)		(605,849)
Changes in other capital surplus											
Share-based payment	250	(70)	333						513		513
Net income for the year ended December 31, 2015						729,856			729,856	(22,548)	707,308
Other comprehensive income (loss) for the year ended December 31, 2015						(19,086)	(19,169)		(38,255)	(126)	(38,381)
Total comprehensive income	-	-	-	-	-	710,770	(19,169)	-	691,601	(22,674)	668,927
Balance as of December 31, 2015	2,042,858	-	1,447,952	611,177	102,158	2,518,408	61,375	(98,744)	6,685,184	134,093	6,819,277
Appropriation and distribution of 2015 earnings											
Legal capital reserve				72,986		(72,986)			-		-
Cash dividends for common shares						(403,936)			(403,936)		(403,936)
Changes in other capital surplus											
Stock dividends from capital surplus	40,394		(40,394)						-		-
Net income for the year ended December 31, 2016						579,678			579,678	(33,068)	546,610
Other comprehensive income (loss) for the year ended December 31, 2016						(59,829)	(136,048)		(195,877)	(715)	(196,592)
Total comprehensive income	-	-	-	-	-	519,849	(136,048)	-	383,801	(33,783)	350,018
Balance as of December 31, 2016	$ 2,083,252	$ -	$ 1,407,558	$ 684,163	$ 102,158	$ 2,561,335	$ (74,673)	$ (98,744)	$ 6,665,049	$ 100,310	$ 6,765,359

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
Cash flows from operating activities:		
Income before income tax	$ 683,398	$ 867,270
Adjustments:		
Non-cash income and expense items:		
Depreciation	267,893	265,557
Amortization	34,547	38,901
(Gain on reversal of) bad debt expense	(100,440)	31,230
Net gain of financial assets (liabilities) at fair value through profit or loss	(25,515)	(5,937)
Interest expense	92,449	68,999
Interest income	(19,619)	(28,117)
Share of (profit) loss of associates under the equity method	-	5,673
Gain on disposal of property, plant and equipment	(26)	(190)
Impairment loss on non-financial assets	8,686	-
Gain on reversal of impairment loss for non-financial assets	-	(5,461)
Others	12,959	(68,105)
Changes in operating assets and liabilities:		
Decrease in financial assets at fair value through profit or loss, current	8,808	2,678
(Increase) decrease in notes receivable	(684,389)	31,129
Decrease in accounts receivable	891,119	181,105
Decrease (increase) in other receivables	258,091	(131,679)
Increase in inventories	(29,306)	(121,530)
(Increase) decrease in prepayments	(26,216)	37,061
Decrease (increase) in other current assets	15,623	(11,627)
Increase in other non-current assets	(8,530)	(2,232)
Increase (decrease) in notes payable	125,997	(153,843)
Increase in accounts payable	231,655	261,462
Decrease in other payables	(39,683)	(25,936)
Increase (decrease) in other current liabilities	9,582	(9,682)
Increase in net defined benefit liabilities	7,185	6,540
Decrease in other non-current liabilities	(1)	(19)
Cash generated from operations	1,714,267	1,233,247
Interest received	21,446	26,547
Interest paid	(91,792)	(71,513)
Income tax paid	(148,069)	(217,240)
Net cash generated by operating activities	1,495,852	971,041

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

(Continued)

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS-(Continued)
For the Years Ended December 31, 2016 and 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(451,875)	(487,898)
Disposal of property, plant and equipment	832	1,614
Increase in refundable deposits	(6,595)	-
Decrease in refundable deposits	-	23,424
Acquisition of intangible assets	(18,751)	(9,286)
Increase in other current assets - other financial assets, current	-	(87,480)
Decrease in other current assets - other financial assets, current	109,799	-
Net cash used in investing activities	(366,590)	(559,626)
Cash flows from financing activities:		
Increase in short-term loans	58,605	-
Decrease in short-term loans	-	(337,794)
Repayment of long-term loans	(420,936)	(132,574)
Distribution of cash dividends	(403,936)	(605,849)
Exercise of employee stock options	-	513
Net cash used in financing activities	(766,267)	(1,075,704)
Effect of exchange rate changes on cash and cash equivalents	(110,022)	(12,921)
Net increase (decrease) in cash and cash equivalents	252,973	(677,210)
Cash and cash equivalents at beginning of period	2,729,235	3,406,445
Cash and cash equivalents at end of period	$ 2,982,208	$ 2,729,235

(Concluded)

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

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

1. HISTORY AND ORGANIZATION

Taiflex Scientific Company Limited ("the Company") was incorporated in Republic of China (R.O.C.) in August, 1997 at No.1, Huanqu 3rd Rd., Kaohsiung Export Processing Zone, Kaohsiung City, Taiwan. The Company's principal products consist of flexible copper-clad laminate, cover layer and PV module backsheet.

The shares of the Company commenced trading on Taiwan's Over-the-Counter Market on December 19, 2003 and were listed on the Taiwan Stock Exchange on December 17, 2009.

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiaries ("the Group") for the years ended December 31, 2016 and 2015 were approved and authorized for issue in the Board of Directors' meeting on February 23, 2017.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

(1) As of the date of issuance of the financial statements, the Group has not adopted the following new, revised and amended standards or interpretations endorsed by the Financial Supervisory Commission (FSC) but not yet applicable:

No.	Projects of New, Revised and Amended Standards or Interpretations	Effective Date
	Improvements to IFRS (2010-2012 cycle)	July 1, 2014
	Improvements to IFRS (2011-2013 cycle)	July 1, 2014
	Improvements to IFRS (2012-2014 cycle)	January 1, 2016
IFRS 11	Acquisitions of Interests in Joint Operations	January 1, 2016
IFRS 14	Regulatory Deferral Accounts	January 1, 2016
IAS 1	Disclosure Initiative	January 1, 2016

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

No.	Projects of New, Revised and Amended Standards or Interpretations	Effective Date
IAS 16 & 38	Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
IAS 19	Defined Benefit Plans: Employee Contributions	July 1, 2014
IAS 36	Impairment of Assets	January 1, 2014
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014
IFRIC 21	Levies	January 1, 2014
IAS 27	Equity Method in Separate Financial Statements	January 1, 2016
IAS 16 & 41	Agriculture: Bearer Plants	January 1, 2016
IFRS 10, 12 and IAS 28	Investment Entities: Applying the Consolidation Exception	January 1, 2016

The above new, revised and amended standards or interpretations are issued by the International Accounting Standards Board (IASB) and endorsed by FSC to take effect for annual periods beginning on January 1, 2017. Upon evaluation, those new, revised and amended standards and interpretations do not have any material impact on the Group.

(2) As of the date of issuance of the financial statements, the Group has not adopted the following standards or interpretations issued by IASB but not yet endorsed by FSC:

No.	Projects of New, Revised and Amended Standards or Interpretations	Effective Date
	Improvements to IFRS (2014-2016 cycle)	January 1, 2018
IFRS 2	Amendments to Share-based Payment	January 1, 2018
IFRS 4	Insurance Contracts	January 1, 2018
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IFRS 16	Leases	January 1, 2019
IAS 7	Disclosure Initiative	January 1, 2017

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

No.	Projects of New, Revised and Amended Standards or Interpretations	Effective Date
IFRS 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	-
IAS 40	Transfers of Investment Property	January 1, 2018

For the above standards or interpretations issued by IASB but not yet endorsed by FSC, the dates of initial application will be determined by FSC. Upon evaluation, those new, revised and amended standards and interpretations do not have any material impact on the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The consolidated financial statements for the years ended December 31, 2016 and 2015 have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, and IFRIC endorsed by FSC.

(2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value.

(3) Basis of consolidation

Preparation principle of consolidated financial statements

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if it has:

A. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
B. exposure, or rights, to variable returns from its involvement with the investee, and
C. the ability to use its power over the investee to affect its returns

When the Company directly or indirectly has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

A. the contractual arrangement with the other vote holders of the investee
B. rights arising from other contractual arrangements
C. the voting rights and potential voting rights

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Group using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests (NCIs) even if this results in a deficit balance of the NCIs.

If the Group loses control of a subsidiary, it:
A. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
B. derecognizes the carrying amount of any NCI;
C. recognizes the fair value of the consideration received;
D. recognizes the fair value of any investment retained;
E. recognizes any surplus or deficit in profit or loss for the period; and
F. reclassifies the parent’s share of components previously recognized in other comprehensive income to profit or loss.

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Main Business	Percentage of Ownership (%)	
			2016.12.31	2015.12.31
The Company	Taistar Co., Ltd. (Taistar)	Investment holding	100.00%	100.00%
The Company	Leadmax Ltd. (Leadmax)	Trading of electronic materials	100.00%	100.00%
The Company	Koatech Technology Corporation (Koatech)	Manufacturing and selling of electronic materials and components	53.86%	53.86%
The Company	TFS Co., Ltd. (TFS)	Investment holding	100.00%	100.00%
The Company	Taiflex Scientific Japan Co., Ltd. (Japan Taiflex)	Trading of electronic materials and technical support	100.00%	—
Taistar	TSC International Ltd. (TSC)	Investment holding	100.00%	100.00%
TSC	Kunshan Taiflex Electronic Material Co., Ltd. Kunshan Taiflex)	Trading of coating materials for high polymer film and copper foil	100.00%	100.00%
TSC	Taiflex Scientific (Kunshan) Co., Ltd. (Taiflex Kunshan)	Manufacturing and selling of coating materials for high polymer film and copper foil	100.00%	100.00%
TFS	RICHSTAR Co., Ltd. (RICHSTAR)	Investment holding	100.00%	100.00%
RICHSTAR	Shenzhen Taiflex Electronic Co., Ltd. (Shenzhen Taiflex)	Trading of coating materials for high polymer film and copper foil	100.00%	100.00%
Koatech	KTC Global Co., Ltd. (KTC Global)	Investment holding	100.00%	100.00%
KTC Global	KTC PanAsia Co., Ltd. (KTC PanAsia)	Investment holding	100.00%	100.00%
KTC PanAsia	Kunshan Koatech Technology Corporation (Kunshan Koatech)	Wholesale and act as a commission agent of electronic materials and components	100.00%	100.00%

(4) Foreign currency transactions and translation of financial statements in foreign currencies

The Group's consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recognized by each entity of the Group at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date; non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined; and non-monetary items measured at historical cost that are denominated in foreign currencies are retranslated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement or translation of monetary items are recognized in profit or loss in the period in which they arise, except for the following:

A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
B. Foreign currency items within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are accounted for based on the accounting policies for financial instruments.
C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss upon disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

In the preparation of consolidated financial statements, the assets and liabilities of foreign operations are translated into New Taiwan Dollars using exchange rates prevailing at the reporting date and income and expense items are translated at the average exchange rates for the period. The exchange differences arising on the translation are recognized in other comprehensive income and accumulated under exchange differences on translation of foreign operations in equity. On the partial disposal of a subsidiary that includes a foreign operation while retaining control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the NCIs in that foreign operation instead of being reclassified to profit or loss. In partial disposal of an associate or jointly controlled entity that includes a foreign operation while retaining significant influence or joint control, the proportionate share of the cumulative amount of the exchange differences is reclassified to profit or loss.

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

An asset is classified as current when:

A. the Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
B. the Group holds the asset primarily for the purpose of trading
C. the Group expects to realize the asset within twelve months after the reporting period
D. the asset is cash or 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.

All other assets are classified as non-current.

A liability is classified as current when:

A. the Group expects to settle the liability in its normal operating cycle
B. the Group holds the liability primarily for the purpose of trading
C. the liability is due to be settled within twelve months after the reporting period
D. the Group 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 affect its classification.

All other liabilities are classified as non-current.

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and 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 (including fixed deposits with terms equal to or less than twelve months).

(7) Financial instruments

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

Financial assets and financial liabilities within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are recognized initially at fair value plus or minus, in the case of financial assets and financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial assets or financial liabilities.

