TAIFLEX SCIENTIFIC COMPANY LIMITED

PARENT COMPANY ONLY FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

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Notice to readers

This English-version parent company only 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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TAIFLEX SCIENTIFIC COMPANY LIMITED
PARENT COMPANY ONLY 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)	$ 2,574,444	$ 2,223,777
Financial assets at fair value through profit or loss, current	4, 6(2)	22,802	19,300
Notes receivable, net	4, 6(3)	7,344	11,797
Accounts receivable, net	4, 6(4)	407,495	670,834
Accounts receivable – related parties	6(4), 7	1,111,868	1,044,628
Other receivables		38,926	121,529
Other receivables – related parties	7	577,261	1,552,485
Inventories, net	4, 6(5)	520,989	609,307
Prepayments		27,536	18,831
Other current assets	8	23,776	37,283
Total current assets		5,312,441	6,309,771
Non-current assets			
Financial assets carried at cost, non-current	4, 6(6)	-	-
Investments accounted for under the equity method	4, 6(7)	2,068,159	2,207,017
Property, plant and equipment	4, 6(8)	1,936,821	1,725,671
Intangible assets	4, 6(9)	36,897	32,560
Deferred income tax assets	4, 6(20)	126,425	121,598
Prepayments for investments		-	16,260
Other non-current assets	4, 6(10)	11,248	9,635
Total non-current assets		4,179,550	4,112,741
Total assets		$ 9,491,991	$ 10,422,512

(The accompanying notes are an integral part of the parent company only financial statements.)

(Continued)

TAIFLEX SCIENTIFIC COMPANY LIMITED
PARENT COMPANY ONLY 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(11)	$ 4,287	$ 98,367
Financial liabilities at fair value through profit or loss, current	4, 6(12)	-	-
Accounts payable		1,342,665	1,757,623
Accounts payable – related parties	7	15,327	107,567
Other payables		482,576	499,931
Other payables – related parties		5,680	-
Current income tax liabilities	4, 6(20)	83,657	85,894
Current portion of long-term loans		-	281,061
Other current liabilities		2,038	2,912
Total current liabilities		1,936,230	2,833,355
Non-current liabilities			
Long-term loans	6(13)	541,321	599,297
Deferred income tax liabilities	4, 6(20)	159,115	193,667
Net defined benefit liabilities, non-current	4, 6(14)	190,276	111,009
Total non-current liabilities		890,712	903,973
Total liabilities		2,826,942	3,737,328
Equity			
Capital	6(15)		
Common stock		2,083,252	2,042,858
Capital surplus	6(15)	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		(98,744)	(98,744)
Total equity		6,665,049	6,685,184
Total liabilities and equity		$ 9,491,991	$ 10,422,512

(Concluded)

(The accompanying notes are an integral part of the parent company only financial statements.)

TAIFLEX SCIENTIFIC COMPANY LIMITED
PARENT COMPANY ONLY 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(17), 7	$ 6,712,397	$ 6,528,844
Cost of revenue	4, 6(5), 6(18), 7	(5,407,622)	(5,018,175)
Gross profit		1,304,775	1,510,669
Unrealized sales profit or loss		-	(541)
Realized sales profit or loss		2,899	-
Gross profit, net		1,307,674	1,510,128
Operating expenses	4, 6(18)		
Sales and marketing expenses		(179,888)	(257,058)
General and administrative expenses		(220,384)	(273,820)
Research and development expenses		(197,110)	(193,531)
Total operating expenses		(597,382)	(724,409)
Operating income		710,292	785,719
Non-operating income and expenses	6(19)		
Other income		155,718	253,444
Other gains and losses		(122,424)	(95,956)
Finance costs		(20,825)	(27,756)
Share of profit or loss of subsidiaries and associates under the equity method	4, 6(7)	316	(39,098)
Total non-operating income and expenses		12,785	90,634
Income before income tax		723,077	876,353
Income tax expense	4, 6(20)	(143,399)	(146,497)
Net income of continuing operations		579,678	729,856
Net income		579,678	729,856
Other comprehensive income (loss)	6(19)		
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		(163,913)	(23,095)
Income tax benefit (expense) related to components of other comprehensive income that may be reclassified subsequently to profit or loss	6(20)	27,865	3,926
Total other comprehensive income, net of tax		(195,877)	(38,255)
Total comprehensive income		$ 383,801	$ 691,601
Earnings per share (NT$)	4, 6(21)		
Earnings per share - basic		$ 2.81	$ 3.54
Earnings per share - diluted		$ 2.79	$ 3.51

(The accompanying notes are an integral part of the parent company only financial statements.)

TAIFLEX SCIENTIFIC COMPANY LIMITED

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2016 and 2015

(In Thousands of New Taiwan Dollars)

				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 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
Appropriation and distribution of 2014 earnings									
Legal capital reserve				88,242		(88,242)			-
Cash dividends for common stocks						(605,849)			(605,849)
Changes in other capital surplus									
Share-based payment	250	(70)	333						513
Net income for the year ended December 31, 2015						729,856			729,856
Other comprehensive income (loss) for the year ended December 31, 2015						(19,086)	(19,169)		(38,255)
Total comprehensive income	-	-	-	-	-	710,770	(19,169)	-	691,601
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
Appropriation and distribution of 2015 earnings									
Legal capital reserve				72,986		(72,986)			-
Cash dividends for common stocks						(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
Other comprehensive income (loss) for the year ended December 31, 2016						(59,829)	(136,048)		(195,877)
Total comprehensive income	-	-	-	-	-	519,849	(136,048)	-	383,801
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

(The accompanying notes are an integral part of the parent company only financial statements.)

TAIFLEX SCIENTIFIC COMPANY LIMITED
PARENT COMPANY ONLY 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	$ 723,077	$ 876,353
Adjustments:		
Non-cash income and expense items:		
Depreciation	153,254	143,703
Amortization	12,131	10,061
(Gain on reversal of) bad debt expense	(100,660)	8,752
Net loss (gain) of financial assets (liabilities) at fair value through profit or loss	9,834	(4,417)
Interest expense	20,825	27,756
Interest income	(19,296)	(52,991)
Share of (profit) loss of subsidiaries and associates under the equity method	(316)	39,098
Gain on disposal of property, plant and equipment	-	(86)
Others	8,899	(53,976)
Changes in operating assets and liabilities:		
(Increase) decrease in financial assets at fair value through profit or loss, current	(13,336)	1,158
Decrease (increase) in notes receivable	4,453	(1,456)
Decrease in accounts receivable	299,383	699,461
Increase in accounts receivable – related parties	(67,240)	(235,394)
Decrease (increase) in other receivables	145,392	(46,508)
Decrease in other receivables – related parties	975,224	138,467
Decrease (increase) in inventories	79,419	(56,954)
(Increase) decrease in prepayments	(8,705)	17,200
Decrease (increase) in other current assets	13,538	(15,882)
(Decrease) increase in accounts payable	(414,958)	233,135
Decrease in accounts payable – related parties	(92,240)	(366,513)
Increase (decrease) in other payables	6,476	(40,882)
Increase in other payables – related parties	5,680	-
Decrease in other current liabilities	(9,353)	(18,277)
Increase in net defined benefit liabilities	7,185	6,540
Cash generated from operations	1,738,666	1,308,348
Interest received	21,122	51,421
Interest paid	(21,218)	(27,737)
Income tax paid	(144,895)	(204,124)
Net cash generated by operating activities	1,593,675	1,127,908

(The accompanying notes are an integral part of the parent company only financial statements.)

