

**TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**For the Nine Months Ended September 30, 2016 and 2015**

Address: No.1, Huanqu 3rd Rd., Kaohsiung Export Processing Zone, Kaohsiung City  
Telephone: 886-7-813-9989

*Notice to readers*

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

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TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
September 30, 2016, December 31, 2015 and September 30, 2015  
(Numbers as of September 30, 2016 and 2015 are reviewed, not audited)  
(In Thousands of New Taiwan Dollars)

Assets	Notes	September 30, 2016	December 31, 2015	September 30, 2015
<b>Current assets</b>				
Cash and cash equivalents	4, 6(1)	\$ 2,848,411	\$ 2,729,235	\$ 2,269,708
Financial assets at fair value through profit or loss, current	4, 6(2)	24,668	19,300	25,837
Notes receivable, net	4, 6(3)	1,531,560	858,370	655,067
Accounts receivable, net	4, 6(4)	2,652,222	3,647,625	4,055,664
Other receivables		99,599	242,562	212,198
Inventories, net	4, 6(5)	1,132,037	1,116,052	1,229,167
Prepayments		99,588	75,357	107,199
Other current assets	8	<u>78,334</u>	<u>168,108</u>	<u>132,746</u>
Total current assets		<u>8,466,419</u>	<u>8,856,609</u>	<u>8,687,586</u>
<b>Non-current assets</b>				
Financial assets carried at cost, non-current	4, 6(6)	-	-	-
Investments accounted for under the equity method	4, 6(7)	-	-	-
Property, plant and equipment	4, 6(8)	2,749,302	2,694,435	2,652,489
Intangible assets	4, 6(9,11)	116,891	119,480	110,697
Deferred income tax assets	4, 6(21)	122,107	125,309	131,068
Other non-current assets	4, 6(10)	<u>85,844</u>	<u>82,874</u>	<u>100,388</u>
Total non-current assets		<u>3,074,144</u>	<u>3,022,098</u>	<u>2,994,642</u>
<b>Total assets</b>		<u>\$ 11,540,563</u>	<u>\$ 11,878,707</u>	<u>\$ 11,682,228</u>

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

(Continued)

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS-(Continued)  
September 30, 2016, December 31, 2015 and September 30, 2015  
(Numbers as of September 30, 2016 and 2015 are reviewed, not audited)  
(In Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	September 30, 2016	December 31, 2015	September 30, 2015
<b>Current liabilities</b>				
Short-term loans	6(12)	\$ 1,229,438	\$ 881,178	\$ 1,009,045
Financial liabilities at fair value through profit or loss, current	4, 6(13)	790	-	-
Notes payable		120,459	51,896	366
Accounts payable		1,861,181	1,901,621	1,887,322
Other payables		488,547	624,655	563,929
Current tax liabilities	4, 6(21)	46,986	96,804	60,358
Current portion of long-term loans	6(14)	23,655	303,561	301,765
Other current liabilities		69,441	6,317	4,753
Total current liabilities		<u>3,840,497</u>	<u>3,866,032</u>	<u>3,827,538</u>
<b>Non-current liabilities</b>				
Long-term loans	6(14)	756,294	888,173	789,257
Deferred income tax liabilities	4, 6(21)	159,525	194,169	213,545
Net defined benefit liabilities, non-current	4, 6(15)	116,377	111,009	86,702
Other non-current liabilities	4, 12	46	47	47
Total non-current liabilities		<u>1,032,242</u>	<u>1,193,398</u>	<u>1,089,551</u>
Total liabilities		<u>4,872,739</u>	<u>5,059,430</u>	<u>4,917,089</u>
<b>Equity attributable to shareholders of the parent</b>				
Capital	6(16)			
Common stock		2,083,252	2,042,858	2,042,778
Capital collected in advance		-	-	80
Total capital		<u>2,083,252</u>	<u>2,042,858</u>	<u>2,042,858</u>
Capital surplus	6(16)	1,407,558	1,447,952	1,447,952
Retained earnings				
Legal capital reserve		684,163	611,177	611,177
Special capital reserve		102,158	102,158	102,158
Unappropriated earnings		2,431,346	2,518,408	2,407,558
Total retained earnings		<u>3,217,667</u>	<u>3,231,743</u>	<u>3,120,893</u>
Other components of equity	4	(50,955)	61,375	108,176
Treasury stock	6(16)	(98,744)	(98,744)	(98,744)
Total equity attributable to shareholders of the parent		<u>6,558,778</u>	<u>6,685,184</u>	<u>6,621,135</u>
<b>Non-controlling interests</b>	4, 6(16)	109,046	134,093	144,004
Total equity		<u>6,667,824</u>	<u>6,819,277</u>	<u>6,765,139</u>
<b>Total liabilities and equity</b>		<u>\$ 11,540,563</u>	<u>\$ 11,878,707</u>	<u>\$ 11,682,228</u>

(Concluded)

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
For the Three Months and Nine Months Ended September 30, 2016 and 2015  
(Reviewed, Not Audited)  
(In Thousands of New Taiwan Dollars)