A. Financial assets

The Group accounts for regular way purchase or sales of financial assets on the trade date basis.

Classification of financial assets:
Financial assets of the Group are classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and loans and receivables. The Group determines the classification of its financial assets at initial recognition based on their natures and purposes.

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

i. A financial asset is classified as held for trading if:
   (i) it is acquired principally for the purpose of selling it in the short term;
   (ii) on initial recognition it is part of a portfolio of identifiable financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
   (iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

ii. If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information, because either:
   (i) it eliminates or significantly reduces measurement or recognition inconsistency; or
   (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is

provided internally on that basis to the key management personnel of the consolidated entity.

Those financial assets are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If those financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

(b) <u>Available-for-sale financial assets</u>

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

Exchange differences resulting from changes in the carrying amount of monetary available-for-sale financial assets, interest income calculated using the effective interest method relating to available-for-sale financial assets and dividends on an available-for-sale equity instrument are recognized in profit or loss. All other changes in the carrying amount of available-for-sale financial assets are recognized in equity until the investment is derecognized or is determined to be impaired, at which time the cumulative gain or loss is reclassified to profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

(c) <u>Held-to-maturity financial assets</u>

Non-derivative financial assets with fixed or determinable payments are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity, other than those that are designated as at fair value through profit or loss or available-for-sale upon initial recognition, or meet the definition of loans and receivables.

After initial measurement, held-to-maturity financial assets are measured at amortized cost less impairment using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition and transaction costs. Amortization calculated using the effective interest method is recognized in profit or loss.

(d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group classifies as at fair value through profit or loss, designates as available-for-sale, or those for which the holder may not recover substantially all of its initial investment due to credit worsening.

Loans and receivables are separately presented on the balance sheet as receivables or bond investments with no active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and transaction costs. Amortization calculated using the effective interest method is recognized in profit or loss.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the ones at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has a negative impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:
(a) significant financial difficulty of the issuer or counterparty; or
(b) breach of contract, such as a default or delinquency in interest or principal payments; or
(c) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(d) the disappearance of an active market for the financial asset due to financial difficulties of the issuer.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the carrying amount of asset and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the original effective interest rate of the financial asset. If a loan has a variable interest rate, the discount rate used for measuring impairment loss would be the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, applying the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent period, the amount of estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss shall be increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

For equity instruments classified as available-for-sale, where there is evidence of impairment, the impairment amount recognized is the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss, and it shall be reclassified from equity to profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in the fair value after impairment are recognized directly in equity.

For debt instruments classified as available-for-sale, the impairment amount recognized is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss previously recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss shall be reversed through profit or loss.

Derecognition of financial assets

A financial asset is derecognized when:
(a) the rights to receive cash flows from the asset have expired
(b) the Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
(c) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred its control of the asset.

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

B. Financial liabilities and equity instruments

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Compound instruments

The Group evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Group assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the economic characteristics and risks of the host contract before separating the equity element.

For liability component excluding derivatives, its fair value is determined based on the rate of interest applied at that time by the market to an equivalent non-convertible bond. The liability component is classified as a financial liability measured at amortized cost before the instrument is converted or settled. For the embedded derivative that is not closely related to the economic characteristics and risks of the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal to the amortized cost of the debt instrument on each exercise date), it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies for an equity component. The equity component is assigned the residual amount after deducting from the fair value of the convertible bond the amount separately determined for the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IAS 39 “Financial Instruments: Recognition and Measurement.”

Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instrument is initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of its liability component is adjusted to the carrying amount as of the conversion date to be the recognition basis for the issuance of common stocks.

Financial liabilities

Financial liabilities within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

i. A financial liability is classified as held for trading if:
   (i) it is acquired principally for the purpose of selling it in short term;
   (ii) on initial recognition it is part of a portfolio of identifiable financial instruments that are managed together and for which there is evidence of a recent actual

pattern of short-term profit-taking; or

(iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

ii. If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information, because either:

(i) it eliminates or significantly reduces measurement or recognition inconsistency; or

(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel of the consolidated entity.

Gains or losses on the remeasurement of those financial liabilities, including interest paid, are recognized in profit or loss.

If those financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

(b) Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include payables and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Relevant gains or losses and amortization amounts are recognized in profit or loss when the liabilities are derecognized and amortized through the effective interest rate method.

Amortized cost is calculated by taking into account any discount or premium on acquisition and transaction costs.

(c) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid or payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

C. Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

D. Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices at each reporting date, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm’s length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

(8) Derivative financial instrument

The Group uses derivative financial instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (held for trading) except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges and hedges of a net investment in a foreign operation, which is recognized in equity.

Derivatives embedded in host contracts are accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss.

(9) Inventories

Inventories are valued at lower of cost or net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials	- Actual purchase cost
Work in progress and finished goods	- Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale.

(10) Investments accounted for under the equity method

An associate is an entity over which the Group has significant influence. The Group's investment in its associate is accounted for under the equity method other than those that meet the criteria to be classified as assets held for sale.

Under the equity method, the investment in the associate is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate. After the interest in the associate is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's related interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Group.

The Group determines at each reporting date whether there is any objective evidence indicating that its investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the “share of profit or loss of associates under the equity method” in the statements of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment plus proceeds from disposal is recognized in profit or loss.

(11) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of property, plant and equipment with a cost that is significant in relation to the total cost is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts separately as individual assets with specific useful lives and depreciation methods. The carrying amount of those parts is derecognized in accordance with the provisions of IAS 16 “Property, Plant and Equipment.” When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement cost if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	20 to 50 years
Machinery and equipment	10 years
Hydropower equipment	5 to 20 years
Testing equipment	10 years
Miscellaneous equipment	5 to 10 years

An item of property, plant and equipment or any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The residual values, useful lives and depreciation methods of property, plant and equipment are reviewed at the end of each financial year. If the expected values differ from the estimates, the differences are recorded as a change in accounting estimate.

(12) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(13) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, which fail to meet the recognition criteria, are not capitalized. They are recognized in profit or loss as incurred.

The useful lives of intangible assets are categorized as either finite or indefinite.

Intangible assets with finite lives are amortized on a straight-line basis over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization method or period, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss.

In-process intangible assets - research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

A. the technical feasibility of completing the intangible asset so that it will be available for use or sale
B. its intention to complete and its ability to use or sell the asset
C. how the asset will generate future economic benefits
D. the availability of resources to complete the asset
E. the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied, i.e. the asset is required to be carried at cost less any accumulated amortization and accumulated impairment losses. During the period of development, the asset is tested for impairment annually. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

(14) Impairment of non-financial assets

The Group assesses whether there is any indication that an asset in the scope of IAS 36 “Impairment of Assets” may be impaired at the end of each reporting period. If any such indication exists, or when annual impairment testing for an asset is required, the Group would conduct impairment tests at individual or CGU level. Where the carrying amount of an asset or its CGU exceeds its recoverable amount, the asset is considered impaired. An asset’s recoverable amount is the higher of an asset’s net fair value or its value in use.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the estimated service potential of an asset which in turn increases the recoverable amount.

However, the reversal is limited so that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

A CGU, or groups of CGUs, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the CGU (or group of units), then to the other assets of the unit (or group of units) pro rata on the basis of the carrying amount of each asset in the unit (or group of units.) Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

Impairment loss or reversals of continuing operations are recognized in profit or loss.

(15) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, of which amount can be reliably estimated. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset only when it is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the liability due to the passage of time is recognized as a borrowing cost.

(16) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

A. the significant risks and rewards of ownership of the goods have passed to the buyer;
B. neither continuing managerial involvement nor effective control over the goods sold have been retained;
C. the amount of revenue can be measured reliably;
D. it is probable that the economic benefits associated with the transaction will flow to the entity; and
E. the costs incurred in respect of the transaction can be measured reliably.

(17) Post-employment benefits

All regular employees of the Company are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee’s name in the specific bank account and hence, not associated with the Company. Therefore, fund assets are not included in the consolidated financial statements.

For the defined contribution plan, the Company would make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. The remeasurements of net defined benefit liability (asset) include return on plan assets and any changes in the effect of the asset ceiling, and exclude amounts included in the net interest on the net defined benefit liability (asset) and actuarial gains and losses. The remeasurements of net defined benefit liability (asset) are recognized in other comprehensive income in the periods they occur and immediately recognized in the retained earnings. Past service cost is the change in the present value of defined benefit obligation due to plan amendments or curtailments. It is recognized as an expense at the earlier of the following two dates:

A. when a plan amendment or curtailment occurs; and
B. the date when the Group recognizes any related restructuring costs or termination benefits.

Net interest on the net defined benefit liability (asset) is determined by multiplying the net defined benefit liability (asset) by the discount rate. Both net defined benefit liability (asset) and discount rate are determined at the beginning of annual reporting period. Changes in net defined benefit liability (asset) due to actual contributions and benefits paid during the period shall be taken into consideration.

(18) Share-based payment transactions

The cost of equity-settled transactions between the Group and its employees is recognized based on the fair value of the equity instruments on the grant date. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the service conditions and performance are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative cost recognized for share-based payment transactions as at the beginning and end of that period is recognized as profit or loss for the period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other service or performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(19) Income tax

Income tax expense (benefit) is the aggregate amount included in the determination of profit or loss for the period in respect of current income tax and deferred income tax.

Current income tax

Current income tax liabilities (assets) for the current and prior periods are measured based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity respectively, instead of in profit or loss.

The 10% income tax for undistributed earnings of the Company and its domestic subsidiaries is recognized as income tax expense in the year when the distribution proposal is approved by the shareholders’ meeting.

Deferred income tax

Deferred income tax is the temporary difference between the tax bases of assets and liabilities and their carrying amounts in balance sheet at the reporting date.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

A. Where the taxable temporary differences arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (loss);
B. Where the taxable temporary differences is associated with investments in subsidiaries and associates and the timing of its reversal can be controlled; and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, any unused tax losses and carryforward of unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:
A. Where the deferred income tax asset is related to the deductible temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
B. Where the deferred income tax asset is related to the deductible temporary differences associated with investments in subsidiaries and associates. The deferred income tax asset is recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred income tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred income tax relating to items recognized outside profit or loss cannot be recognized as profit or loss. Instead, it is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred income tax assets are reassessed and recognized at each reporting date.

Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(20) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at fair value as at the acquisition date. For each business combination, the acquirer measures any NCI in the acquiree either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under general and administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in acquiree's host contracts.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date and the resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" either in profit or loss or as a change to other comprehensive income. However, if the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured as the excess amount of the aggregate of the consideration transferred and the NCI over the net fair value of the identifiable assets acquired and the liabilities assumed. If this aggregate is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purpose and is not larger than an operating segment.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation. Goodwill disposed of in this circumstance is measured based on the relative recoverable amounts of the operation disposed of and the portion of the CGU retained.

(21) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes the transaction takes place in one of the following markets:

A. the principal market for the asset or liability, or
B. in the absence of a principal market, the most advantageous market for the asset or liability.

The principal or most advantageous markets shall be the ones that the Group have access to and can transact in.

Assumptions that market participants would use when pricing the asset or liability are used in the fair value measurement. Market participants are assumed to act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group adopts valuation technique which is appropriate and has sufficient data under the circumstances for fair value measurement. The use of relevant observable inputs is maximized and the use of unobservable inputs is minimized.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that may result in significant risks for a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

(1)Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including income approach (for example, the discounted cash flows model) or the market approach.

Changes in assumptions of those models could affect the reported fair value of the financial instruments. Please refer to Note 12 for details.

(2)Valuation of inventory

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

Due to the rapid changes in technology, the Group estimates the net realizable value of inventory by taking into account normal consumption, obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon. Material changes could occur.