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TAIFLEX SCIENTIFIC COMPANY LIMITED
PARENT COMPANY ONLY 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 investments accounted for under the equity method	-	(126,394)
Increase in prepayments for investments	-	(16,260)
Acquisition of property, plant and equipment	(387,843)	(441,778)
Disposal of property, plant and equipment	-	230
Increase in refundable deposits	(1,613)	(4,331)
Acquisition of intangible assets	(16,468)	(14,705)
Increase in other current assets - other financial assets, current	(31)	-
Decrease in other current assets - other financial assets, current	-	31,403
Net cash used in investing activities	(405,955)	(571,835)
Cash flows from financing activities:		
Decrease in short-term loans	(94,080)	(172,186)
Repayment of long-term loans	(339,037)	(118,792)
Distribution of cash dividends	(403,936)	(605,849)
Exercise of employee stock options	-	513
Net cash used in financing activities	(837,053)	(896,314)
Net increase (decrease) in cash and cash equivalents	350,667	(340,241)
Cash and cash equivalents at beginning of period	2,223,777	2,564,018
Cash and cash equivalents at end of period	$ 2,574,444	$ 2,223,777

(Concluded)

(The accompanying notes are an integral part of the parent company only 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 parent company only financial statements of the Company 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 Company 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 Company.

(2) As of the date of issuance of the financial statements, the Company 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
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
IFRS 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
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 Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

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

The Company accounts for subsidiaries by using the equity method in the preparation of the parent company only financial statements. In order to agree with the amount of net income, other comprehensive income and equity attributable to shareholders of the parent in the consolidated financial statements, the differences of the accounting treatment between the parent company only basis and the consolidated basis are adjusted through investments accounted for under the equity method and share of profit or loss of subsidiaries and associates under the equity method in the parent company only financial statements.

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

The Company's parent company only financial statements are presented in New Taiwan Dollars, which is the Company's functional currency.

Transactions in foreign currencies are initially recognized by the Company 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 parent company only 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 adjusted under the heading of investments accounted for using equity method instead of being recognized in 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.

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

An asset is classified as current when:

A. the Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
B. the Company holds the asset primarily for the purpose of trading
C. the Company 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 Company expects to settle the liability in its normal operating cycle
B. the Company 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 Company 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.

(5) 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).

(6) Financial instruments

Financial assets and financial liabilities are recognized when the Company 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 Company accounts for regular way purchase or sales of financial assets on the trade date basis.

Classification of financial assets:
Financial assets of the Company 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 Company 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.

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) Available-for-sale financial assets

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) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments are classified as held-to-maturity when the Company 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 using the effective interest 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.

(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 Company 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 Company 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 Company 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 Company 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 Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
(c) the Company 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 Company 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 Company that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

Compound instruments

The Company evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Company 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.

<u>Financial liabilities</u>

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) <u>Financial liabilities at fair value through profit or loss</u>

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.

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.

(7) Derivative financial instrument

The Company 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.

(8) 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.

(9) Investments accounted for under the equity method

The Company accounts for its investments in subsidiaries and associates using the equity method, except for ones classified as non-current assets held for sale.

A. Investment in subsidiaries

A subsidiary is an entity controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost. After the acquisition date, the carrying amount is adjusted to reflect the Company's share of profit or loss and other comprehensive income of the subsidiary. The Company recognizes its share of profit or loss and other comprehensive income of the subsidiary in its profit or loss and other comprehensive income. Distributions received from the subsidiary reduce the carrying amount of the investment

Unrealized profits and losses from downstream transactions between the Company and its subsidiaries are eliminated in the Company's parent company only financial statements. Profits and losses from downstream and lateral transactions are recognized in the Company's parent company only financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

Financial statements of subsidiaries are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring subsidiaries' accounting policies into line with those used by the Company.

When changes in a subsidiary's equity are not caused by profit or loss or other comprehensive income, and such changes do not affect the Company's ownership percentage, the Company recognizes related changes in equity according to its ownership percentage. Changes in the Company's ownership interests in a subsidiary that do not result in the Company losing control over the subsidiary are accounted for as equity transactions. The difference between the carrying amount of the investment and the fair value of consideration paid or received is recognized directly in equity.

The Company ceases to use the equity method when it loses control over the subsidiary. The retained investment is measured and recognized at fair value. The difference between the carrying amount of the former subsidiary and the fair value of the remaining investment plus proceeds from disposal is recognized in profit or loss. If an investment in a subsidiary becomes an investment in a joint venture or vice versa, the Company continues to apply the equity method and does not remeasure the retained interest.

The Company determines at each reporting date whether there is any objective evidence that the investments in subsidiaries are impaired. The difference between the recoverable amount of the subsidiary and its carrying value is recognized as an impairment loss in the statement of comprehensive income and the carrying amount of the investment is adjusted accordingly.

B. Investment in associates

An associate is an entity over which the Company has significant influence and that is not a subsidiary. Significant influence refers to the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Difference between the Company's investment cost and the share of fair value of associates' identifiable assets and liabilities is accounted for as follows:

(a) Any excess of the investment cost over the Company's share of fair value of associates' identifiable assets and liabilities as of the acquisition date is recognized as goodwill and included in the carrying amount of the investment. Goodwill cannot be amortized.

(b) Any excess of the Company's share of net fair value of associates' identifiable assets and liabilities over the investment cost is recognized as a gain in profit or loss on the investment date, after reassessing the fair value.

Under the equity method, an investment in an associate is initially recognized at cost. After the acquisition date, the carrying amount is adjusted to reflect the Company's share of profit or loss and other comprehensive income of the associate. The Company recognizes its share of profit or loss and other comprehensive income of the associate in its profit or loss and other comprehensive income. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Company's proportionate interest in the associate arising from changes in the associate's other comprehensive income. Any unrealized gains and losses resulting from transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates.

Financial statements of associates are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring associates' accounting policies into line with those used by the Company.

If the Company subscribes more shares than its original ownership percentage when an associate issues new shares, while maintaining its significant influence over that associate, such an increase would be accounted for as an additional investment in the associate. If the Company's subscription results in a decrease in its ownership percentage while maintaining significant influence over that associate, the proportion of the gain or loss previously recognized in other comprehensive income relative to that reduction is reclassified to profit and loss. When the Company subscripts or acquires shares of associates in a percentage differs from its existing shareholding percentage which in turn changes its net interest in the associate, the change is adjusted through capital surplus. Where the change in equity of an associate does not result from its profit or loss or other comprehensive income, and such changes do not affect the Company's ownership percentage, the Company recognizes its proportionate share of all related changes in equity. Upon disposal of the associate, the Company reclassifies the aforementioned capital surplus to profit or loss on a pro rata basis.