	Notes	Three Months Ended		Nine Months Ended	
		September 30		September 30	
		2016	2015	2016	2015
Net revenue	4, 6(18)	\$ 2,440,013	\$ 3,007,500	\$ 7,345,715	\$ 7,358,738
Cost of revenue	4, 6(19)	(2,000,328)	(2,381,345)	(5,982,545)	(5,779,626)
Gross profit		439,685	626,155	1,363,170	1,579,112
Unrealized sales profit or loss		-	-	(95)	(113)
Realized sales profit or loss		-	-	-	-
Gross profit, net		439,685	626,155	1,363,075	1,578,999
Operating expenses	4, 6(19)				
Sales and marketing expenses		(61,852)	(131,229)	(258,851)	(359,050)
General and administrative expenses		(81,436)	(128,605)	(247,666)	(308,532)
Research and development expenses		(57,441)	(57,289)	(159,025)	(155,929)
Total operating expenses		(200,729)	(317,123)	(665,542)	(823,511)
Operating income		238,956	309,032	697,533	755,488
Non-operating income and expenses	6(20)				
Other income		7,459	12,568	15,121	37,192
Other gains and losses		(76,919)	62,037	(177,376)	(34,393)
Finance costs		(18,478)	(17,518)	(72,240)	(42,798)
Share of profit or loss of associates under the equity method	4, 6(7)	-	(1,206)	-	(5,655)
Total non-operating income and expenses		(87,938)	55,881	(234,495)	(45,654)
Income before income tax		151,018	364,913	463,038	709,834
Income tax expense	4, 6(21)	(22,216)	(62,708)	(97,571)	(124,813)
Net income of continuing operations		128,802	302,205	365,467	585,021
Net income		128,802	302,205	365,467	585,021
Other comprehensive income (loss)	6(20)				
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations		(60,567)	80,749	(136,125)	35,865
Income tax benefit (expense) related to components of other comprehensive income that may be reclassified subsequently to profit or loss		10,297	(13,727)	23,141	(6,097)
Total other comprehensive income, net of tax		(50,270)	67,022	(112,984)	29,768
Total comprehensive income		\$ 78,532	\$ 369,227	\$ 252,483	\$ 614,789
Net income (loss) attributable to:	4, 6(22)				
Shareholders of the parent		\$ 137,422	\$ 301,233	\$ 389,860	\$ 599,920
Non-controlling interests		(8,620)	972	(24,393)	(14,899)
		\$ 128,802	\$ 302,205	\$ 365,467	\$ 585,021
Total comprehensive income (loss) attributable to:					
Shareholders of the parent		\$ 87,532	\$ 365,816	\$ 277,530	\$ 627,552
Non-controlling interests		(9,000)	3,411	(25,047)	(12,763)
		\$ 78,532	\$ 369,227	\$ 252,483	\$ 614,789
Earnings per share (NT\$)	4, 6(22)				
Earnings per share - basic		\$ 0.67	\$ 1.46	\$ 1.89	\$ 2.91
Earnings per share - diluted		\$ 0.67	\$ 1.46	\$ 1.88	\$ 2.89

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
For the Nine Months Ended September 30, 2016 and 2015  
(Reviewed, Not Audited)  
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Shareholders of the Parent										
	Common Stock	Capital Collected in Advance	Capital Surplus	Retained Earnings			Others Exchange Differences on Translation of Foreign Operations	Treasury Stock	Total	Non-Controlling Interests	Total Equity
				Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings					
Balance as of January 1, 2015	\$ 2,042,608	\$ 70	\$ 1,447,619	\$ 522,935	\$ 102,158	\$ 2,501,729	\$ 80,544	\$ (98,744)	\$ 6,598,919	\$ 156,767	\$ 6,755,686
Appropriation and distribution of 2014 earnings											
Legal capital reserve				88,242		(88,242)			-		-
Cash dividends for common shares						(605,849)			(605,849)		(605,849)
Changes in other capital surplus											
Share-based payment	170	10	333						513		513
Net income for the nine months ended September 30, 2015						599,920			599,920	(14,899)	585,021
Other comprehensive income (loss) for the nine months ended September 30, 2015							27,632		27,632	2,136	29,768
Total comprehensive income	-	-	-	-	-	599,920	27,632	-	627,552	(12,763)	614,789
Balance as of September 30, 2015	<u>\$ 2,042,778</u>	<u>\$ 80</u>	<u>\$ 1,447,952</u>	<u>\$ 611,177</u>	<u>\$ 102,158</u>	<u>\$ 2,407,558</u>	<u>\$ 108,176</u>	<u>\$ (98,744)</u>	<u>\$ 6,621,135</u>	<u>\$ 144,004</u>	<u>\$ 6,765,139</u>
Balance as of January 1, 2016	\$ 2,042,858	\$ -	\$ 1,447,952	\$ 611,177	\$ 102,158	\$ 2,518,408	\$ 61,375	\$ (98,744)	\$ 6,685,184	\$ 134,093	\$ 6,819,277
Appropriation and distribution of 2015 earnings											
Legal capital reserve				72,986		(72,986)			-		-
Cash dividends for common shares						(403,936)			(403,936)		(403,936)
Changes in other capital surplus											
Stock dividends from capital surplus	40,394		(40,394)						-		-
Net income for the nine months ended September 30, 2016						389,860			389,860	(24,393)	365,467
Other comprehensive income (loss) for the nine months ended September 30, 2016							(112,330)		(112,330)	(654)	(112,984)
Total comprehensive income	-	-	-	-	-	389,860	(112,330)	-	277,530	(25,047)	252,483
Balance as of September 30, 2016	<u>\$ 2,083,252</u>	<u>\$ -</u>	<u>\$ 1,407,558</u>	<u>\$ 684,163</u>	<u>\$ 102,158</u>	<u>\$ 2,431,346</u>	<u>\$ (50,955)</u>	<u>\$ (98,744)</u>	<u>\$ 6,558,778</u>	<u>\$ 109,046</u>	<u>\$ 6,667,824</u>