(3)Post-employment benefits

The cost of pension plan and the present value of defined benefit obligation within the post-employment benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the discount rate and expected future salary increases. The assumptions used for measuring pension cost and defined benefit obligation are disclosed in Note 6.

(4)Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments on the grant date. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model, including the expected life of the share option, volatility and dividend yield, and making assumptions about them. The assumptions and models used for estimating the fair value of share-based payment transactions are disclosed in Note 6.

(5)Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences between the actual results and the assumptions made or future changes to such assumptions could necessitate future adjustments to tax benefit and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates.

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

Deferred income tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred income tax assets to be recognized is based upon the likely timing and the level of future taxable income and taxable temporary differences together with future tax planning strategies. Please refer to Note 6 for more details on unrecognized deferred income tax assets as of December 31, 2016.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand	$ 606	$ 685
Bank deposits	2,981,602	2,728,550
Total	$ 2,982,208	$ 2,729,235

(2) Financial assets at fair value through profit or loss, current

	December 31, 2016	December 31, 2015
Held for trading:		
Non-hedging derivative financial assets		
- Forward foreign exchange contracts	$ 19,762	$ -
Non-derivative financial assets - Stocks	16,245	19,300
	$ 36,007	$ 19,300

(3) Notes receivable, net

	December 31, 2016	December 31, 2015
Notes receivable, net	$ 1,542,759	$ 858,370

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

(4) Accounts receivable, net

	December 31, 2016	December 31, 2015
Accounts receivable	$ 3,009,672	$ 3,978,775
Less: allowance for doubtful accounts	(211,697)	(331,150)
Net	$ 2,797,975	$ 3,647,625

A. The credit terms of accounts receivable are generally set on monthly period of 60 to 120 days. The movements in the allowance for impairment of accounts receivable and the ageing analysis were as follows (please refer to Note 12 for credit risk disclosure):

	December 31, 2016	December 31, 2015
Beginning balance	$ 331,150	$ 366,149
Charge (reversal) for the period	(35,824)	(33,386)
Write off	(77,984)	(989)
Effect of exchange rate changes	(5,645)	(624)
Ending balance	$ 211,697	$ 331,150

B. Ageing analysis of net accounts receivable:

	December 31, 2016	December 31, 2015
Neither past due nor impaired	$ 2,511,606	$ 2,722,094
Past due but not impaired		
≤ 120 days	280,415	563,566
121 to 180 days	17	162,989
≥ 181 days	5,937	198,976
Total	$ 2,797,975	$ 3,647,625

C. The Group entered into agreements of factoring without recourse with banks. The banks would engage in factoring with respect to accounts receivable selected. The information of factoring transactions was as follows:

December 31, 2016			
Amount of accounts receivable	Amount of factoring	Condition	Unreceived amount (Recorded as other receivables)
US$ 32,322 thousand	-	without recourse	-

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

December 31, 2015			
Amount of accounts receivable	Amount of factoring	Condition	Unreceived amount (Recorded as other receivables)
US$ 22,186 thousand	US$ 22,149 thousand	without recourse	US$ 37 thousand (NT$ 1,204 thousand)

(5) Inventories, net

	December 31, 2016	December 31, 2015
Raw materials	$ 415,099	$ 217,615
Inventories in transit	86,814	301,162
Supplies	5,660	3,821
Work in process	159,755	100,000
Finished goods	312,030	348,697
Merchandise	153,041	144,757
Total	$ 1,132,399	$ 1,116,052

Expenses or income recognized were as follows:

	Years ended December 31	
	2016	2015
Cost of inventories sold	$ 8,392,217	$ 8,182,184
Gain on inventory value recovery	(15,746)	(85,152)
Loss on inventory write-off	28,705	17,047
Revenue from sale of scraps	(16,943)	(11,026)
Cost of revenue	$ 8,388,233	$ 8,103,053

For the years ended December 31, 2016 and 2015, gain on inventory value recovery due to a decrease in allowance for inventory valuation losses from price recovery of inventories with allowance for inventory valuation losses at beginning of period, inventories sold or inventories used amounted to NT$ 15,746 thousand and NT$ 85,152 thousand, respectively.

(6) Financial assets measured at cost, non-current

	December 31, 2016	December 31, 2015
Stocks	$ 6,600	$ 6,600
Less: accumulated impairment	(6,600)	(6,600)
Net	$ —	$ —

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

(7) Investments accounted for under the equity method

Investees	December 31, 2016 Amount	December 31, 2016 Percentage of ownership	December 31, 2015 Amount	December 31, 2015 Percentage of ownership
Investments in associates:				
Innovision FlexTech Corp.	$ 31,518	16.72%	$ 31,518	16.72%
Less: accumulated impairment – Innovision FlexTech Corp.	(31,518)		(31,518)	
Net	$ –		$ –	

A. The shares of profit or loss of the associates accounted for under the equity method for the years ended December 31, 2016 and 2015 were as follows:

Investee	Years ended December 31 2016	Years ended December 31 2015
Innovision FlexTech Corp.	–	(5,673)

B. In 2007, the Group invested in Innovision FlexTech Corp. (Innovision), which mainly engages in the manufacturing and selling of electronic materials, for NT$110,600 thousand and acquired 92.17% of ownership. The Group's ownership in Innovision reduced to 20.52% in July 2008. As a result, Innovision was no longer consolidated and its profit or loss was accounted for using the equity method. The Group acquired additional shares of Innovision by cash in February 2014. Upon completion of the acquisition, the Group increased its shareholding percentage from 20.52% to 22.83%. In October 2014, the Group did not participate in the capital increase of Innovision. As a result, the shareholding percentage reduced to 19.87%. Since December 2015, the Group did not participate in the capital increase of Innovision. As a result, the shareholding percentage reduced to 16.72%. The Group evaluated and concluded that it still has significant influence over Innovision, thus, this investment of the Group used the equity method for evaluation.

C. The summarized financial information of the Group's investments in associates was as follows:

	December 31, 2016	December 31, 2015
Total assets	$ 267,136	$ 226,938
Total liabilities	$ 57,282	$ 39,950

	Years ended December 31 2016	Years ended December 31 2015
Revenue	$ 121,354	$ 40,025
Net income (loss)	$ 22,866	$ (39,200)

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

(8) Property, plant and equipment

	December 31, 2016	December 31, 2015
Land	$ 100,843	$ 100,843
Buildings	1,005,451	1,042,055
Machinery and equipment	969,050	820,598
Hydropower equipment	108,501	106,580
Testing equipment	115,422	83,410
Miscellaneous equipment	67,427	49,244
Construction in progress and equipment awaiting inspection	422,826	491,705
Net	$ 2,789,520	$ 2,694,435

	As of January 1, 2016	Additions	Disposals	Reclassification	Impairment loss	Effect of exchange rate changes	As of December 31, 2016
Cost							
Land	$ 100,843	$ −	$ −	$ −	$ −	$ −	$ 100,843
Buildings	1,396,219	8,405	−	54,495	−	(43,639)	1,415,480
Machinery and equipment	2,261,959	61,769	(367)	200,385	−	(35,245)	2,488,501
Hydropower equipment	359,000	9,441	−	13,469	−	(10,971)	370,939
Testing equipment	179,198	22,714	(577)	24,134	−	(1,943)	223,526
Miscellaneous equipment	254,072	15,803	(8,743)	80,391	−	(6,683)	334,840
Total	$ 4,551,291	$ 118,132	$ (9,687)	$ 372,874	$ −	$ (98,481)	$ 4,934,129
Accumulated depreciation and impairment							
Buildings	$ 354,164	$ 66,261	$ −	$ −	$ −	$ (10,396)	$ 410,029
Machinery and equipment	1,441,361	147,696	(288)	(48,897)	−	(20,421)	1,519,451
Hydropower equipment	252,420	16,112	−	−	−	(6,094)	262,438
Testing equipment	95,788	13,906	(567)	280	−	(1,303)	108,104
Miscellaneous equipment	204,828	23,918	(7,634)	48,666	2,519	(4,884)	267,413
Total	$ 2,348,561	$ 267,893	$ (8,489)	$ 49	$ 2,519	$ (43,098)	$ 2,567,435
Construction in progress and equipment awaiting inspection	491,705	308,639	−	(377,394)	−	(124)	422,826
Net	$ 2,694,435						$ 2,789,520

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

	As of January 1, 2015	Additions	Disposals	Reclassification	Impairment loss	Effect of exchange rate changes	As of December 31, 2015
Cost							
Land	$ 100,843	$ —	$ —	$ —	$ —	$ —	$ 100,843
Buildings	1,384,840	4,874	—	13,029	—	(6,524)	1,396,219
Machinery and equipment	2,114,994	34,807	(4,490)	121,611	—	(4,963)	2,261,959
Hydropower equipment	358,438	1,748	(3,746)	4,193	—	(1,633)	359,000
Testing equipment	149,657	7,672	(3,854)	25,991	—	(268)	179,198
Miscellaneous equipment	249,167	6,771	(5,977)	5,064	—	(953)	254,072
Total	$ 4,357,939	$ 55,872	$ (18,067)	$ 169,888	$ —	$ (14,341)	$ 4,551,291
Accumulated depreciation and impairment							
Buildings	$ 288,665	$ 66,586	$ —	$ —	$ —	$ (1,087)	$ 354,164
Machinery and equipment	1,304,576	142,672	(3,716)	—	—	(2,171)	1,441,361
Hydropower equipment	237,335	19,445	(3,641)	—	—	(719)	252,420
Testing equipment	88,398	11,392	(3,855)	—	—	(147)	95,788
Miscellaneous equipment	190,835	25,462	(5,438)	—	(5,461)	(570)	204,828
Total	$ 2,109,809	$ 265,557	$ (16,650)	$ —	$ (5,461)	$ (4,694)	$ 2,348,561
Construction in progress and equipment awaiting inspection	174,607	491,179	—	(173,758)	—	(323)	491,705
Net	$ 2,422,737						$ 2,694,435

(9) Intangible assets

	December 31, 2016	December 31, 2015
Trademarks	$ 385	$ 221
Patents	7,347	16,903
Software cost	36,085	32,575
Goodwill	69,781	69,781
Total	$ 113,598	$ 119,480

	As of January 1, 2016	Additions	Reclassification	Effect of exchange rate changes	As of December 31, 2016
Cost					
Trademarks	$ 372	$ 211	$ —	$ —	$ 583
Patents	39,233	2,969	—	—	42,202
Software cost	93,511	15,571	252	(1,040)	108,294
Goodwill	69,781	—	—	—	69,781
Total	$ 202,897	$ 18,751	$ 252	$ (1,040)	$ 220,860

(Continued)

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

	As of January 1, 2016	Additions	Reclassification	Effect of exchange rate changes	As of December 31, 2016
Accumulated amortization and impairment					
Trademarks	$ 151	$ 47	$ —	$ —	$ 198
Patents	22,330	12,525	—	—	34,855
Software cost	60,936	11,922	—	(649)	72,209
Total	83,417	$ 24,494	$ —	$ (649)	107,262
Net	$ 119,480				$ 113,598

(Concluded)

	As of January 1, 2015	Additions	Reclassification	Effect of exchange rate changes	As of December 31, 2015
Cost					
Trademarks	$ 269	$ 103	$ —	$ —	$ 372
Patents	38,526	707	—	—	39,233
Software cost	75,515	8,476	9,627	(107)	93,511
Goodwill	69,781	—	—	—	69,781
Total	$ 184,091	$ 9,286	$ 9,627	$ (107)	$ 202,897
Accumulated amortization and impairment					
Trademarks	$ 126	$ 25	$ —	$ —	$ 151
Patents	16,094	6,236	—	—	22,330
Software cost	50,785	10,222	—	(71)	60,936
Total	67,005	$ 16,483	$ —	$ (71)	83,417
Net	$ 117,086				$ 119,480

(10) Other non-current assets

	December 31, 2016	December 31, 2015
Long-term prepaid rent (Land use rights)	$ 20,997	$ 23,468
Refundable deposits	23,711	17,116
Other non-current assets-other	36,146	42,290
Total	$ 80,854	$ 82,874

(11) Impairment testing of goodwill

Goodwill acquired through business combinations had been allocated to each of the CGUs, which were expected to benefit from synergies. Impairment evaluation of recoverable amount of goodwill was conducted at each year end. The recoverable amount of the CGU had been determined based on value-in-use which was calculated using cash flow projections from financial budgets approved by management covering a five-year period discounted at a pre-tax rate. The projected cash flows had been updated to reflect the change in demand for relevant products. As a result of the analysis, the Company did not identify any impairment for goodwill of NT$ 69,781 thousand.