The Company ceases to use the equity method when it loses significant influence over the associate. The retained investment is measured and recognized at fair value. The difference between the carrying amount of the former associate and the fair value of the remaining investment plus proceeds from disposal is recognized in profit or loss. If an investment in an associate becomes an investment in a joint venture or vice versa, the Company continues to apply the equity method and does not remeasure the retained interest.

The Company determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. The difference between the recoverable amount of the associate and its carrying value is recognized as an impairment loss in the statement of comprehensive income and the carrying amount of the investment is adjusted accordingly.

(10) 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 Company 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.

(11) 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.

(12) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. 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.

<u>In-process intangible assets - research and development costs</u>

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company 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.

(13) Impairment of non-financial assets

The Company 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 Company 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 Company 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.

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

(14) Provisions

Provisions are recognized when the Company 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 Company 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.

(15) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company 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.

(16) 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 Company’s parent company only 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.

(17) Share-based payment transactions

The cost of equity-settled transactions between the Company 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 Company'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.

(18) 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 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, associates and joint ventures. 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 Company 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.

(19) 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 Company 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 Company 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 Company's parent company only 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 Company 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 Company 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 Company 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 Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates.

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.

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

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand	$ 172	$ 252
Bank deposits	2,574,272	2,223,525
Total	$ 2,574,444	$ 2,223,777

(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	$ 6,557	$ -
Non-derivative financial assets - Stocks	16,245	19,300
	$ 22,802	$ 19,300

(3) Notes receivable, net

	December 31, 2016	December 31, 2015
Notes receivable, net	$ 7,344	$ 11,797

(4) Accounts receivable, net

	December 31, 2016	December 31, 2015
Accounts receivable	$ 617,469	$ 931,384
Less: allowance for doubtful accounts	(209,974)	(260,550)
Subtotal	407,495	670,834
Accounts receivable – related parties	1,111,868	1,044,628
Net	$ 1,519,363	$ 1,715,462

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):

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

	December 31, 2016	December 31, 2015
Beginning balance	$ 260,550	$ 316,414
Charge (reversal) for the period	(36,045)	(55,864)
Write off	(14,531)	-
Ending balance	$ 209,974	$ 260,550

B. Ageing analysis of net accounts receivable:

	December 31, 2016	December 31, 2015
Neither past due nor impaired	$ 1,421,264	$ 1,434,836
Past due but not impaired		
≤ 120 days	97,915	207,873
121 to 180 days	—	54,556
≥ 181 days	184	18,197
Total	$ 1,519,363	$ 1,715,462

C. The Company 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	US$ 32,322 thousand	without recourse	-

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)

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

(5) Inventories, net

	December 31, 2016	December 31, 2015
Raw materials	$ 180,556	$ 114,800
Inventories in transit	22,033	223,494
Supplies	1,049	1,097
Work in process	97,581	54,500
Finished goods	216,793	214,467
Merchandise	2,977	949
Total	$ 520,989	$ 609,307

Expenses or income recognized were as follows:

	Years ended December 31	
	2016	2015
Cost of inventories sold	$ 5,414,305	$ 5,080,546
Gain on inventory value recovery	(1,500)	(62,663)
Loss on inventory write-off	10,399	8,687
Revenue from sale of scraps	(15,582)	(8,395)
Cost of revenue	$ 5,407,622	$ 5,018,175

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$ 1,500 thousand and NT$ 62,663 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	$ —	$ —

(7) Investments accounted for under the equity method

	December 31, 2016		December 31, 2015	
Investees	Amount	Percentage of ownership	Amount	Percentage of ownership
Investments in subsidiaries:				
Taistar Co., Ltd.	$ 1,677,148	100.00%	$ 1,770,651	100.00%
Leadmax Limited	16,077	100.00%	14,382	100.00%

(Continued)

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

	December 31, 2016		December 31, 2015	
Investees	Amount	Percentage of ownership	Amount	Percentage of ownership
Koatech Technology Corp.	222,766	53.86%	267,896	53.86%
TFS Co., Ltd.	134,508	100.00%	154,088	100.00%
Taiflex Scientific Japan Co., Ltd.	17,660	100.00%	−	−
Subtotal	2,068,159		2,207,017	
Investments in associates:				
Innovision FlexTech Corp.	31,518	16.72%	31,518	16.72%
Less: accumulated impairment – Innovision FlexTech Corp.	(31,518)		(31,518)	
Subtotal	−		−	
Total	$ 2,068,159		$2,207,017	

(Concluded)

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

	Years ended December 31	
Investee	2016	2015
Taistar Co., Ltd.	$ 42,745	$ 16,600
Leadmax Limited	2,040	2,009
Innovision FlexTech Corp.	−	(5,673)
Koatech Technology Corp.	(44,297)	(32,294)
TFS Co., Ltd.	(1,379)	(19,740)
Taiflex Scientific Japan Co., Ltd.	1,207	−
Total	$ 316	$ (39,098)

In 2007, the Company 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 Company'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 Company acquired additional shares of Innovision by cash in February 2014. Upon completion of the acquisition, the Company increased its shareholding percentage from 20.52% to 22.83%. In October 2014, the Company did not participate in the capital increase of Innovision. As a result, the shareholding percentage reduced to 19.87%. Since December 2015, the Company did not participate in the capital increase of Innovision. As a result, the shareholding percentage reduced to 16.72%. The Company evaluated and concluded that it still has significant influence over Innovision, thus, this investment of the Company used the equity method for evaluation.

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

B. The summarized financial information of the Company'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	2015
Revenue	$ 121,354	$ 40,025
Net income (loss)	$ 22,866	$ (39,200)

(8) Property, plant and equipment

	December 31, 2016	December 31, 2015
Buildings	$ 555,380	$ 524,041
Machinery and equipment	768,809	585,861
Hydropower equipment	48,457	40,576
Testing equipment	107,376	74,039
Miscellaneous equipment	44,198	19,855
Construction in progress and equipment awaiting inspection	412,601	481,299
Net	$ 1,936,821	$ 1,725,671

	As of January 1, 2016	Additions	Disposals	Reclassification	As of December 31, 2016
Cost					
Buildings	$ 641,813	$ 4,491	$ —	$ 53,915	$ 700,219
Machinery and equipment	1,705,549	35,334	—	248,306	1,989,189
Hydropower equipment	223,865	3,634	—	10,507	238,006
Testing equipment	155,262	21,550	(470)	23,514	199,856
Miscellaneous equipment	96,608	9,963	(275)	21,888	128,184
Total	$ 2,823,097	$ 74,972	$ (745)	$ 358,130	$ 3,255,454
Accumulated depreciation and impairment					
Buildings	$ 117,772	$ 27,067	$ —	$ —	$ 144,839
Machinery and equipment	1,119,688	100,972	—	(280)	1,220,380
Hydropower equipment	183,289	6,260	—	—	189,549
Testing equipment	81,223	11,447	(470)	280	92,480
Miscellaneous equipment	76,753	7,508	(275)	—	83,986
Total	$ 1,578,725	$ 153,254	$ (745)	$ —	$ 1,731,234
Construction in progress and equipment awaiting inspection	481,299	289,770	—	(358,468)	412,601
Net	$ 1,725,671				$ 1,936,821