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Nine Months Ended September 30, 2016 and 2015  
(Reviewed, Not Audited)  
(In Thousands of New Taiwan Dollars)

	Nine Months Ended September 30	
	2016	2015
Cash flows from operating activities:		
Income before income tax	\$ 463,038	\$ 709,834
Adjustments:		
Non-cash income and expense items:		
Depreciation	199,283	200,982
Amortization	26,414	30,675
(Gain on reversal of) bad debt expense	(101,491)	30,341
Net loss (gain) of financial assets (liabilities) at fair value through profit or loss	3,143	(12,066)
Interest expense	72,240	42,798
Interest income	(13,103)	(22,621)
Share of profit or loss of associates under the equity method	-	5,655
Gain on disposal of property, plant and equipment	(419)	(156)
Impairment loss on non-financial assets	2,039	-
Gain on reversal of impairment loss for non-financial assets	(1,107)	(4,164)
Others	9,919	(22,808)
Changes in operating assets and liabilities:		
(Increase) decrease in financial assets at fair value through profit or loss, current	(7,721)	2,270
(Increase) decrease in notes receivable	(673,190)	234,432
Decrease (increase) in accounts receivable	1,036,665	(265,297)
Decrease (increase) in other receivables	204,492	(64,344)
Increase in inventories	(25,904)	(279,942)
(Increase) decrease in prepayments	(24,231)	5,219
Decrease (increase) in other current assets	8,887	(1,857)
Increase in other non-current assets	(7,978)	(4,639)
Increase (decrease) in notes payable	68,563	(205,373)
(Decrease) increase in accounts payable	(40,440)	247,163
Decrease in other payables	(99,791)	(56,545)
Increase (decrease) in other current liabilities	63,124	(11,228)
Increase in net defined benefit liabilities	5,368	5,229
Decrease in other non-current liabilities	(1)	(19)
Cash generated from operations	<u>1,167,799</u>	<u>563,539</u>
Interest received	16,190	21,688
Interest paid	(70,692)	(45,043)
Income tax paid	<u>(155,690)</u>	<u>(218,877)</u>
Net cash generated by operating activities	<u>957,607</u>	<u>321,307</u>

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

(Continued)

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS-(Continued)

For the Nine Months Ended September 30, 2016 and 2015

(Reviewed, Not Audited)

(In Thousands of New Taiwan Dollars)

	Nine Months Ended September 30	
	2016	2015
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(341,084)	(379,674)
Disposal of property, plant and equipment	540	617
Increase in refundable deposits	(6,992)	-
Decrease in refundable deposits	-	12,033
Acquisition of intangible assets	(14,107)	(4,028)
Increase in other current assets - other financial assets, current	-	(63,100)
Decrease in other current assets - other financial assets, current	81,277	-
Net cash used in investing activities	(280,366)	(434,152)
 Cash flows from financing activities:		
Increase in short-term loans	348,260	-
Decrease in short-term loans	-	(209,927)
Repayment of long-term loans	(411,785)	(233,286)
Distribution of cash dividends	(403,936)	(605,849)
Exercise of employee stock options	-	513
Net cash used in financing activities	(467,461)	(1,048,549)
 Effect of exchange rate changes on cash and cash equivalents	(90,604)	24,657
Net increase (decrease) in cash and cash equivalents	119,176	(1,136,737)
Cash and cash equivalents at beginning of period	2,729,235	3,406,445
Cash and cash equivalents at end of period	\$ 2,848,411	\$ 2,269,708

(Concluded)

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



**TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Nine Months Ended September 30, 2016 and 2015 and the Year Ended December 31, 2015  
(Numbers for the Nine Months Ended September 30, 2016 and 2015 are Reviewed, not Audited)  
(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

**1. HISTORY AND ORGANIZATION**

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

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

**2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS**

The consolidated financial statements of the Company and its subsidiaries (“the Group”) for the nine months ended September 30, 2016 and 2015 were approved and authorized for issue in the Board of Directors’ meeting on October 27, 2016.