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

Key assumptions used in value-in-use calculations

Discount rates – Discount rates reflect the current market assessment of the risks specific to each CGU (including the time value of money and the risks specific to the asset not included in the future cash flow estimates). The Group used the pre-tax discount rate to reflect the relevant specific risk in the operating segment.

Sensitivity to changes in assumptions

The management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

(12) Short-term loans

	December 31, 2016	December 31, 2015
Unsecured bank loans	$ 939,783	$ 881,178

The interest rates of loans were 0.85% to 4.57% and 0.55% to 3.03% as of December 31, 2016 and 2015, respectively.

(13) Financial liabilities at fair value through profit or loss, current

	December 31, 2016	December 31, 2015
Held for trading:		
Non-hedging derivative financial liabilities		
-Forward foreign exchange contracts	$ -	$ -

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

(14) Long-term loans

	December 31, 2016	December 31, 2015
Secured loans	$ 76,916	$ 77,094
Revolving loans	504,207	387,188
Syndicated loans	193,675	727,452
Total	774,798	1,191,734
Less: current portion	(27,372)	(303,561)
Less: unamortized syndicated loan fee	(4,000)	—
Net	$ 743,426	$ 888,173

A. The interest rates of loans ranged from 0.98% to 1.97% and 1.22% to 2.10% as of December 31, 2016 and 2015, respectively.

B. Please refer to Note 8 for collateral of those long-term loans.

C. On January 5, 2012, the Group entered into a syndicated loan agreement with eight lending institutions, including the Bank of Taiwan (bookrunner), for a loan facility of NT$ 1.8 billion or the equivalent in U.S. dollars. The credit term of the agreement was mid-term loans - current. The terms and conditions of the agreement were as follows:

(a) The contract term is three years from the initial draw-down date, i.e. March 21, 2012 to March 21, 2015. The Group may apply for a 2-year extension six months before the maturity date. In August 2014, the Group entered into the first addendum to the syndicated loan agreement with eight lending institutions (the crediting banks), including the Bank of Taiwan. The contract stated that the crediting banks agreed to the 2-year credit extension of contract term and the term was extended to March 21, 2017.

(b) During the loan term, the Group is required to calculate and maintain the following financial ratios at an agreed level based on the consolidated financial statements audited by CPAs every six months: current ratio, liability ratio, interest coverage ratio and tangible net value.

D. In January 2016, the Group entered into a syndicated loan agreement with ten lending institutions, including the Bank of Taiwan (bookrunner), for a loan facility of NT$ 2.5 billion or the equivalent in U.S. dollars. The credit term of the agreement was mid-term loans - current. The terms and conditions of the agreement were as follows:

(a) The contract term is five years from the initial draw-down date, i.e. June 15, 2016 to June 15, 2021. The Group may apply for a 2-year extension six months before the maturity date.

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

(b) During the loan term, the Group is required to calculate and maintain the following financial ratios at an agreed level based on the consolidated financial statements audited by CPAs every six months: current ratio, liability ratio, interest coverage ratio and tangible net value.

(c) As of December 31, 2016, the amount drawn down equaled US$ 6 million.

E. The Company entered into a mid-term revolving loan agreement with the Shanghai Commercial & Savings Bank on May 7, 2015. The credit line amounted to NT$ 300 million.

F. The Company entered into a mid-term revolving loan agreement with the China Development Industrial Bank on October 30, 2014. The credit line amounted to NT$ 300 million. The China Development Industrial Bank transferred its claims to KGI Bank on May 4, 2015.

G. The Company entered into a mid-term revolving loan agreement with the Export-Import Bank of the ROC on June 5, 2015. The credit line amounted to US$ 4.8 million.

H. The Company entered into a mid-term revolving loan agreement with the Far Eastern International Bank on September 17, 2015. The credit line amounted to NT$ 200 million.

I. The Company entered into a mid-term revolving loan agreement with the KGI Bank on October 31, 2016. The credit line amounted to NT$ 300 million.

(15) Post-employment benefits

A. Defined contribution plan

Expenses under the defined contribution plan for the years ended December 31, 2016 and 2015 were NT$ 21,900 thousand and NT$ 20,420 thousand, respectively.

B. Defined benefits plan

Expenses under the defined benefits plan were as follows:

	Years ended December 31	
Financial Statement Account	2016	2015
Operating costs	$ 5,095	$ 4,218
Sales and marketing expenses	1,286	987
General and administrative expenses	2,125	1,915
Research and development expenses	1,610	1,208
Total	$ 10,116	$ 8,328

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

C. Accumulated amounts of actuarial gain or loss recognized under other comprehensive income were as follows:

	Years ended December 31	
	2016	2015
Beginning balance	$ 53,056	$ 30,061
Actuarial loss	72,083	22,995
Ending balance	$ 125,139	$ 53,056

D. Reconciliation of defined benefit obligation at present value and plan asset at fair value was as follows:

	Years ended December 31	
	2016	2015
Present value of defined benefit obligation	$ 222,272	$ 139,920
Fair value of plan assets	(31,996)	(28,911)
Funded status	190,276	111,009
Net defined benefit liability	$ 190,276	$ 111,009

E. Changes in the present value of the defined benefit obligation were as follows:

	Years ended December 31	
	2016	2015
Balance, beginning of year	$ 139,920	$ 108,021
Current service cost	7,787	6,366
Interest cost	2,798	2,431
Actuarial loss	71,767	23,102
Balance, end of year	$ 222,272	$ 139,920

F. Changes in the fair value of the plan assets were as follows:

	Years ended December 31	
	2016	2015
Balance, beginning of year	$ 28,911	$ 26,548
Return on plan assets	577	597
Contributions from employer	2,824	1,660
Actuarial gain	(316)	106
Balance, end of year	$ 31,996	$ 28,911

G. The Company expects to make contributions of NT$ 15,207 thousand to the defined benefit plan in the following 12 months starting December 31, 2016.

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

H. The major categories of plan assets as a percentage of the fair value of total plan assets were as follows:

	Pension Plan (%)	
	December 31, 2016	December 31, 2015
Cash	100%	100%

The Company's actual return on plan assets were NT$ 262 thousand and NT$ 703 thousand for the years ended December 31, 2016 and 2015, respectively.

The expected rate of return on plan assets is determined based on historical trend and analyst's expectation on the asset's return in its market over the obligation period. Furthermore, the utilization of the fund by the labor pension fund supervisory committee and the fact that the minimum earnings are guaranteed to be no less than the earnings attainable from local banks' two-year time deposits are also taken into consideration in determining the expected rate of return on plan assets.

I. The principal assumptions used in determining the Company's defined benefit plan were shown below:

	December 31, 2016	December 31, 2015
Discount rate	1.80%	2.00%
Expected rate of return on plan assets	1.80%	2.00%
Expected rate of salary increases	5.00%	3.00%

J. A 0.5 percentage point change in the discount rate would result in the following:

	Years ended December 31			
	2016		2015	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Effect on the aggregate current service cost and interest cost	$ (376)	$ 354	$ (374)	$ 369
Effect on the present value of defined benefit obligation	(21,635)	24,267	(13,459)	15,093

K. Other information on the defined benefit plan was as follows:

	Years ended December 31	
	2016	2015
Present value of defined benefit obligation, ending balance	$ 222,272	$ 139,920
Fair value of plan assets, ending balance	(31,996)	(28,911)
Surplus/deficit of plan, ending balance	$ 190,276	$ 111,009

(Continued)

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

	Years ended December 31	
	2016	2015
Experience adjustments on plan liabilities	$ (2,266)	$ (8,614)
Experience adjustments on plan assets	$ 316	$ (106)

(Concluded)

(16) Equity

A. Capital

(a) The Company's authorized capital was NT$ 3,000,000 thousand, each at a par value of NT$ 10, divided into 300,000 thousand shares (including 15,000 thousand shares reserved for the exercise of employee stock options, preferred stock with warrants and bond with warrants) as of December 31, 2016 and 2015.

(b) The Company's issued capital was NT$ 2,083,252 thousand and NT$ 2,042,858 thousand, each at a par value of NT$10, divided into 208,325 thousand shares and 204,286 thousand shares as of December 31, 2016 and 2015, respectively.

B. Capital surplus

	December 31, 2016	December 31, 2015
Additional paid-in capital	$ 1,022,603	$ 1,062,997
Premium from merger	262,500	262,500
Donated assets	1,970	1,970
Treasury stock transactions	6,937	6,937
Others	113,548	113,548
Total	$ 1,407,558	$ 1,447,952

According to laws and regulations, capital surplus shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital surplus related to the income derived from the issuance of new shares at a premium or income from endowments received by the company up to a certain percentage of paid-in capital. The distribution could be made in the form of cash dividends to its shareholders in proportion to the number of shares being held by each of them.

C. Treasury Stock

In accordance with Article 28-2 of the Securities and Exchange Act, the Company repurchased 2,318 thousand treasury stocks from the open market in 2014 for transferring to employees. The repurchase amounted to NT$ 98,744 thousand. The Company has not transferred those stocks to employees as of December 31, 2016.

Pursuant to the Securities and Exchange Act, the number of shares repurchased cannot exceed ten percent of the shares outstanding and the repurchase amount shall not exceed the sum of retained earnings, share premium and realized capital surplus. The shares bought back by the Company for transferring to employees shall be transferred within three years from the buyback date. Shares not transferred within the said time limit shall be deemed as unissued shares and have to be cancelled. Furthermore, treasury stocks shall not be pledged as collateral and they do not have shareholders' rights before being transferred.

D. Appropriation of profits and dividend policies

(a) Appropriation of profits

The original Articles of Incorporation state that current year's earnings, if any, shall be distributed in the following order:

i. Deficit compensation;
ii. 10% of net profit as legal capital reserves;
iii. Special capital reserve appropriated or reversed as stipulated by laws or competent securities authority;
iv. For the remaining profits, if any, the Board of Directors shall appropriate in the following manners depending on the financial and economic conditions of current year:
    (i) Bonus to employees shall not be lower than eight percent of the remaining balance after the deductions specified in Paragraphs i to iii of the Article. The bonus to employees, distributed in cash or shares, shall not exceed fifty percent of current period's net profit when calculated by market price, or fifty percent of current period's net profit combined with the undistributed earnings accumulated during the previous years, whichever is higher. The parties receiving the stock dividends shall include employees in affiliated companies who met certain conditions stipulated by the Board of Directors;
    (ii) Remuneration to directors and supervisors shall not be higher than five percent of the remaining balance after the deductions specified in Paragraphs i to iii of the Article;
    (iii) The shareholders' meeting shall then resolve as to whether the remaining balance combined with the undistributed earnings accumulated during previous years shall be reserved or distributed to the shareholders as dividends. (The cash dividend shall not be lower than ten percent of the total dividends and shall be capped at one hundred percent.)