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

	As of January 1, 2015	Additions	Disposals	Reclassification	As of December 31, 2015
Cost					
Buildings	$ 625,368	$ 3,416	$ —	$ 13,029	$ 641,813
Machinery and equipment	1,593,449	14,510	(1,850)	99,440	1,705,549
Hydropower equipment	222,272	1,146	(3,746)	4,193	223,865
Testing equipment	127,280	6,697	(3,854)	25,139	155,262
Miscellaneous equipment	94,518	1,179	(1,738)	2,649	96,608
Total	$ 2,662,887	$ 26,948	$ (11,188)	$ 144,450	$ 2,823,097
Accumulated depreciation and impairment					
Buildings	$ 93,562	$ 24,210	$ —	$ —	$ 117,772
Machinery and equipment	1,026,638	94,860	(1,810)	—	1,119,688
Hydropower equipment	178,595	8,336	(3,642)	—	183,289
Testing equipment	76,406	8,671	(3,854)	—	81,223
Miscellaneous equipment	70,865	7,626	(1,738)	—	76,753
Total	$ 1,446,066	$ 143,703	$ (11,044)	$ —	$ 1,578,725
Construction in progress and equipment awaiting inspection	136,202	489,547	—	(144,450)	481,299
Net	$ 1,353,023				$ 1,725,671

(9) Intangible assets

	December 31, 2016	December 31, 2015
Trademarks	$ 385	$ 221
Patents	7,347	5,891
Software cost	29,165	26,448
Total	$ 36,897	$ 32,560

	As of January 1, 2016	Additions	Reclassification	As of December 31, 2016
Cost				
Trademarks	$ 372	$ 211	$ —	$ 583
Patents	9,867	2,969	—	12,836
Software cost	74,161	13,288	—	87,449
Total	$ 84,400	$ 16,468	$ —	$ 100,868
Amortization and impairment				
Trademarks	$ 151	$ 47	$ —	$ 198
Patents	3,976	1,513	—	5,489
Software cost	47,713	10,571	—	58,284
Total	51,840	$ 12,131	$ —	63,971
Net	$ 32,560			$ 36,897

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

	As of January 1, 2015	Additions	Reclassification	As of December 31, 2015
Cost				
Trademarks	$ 269	$ 103	$ —	$ 372
Patents	9,160	707	—	9,867
Software cost	60,266	13,895	—	74,161
Total	$ 69,695	$ 14,705	$ —	$ 84,400
Amortization and impairment				
Trademarks	$ 126	$ 25	$ —	$ 151
Patents	2,635	1,341	—	3,976
Software cost	39,018	8,695	—	47,713
Total	41,779	$ 10,061	$ —	51,840
Net	$ 27,916			$ 32,560

(10) Other non-current assets

	December 31, 2016	December 31, 2015
Refundable deposits	$ 10,428	$ 8,815
Other non-current assets-other	820	820
Total	$ 11,248	$ 9,635

(11) Short-term loans

	December 31, 2016	December 31, 2015
Unsecured bank loans	$ 4,287	$ 98,367

The interest rates of loans were 0.85% and 0.55% to 0.56% as of December 31, 2016 and 2015, respectively.

(12) 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)

(13) Long-term loans

	December 31, 2016	December 31, 2015
Revolving loans	$ 351,646	$ 152,906
Syndicated loans	193,675	727,452
Total	545,321	880,358
Less: current portion	—	(281,061)
Less: unamortized syndicated loan fee	(4,000)	—
Net	$ 541,321	$ 599,297

A. The interest rates of loans ranged from 0.98% to 2.59% and 1.22% to 1.37% as of December 31, 2016 and 2015, respectively.

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

C. In January, 2012, the Company 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 Company may apply for a 2-year extension six months before the maturity date. In August 2014, the Company 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 Company 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 Company 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.

(b) During the loan term, the Company 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.

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

(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 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. As of December 31, 2016, the amount drawn down equaled NT$ 300 million.

F. 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. As of December 31, 2016, the amount drawn down equaled US$ 1.6 million.

(14) Post-employment benefits

A. Defined contribution plan

Expenses under the defined contribution plan for the years ended December 31, 2016 and 2015 were NT$ 18,779 thousand and NT$ 17,000 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	986
General and administrative expenses	2,017	1,787
Research and development expenses	1,610	1,208
Total	$ 10,008	$ 8,199

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

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

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.

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.

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

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
Experience adjustments on plan liabilities	$ (2,266)	$ (8,614)
Experience adjustments on plan assets	$ 316	$ (106)

(15) 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.

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

(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 disposal or reclassification of related assets.

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:

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

	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(18) for information about the accrual basis and amounts recognized for bonus to employees and remuneration to directors and supervisors.

(16) 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.

	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

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

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.

	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	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:

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

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

(17) Revenue

	Years ended December 31	
	2016	2015
Sale of goods	$ 6,712,397	$ 6,528,844

(18) 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	302,546	322,788	625,334	256,260	292,293	548,553
Labor and health insurance	23,639	18,464	42,103	23,251	17,671	40,922
Pension	15,653	13,134	28,787	13,850	11,349	25,199
Other employee benefits expense	27,417	19,311	46,728	24,061	17,577	41,638
Depreciation	133,619	19,635	153,254	126,389	17,314	143,703
Amortization	4,411	7,720	12,131	4,081	5,980	10,061

As of December 31, 2016 and 2015, the Company had 662 and 606 employees, respectively.

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.

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

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.