**3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS**

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

<b>No.</b>	<b>Projects of New, Revised and Amended Standards or Interpretations</b>	<b>Effective Date</b>
	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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)  
(Reviewed, not Audited)  
(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

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

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

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

No.	Projects of New, Revised and Amended Standards or Interpretations	Effective Date
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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)  
 (Reviewed, not Audited)  
 (In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

<u>No.</u>	<u>Projects of New, Revised and Amended Standards or Interpretations</u>	<u>Effective Date</u>
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	-

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The consolidated financial statements for the nine months ended September 30, 2016 and 2015 have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” endorsed by FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statements

The Group adopts the same preparation principle as the one used in the preparation of consolidated financial statements for the year ended December 31, 2015. Please refer to the consolidated financial statements for the year ended December 31, 2015 for details.

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Reviewed, not Audited)

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Main Business	Percentage of Ownership (%)		
			2016.9.30	2015.12.31	2015.9.30
The Company	Taistar Co., Ltd. (Taistar)	Investment holding	100.00%	100.00%	100.00%
The Company	Leadmax Ltd. (Leadmax)	Trading of electronic materials	100.00%	100.00%	100.00%
The Company	Koatech Technology Corporation (Koatech)	Manufacturing and selling of electronic materials and components	53.86%	53.86%	53.86%
The Company	TFS Co., Ltd. (TFS)	Investment holding	100.00%	100.00%	100.00%
The Company	Taiflex Scientific Japan Co., Ltd. (Japan Taiflex)	Trading and technical support of electronic materials	100.00%	—	—
Taistar	TSC International Ltd. (TSC)	Investment holding	100.00%	100.00%	100.00%
TSC	Kunshan Taiflex Electronic Material Co., Ltd (Kunshan Taiflex)	Trading of coating materials for high polymer film and copper foil	100.00%	100.00%	100.00%
TSC	Taiflex Scientific (Kunshan) Co., Ltd. (Taiflex Kunshan)	Manufacturing and selling of coating materials for high polymer film and copper foil	100.00%	100.00%	100.00%
TFS	RICHSTAR Co., Ltd. (RICHSTAR)	Investment holding	100.00%	100.00%	100.00%
RICHSTAR	Shenzhen Taiflex Electronic Co., Ltd. (Shenzhen Taiflex)	Trading of coating materials for high polymer film and copper foil	100.00%	100.00%	100.00%
Koatech	KTC Global Co., Ltd. (KTC Global)	Investment holding	100.00%	100.00%	100.00%

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TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Reviewed, not Audited)

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

Investor	Subsidiary	Main Business	Percentage of Ownership (%)		
			2016.9.30	2015.12.31	2015.9.30
KTC Global	KTC PanAsia Co., Ltd. (KTC PanAsia)	Investment holding	100.00%	100.00%	100.00%
KTC PanAsia	Kunshan Koatech Technology Corporation (Kunshan Koatech)	Wholesale and act as a commission agent of electronic materials and components	100.00%	100.00%	100.00%

(Concluded)

(4) Except for the following accounting policies, the consolidated financial statements for the nine months ended September 30, 2016 and 2015 adopt the same accounting policies as the ones used in the consolidated financial statements for the year ended December 31, 2015. Please refer to the consolidated financial statements for the year ended December 31, 2015 for a summary of other significant accounting policies.

A. Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

B. Income tax expense for an interim period is accrued and disclosed by applying the tax rate of forecasted total revenue. In other words, the annual effective tax rate is applied to the income before income tax of the interim period.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The same significant accounting judgments, estimates, and assumptions have been followed in the consolidated financial statements for the nine months ended September 30, 2016 and 2015 as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2015. For the summary of significant accounting judgments, estimates, and assumptions, please refer to the consolidated financial statements for the year ended December 31, 2015.

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES  
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6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	September 30, 2016	December 31, 2015	September 30, 2015
Cash on hand	\$ 711	\$ 685	\$ 874
Bank deposits	2,847,700	2,728,550	2,268,834
Total	<u>\$ 2,848,411</u>	<u>\$ 2,729,235</u>	<u>\$ 2,269,708</u>

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

	September 30, 2016	December 31, 2015	September 30, 2015
Held for trading:			
Non-hedging derivative financial assets			
- Forward foreign exchange contracts	\$ —	\$ —	\$ —
Non-derivative financial assets			
- Stocks	24,668	19,300	25,837
Total	<u>\$ 24,668</u>	<u>\$ 19,300</u>	<u>\$ 25,837</u>

(3) Notes receivable, net

	September 30, 2016	December 31, 2015	September 30, 2015
Notes receivable, net	<u>\$ 1,531,560</u>	<u>\$ 858,370</u>	<u>\$ 655,067</u>

The Group entered into agreements of notes receivable financing with recourse with banks. Notes receivables were used as collateral for short-term loans. Please refer to Note 8 for details.