However, Article 235-1 of the Company Act, as amended on May 20, 2015, states that compensation to employees shall be distributed based on the company's profitability of the year. According to the amended Articles of Incorporation approved by the shareholders' meeting on May 27, 2016, compensation to employees and remuneration to directors and supervisors shall be distributed in accordance with the following percentages when earnings are made during the year. However, if the Company has an accumulated deficit, the profit shall be used to offset the deficit before it can be distributed as compensation to employees and remuneration to directors and supervisors.

i. The compensation to employees shall not be lower than five percent of the balance and it can be made in the form of cash or stock. Parties eligible to receive the said compensation shall include employees in affiliated companies who met certain conditions set by the Board.
ii. The remuneration to directors and supervisors shall not be higher than four percent of the balance.

(b) Dividend policies

The Company's dividend policies shall take into account the environment and development stage of the Company in meeting the needs of capital in the future and establishing long-term financial planning together with satisfying the shareholders' demand for cash.

(c) Special capital reserve

Following the adoption of IFRS, the FSC issued Order No. Jin-Guan-Zheng-Fa-1010012865 on April 6, 2012, which sets out the following provisions for compliance: On a public company's first-time adoption of the IFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special capital reserve. Following a company's adoption of the IFRS for the preparation of its financial reports, when distributing distributable earnings, if the company has already set aside special capital reserve according to the requirements in the preceding point, it shall set aside supplemental special capital reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

As of December 31, 2016 and 2015, special capital reserve set aside for the first-time adoption of IFRS amounted to NT$ 102,158 thousand. Furthermore, the Company did not reverse special capital reserve to undistributed earnings during the years ended December 31, 2016 and 2015 as a result of use, disposal or reclassification of related assets.

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

The information about the appropriations of 2016 earnings resolved in the Board of Directors' meeting on February 23, 2017 and the appropriations of 2015 earnings approved by the shareholders' meeting on May 27, 2016 was as follows:

	Appropriation of Earnings		Dividend per Share (NT$)	
	2016	2015	2016	2015
Legal capital reserve	$ 57,968	$ 72,986	-	-
Cash dividends-common stock	412,254	403,936	$ 2.00	$ 2.00
Total	$ 470,222	$ 476,922		

In addition, the shareholders' meeting on May 27, 2016 resolved to capitalize capital surplus of NT$ 40,394 thousand for issuance of new shares.

Please refer to Note 6(19) for information about the accrual basis and amounts recognized for compensation to employees and remuneration to directors and supervisors.

E. Non-controlling interests (NCI)

	Years ended December 31	
	2016	2015
Beginning balance	$ 134,093	$ 156,767
Net loss attributable to NCI	(33,068)	(22,548)
Other comprehensive income attributable to NCI	(715)	(126)
Ending balance	$ 100,310	$ 134,093

(17) Share-based payment plans

A. The Company issued employee stock options – before January 1, 2008

On November 21, 2007, the Company resolved at the Board of Directors' meeting to issue employee stock options with a total number of 3,000 units. Each unit entitles an optionee to subscribe to one thousand share of the Company's common stock. Settlement upon the exercise of the options will be made through the issuance of new shares by the Company. An optionee may exercise the options in accordance with certain schedules and percentages prescribed by the plan two years from the grant date. The expense of compensatory employee stock option plan for the year ended December 31, 2016 was NT$0.

There have been no cancellations or modifications to any of the employee stock option plans by December 31, 2016.

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

	Years ended December 31			
	2016		2015	
Stock options	Options	Weighted average exercise price per share (NT$)	Options	Weighted average exercise price per share (NT$)
Outstanding at beginning of period	-	$ 9.80	8	$ 12.80
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	(8)	9.80
Expired	-	-	-	-
Outstanding at end of period	-	-	-	9.80
Exercisable at end of period	-	-	-	9.80

The information on the aforementioned outstanding employee stock options as of December 31, 2016 and 2015 was as follows:

	Weighted Average Remaining Contractual Years	
Date of Grant	December 31, 2016	December 31, 2015
2007.12.26	-	-

B. The Company issued employee stock options – after January 1, 2008

On February 25, 2010, the Company resolved at the Board of Directors' meeting to issue employee stock options with a total number of 2,355 units. Each unit entitles an optionee to subscribe to one thousand share of the Company's common stock. The chairperson is authorized by the Board to set the actual grant date. If a consensus was not reached regarding all terms and conditions, the grant date would be the date when consensuses for all were reached (April 30, 2010). Settlement upon the exercise of the options will be made through the issuance of new shares by the Company. An optionee may exercise the options in accordance with certain schedules and percentages prescribed by the plan two years from the grant date. The expense of compensatory employee stock option plan for the year ended December 31, 2016 was NT$ 0.

There have been no cancellations or modifications to any of the employee stock option plans by December 31, 2016.

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

Stock options	Years ended December 31			
	2016		2015	
	Options	Weighted average exercise price per share (NT$)	Options	Weighted average exercise price per share (NT$)
Outstanding at beginning of period	1,022	$ 39.70	1,022	$ 43.40
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	(10)	43.40
Expired	(50)	-	(10)	-
Outstanding at end of period	952	36.80	1,002	39.70
Exercisable at end of period	952	36.80	1,002	39.70

The information on the aforementioned outstanding employee stock options as of December 31, 2016 and 2015 was as follows:

Date of Grant	Weighted Average Remaining Contractual Years	
	December 31, 2016	December 31, 2015
2010.4.30	1.33	2.33

(18) Revenue

	Years ended December 31	
	2016	2015
Sale of goods	$ 10,283,979	$ 10,267,868

(19) Summary statement of employee benefits, depreciation and amortization expenses by function:

Function / Nature	Years ended December 31					
	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Payroll	424,415	413,788	838,203	395,172	387,132	782,304
Labor and health insurance	38,386	27,081	65,467	39,232	27,045	66,277
Pension	17,474	14,543	32,017	15,729	13,018	28,747
Other employee benefits expense	41,317	26,933	68,250	39,193	25,926	65,119
Depreciation	249,484	18,409	267,893	246,141	19,416	265,557
Amortization	16,987	17,560	34,547	21,172	17,729	38,901

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

The Company passed the amended Article of Incorporation in the shareholders' meeting on May 27, 2016. According to the amended Articles of Incorporation, when the Company makes a profit for the year, the compensation to employees shall not be lower than five percent of the balance and the remuneration to directors and supervisors shall not be higher than four percent of the balance. However, if the Company has an accumulated deficit, the profit shall cover the deficit before it can be used for compensation to employees and remuneration to directors and supervisors. The above-mentioned compensation to employees can be made in the form of stock or cash by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors. A report of such distribution shall be submitted to the shareholders' meeting.

The accrual basis for compensation to employees and remuneration to directors and supervisors for the years ended December 31, 2016 and 2015 was formulated by the Board of Directors in accordance with the Articles of Incorporation and relevant laws and regulations with reference to the remuneration standard of the industry. Those estimates were recognized as expenses. If amounts resolved in the Board of Directors' meeting differ significantly from those estimates in the subsequent period, current income would be adjusted. If amounts resolved in the shareholders' meeting differ from those estimates in the subsequent year, the difference would be recorded as a change in accounting estimate and recognized in the profit or loss of that year.

The information about the 2016 compensation to employees and remuneration to directors and supervisors resolved in the Board of Directors' meeting on February 23, 2017 and the 2015 compensation to employees and remuneration to directors and supervisors approved by the shareholders' meeting on May 27, 2016 was as follows

	Years ended December 31	
	2016	2015
Compensation to employees	$ 53,949	$ 64,754
Remuneration to directors and supervisors	16,185	19,426

There was no difference between the 2015 compensation to employees and remuneration to directors and supervisors approved by the shareholders' meeting and the amount resolved in the Board of Directors' meeting on February 24, 2016.

The information about the compensation to employees and remuneration to directors and supervisors resolved or submitted to the meetings of Board of Directors and shareholders is available at the Market Observation Post System website.

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

(20) Non-operating income and expenses

A. Other income

	Years ended December 31	
	2016	2015
Interest income	$ 19,619	$ 28,117
Other income	5,638	16,866
Total	$ 25,257	$ 44,983

B. Other gains and losses

	Years ended December 31	
	2016	2015
Gain (loss) on disposal of property, plant and equipment	$ 26	$ 190
Foreign exchange gain (loss), net	(216,617)	(111,584)
Impairment (loss) gain from recovery	(8,686)	5,461
Gain of financial assets (liabilities) at fair value through profit or loss, net	25,515	5,937
Other losses	(4,234)	(52,165)
Total	$ (203,996)	$ (152,161)

C. Finance costs

	Years ended December 31	
	2016	2015
Interest on borrowings from banks	$ (92,449)	$ (68,999)

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

D. Components of other comprehensive income

For the year ended December 31, 2016

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plan	$ (72,083)	$ –	$ (72,083)	$ 12,254	$ (59,829)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	(164,774)	–	(164,774)	28,011	(136,763)
Total	$ (236,857)	$ –	$ (236,857)	$ 40,265	$ (196,592)

For the year ended December 31, 2015

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plan	$ (22,995)	$ –	$ (22,995)	$ 3,909	$ (19,086)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	(23,246)	–	(23,246)	3,951	(19,295)
Total	$ (46,241)	$ –	$ (46,241)	$ 7,860	$ (38,381)

(21) Income tax

A. The major components of income tax expense (benefit) were as follows:

<u>Income tax recognized in profit or loss</u>

	Years ended December 31	
	2016	2015
Current income tax expense (benefit):		
Current income tax expense	$ 138,889	$ 186,379
Income tax adjustments on prior years	(2,518)	(17,363)
Effect of exchange rate changes	(323)	18

(Continued)

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

	Years ended December 31	
	2016	2015
Deferred income tax expense (benefit):		
Deferred income tax benefit relating to origination and reversal of temporary differences	740	(9,072)
Total income tax expense	$ 136,788	$ 159,962

(Concluded)

Income tax recognized in other comprehensive income

	Years ended December 31	
	2016	2015
Deferred income tax expense:		
Exchange differences arising on translation of foreign operations	$ (28,011)	$ (3,951)
Remeasurement of defined benefit plan	(12,254)	(3,909)
Income tax relating to components of other comprehensive income	$ (40,265)	$ (7,860)

B. The reconciliation of income tax expense and income tax based on pre-tax net income at the statutory tax rate was as follows

	Years ended December 31	
	2016	2015
Income before tax of continuing operations	$ 683,398	$ 867,270
Income tax expense at the statutory rate of the parent company (17%)	$ 116,178	$ 147,436
Additional 10% income tax on unappropriated earnings	23,385	18,659
Tax effects of entities at different tax jurisdictions with different tax rates	134	15,009
Income tax adjustments on prior years	(2,518)	(17,364)
Tax effects of other tax adjustments	(391)	(3,778)
Income tax expense recognized in profit or loss	$ 136,788	$ 159,962

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

C. Balance of deferred income tax assets (liabilities):

For the year ended December 31, 2016

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Ending balance
Temporary differences					
Exchange gain and loss	$ (15,156)	$ 20,234	$ –	$ –	$ 5,078
Allowance for inventory valuation and obsolescence loss	12,368	(2,311)	–	–	10,057
Investments accounted for under the equity method	(154,495)	526	28,011	–	(125,958)
Unrealised intra-group profits and losses	10,834	(2,068)	–	–	8,766
Impairment of assets	11,072	1,477	–	–	12,549
Allowance for doubtful accounts	53,177	(18,882)	–	–	34,295
Net defined benefit liabilities	18,871	1,222	12,254	–	32,347
Others	(5,531)	(893)	–	–	(6,424)
Deferred income tax benefit (expense)		$ (695)	$ 40,265	$ –	
Net deferred income tax assets (liabilities)	$ (68,860)				$ (29,290)
Reflected in balance sheet as follows:					
Deferred income tax assets	$ 125,309				$ 129,825
Deferred income tax liabilities	$ 194,169				$ 159,115

For the year ended December 31, 2015

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Ending balance
Temporary differences					
Exchange gain and loss	$ (27,216)	$ 12,060	$ –	$ –	$ (15,156)
Allowance for inventory valuation and obsolescence loss	21,706	(9,338)	–	–	12,368
Investments accounted for under the equity method	(165,695)	7,249	3,951	–	(154,495)
Unrealised intra-group profits and losses	12,396	(1,562)	–	–	10,834
Impairment of assets	12,000	(928)	–	–	11,072
Allowance for doubtful accounts	51,185	1,992	–	–	53,177
Net defined benefit liabilities	13,850	1,112	3,909	–	18,871
Others	(4,048)	(1,483)	–	–	(5,531)

(Continued)

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

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Ending balance
Deferred income tax benefit (expense)		$ 9,102	$ 7,860	$ –	
Net deferred income tax assets (liabilities)	$ (85,822)				$ (68,860)
Reflected in balance sheet as follows:					
Deferred income tax assets	$ 120,157				$ 125,309
Deferred income tax liabilities	$ 205,979				$ 194,169

(Concluded)

D. Unrecognized deferred income tax assets:

As of December 31, 2016 and 2015, deferred income tax assets that had not been recognized by the Group amounted to NT$ 49,634 thousand and NT$ 37,460 thousand, respectively.