(19) Non-operating income and expenses

A. Other income

	Years ended December 31	
	2016	2015
Interest income	$ 19,296	$ 52,991
Other income	136,422	200,453
Total	$ 155,718	$ 253,444

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

B. Other gains and losses

	Years ended December 31	
	2016	2015
Gain (loss) on disposal of property, plant and equipment	$ －	$ 86
Foreign exchange gain (loss), net	(129,546)	(56,664)
Gain (loss) of financial assets (liabilities) at fair value through profit or loss, net	9,834	4,417
Other losses	(2,712)	(43,795)
Total	$ (122,424)	$ (95,956)

C. Finance costs

	Years ended December 31	
	2016	2015
Interest on borrowings from banks	$ (20,825)	$ (27,756)

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	(163,913)	－	(163,913)	27,865	(136,048)
Total	$ (235,996)	$ －	$ (235,996)	$ 40,119	$ (195,877)

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

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	(23,095)	−	(23,095)	3,926	(19,169)
Total	$ (46,090)	$ −	$ (46,090)	$ 7,835	$ (38,255)

(20) Income tax

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

Income tax recognized in profit or loss

	Years ended December 31	
	2016	2015
Current income tax expense (benefit):		
Current income tax expense	$ 145,177	$ 172,932
Income tax adjustments on prior years	(2,518)	(17,363)
Deferred income tax expense (benefit):		
Deferred income tax benefit relating to origination and reversal of temporary differences	740	(9,072)
Total income tax expense	$ 143,399	$ 146,497

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	$ (27,865)	$ (3,926)
Remeasurement of defined benefit plan	(12,254)	(3,909)
Income tax relating to components of other comprehensive income	$ (40,119)	$ (7,835)

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

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

	Years ended December 31	
	2016	2015
Income before tax of continuing operations	$ 723,077	$ 876,353
Income tax expense at the statutory rate of the Company (17%)	$ 122,923	$ 148,980
Additional 10% income tax on unappropriated earnings	23,385	18,659
Income tax adjustments on prior years	(2,518)	(17,363)
Tax effects of other tax adjustments	(391)	(3,779)
Income tax expense recognized in profit or loss	$ 143,399	$ 146,497

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	$ (14,895)	$ 19,943	$ –	$ –	$ 5,048
Allowance for inventory valuation and obsolescence loss	10,069	(255)	–	–	9,814
Investments accounted for under the equity method	(155,455)	(54)	27,865	–	(127,644)
Unrealised intra-group profits and losses	10,885	(2,119)	–	–	8,766
Impairment of assets	6,480	–	–	–	6,480
Allowance for doubtful accounts	53,177	(18,882)	–	–	34,295
Net defined benefit liabilities	18,871	1,222	12,254	–	32,347
Others	(1,201)	(595)	–	–	(1,796)
Deferred income tax benefit (expense)		$ (740)	$ 40,119	$ –	
Net deferred income tax assets (liabilities)	$ (72,069)				$ (32,690)
Reflected in balance sheet as follows:					
Deferred income tax assets	$ 121,598				$ 126,425
Deferred income tax liabilities	$ 193,667				$ 159,115

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

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	$ (26,752)	$ 11,857	$ －	$ －	$ (14,895)
Allowance for inventory valuation and obsolescence loss	20,721	(10,652)	－	－	10,069
Investments accounted for under the equity method	(166,028)	6,647	3,926	－	(155,455)
Unrealised intra-group profits and losses	12,216	(1,331)	－	－	10,885
Impairment of assets	6,480	－	－	－	6,480
Allowance for doubtful accounts	51,185	1,992	－	－	53,177
Net defined benefit liabilities	13,850	1,112	3,909	－	18,871
Others	(648)	(553)	－	－	(1,201)
Deferred income tax benefit (expense)		$ 9,072	$ 7,835	$ －	
Net deferred income tax assets (liabilities)	$ (88,976)				$ (72,069)
Reflected in balance sheet as follows:					
Deferred income tax assets	$ 116,757				$ 121,598
Deferred income tax liabilities	$ 205,733				$ 193,667

D. Unrecognized deferred income tax assets:

As of December 31, 2016 and 2015, deferred income tax assets had all been recognized by the Company.

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 Company's income tax return was assessed and approved up to 2011.

(21) 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 Company's chairperson

(2) Significant transactions with related parties

A. Sales

	Years ended December 31	
	2016	2015
Subsidiaries	$ 3,840,228	$ 4,535,787

The sales prices of related party transactions were determined through mutual agreements based on market conditions. The outstanding balances as of December 31, 2016 and 2015 were unsecured and non-interest bearing and must be settled in cash. The receivables from the related parties were not guaranteed.

B. Purchases

	Years ended December 31	
	2016	2015
Subsidiaries	$ 264,634	$ 524,561

The purchase prices of related party transactions were determined through mutual agreement based on market conditions. The payment terms from the related party suppliers were comparable with the ones from the third party suppliers.

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

C. Accounts receivable - related parties

	December 31, 2016	December 31, 2015
Subsidiaries	$ 1,111,868	$ 1,044,628

D. Other receivables - related parties

(a) Non-financing

	December 31, 2016	December 31, 2015
Subsidiaries	$ 252,440	$ 1,360,513

(b) Financing

December 31, 2016	Maximum Balance	Ending Balance	Amount Actually Drawn	Interest Receivable	Interest Rate	Interest Income (Expense)
Subsidiaries	$ 605,700	$ 581,022	$ 323,575	$ 1,246	1.5%～7.0%	$ 3,188

December 31, 2015	Maximum Balance	Ending Balance	Amount Actually Drawn	Interest Receivable	Interest Rate	Interest Income (Expense)
Subsidiaries	$ 786,366	$ 786,366	$ 191,178	$ 794	1.5%~7.0%	$ 30,387

E. Accounts payable - related parties

	December 31, 2016	December 31, 2015
Subsidiaries	$ 15,327	$ 107,567

F. Acquisition of property, plant, and equipment

	Acquisition Price	
	December 31, 2016	December 31, 2015
Associates	$ 3,200	$ 4,260

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

G. Compensation to key management

	Years ended December 31	
	2016	2015
Short-term employee benefits	$ 65,570	$ 77,151
Post-employment benefits	940	939
Total	$ 66,510	$ 78,090

8. PLEDGED ASSETS

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

	Carrying Amount		
	December 31, 2016	December 31, 2015	Purpose of pledge
Time deposits (Note)	$ 20,295	$ 20,264	Customs Guarantee
Buildings	44,976	46,325	Collateral for long-term loans
Machinery and equipment	-	187	Collateral for long-term loans
Total	$ 65,271	$ 66,776	

Note: Those assets were recognized as other current assets.

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

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

	L / C Amount
NTD	NT$ 4,790 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	$ 6,557	$ —
Non-derivative financial assets - Stocks	16,245	19,300
Loans and receivables:		
Cash and cash equivalents (excluding cash on hand)	2,574,272	2,223,525
Receivables	2,142,894	3,401,273
Other financial assets, current	20,295	20,264

Financial liabilities

	December 31, 2016	December 31, 2015
Financial liabilities at amortized cost:		
Short-term loans	$ 4,287	$ 98,367
Payables	1,846,248	2,365,121
Long-term loans (including current portion)	541,321	880,358

(2) Objectives of financial risk management

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

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

The Company has certain foreign currency receivables denominated in the same foreign currency as certain foreign currency payables, therefore natural hedge is achieved. The Company 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 Company.

The foreign currency sensitivity analysis of the impact of possible changes in foreign exchange rates on the Company's profit and equity is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Company'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 Company's exposure to interest rate risk relates primarily to its variable interest rates for loans.