(4) Accounts receivable, net

	September 30, 2016	December 31, 2015	September 30, 2015
Accounts receivable	\$ 2,867,902	\$ 3,978,775	\$ 4,425,149
Less: allowance for doubtful accounts	(215,680)	(331,150)	(369,485)
Net	<u>\$ 2,652,222</u>	<u>\$ 3,647,625</u>	<u>\$ 4,055,664</u>

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- 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 were as follows (please refer to Note 12 for credit risk disclosure):

	September 30, 2016	September 30, 2015
Beginning balance	\$ 331,150	\$ 366,149
Charge (reversal) for the period	(36,875)	3,333
Write off	(74,208)	(1,018)
Effect of exchange rate changes	(4,387)	1,021
Ending balance	\$ 215,680	\$ 369,485

- B. Ageing analysis of net accounts receivables:

	September 30, 2016	December 31, 2015	September 30, 2015
Neither past due nor impaired	\$ 2,193,865	\$ 2,722,094	\$ 3,042,825
Past due but not impaired			
≤ 120 days	406,505	563,566	734,277
121 to 180 days	43,598	162,989	128,660
≥ 181 days	8,254	198,976	149,902
Total	\$ 2,652,222	\$ 3,647,625	\$ 4,055,664

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

September 30, 2016			
Amount of accounts receivable	Amount of factoring	Condition	Unreceived amount (Recorded as other receivables)
US\$ 28,152 thousand	US\$ 28,152 thousand	Without recourse	US\$ - thousand (NT\$ - thousand)
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)

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September 30, 2015			
Amount of accounts receivable	Amount of factoring	Condition	Unreceived amount (Recorded as other receivables)
US\$ 26,447 thousand	US\$ 26,384 thousand	Without recourse	US\$ 63 thousand (NT\$ 1,967 thousand)

(5) Inventories, net

	September 30, 2016	December 31, 2015	September 30, 2015
Raw materials	\$ 383,094	\$ 217,615	\$ 482,438
Inventories in transit	45,586	301,162	90,155
Supplies	4,833	3,821	5,162
Work in process	151,469	100,000	145,609
Finished goods	389,484	348,697	404,427
Merchandise	157,571	144,757	101,376
Total	\$ 1,132,037	\$ 1,116,052	\$ 1,229,167

Expenses or income recognized were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Cost of inventories sold	\$ 2,006,119	\$ 2,394,817	\$ 5,983,823	\$ 5,810,414
Gain on inventory value recovery	(5,143)	(13,112)	(6,972)	(34,112)
Loss on inventory write-off	3,703	2,740	16,891	11,304
Revenue from sale of scraps	(4,351)	(3,100)	(11,197)	(7,980)
Cost of revenue	\$ 2,000,328	\$ 2,381,345	\$ 5,982,545	\$ 5,779,626

For the three months and nine months ended September 30, 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\$ 5,143 thousand, NT\$ 13,112 thousand, NT\$ 6,972 thousand and NT\$ 34,112 thousand, respectively.



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

	September 30, 2016	December 31, 2015	September 30, 2015
Stocks	\$ 6,600	\$ 6,600	\$ 6,600
Less: accumulated impairment	(6,600)	(6,600)	(6,600)
Net	\$ —	\$ —	\$ —

(7) Investments accounted for under the equity method

Investees	September 30, 2016		December 31, 2015		September 30, 2015	
	Amount	Percentage of ownership	Amount	Percentage of ownership	Amount	Percentage of ownership
Investments in associates:						
Innovision FlexTech Corp.	\$ 31,518	16.72%	\$ 31,518	16.72%	\$ 31,518	19.87%
Less: accumulated impairment - Innovision FlexTech Corp.	(31,518)		(31,518)		(31,518)	
Net	\$ —		\$ —		\$ —	

A. The shares of profit or loss of the associate accounted for under the equity method based on the unaudited financial statements of the investee for the three months and nine months ended September 30, 2016 and 2015 were as follows:

Investees	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Innovision FlexTech Corp.	\$ —	\$ (1,206)	\$ —	\$ (5,655)

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

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thus, this investment of the Group used the equity method for evaluation.

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

	September 30, 2016	December 31, 2015	September 30, 2015
Total assets	\$ 233,623	\$ 226,938	\$ 193,233
Total liabilities	\$ 46,547	\$ 39,950	\$ 41,688

  

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Revenue	\$ 40,240	\$ 12,137	\$ 74,964	\$ 27,233
Net income (loss)	\$ 7,325	\$ (9,455)	\$ 89	\$ (31,843)

(8) Property, plant and equipment

	September 30, 2016	December 31, 2015	September 30, 2015
Land	\$ 100,843	\$ 100,843	\$ 100,843
Buildings	1,023,873	1,042,055	1,063,337
Machinery and equipment	968,097	820,598	763,264
Hydropower equipment	92,360	106,580	109,799
Testing equipment	101,269	83,410	76,172
Miscellaneous equipment	47,003	49,244	48,761
Construction in progress and equipment awaiting inspection	415,857	491,705	490,313
Net	<u>\$ 2,749,302</u>	<u>\$ 2,694,435</u>	<u>\$ 2,652,489</u>

	As of January 1, 2016	Additions	Disposals	Reclassification	Impairment loss	Effect of exchange rate changes	As of September 30, 2016
<u>Cost</u>							
Land	\$ 100,843	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 100,843
Buildings	1,396,219	5,739	—	53,915	—	(35,839)	1,420,034
Machinery and equipment	2,261,959	26,851	—	192,666	—	(28,946)	2,452,530
Hydropower equipment	359,000	1,954	—	—	—	(9,011)	351,943
Testing equipment	179,198	5,218	(579)	23,579	—	(1,596)	205,820
Miscellaneous equipment	254,072	5,571	(3,217)	59,403	—	(5,489)	310,340
Total	<u>\$ 4,551,291</u>	<u>\$ 45,333</u>	<u>\$ (3,796)</u>	<u>\$ 329,563</u>	<u>\$ —</u>	<u>\$ (80,881)</u>	<u>\$ 4,841,510</u>