E. Imputation credit information:

	December 31, 2016	December 31, 2015
Balances of imputation credit amount	$ 522,966	$ 481,752

The expected creditable ratio for 2016 and the actual creditable ratio for 2015 were 22.99% and 21.74%, respectively.

Pursuant to Article 66-6 of the revised Income Tax Act, the creditable ratio for individual shareholders residing in the territory of the Republic of China is reduced by half. The amendment is effective from January 1, 2015.

F. All of the Company's earnings generated prior to December 31, 1997 have been appropriated.

G. The assessment of income tax returns:

As of December 31, 2016, the assessment of the income tax returns of the Group in ROC was as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2011
Subsidiary- Koatech Technology Corporation	Assessed and approved up to 2014

(22) Earnings per share

	Year ended December 31, 2016		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT$)
Basic earnings per share			
Net income available to common shareholders of the Company	$ 579,678	206,007	$ 2.81
Effect of dilutive potential common stocks			
Employee compensation - stock	—	1,589	
Diluted earnings per share			
Net income available to common shareholders of the Company and effect of potential common stocks	$ 579,678	207,596	$ 2.79

	For the year ended December 31, 2015		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT$)
Basic earnings per share			
Net income available to common shareholders of the Company	$ 729,856	205,997	$ 3.54
Effect of dilutive potential common stocks			
Employee stock options	—	17	
Employee compensation - stock	—	1,704	
Diluted earnings per share			
Net income available to common shareholders of the Company and effect of potential common stocks	$ 729,856	207,718	$ 3.51

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

7. RELATED PARTY TRANSACTIONS

(1) Names and relationships

Name	Relationship
Taistar Co., Ltd.	100% owned subsidiary
Leadmax Limited	100% owned subsidiary
TFS Co., Ltd.	100% owned subsidiary
Taiflex Scientific Japan Co., Ltd.	100% owned subsidiary
TSC Co., Ltd.	100% owned second-tier subsidiary
Richstar Co., Ltd.	100% owned second-tier subsidiary
Taiflex Scientific (Kunshan) Co., Ltd. (Taiflex Kunshan)	100% owned third-tier subsidiary
Kunshan Taiflex Electronic Material Co., Ltd (Kunshan Taiflex)	100% owned third-tier subsidiary
Shenzhen Taiflex Electronic Co., Ltd. (Shenzhen Taiflex)	100% owned third-tier subsidiary
Koatech Technology Corporation (Koatech)	53.86% owned subsidiary
Innatech Co., Ltd. (Innatech)	Its chairperson is the Group’s chairperson

(2) Significant transactions with related parties

A. Acquisition of property, plant, and equipment

	Acquisition Price	
	December 31, 2016	December 31, 2015
Other related parties	$ 3,200	$ 4,260

B. Compensation to key management

	Years ended December 31	
	2016	2015
Short-term employee benefits	$ 68,977	$ 81,962
Post-employment benefits	1,392	1,029
Total	$ 70,369	$ 82,991

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

8. PLEDGED ASSETS

The following table lists assets of the Group pledged as collateral:

	Carrying Amount		
	December 31, 2016	December 31, 2015	Purpose of Pledge
Demand deposits (Note)	$ 16,447	$ 127,207	Collateral for short-term loans
Time deposits (Note)	20,295	20,264	Customs Guarantee
Land	100,843	100,843	Collateral for long-term loans
Buildings	106,496	114,183	Collateral for long-term loans
Machinery and equipment	15,813	187	Collateral for long-term loans
Total	$ 259,894	$ 362,684	

Note: Those assets were recognized as other current assets - other.

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

Details of the Group's unused letters of credit as of December 31, 2016 were as follows:

	L / C Amount
NTD	NT$ 14,078 thousand
USD	US$ 715 thousand

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

Kunshan Taiflex Electronic Material Co., Ltd., a subsidiary of the Company, was resolved in the Board of Directors' meeting on January 17, 2017 to be dissolved.

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

12. OTHERS

(1) Categories of financial instruments

Financial assets

	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss:		
Non-hedging derivative financial assets – Forward foreign exchange contracts	$ 19,762	$ –
Non-derivative financial assets - Stocks	16,245	19,300
Loans and receivables:		
Cash and cash equivalents (excluding cash on hand)	2,981,602	2,728,550
Receivables	4,387,994	4,748,557
Other financial assets, current	36,742	146,541

Financial liabilities

	December 31, 2016	December 31, 2015
Financial liabilities at fair value through profit or loss:		
Non-hedging derivative financial liabilities – Forward foreign exchange contracts	$ –	$ –
Financial liabilities at amortized cost:		
Short-term loans	939,783	881,178
Payables	2,871,550	2,578,172
Long-term loans (including current portion)	770,798	1,191,734

(2) Objectives of financial risk management

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies, measures, and manages the aforementioned risks based on its policy and risk preferences.

The Group has established appropriate policies, procedures and internal controls for the aforementioned financial risk management. Before entering into significant transactions, due approval process by the Board of Directors must be carried out based on related protocols and internal control procedures. The Group shall comply with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market risk comprises foreign currency risk, interest rate risk and other price risk.

In practice, it is rarely the case that a single risk variable will change independently from other risk variables. There are usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

A. Foreign currency risk

The Group's exposure to foreign currency risk relates primarily to its operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and net investments in foreign operations.

The Group has certain foreign currency receivables denominated in the same foreign currency as certain foreign currency payables, therefore natural hedge is achieved. The Group also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as the said nature hedge and forward contracts do not qualify for hedge accounting criteria. Furthermore, as net investments in foreign operations are for strategic purposes, they are not hedged by the Group.

The foreign currency sensitivity analysis of the impact of possible changes in foreign exchange rates on the Group's profit and equity is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates of U.S. dollars and Chinese Yuan.

B. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk relates primarily to its variable interest rates for loans.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans.

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

C. Equity price risk

Equity securities of listed domestic companies held by the Group are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on equity portfolio are submitted to the Group's senior management on a regular basis. The Board of Directors reviews and approves all equity investment decisions.

D. The information of the pre-tax sensitivity analysis was as follows:

For the year ended December 31, 2016

Key risk	Variation	Sensitivity of profit and loss
Foreign currency risk	NTD/USD Foreign currency +/− 1%	+/− NT$ 9,209 thousand
	NTD/CNY Foreign currency +/− 1%	+/− NT$ 1,047 thousand
Interest rate risk	Market rate +/− 10 basis points	+/− NT$ 1,272 thousand

For the year ended December 31, 2015

Key risk	Variation	Sensitivity of profit and loss
Foreign currency risk	NTD/USD Foreign currency +/− 1%	+/− NT$ 1,827 thousand
	NTD/CNY Foreign currency +/− 1%	+/− NT$ 200 thousand
Interest rate risk	Market rate +/− 10 basis points	+/− NT$ 656 thousand

(4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract and result in a financial loss. The Group is exposed to credit risk from operating activities (primarily for accounts and notes receivable) and financing activities (primarily for bank deposits and various financial instruments).

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Certain customer's credit risk will also be managed by taking credit enhancement procedures, such as requesting for prepayment or insurance, or by demanding customers with poorer financial condition to provide collateral to reduce their credit risk.

Credit risk from balances with banks and other financial instruments is managed by the Group's finance division in accordance with the Group's policy. The counterparties that the Group transacts with are domestic and international financial institutions with good credit ratings, thus, no significant default risk is expected.

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

(5) Liquidity risk management

The Group maintains its financial flexibility through the use of cash and cash equivalents and bank borrowings. The table below summarized the maturity profile of the Group’s financial liability contracts based on the earliest repayment dates and contractual undiscounted cash flows. The amount included the contractual interest. The undiscounted interest payment relating to borrowings with variable interest rates was extrapolated based on the yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2016					
Borrowings	$ 969,558	$ 687,142	$ −	$ 56,284	$ 1,712,984
Payables	2,871,550	−	−	−	2,871,550
December 31, 2015					
Borrowings	$ 1,186,369	$ 821,296	$ −	$ 66,877	$ 2,074,542
Payables	2,578,172	−	−	−	2,578,172

Derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2016					
Inflows	$ 727,398	$ −	$ −	$ −	$ 727,398
Outflows	735,070	−	−	−	735,070
Net	$ (7,672)	$ −	$ −	$ −	$ (7,672)
December 31, 2015					
Inflows	$ −	$ −	$ −	$ −	$ −
Outflows	−	−	−	−	−
Net	$ −	$ −	$ −	$ −	$ −

The derivative financial instruments in the table above were expressed using undiscounted net cash flows.

(6) Fair values of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions are used by the Group in measuring or disclosing the fair values of financial assets and liabilities:

(a) The carrying amount of cash and cash equivalents, receivables, payables and other current liabilities approximate their fair value due to short maturity terms.
(b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (e.g. listed equity securities, beneficiary certificates, bonds and futures).

B. Fair value of financial instruments measured at amortized cost

The carrying amount of the Group's financial assets and liabilities measure at amortized cost approximates their fair value.

C. Information on the fair value hierarchy of financial instruments

Please refer to Note 12(8) for details.

(7) Derivative financial instruments

As of December 31, 2016 and 2015, the Group's derivative financial instruments that were not eligible for hedge accounting and were outstanding (including forward foreign exchange contracts and embedded derivatives) were listed as follows:

A. Forward foreign exchange contracts that were not eligible for hedge accounting and were outstanding as of the balance sheet date were listed as follows:

Currency	Contract period	Contract amount (in thousands)
2016.12.31		
NTD to CNY	2016.08～2017.06	NT$ 727,398/CNY 159,020
USD to CNY	2016.08～2017.06	US$ 14,602/CNY 99,394

For the transactions of forward foreign exchange contracts, the main purpose is to hedge the foreign currency risk of net assets or liabilities denominated in foreign currencies. As there will be corresponding cash inflows or outflows upon expiration and the Company has sufficient operation funds, no significant cash flow risk is expected.

B. Forward foreign exchange contracts that were not eligible for hedge accounting and have expired as of the balance sheet date were listed as follows:

Currency	Contract period	Contract amount (in thousands)
2016.12.31		
USD to CNY	2016.01～2016.12	US$ 80,882/CNY 538,714
USD to NTD	2016.08～2016.12	US$ 16,550/NT$ 523,631
CNY to NTD	2016.05～2016.12	CNY 75,000/NT$ 365,402
USD to JPY	2016.12	US$ 100/JPY 11,427
2015.12.31		
USD to CNY	2015.01～2015.06	US$ 2,420/CNY 15,142
USD to NTD	2014.11～2015.05	US$ 19,000/NT$ 595,519
CNY to NTD	2015.12～2015.12	CNY 102,000/NT$ 511,008
NTD to JPY	2015.03～2015.11	NT$ 62,314/JPY 240,000

For the transactions of forward foreign exchange contracts, the main purpose is to hedge the foreign currency risk of net assets or liabilities denominated in foreign currencies. As there will be corresponding cash inflows or outflows upon expiration and the Company has sufficient operation funds, no significant cash flow risk is expected.