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

C. Equity price risk

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

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

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$13,077 thousand
	NTD/CNY Foreign currency +/− 1%	+/− NT$ 513 thousand
Interest rate risk	Market rate +/− 10 basis points	+/− NT$ 2,029 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$ 3,093 thousand
	NTD/CNY Foreign currency +/− 1%	+/− NT$ 43 thousand
Interest rate risk	Market rate +/− 10 basis points	+/− NT$ 1,245 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 Company 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 Company’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 Company’s finance division in accordance with the Company’s policy. The counterparties that the Company transacts with are domestic and international financial institutions with good credit ratings, thus, no significant default risk is expected.

(5) Liquidity risk management

The Company maintains its financial flexibility through the use of cash and cash equivalents and bank borrowings. The table below summarized the maturity profile of the Company’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.

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

Non-derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2016					
Borrowings	$ 4,471	$ 541,321	$ –	$ –	$ 545,792
Payables	1,846,248	–	–	–	1,846,248
December 31, 2015					
Borrowings	$ 380,004	$ 599,297	$ –	$ –	$ 979,301
Payables	2,365,121	–	–	–	2,365,121

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 Company 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 Company'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 Company'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		
CNY to NTD	2016.08～2017.06	CNY 159,020/NT$ 727,398

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 NTD	2016.08～2016.12	US$ 16,550/NT$ 523,631
USD to JPY	2016.12	US$ 100/JPY 11,427
CNY to USD	2016.01～2016.12	CNY 386,732/US$ 58,142
CNY to NTD	2016.05～2016.12	CNY 75,000/NT$ 365,402

Currency	Contract period	Contract amount (in thousands)
2015.12.31		
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.

B. Hierarchy of fair value measurement

The Company 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	$ —	$ 6,557	$ —	$ 6,557
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	$ 79,748	32.2790	$ 2,574,186	$ 65,810	33.0660	$ 2,176,073
CNY	11,407	4.6225	52,729	851	5.0310	4,281

(Continued)

	December 31, 2016			December 31, 2015		
	Foreign currencies (in thousands)	Exchange rate	NTD	Foreign currencies (in thousands)	Exchange rate	NTD
Financial liabilities						
Monetary items						
USD	$ 39,261	32.2790	$ 1,267,306	$ 56,466	33.0660	$ 1,867,105
JPY	151,316	0.2757	41,718	487,828	0.2747	134,006

(Concluded)

(10) Capital management

The primary objective of the Company'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 Company manages and adjusts its capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Company 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.

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

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 10)

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, except for financings between foreign companies of which the Company holds, directly and indirectly, 100% of the voting shares. 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: Financing provided is limited to the parent company in Taiwan or subsidiaries that the parent 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 11: 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 12: 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	87.00%	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.

TAIFLEX SCIENTIFIC COMPANY LIMITED

1. STATEMENT OF CASH AND CASH EQUIVALENTS

December 31, 2016

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Petty cash		$ 70	
Cash on hand		102	
Subtotal		172	
Bank deposits:			
Demand deposits in NTD		405,745	Exchange rate:
Checking account in NTD		30	
Demand deposits - USD	US$ 20,812 thousand	671,785	32.279
Demand deposits – JPY	JPY 93,729 thousand	25,841	0.2757
Demand deposits – HKD	HK$ 137 thousand	571	4.162
Demand deposits – CNY	CNY 11,407 thousand	52,728	4.6225
Time deposits in NTD		1,143,200	
Time deposits - USD	US$ 8,500 thousand	274,372	
Subtotal		2,574,272	
Total		$ 2,574,444	

TAIFLEX SCIENTIFIC COMPANY LIMITED
2. STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT
December 31, 2016

In Thousands of New Taiwan Dollars

Name	Description	Number of Stocks	Fair Value		Note
			Unit Price	Total	
Listed stocks	Zhen Ding Technology Holding Limited	254,625	63.80	$ 16,245	
Short-term foreign exchange contract	Notional amount of CNY 159,020 thousand			6,557	
				$ 22,802	

TAIFLEX SCIENTIFIC COMPANY LIMITED
3. STATEMENT OF NOTES RECEIVABLE, NET
December 31, 2016

In Thousands of New Taiwan Dollars

Customer	Description	Amount	Note
Company A		$ 1,457	
Company B		704	
Company C		1,670	
Company D		2,782	
Others (Note)		731	
Total		7,344	
Less: allowance for doubtful accounts		—	
Net		$ 7,344	

Note: The amount of each customer included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED
4. STATEMENT OF ACCOUNTS RECEIVABLE, NET
December 31, 2016

In Thousands of New Taiwan Dollars

Customer	Description	Amount	Note
Company E		$ 94,312	
Company F		67,302	
Company G		53,082	
Company H		49,495	
Company I		38,834	
Company J		36,061	
Others (Note)		278,383	
Total		617,469	
Less: allowance for doubtful accounts		(209,974)	
Net		$ 407,495	

Note: The amount of each customer included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED

5. STATEMENT OF ACCOUNTS RECEIVABLE – RELATED PARTIES

December 31, 2016

In Thousands of New Taiwan Dollars

Customer	Description	Amount	Note
Shenzhen Taiflex Electronic Co., Ltd.		$ 1,091,763	
Taiflex Scientific (Kunshan) Co., Ltd.		20,105	
Total		1,111,868	
Less: allowance for doubtful accounts		—	
Net		$ 1,111,868	

TAIFLEX SCIENTIFIC COMPANY LIMITED

6. STATEMENT OF OTHER RECEIVABLES

December 31, 2016

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Other receivables	Receivables from sales of scraps	$ 4,872	
Income tax refund receivable		32,564	
Earned revenue receivable	Estimated interest income from time deposits	1,490	
Total		$ 38,926	

TAIFLEX SCIENTIFIC COMPANY LIMITED

7. STATEMENT OF OTHER RECEIVABLES – RELATED PARTIES

December 31, 2016

In Thousands of New Taiwan Dollars

Customer	Description	Amount	Note
Taiflex Scientific (Kunshan) Co., Ltd.	Items purchased on behalf of others, financing and interests	$ 575,413	
Shenzhen Taiflex Electronic Co., Ltd.	Items purchased on behalf of others	1,848	
Total		$ 577,261	

TAIFLEX SCIENTIFIC COMPANY LIMITED

8. STATEMENT OF INVENTORIES

December 31, 2016

In Thousands of New Taiwan Dollars

Item	Cost	Net Realizable Value	Note
Raw materials	$ 218,644	$ 214,154	
Inventories in transit	22,033	22,033	
Supplies	1,049	1,010	
Work in process	97,581	111,734	
Finished goods	236,432	270,757	
Merchandise	2,977	4,644	
Total	578,716		
Less: allowance for inventory valuation losses	(57,727)		
Net	$ 520,989		

TAIFLEX SCIENTIFIC COMPANY LIMITED

9. STATEMENT OF PREPAYMENTS

December 31, 2016

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Prepaid expenses		$ 17,143	
Other prepayments		9,393	
Others (Note)		1,000	
Total		$ 27,536	

Note: The amount of each item included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED