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	As of January 1, 2016	Additions	Disposals	Reclassification	Impairment loss	Effect of exchange rate changes	As of September 30, 2016
<u>Accumulated depreciation and impairment</u>							
Buildings	\$ 354,164	\$ 50,439	\$ —	\$ —	\$ —	\$ (8,442)	\$ 396,161
Machinery and equipment	1,441,361	108,799	—	(49,043)	—	(16,684)	1,484,433
Hydropower equipment	252,420	12,133	—	—	—	(4,970)	259,583
Testing equipment	95,788	10,114	(568)	280	—	(1,063)	104,551
Miscellaneous equipment	204,828	17,798	(2,954)	48,763	(1,107)	(3,991)	263,337
Total	<u>\$ 2,348,561</u>	<u>\$ 199,283</u>	<u>\$ (3,522)</u>	<u>\$ —</u>	<u>\$ (1,107)</u>	<u>\$ (35,150)</u>	<u>\$ 2,508,065</u>
Construction in progress and equipment awaiting inspection	491,705	257,886	—	(333,632)	—	(102)	415,857
Net	<u>\$ 2,694,435</u>						<u>\$ 2,749,302</u>
							(Concluded)
	As of January 1, 2015	Additions	Disposals	Reclassification	Impairment loss	Effect of exchange rate changes	As of September 30, 2015
<u>Cost</u>							
Land	\$ 100,843	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 100,843
Buildings	1,384,840	2,241	—	7,749	—	8,968	1,403,798
Machinery and equipment	2,114,994	17,267	(1,936)	41,986	—	6,822	2,179,133
Hydropower equipment	358,438	1,903	—	476	—	2,244	363,061
Testing equipment	149,657	5,324	(1,485)	17,818	—	369	171,683
Miscellaneous equipment	249,167	3,245	(4,398)	2,363	—	1,311	251,688
Total	<u>\$ 4,357,939</u>	<u>\$ 29,980</u>	<u>\$ (7,819)</u>	<u>\$ 70,392</u>	<u>\$ —</u>	<u>\$ 19,714</u>	<u>\$ 4,470,206</u>
<u>Accumulated depreciation and impairment</u>							
Buildings	\$ 288,665	\$ 49,737	\$ —	\$ —	\$ —	\$ 2,059	\$ 340,461
Machinery and equipment	1,304,576	108,960	(1,885)	—	—	4,218	1,415,869
Hydropower equipment	237,335	14,697	—	—	—	1,230	253,262
Testing equipment	88,398	8,337	(1,486)	—	—	262	95,511
Miscellaneous equipment	190,835	19,251	(3,970)	—	(4,164)	975	202,927
Total	<u>\$ 2,109,809</u>	<u>\$ 200,982</u>	<u>\$ (7,341)</u>	<u>\$ —</u>	<u>\$ (4,164)</u>	<u>\$ 8,744</u>	<u>\$ 2,308,030</u>
Construction in progress and equipment awaiting inspection	174,607	385,716	—	(70,455)	—	445	490,313
Net	<u>\$ 2,422,737</u>						<u>\$ 2,652,489</u>

Please refer to Note 8 for details on property, plant and equipment used as pledged assets or collateral.

The Group did not have capitalized interest for the nine months ended September 30, 2016 and 2015.

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(9) Intangible assets

	September 30, 2016	December 31, 2015	September 30, 2015
Trademarks	\$ 385	\$ 221	\$ 221
Patents	11,854	16,903	17,762
Software cost	34,871	32,575	22,933
Goodwill	69,781	69,781	69,781
Total	<u>\$ 116,891</u>	<u>\$ 119,480</u>	<u>\$ 110,697</u>

	As of January 1, 2016	Additions	Reclassification	Effect of exchange rate changes	As of September 30, 2016
<u>Cost</u>					
Trademarks	\$ 372	\$ 211	\$ —	\$ —	\$ 583
Patents	39,233	2,165	—	—	41,398
Software cost	93,511	11,731	(175)	(854)	104,213
Goodwill	69,781	—	—	—	69,781
Total	<u>\$ 202,897</u>	<u>\$ 14,107</u>	<u>\$ (175)</u>	<u>\$ (854)</u>	<u>\$ 215,975</u>

Accumulated  
amortization and  
impairment

Trademarks	\$ 151	\$ 47	\$ —	\$ —	\$ 198
Patents	22,330	7,214	—	—	29,544
Software cost	60,936	8,939	—	(533)	69,342
Total	<u>\$ 83,417</u>	<u>\$ 16,200</u>	<u>\$ —</u>	<u>\$ (533)</u>	<u>\$ 99,084</u>
Net	<u>\$ 119,480</u>				<u>\$ 116,891</u>