(8) Fair value hierarchy

A. Definition of fair value hierarchy

For assets and liabilities measured or disclosed in fair values, they are categorized in the level of the lowest level input that is significant to the entire measurement. Inputs of each level are as follows:

Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities at the measurement date
Level 2 inputs are inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly
Level 3 inputs are unobservable inputs for the asset or liability

For assets and liabilities measured at a recurring basis, their categories shall be re-evaluated at the end of each reporting period to determine if there is any transfer between different levels of fair value hierarchy.

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

B. Hierarchy of fair value measurement

The Group does not have assets that are measured at fair value on a non-recurring basis. The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis was disclosed as follows:

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	$ —	$ 19,762	$ —	$ 19,762
Stocks	16,245	—	—	16,245
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	—	—	—

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Financial assets:				
Financial assets at fair value through profit or loss				
Stocks	$ 19,300	$ —	$ —	$ 19,300
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	—	—	—

For the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value hierarchy.

(9) Significant financial assets and liabilities denominated in foreign currencies

Information regarding the significant financial assets and liabilities denominated in foreign currencies was listed below:

	December 31, 2016			December 31, 2015		
	Foreign currencies (in thousands)	Exchange rate	NTD	Foreign currencies (in thousands)	Exchange rate	NTD
Financial assets						
Monetary items						
USD	$ 80,970	32.2790	$ 2,613,631	$ 69,499	33.0660	$ 2,298,054
CNY	22,363	4.6225	103,373	3,964	5.0310	19,943
Financial liabilities						
Monetary items						
USD	$ 52,438	32.2790	$ 1,692,646	$ 75,023	33.0660	$ 2,480,711
JPY	159,796	0.2757	44,056	495,469	0.2747	136,105

The data above was disclosed based on the carrying amounts in foreign currencies (already translated to functional currencies).

As entities within the Group transact in various currencies, the exchange gain (loss) of monetary financial assets and liabilities cannot be disclosed by currencies of significant influence. For the years ended December 31, 2016 and 2015, the Group's foreign exchange gain (loss) amounted to NT$ (216,617) thousand and NT$ (111,584) thousand, respectively.

(10) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages and adjusts its capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. ADDITIONAL DISCLOSURES

(1) Information on significant transactions and investees

A. Financing provided to others: Please refer to Table 1.

B. Endorsement/Guarantee provided to others: Please refer to Table 2.

C. Marketable securities held as of December 31, 2016 (excluding investments in subsidiaries, associates and joint ventures): Please refer to Table 3.

D. Individual securities acquired or disposed of with accumulated amount of at least NT$ 300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.

E. Acquisition of individual real estate with amount of at least NT$ 300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.

F. Disposal of individual real estate with amount of at least NT$ 300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.

G. Related party transactions with purchase or sales amount of at least NT$ 100 million or 20 percent of the paid-in capital for the year ended December 31, 2016: Please refer to Table 4.

H. Receivables from related parties of at least NT$ 100 million or 20 percent of the paid-in capital as of December 31, 2016: Please refer to Table 5.

I. Direct or indirect significant influence or control over the investees for the year ended December 31, 2016 (excluding investments in China): Please refer to Table 6.

J. Financial instruments and derivative transactions: Please refer to Note 12.

K. Others: intercompany relationships and significant intercompany transactions for the year ended December 31, 2016: Please refer to Table 8.

(2) Information on investments in Mainland China: Please refer to Table 7.

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

14. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organized into operating segments based on each independent utility and has two reportable operating segments as follows:

The general management segment is responsible for the Group's operation planning and owns manufacturing, R&D and sales functions.
The overseas segment owns manufacturing and sales functions.
No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of decision-making on resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and measured consistently with methods applied to operating profit or loss in the consolidated financial statements. However, finance costs, financial benefits and income taxes are managed on the Group basis and are not allocated to operating segments.

(1) Segment income (loss)

For the year ended December 31, 2016

	General management	Overseas	Adjustment and elimination (Note)	Consolidated
Revenue				
External customer	$ 4,568,547	$ 5,715,432	$ —	$ 10,283,979
Inter-segment	2,364,042	339,878	(2,703,920)	—
Total revenue	$ 6,932,589	$ 6,055,310	$ (2,703,920)	$ 10,283,979
Segment income (loss) (Income before income tax)	$ 651,406	$ 52,120	$ (20,942)	$ 683,398

Note: Inter-segment revenues were eliminated on consolidation.

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

For the year ended December 31, 2015

	General management	Overseas	Adjustment and elimination (Note)	Consolidated
Revenue				
External customer	$ 4,771,074	$ 5,496,794	$ —	$ 10,267,868
Inter-segment	2,047,698	672,921	(2,720,619)	—
Total revenue	$ 6,818,772	$ 6,169,715	$ (2,720,619)	$ 10,267,868
Segment income (loss) (Income before income tax)	$ 827,485	$ 20,843	$ 18,942	$ 867,270

Note: Inter-segment revenues were eliminated on consolidation.

(2) Geographic information

A. Revenue from external customers:

	Years ended December 31	
Region	2016	2015
Taiwan	$ 1,622,434	$ 1,953,926
Mainland China	8,253,563	7,970,253
Others	407,982	343,689
Total	$ 10,283,979	$ 10,267,868

Revenue was categorized based on countries where customers are located.

B. Non-current assets:

	Years ended December 31	
Region	2016	2015
Taiwan	$ 2,411,227	$ 2,205,418
Mainland China	702,570	816,680
Total	$ 3,113,797	$ 3,022,098

(3) Major customers

Individual customer accounted for at least 10% of net revenue of the Group for the year ended December 31, 2016 was as follows:

Name	2016
Customer A	$ 1,454,304

No individual customer accounted for at least 10% of net revenue of the Group for the year ended December 31, 2015.

TABLE 1: FINANCING PROVIDED TO OTHERS

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Financing Company	Counter -party	Financial Statement Account (Note 2)	Whether a Related Party	Maximum Balance for the Period (Note 3)	Ending Balance (Note 10)	Amount Actually Drawn (Note 11)	Interest Rate Range	Nature of Financing (Note 4)	Transaction Amounts (Note 5)	Reason for Financing (Note 6)	Allowance for Doubtful Accounts	Collateral		Financing Limits for Each Borrower	Financing Company's Total Financing Amount Limits	Note
													Item	Value			
0	Taiflex Scientific Co., Ltd.	Kunshan Taiflex Electronic Material Co., Ltd.	Other receivables - related parties	Y	$ 471,100	$ —	$ —	1.50%~7.00%	2	—	Operating capital	—	—	—	$ 1,333,010	$ 2,666,020	(Note 7)
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	451,906	451,906	—	1.50%~7.00%	2	—	Operating capital	—	—	—	1,333,010	2,666,020	(Note 7)
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Other receivables - related parties	Y	605,700	581,022	323,575	1.50%~7.00%	2	—	Operating capital	—	—	—	1,333,010	2,666,020	(Note 7)
1	Taistar Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Other receivables - related parties	Y	201,900	193,674	—	1.20%~2.00%	2	—	Operating capital	—	—	—	338,352	676,705	(Note 9)
1	Taistar Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	201,900	129,116	129,116	1.20%~2.00%	2	—	Operating capital	—	—	—	338,352	676,705	(Note 9)
2	Kunshan Taiflex Electronic Material Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	51,230	—	—	4.00%~7.00%	2	—	Operating capital	—	—	—	49,447	98,894	(Note 9)

Note 1: Companies are coded as follows:
(1) Taiflex Scientific Co., Ltd. is coded "0".
(2) The investees are coded from "1" in the order presented in the table above.

Note 2: Receivables from affiliates and related parties, shareholder transactions, prepayments and temporary payments etc. are required to be disclosed in this field if they are financings provided to others.

Note 3: The maximum balance of financing provided to others for the year ended December 31, 2016.

Note 4: Nature of Financing are coded as follows:
(1) Business transaction is coded "1".
(2) Short-term financing is coded "2".

Note 5: If nature of financing is business transaction, the amount of transaction should be disclosed. Amount of transaction shall refer to the business transaction amounts of the most recent year between the financing company and the borrower.

Note 6: With respect to short-term financing, the reasons of financing and the purpose of use by the counter-party shall be specified, such as loan repayment, equipment acquisition or operating capital.

Note 7: The Company's "Procedures for Lending Funds to Other Parties" stipulates that the amount of financing provided shall not exceed 40% of the Company's net worth in the most recent financial statements. The amount of financing provided to any single entity shall not exceed 20% of the Company's net worth in the most recent financial statements.

Note 8: Total amount of financing to firms or companies having business relationship with the Company shall not exceed 20% of the Company's net worth. The financing amount to an individual party is limited to the transaction amount between both parties. The transaction amount means the sales or purchasing amount between the parties, whichever is higher, and shall not exceed 10% of the Company's net worth. However, the lending amount to a single enterprise, whose voting shares are 100% held, directly or indirectly, by the Company, shall not exceed 20% of the Company's net worth.

Note 9: For subsidiaries that the Company holds, directly and indirectly, 100% of the voting shares, the financing provided to any single entity shall not exceed 20% of the net worth in the most recent financial statements of the financing company. Total financing shall not exceed 40% of the net worth in the most recent financial statements of the financing company.

Note 10: If public companies, pursuant to Paragraph 1, Article 14 of Regulations Governing Loaning of Funds and Making of Endorsements / Guarantees by Public Companies, resolve at the board meetings each individually lending, the amounts resolved before drawing shall be the publicly-announced balance to disclose the risk they assume; provided however, if any repayment is made subsequently, the outstanding balance after such repayment shall be disclosed to reflect the risk adjusted. If public companies, pursuant to Paragraph 2, Article 14 of the same Regulations, authorize the chairperson by board resolution, within a certain monetary limit and a period not to exceed one year, to give loans in instalments or to make a revolving credit line available, the amount resolved shall be the publicly-announced balance. Although repayment may be made subsequently, as drawings are likely to happen again, the amount of financing resolved by the board shall be recorded as the publicly-announced balance.

Note 11: This is the ending balance after evaluation.

TABLE 2: ENDORSEMENT/GUARANTEE PROVIDED TO OTHERS

(In Thousands of New Taiwan Dollars)

No (Note 1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 3)	Maximum Balance for the Period (Note 4)	Ending Balance (Note 5)	Amount Actually Drawn (Note 6)	Amount of Endorsement/ Guarantee Secured by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Worth per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowed (Note 3)	Endorsement Provided by Parent Company to Subsidiaries	Endorsement Provided by Subsidiaries to Parent Company	Endorsement Provided to Subsidiaries in China
		Name	Nature of Relationship (Note 2)										
0	Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	2	$ 3,332,525	$ 201,900	$ 129,116	$ 129,116	—	1.94%	$ 3,332,525	Y	N	N
0	Taiflex Scientific Co., Ltd.	Kunshan Taiflex Electronic Material Co., Ltd.	3	3,332,525	151,425	—	—	—	—		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	3	3,332,525	989,715	989,715	364,710	—	14.85%		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	3	3,332,525	2,050,502	2,050,502	196,902	—	30.76%		Y	N	Y

Note 1: Companies are coded as follows:
(1) Taiflex Scientific Co., Ltd. is coded "0".
(2) The investees are coded from "1" in the order presented in the table above.