10. STATEMENT OF OTHER CURRENT ASSETS

December 31, 2016

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Other financial assets		$ 20,295	
Other current assets – other		517	
Temporary payments		2,870	
Others (Note)		94	
Total		$ 23,776	

Note: The amount of each item included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED

11. STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

For the Year Ended December 31, 2016

In Thousands of New Taiwan Dollars

Investee	Beginning Balance		Additions		Decrease		Share of Profits/Losses of Investee	Exchange Differences Arising on Translation of Foreign Operations	Unrealized Gains and Losses on Available-for-Sale Financial Assets	Ending Balance			Market Value or Net Asset Value	Valuation Basis	Collateral / Pledge	Note
	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount				Shares (In Thousands)	Percentage of Ownership	Amount				
Taistar Co., Ltd.	25,665,000	$ 1,770,651	–	$ 12,898	–	$ –	$ 42,745	$ (149,146)	$ –	25,665,000	100.00%	$ 1,677,148	$ 1,691,762	Equity method	None	(Note 1)
Leadmax Limited	10,000	14,382	–	–	–	–	2,040	(345)	–	10,000	100.00%	16,077	16,077	Equity method	None	
Innovision FlexTech Corp.	4,513,402	31,518	–	–	–	–	–	–	–	4,513,402	16.72%	31,518	35,088	Equity method	None	
Koatech Technology Corp.	27,400,252	267,896	–	–	–	–	(44,297)	(833)	–	27,400,252	53.86%	222,766	117,093	Equity method	None	
TFS Co., Ltd.	2,150,000	154,088	–	–	–	(4,419)	(1,379)	(13,782)	–	2,150,000	100.00%	134,508	155,862	Equity method	None	(Note 2)
Taiflex Scientific Japan Co., Ltd.	–	–	6,000	$ 16,260	–	–	1,207	193	–	6,000	100.00%	17,660	17,660	Equity method	None	(Note 3)
Subtotal		2,238,535		29,158		(4,419)	316	(163,913)	–			2,099,677				
Less: accumulated impairment		(31,518)		–		–	–	–	–			(31,518)				
Net		$ 2,207,017		$ 29,158		$ (4,419)	$ 316	$ (163,913)	$ –			$ 2,068,159				

(Note 1): The increase was a result of downstream transactions between subsidiaries of NT$ 12,898 thousand.
(Note 2): The decrease was a result of downstream transactions between subsidiaries of NT$ (4,419) thousand.
(Note 3): The increase was a result of additions of NT$ 16,260 thousand.

TAIFLEX SCIENTIFIC COMPANY LIMITED

12. STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT

For the Year Ended December 31, 2016

In Thousands of New Taiwan Dollars

Item	Beginning Balance	Changes			Ending Balance	Collateral / Pledge	Note
		Additions	Disposals	Reclassification			
Original cost							
Buildings	$ 641,813	$ 4,491	$ -	$ 53,915	$ 700,219	Some property, plant and equipment, such as buildings, are pledged as collateral.	
Machinery and equipment	1,705,549	35,334	-	248,306	1,989,189		
Hydropower equipment	223,865	3,634	-	10,507	238,006		
Testing equipment	155,262	21,550	(470)	23,514	199,856		
Miscellaneous equipment	96,608	9,963	(275)	21,888	128,184		
Subtotal	2,823,097	74,972	(745)	358,130	3,255,454		
Construction in progress and equipment awaiting inspection	481,299	289,770	-	(358,468)	412,601		
Total cost	$ 3,304,396	$ 364,742	$ (745)	$ (338)	$ 3,668,055		

TAIFLEX SCIENTIFIC COMPANY LIMITED

13. STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

For the Year Ended December 31, 2016

In Thousands of New Taiwan Dollars

Item	Beginning Balance	Changes			Ending Balance	Note
		Increase	Decrease	Reclassification		
Buildings	$ 117,772	$ 27,067	$ -	$ -	$ 144,839	
Machinery and equipment	1,119,688	100,972	-	(280)	1,220,380	
Hydropower equipment	183,289	6,260	-	-	189,549	
Testing equipment	81,223	11,447	(470)	280	92,480	
Miscellaneous equipment	76,753	7,508	(275)	-	83,986	
Total accumulated depreciation	$ 1,578,725	$ 153,254	$ (745)	$ -	$ 1,731,234	

TAIFLEX SCIENTIFIC COMPANY LIMITED
14. STATEMENT OF CHANGES IN INTANGIBLE ASSETS
For the Year Ended December 31, 2016

In Thousands of New Taiwan Dollars

Item	Beginning Balance	Additions	Reclassification	Ending Balance	Note
Trademarks	$ 372	$ 211	$ —	$ 583	
Patents	9,867	2,969	—	12,836	
Software cost	74,161	13,288	—	87,449	
Total	$ 84,400	$ 16,468	$ —	$ 100,868	

TAIFLEX SCIENTIFIC COMPANY LIMITED
15. STATEMENT OF CHANGES IN ACCUMULATED AMORTIZATION
OF INTANGIBLE ASSETS
For the Year Ended December 31, 2016

In Thousands of New Taiwan Dollars

Item	Beginning Balance	Increase	Reclassification	Ending Balance	Note
Trademarks	$ 151	$ 47	$ —	$ 198	
Patents	3,976	1,513	—	5,489	
Software cost	47,713	10,571	—	58,284	
Total	$ 51,840	$ 12,131	$ —	$ 63,971	

TAIFLEX SCIENTIFIC COMPANY LIMITED
16. STATEMENT OF DEFERRED INCOME TAX ASSETS
December 31, 2016

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Deferred income tax assets		$ 126,425	

TAIFLEX SCIENTIFIC COMPANY LIMITED
17. STATEMENT OF OTHER NON-CURRENT ASSETS
December 31, 2016

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Other assets - other	1. ITRI –Early-stage technology licensing for verification of energy efficiency test of building materials	$ 200	
	2. ITRI - Early-stage technology licensing for verification of energy-efficient components of building materials	150	
	3. Analysis and research on anti-static films	470	
		820	
Refundable deposits	1. Car leases	7,010	
	2. Leases	2,771	
	3. Construction deposits	300	
	4. Others (Note)	347	
		10,428	
Total		$ 11,248	

Note: The amount of each item included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED
18. STATEMENT OF SHORT-TERM LOANS
December 31, 2016

In Thousands of New Taiwan Dollars

Type	Description	Contract Period	Interest Rate Range	Ending Balance	Pledge / Collateral	Loan Commitments	Note
Material purchases	Chang Hwa Commercial Bank – Sanmin Branch	2016.11.07~2017.02.06	0.85%	$ 4,287	None	$ 200,000	

TAIFLEX SCIENTIFIC COMPANY LIMITED
19. STATEMENT OF ACCOUNTS PAYABLES
December 31, 2016

In Thousands of New Taiwan Dollars

Vendor	Description	Amount	Note
Company K		$ 391,254	
Company L		164,315	
Company M		156,874	
Company N		238,774	
Others (Note)		391,448	
Total		$ 1,342,665	