	As of January 1, 2015	Additions	Reclassification	Effect of exchange rate changes	As of September 30, 2015
<u>Cost</u>					
Trademarks	\$ 269	\$ 103	\$ —	\$ —	\$ 372
Patents	38,526	343	—	—	38,869
Software cost	75,515	3,582	2,380	147	81,624
Goodwill	69,781	—	—	—	69,781
Total	<u>\$ 184,091</u>	<u>\$ 4,028</u>	<u>\$ 2,380</u>	<u>\$ 147</u>	<u>\$ 190,646</u>

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	As of January 1, 2015	Additions	Reclassification	Effect of exchange rate changes	As of September 30, 2015
<u>Accumulated</u>					
<u>amortization and</u>					
<u>impairment:</u>					
Trademarks	\$ 126	\$ 25	\$ —	\$ —	\$ 151
Patents	16,094	5,013	—	—	21,107
Software cost	50,785	7,773	—	133	58,691
Total	<u>\$ 67,005</u>	<u>\$ 12,811</u>	<u>\$ —</u>	<u>\$ 133</u>	<u>\$ 79,949</u>
Net	<u>\$ 117,086</u>				<u>\$ 110,697</u>

(Concluded)

(10) Other non-current assets

	September 30, 2016	December 31, 2015	September 30, 2015
Long-term prepaid rent (Land use rights)	\$ 21,472	\$ 23,468	\$ 24,350
Refundable deposits	24,108	17,116	28,507
Other non-current assets - other	40,264	42,290	47,531
Total	<u>\$ 85,844</u>	<u>\$ 82,874</u>	<u>\$ 100,388</u>

(11) Impairment testing of goodwill

The Company did not have intangible assets with indefinite useful lives. Goodwill acquired through business combinations had been allocated to each of the cash-generating units (CGUs), which were expected to benefit from synergies. Impairment evaluation of recoverable amount of goodwill was conducted at each year end. The recoverable amount of the CGU had been determined based on value-in-use which was calculated using cash flow projections from financial budgets approved by management covering a five-year period at a pre-tax discount rate. The projected cash flows had been updated to reflect the change in product demand. The Company conducted an impairment evaluation of recoverable amount of goodwill on December 31, 2015 and did not recognize any impairment loss on goodwill for the year ended December 31, 2015.

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(12) Short-term loans

	September 30, 2016	December 31, 2015	September 30, 2015
Unsecured bank loans	\$ 1,139,002	\$ 881,178	\$ 1,009,045
Secured bank loans	90,436	—	—
Total	<u>\$ 1,229,438</u>	<u>\$ 881,178</u>	<u>\$ 1,009,045</u>

The interest rates of loans ranged from 0.85% to 4.60%, 0.55% to 3.03% and 0.56% to 1.78% as of September 30, 2016, December 31, 2015 and September 30, 2015, respectively.

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

	September 30, 2016	December 31, 2015	September 30, 2015
Held for trading:			
Non-hedging derivative financial liabilities			
- Forward foreign exchange contracts	<u>\$ 790</u>	<u>\$ —</u>	<u>\$ —</u>

(14) Long-term loans

	September 30, 2016	December 31, 2015	September 30, 2015
Secured loans	\$ 80,253	\$ 77,094	\$ 79,643
Revolving loans	202,230	387,188	288,764
Syndicated loans	501,856	727,452	723,140
Total	784,339	1,191,734	1,091,547
Less: current portion	(23,655)	(303,561)	(301,765)
Less: unamortized syndicated loan fee	(4,390)	—	(525)
Net	<u>\$ 756,294</u>	<u>\$ 888,173</u>	<u>\$ 789,257</u>

A. The interest rates of loans ranged from 1.29% to 2.08%, 1.22% to 2.10% and 1.06% to 2.17% as of September 30, 2016, December 31, 2015 and September 30, 2015, respectively.

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

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

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- (a) The contract term is three years from the initial draw-down date, i.e. March 21, 2012 to March 21, 2015. The Group may apply for a 2-year extension six months before the maturity date. In August 2014, the Group entered into the first addendum to the syndicated loan agreement with eight lending institutions (the crediting banks), including the Bank of Taiwan. The contract stated that the crediting banks agreed to the 2-year credit extension of contract term and the term was extended to March 21, 2017.
- (b) During the loan term, the Group is required to calculate and maintain the following financial ratios at an agreed level based on the consolidated financial statements audited by CPAs every six months: current ratio, liability ratio, interest coverage ratio and tangible net value.
- D. In January 2016, the Group entered into a syndicated loan agreement with ten lending institutions, including the Bank of Taiwan (bookrunner), for a loan facility of NT\$ 2.5 billion or the equivalent in U.S. dollars. The credit term of the agreement was mid-term loans - current. The terms and conditions of the agreement were as follows:
- (a) The contract term is five years from the initial draw-down date, i.e. June 15, 2016 to June 15, 2021. The Group may apply for a 2-year extension six months before the maturity date.
- (b) During the loan term, the Group is required to calculate and maintain the following financial ratios at an agreed level based on the consolidated financial statements audited by CPAs every six months: current ratio, liability ratio, interest coverage ratio and tangible net value.
- (c) As of September 30, 2016, the amount drawn down equaled US\$ 16 million.
- E. The Company entered into a mid-term revolving loan agreement with the Shanghai Commercial & Savings Bank on May 7, 2015. The credit line amounted to NT\$ 300 million.
- F. The Company entered into a mid-term revolving loan agreement with the China Development Industrial Bank on October 30, 2014. The credit line amounted to NT\$ 300 million. The China Development Industrial Bank transferred its claims to KGI Bank on May 4, 2015.
- G. The Company entered into a mid-term revolving loan agreement with the Export-Import Bank of the ROC on June 5, 2015. The credit line amounted to US\$ 4.8 million.
- H. The Company entered into a mid-term revolving loan agreement with the Far Eastern

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International Bank on September 17, 2015. The credit line amounted to NT\$ 200 million.