Note 2: The relationships between endorsement/guarantee providers and guaranteed parties are categorized into the following six types. Please specify the type.
(1) A company that has a business relationship with Taiflex.
(2) A subsidiary in which Taiflex holds directly over 50% of common equity interest.
(3) An investee in which Taiflex and its subsidiaries jointly hold over 50% of common equity interest.
(4) A parent company that holds directly over 50%, or indirectly over 50% through a subsidiary, of the company's common equity interest.
(5) A company that has provided guarantees to Taiflex, and vice versa, due to contractual requirements.
(6) A company in which Taiflex jointly invests with other shareholders, and for which Taiflex has provided endorsement/guarantee in proportion to its shareholding percentage.

Note 3: The overall amount of guarantees/endorsements shall not exceed 50% of the Company's net worth in the most recent financial statements. The amount of guarantees/endorsements provided to any single entity shall not exceed 20% of the net worth in the most recent financial statements. However, the restriction does not apply to guarantees and endorsements to companies, whose voting shares are 100% held, directly or indirectly, by the Company.

Note 4: The maximum endorsement/guarantee balance for the year ended December 31, 2016.

Note 5: As of December 31, 2016, the Company assumed endorsement or guarantee liabilities for endorsement/guarantee contracts signed or bill facilities approved. All other related endorsement or guarantee shall be included in the balance of guarantee/endorsement.

Note 6: This is the ending balance after evaluation.

TABLE 3: MARKETABLE SECURITIES HELD AS OF DECEMBER 31, 2016 (EXCLUDING INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES)

(In Thousands of New Taiwan Dollars)

Name of Held Company	Type of Marketable Securities (Note 1)	Name of Marketable Securities (Note 1)	Relationship with the Company (Note 2)	Financial Statement Account	December 31, 2016				Note
					Shares (In Thousands)	Carrying Amount (Note 3)	Percentage of Ownership	Fair Value	
Taiflex Scientific Co., Ltd.	Not listed (OTC) stocks	Exploit Technology Co., Ltd.	—	Financial assets measured at cost, non-current	25	—	0.30%	—	—
	Not listed (OTC) stocks	Kyoritsu Optronics Co., Ltd.	—	Financial assets measured at cost, non-current	741	—	18.10%	—	—
	Listed stocks	Zhen Ding Technology Holding Limited	—	Financial assets at fair value through profit or loss, current	255	$ 16,245	0.03%	$ 16,245	—

Note 1: The marketable securities stated in this table shall refer to stocks, bonds, beneficiary certificates and securities derived from the said items within the scope of IAS No. 39 "Financial Instruments: Recognition and Measurement".

Note 2: Not required if the issuer of the marketable securities is not a related party.

Note 3: If measured at fair value, please fill in the carrying amount after valuation adjustment of fair value and net of accumulated impairment. If not measured at fair value, please fill in the original cost or the carrying value of amortized cost, net of accumulated impairment.

TABLE 4: RELATED PARTY TRANSACTIONS WITH PURCHASE OR SALES AMOUNT OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction (Note 1)		Notes/Accounts Receivable (Payable)		Note
			Purchases/ Sales	Amount	Percentage to Total	Collection / Payment Terms	Unit Price	Collection / Payment Terms	Ending Balance	Percentage to Total	
Taiflex Scientific Co., Ltd.	Kunshan Taiflex Electronic Material Co., Ltd.	100% owned third-tier subsidiary	Sales	$ 370,560	5.52%	Collection within 120 days from the end of delivery month by TT	—	—	$ —	—	—
	Taiflex Scientific (Kunshan) Co., Ltd.	100% owned third-tier subsidiary	Purchases	262,921	4.52%	Payment within 120 days from the end of delivery month by TT	—	—	(13,666)	(1.01%)	—
	Taiflex Scientific (Kunshan) Co., Ltd.	100% owned third-tier subsidiary	Sales	1,678,323	25.00%	Collection within 120 days from the end of delivery month by TT	—	—	20,105	1.16%	—
	Shenzhen Taiflex Electronic Co., Ltd.	100% owned third-tier subsidiary	Sales	1,791,345	26.69%	Collection within 120 days from the end of delivery month by TT	—	—	1,091,763	62.86%	—
Taiflex Scientific (Kunshan) Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Sales	262,921	6.94%	Collection within 120 days from the end of delivery month by TT	—	—	13,666	0.60%	—
	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Purchases	1,678,323	49.05%	Payment within 120 days from the end of delivery month by TT	—	—	(20,105)	(1.75%)	—
Kunshan Taiflex Electronic Material Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Purchases	370,560	81.57%	Payment within 120 days from the end of delivery month by TT	—	—	—	—	—
Shenzhen Taiflex Electronic Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Purchases	1,791,345	87.23%	Payment within 120 days from the end of delivery month by TT	—	—	(1,091,763)	(93.35%)	—

Note 1: The sales prices and collection terms to related parties are not significantly different from those of sales to non-related parties.

TABLE 5: RECEIVABLES FROM RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Ratio (times)	Overdue		Amounts Received in Subsequent Periods	Allowance for Doubtful Accounts	Note
					Amount	Action Taken			
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	100% owned third-tier subsidiary	$ 574,167	(Note 1)	—	—	$ 140,648	—	—
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	100% owned third-tier subsidiary	20,105	19.08	—	—	2,433	—	—
Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	100% owned third-tier subsidiary	1,091,763	2.47	—	—	199,213	—	—

Note 1: Those receivables from related parties are recognized as other receivables; thus, turnover ratio analysis is not applicable.

TABLE 6: INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE OR CONTROLS DIRECTLY OR INDIRECTLY (EXCLUDING INVESTEES IN MAINLAND CHINA)

(In Thousands of New Taiwan Dollars)

Investor	Investee	Business Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2016			Net Income (Losses) of the Investee	Share of Profits/Losses	Note
				December 31, 2016	December 31, 2015	Shares (In Thousands)	Shareholding Percentage	Carrying Amount			
Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	Belize	Investment holding	$ 822,194	$ 822,194	25,665	100.00%	$ 1,677,148	$ 44,225	$ 42,745	(Note 1)
Taiflex Scientific Co., Ltd.	Leadmax Limited	Samoa	Trading of electronic materials	337	337	10	100.00%	16,077	2,040	2,040	—
Taiflex Scientific Co., Ltd.	Koatech Technology Corporation	Taiwan	Manufacturing and selling of electronic materials and components	294,102	294,102	27,400	53.86%	222,766	(71,671)	(44,297)	(Note 2)
Taiflex Scientific Co., Ltd.	Innovision FlexTech Corp.	Taiwan	Manufacturing and selling of electronic materials	102,894	102,894	4,513	16.72%	31,518	22,866	—	(Note 3)
Taiflex Scientific Co., Ltd.	TFS Co., Ltd.	Belize	Investment holding	192,657	192,657	6,020	100.00%	134,508	(1,379)	(1,379)	—
Taiflex Scientific Co., Ltd.	Taiflex Scientific Japan Co., Ltd.	Japan	Trading of electronic materials and technical support	16,260	—	6	100.00%	17,660	1,207	1,207	—
TFS Co., Ltd.	RICHSTAR Co., Ltd.	Samoa	Investment holding	192,423	192,423	6,010	100.00%	155,650	(1,324)	(1,324)	—
Taistar Co., Ltd.	TSC International Ltd.	Cayman Islands	Investment holding	801,604	801,604	25,010	100.00%	1,627,955	60,025	60,025	—
Koatech Technology Corporation	KTC Global Co., Ltd.	Samoa	Investment holding	28,649	28,649	960	100.00%	16,991	(5,236)	(5,236)	—
KTC Global Co., Ltd	KTC PanAsia Co., Ltd.	Samoa	Investment holding	28,500	28,500	955	100.00%	18,093	(4,038)	(4,038)	—

Note 1: Including unrealized gain/loss between affiliates.

Note 2: Including amortization of fixed assets.

Note 3: The net amount of investments accounted for under the equity method was zero.

TABLE 7: INFORMATION ON INVESTMENTS IN MAINLAND CHINA

(In Thousands of New Taiwan Dollars)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2016	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2016	Profits/ Losses of Investee	Percentage of Ownership (Direct or Indirect Investment)	Share of Profits/ Losses	Carrying Amount as of December 31, 2016	Accumulated Inward Remittance of Earnings as of December 31, 2016
					Outflow	Inflow						
Kunshan Taiflex Electronic Material Co., Ltd.	Trading of coating materials for high polymer film and copper foil	$184,126 (US$5,603,350)	Through reinvestment of a company established in the third area	$ 32,536	–	–	$ 32,536	$ 24,495	100.00%	$ 24,495	$ 247,236	$ 128,532
Taiflex Scientific (Kunshan) Co., Ltd.	Manufacturing and selling of coating materials for high polymer film and copper foil	$767,141 (US$24,000,000)	Through reinvestment of a company established in the third area	767,141	–	–	767,141	35,530	100.00%	35,530	1,380,350	–
Kunshan Koatech Technology Corporation	Wholesale and act as a commission agent of electronic materials and components	$28,351 (US$950,000)	Through reinvestment of a company established in the third area	28,351	–	–	28,351	(4,003)	53.86%	(2,156)	9,713	–
Shenzhen Taiflex Electronic Co., Ltd.	Trading of coating materials for high polymer film and copper foil	$193,020 (US$6,000,000)	Through reinvestment of a company established in the third area	193,020	–	–	193,020	(1,294)	100.00%	(1,294)	155,280	–

Accumulated Outflow of Investment from Taiwan to Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$1,021,048	$1,054,876	$3,999,029

Note 1: The methods for investment in Mainland China are divided into the following three types. Please specify the type.

(1) Direct investment in Mainland China.

(2) Investment in Mainland China through companies in the third area.

(3) Others.

Note 2: Significant transactions with the investee companies in China directly or indirectly through the third area and the relevant prices, payment terms and unrealized gains and losses:

(1) Purchase, ending balance of related accounts payable and their weightings: see Table 4.

(2) Sales, ending balance of related accounts receivable and their weightings: see Tables 4 and 5.

(3) The transaction amount and gain or loss arising from property transactions: N/A.

(4) Ending balance of endorsements/guarantees or collateral provided and the purposes: see Table 2.

(5) Maximum balance, ending balance, interest rate range and total interest of current period from financing provided to others: refer to Table 1.

(6) Transactions that have significant impact on profit or loss or the financial position of current period, such as services provided or rendered: N/A.

TABLE 8: INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Account	Amount (Note 4)	Terms	Percentage to Consolidated Net Revenue or Total Assets (Note 3)
0	Taiflex Scientific Co., Ltd.	Kunshan Taiflex Electronic Material Co., LTD	1	Sales revenue	$ 370,560	General trading terms	3.6%
0	Taiflex Scientific Co., Ltd.	Kunshan Taiflex Electronic Material Co., LTD	1	Accounts receivable	—	General trading terms	—
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Sales revenue	1,678,323	General trading terms	16.32%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Accounts receivable	20,105	General trading terms	0.17%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Other receivables	574,167	—	4.87%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Cost of revenue	262,921	General trading terms	2.56%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Accounts payable	13,666	General trading terms	0.12%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Sales revenue	1,791,345	General trading terms	17.42%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Accounts receivable	1,091,763	General trading terms	9.25%
1	Taistar Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	3	Other receivables	129,116	Financing	1.09%
2	Kunshan Taiflex Electronic Material Co., LTD.	Shenzhen Taiflex Electronic Co., Ltd.	3	Accounts receivable	27,041	General trading terms	0.23%

Note 1: Transaction information between the parent company and its subsidiaries should be disclosed by codes below:

(1) Taiflex Scientific Co., Ltd. is coded "0".

(2) The subsidiaries are coded from "1" in the order presented in the table above.

Note 2: Relationships are categorised into the following three types. Please specify the type.

(1) From the parent company to a subsidiary.

(2) From a subsidiary to the parent company.

(3) Between subsidiaries.

Note 3: Regarding the percentage of transaction amount to consolidated net revenue or total assets, it is computed based on the ending balance to consolidated total assets for balance sheet items; and based on interim accumulated amount to consolidated net revenue for income statement items.

Note 4: This is the ending balance after evaluation.