Note: The amount of each vendor included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED
20. STATEMENT OF ACCOUNTS PAYABLE – RELATED PARTIES
December 31, 2016

In Thousands of New Taiwan Dollars

Vendor	Description	Amount	Note
Taiflex Scientific (Kunshan) Co., Ltd.		$ 13,666	
Koatech Technology Corp.		1,661	
Total		$ 15,327	

TAIFLEX SCIENTIFIC COMPANY LIMITED
21. STATEMENT OF OTHER PAYABLES
December 31, 2016

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Bonus payables	Year-end and performance bonuses	$ 135,813	
Employee compensation payables		54,638	
Payables on equipment		70,944	
Others (Note)		221,181	
Total		$ 482,576	

Note: The amount of each item included in Others does not exceed 5% of the account balance

TAIFLEX SCIENTIFIC COMPANY LIMITED
22. STATEMENT OF OTHER PAYABLES – RELATED PARTIES
December 31, 2016

In Thousands of New Taiwan Dollars

Vendor	Description	Amount	Note
Koatech Technology Corporation		$ 44	
Innatech Co., Ltd.		4,950	
Shenzhen Taiflex Electronic Co., Ltd.		686	
Total		$ 5,680	

TAIFLEX SCIENTIFIC COMPANY LIMITED
23. STATEMENT OF LONG-TERM LOANS
December 31, 2016

In Thousands of New Taiwan Dollars

Bank	Type	Amount	Current Portion	Unamortized Syndicated Loan Fee	Net	Contract Term	Interest Rate	Collateral	Repayment
Kaohsiung Export Processing Zone Branch, Bank of Taiwan	Syndicated loan	$ 193,675	$ –	$ (4,000)	$ 189,675	2016.12.14-2017.02.14	2.59%	None	Principal repayment: rollover upon maturity; Interest: interest shall be paid on the 20th of each month. Tenor ends on June 15, 2021.
Kaohsiung Branch, the Export-Import Bank of ROC	Medium to long term credit loan	51,646	–	–	51,646	2015.08.13-2019.08.13	1.77%	None	Principal repayment: principal is repayable in 5 installments, each at 6-month intervals, starting August 13, 2017. Interest: interest shall be paid on the 21st of March, June, September and December.
KGI Bank	Medium to long term credit loan	300,000	–	–	300,000	2016.10.31-2017.02.02	0.98%	None	Principal repayment: rollover upon maturity; Interest: interest shall be paid at the end of month (30th or 31st).
Total		$ 545,321	$ –	$ (4,000)	$ 541,321				

TAIFLEX SCIENTIFIC COMPANY LIMITED
24. STATEMENT OF OTHER CURRENT LIABILITIES
December 31, 2016

In Thousands of New Taiwan Dollars

Item	Amount	Note
Receipts under custody	$ 1,725	
Others (Note)	313	
Total	$ 2,038	

Note: The amount of each item included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED
25. STATEMENT OF DEFERRED INCOME TAX LIABILITIES
December 31, 2016

In Thousands of New Taiwan Dollars

Item	Amount	Note
Deferred income tax liabilities	$ 159,115	

TAIFLEX SCIENTIFIC COMPANY LIMITED
26. STATEMENT OF NET DEFINED BENEFIT LIABILITIES – NON-CURRENT
For the Year Ended December 31, 2016

In Thousands of New Taiwan Dollars

Item	Amount	Note
Beginning balance	$ 111,009	
Expenses incurred	10,008	
Funding	(2,824)	
Actuarial loss	72,083	
Ending balance	$ 190,276	

TAIFLEX SCIENTIFIC COMPANY LIMITED
27. STATEMENT OF NET REVENUE
For the Year Ended December 31, 2016

In Thousands of New Taiwan Dollars

Item	Quantity	Amount
Electronic materials	30,423,000	$ 6,434,895
PV	4,017,040	440,089
Others	83,206	10,548
Total		6,885,532
Less: Sales returns and discounts and allowances		(173,135)
Net		$ 6,712,397

TAIFLEX SCIENTIFIC COMPANY LIMITED
28. STATEMENT OF COST OF REVENUE
For the Year Ended December 31, 2016
In Thousands of New Taiwan Dollars

Item			Amount
Manufacturing:			
	Raw materials, beginning balance		$ 382,122
	Add:	Raw materials purchased	5,516,408
	Less:	Raw materials, ending balance	(240,677)
		Transferred to expenses and others	(13,043)
		Items purchased on behalf of others	(1,420,491)
		Sale of raw materials	(85,471)
		Scrapped	(1,971)
	Raw materials used		4,136,877
	Direct labor		260,332
	Manufacturing expenses		819,242
	Total manufacturing cost		5,216,451
	Add:	Work in process, beginning balance	54,500
	Less:	Work in process, ending balance	(97,581)
	Cost of finished goods		5,173,370
	Add:	Finished goods, beginning balance	229,866
	Less:	Finished goods, ending balance	(236,432)
		Transferred to expenses and others	(17,360)
		Scrapped	(8,178)
	Total cost of production and marketing		5,141,266
Processing:			
	Processing cost		2
	Total processing cost		2
Trading:			
	Merchandise, beginning balance		949
	Add:	Purchases	189,193
	Less:	Merchandise, ending balance	(2,977)
		Scrapped	(250)
		Transferred from other accounts	(1,068)
	Cost of goods sold		5,327,115
	Cost of raw materials sold		87,190
	Loss on inventory scrapped		10,399
	Gain on inventory value recovery		(1,500)
	Revenue from sale of scraps		(15,582)
	Unrealized gain from associates		21,471
	Realized gain from associates		(24,370)
	Total cost of revenue		$ 5,404,723

TAIFLEX SCIENTIFIC COMPANY LIMITED

29. STATEMENT OF OPERATING EXPENSES

For the Year Ended December 31, 2016

In Thousands of New Taiwan Dollars

Item	Sales and Marketing Expenses	General and Administrative Expenses	Research and Development Expenses	Total
Payroll	$ 75,003	$ 157,630	$ 90,155	$ 322,788
Commissioned research	—	—	38,712	38,712
Import/export	104,427	—	—	104,427
Others (Note)	458	62,754	68,243	131,455
Total	$ 179,888	$ 220,384	$ 197,110	$ 597,382

Note: The amount of each item included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED
30. STATEMENT OF NON-OPERATING INCOME AND EXPENSES
For the Year Ended December 31, 2016

In Thousands of New Taiwan Dollars

Item	Amount
Interest income	$ 19,296
Dividend income	1,146
Rend income	312
Miscellaneous income	134,964
Total other income	155,718
Foreign exchange gain (loss), net	(129,546)
Net gain of financial assets and liabilities at fair value through profit or loss	9,834
Other losses	(2,712)
Total other gains and losses	(122,424)
Finance costs	(20,825)
Share of profit or loss of subsidiaries and associates under the equity method	316
Total non-operating income and expenses	$ 12,785