(15) Post-employment benefits

A. Defined contribution plan

Expenses under the defined contribution plan were NT\$ 5,530 thousand and NT\$ 5,161 thousand for the three months ended September 30, 2016 and 2015, respectively; and NT\$ 16,370 thousand and NT\$ 15,022 thousand for the nine months ended September 30, 2016 and 2015, respectively.

B. Defined benefits plan

Expenses under the defined benefits plan were NT\$ 2,527 thousand and NT\$ 2,082 thousand for the three months ended September 30, 2016 and 2015, respectively; and NT\$ 7,591 thousand and NT\$ 6,245 thousand for the nine months ended September 30, 2016 and 2015, respectively.

(16) Equity

A. Capital

- (a) The Company's authorized capital was NT\$ 3,000,000 thousand, each at a par value of NT\$ 10, divided into 300,000 thousand shares (including 15,000 thousand shares reserved for the exercise of employee stock options, preferred stock with warrants and bond with warrants) as of September 30, 2016, December 31, 2015 and September 30 2015.
- (b) The Company's issued capital was NT\$ 2,083,252 thousand, NT\$ 2,042,858 thousand and NT\$ 2,042,778 thousand, each at a par value of NT\$10, divided into 208,325 thousand shares, 204,286 thousand shares and 204,278 thousand shares as of September 30, 2016, December 31, 2015 and September 30 2015, respectively.
- (c) The shareholders' meeting on May 27, 2016 resolved to capitalize capital surplus of NT\$ 40,394 thousand for issuance of new shares. The record date was later resolved in the Board of Directors' meeting on July 28, 2016 to be August 27, 2016.



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B. Capital Surplus

	September 30, 2016	December 31, 2015	September 30, 2015
Additional paid-in capital	\$ 1,022,603	\$ 1,062,997	\$ 1,062,997
Premium from merger	262,500	262,500	262,500
Donated assets	1,970	1,970	1,970
Treasury share transactions	6,937	6,937	6,937
Others	113,548	113,548	113,548
Total	<u>\$ 1,407,558</u>	<u>\$ 1,447,952</u>	<u>\$ 1,447,952</u>

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 September 30, 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 shares 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;

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- (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.

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(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 January 1, 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 nine months ended September 30, 2016 and 2015 as a result of the use, disposal or reclassification of related assets.

The information about the appropriations of 2015 and 2014 earnings resolved in the shareholders' meetings on May 27, 2016 and May 28, 2015, respectively, was as follows:

	<u>Appropriation of Earnings</u>		<u>Dividend per Share (NT\$)</u>	
	2015	2014	2015	2014
Legal capital reserve	\$ 72,986	\$ 88,242	-	-
Cash dividends - common stock	403,936	605,849	\$ 2.00	\$ 3.00
Total	<u>\$ 476,922</u>	<u>\$ 694,091</u>		

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

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

E. Non-controlling interests (NCI)

	Nine Months Ended September 30	
	2016	2015
Beginning balance	\$ 134,093	\$ 156,767
Net loss attributable to NCI	(24,393)	(14,899)
Other comprehensive income attributable to NCI:		
Exchange differences arising on translation of foreign operations	(654)	2,136
Ending balance	\$ 109,046	\$ 144,004

(17) Share-based payment plans

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

On November 21, 2007, the Company resolved at the Board of Directors' meeting to issue employee stock options with a total number of 3,000 units. Each unit entitles an optionee to subscribe to one thousand share of the Company's common stock. Settlement upon the exercise of the options will be made through the issuance of new shares by the Company. An optionee may exercise the options in accordance with certain schedules as prescribed by the plan two years from the grant date. The expense of compensatory employee stock option plan for the nine months ended September 30, 2016 was NT\$ 0.

There have been no cancellations or modifications to any of the employee stock option plans by September 30, 2016.

	Nine Months Ended September 30			
	2016		2015	
	Options	Weighted average exercise price per share (NT\$)	Options	Weighted average exercise price per share (NT\$)
Stock options 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

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The information on the aforementioned outstanding employee stock options as of September 30, 2016 and 2015 was as follows:

Date of Grant	Weighted Average Remaining Contractual Years	
	September 30, 2016	September 30, 2015
December 26, 2007	-	0.25

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 consensus 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 as prescribed by the plan two years from the grant date. The expense of compensatory employee stock option plan for the nine months ended September 30, 2016 was NT\$ 0.

There have been no cancellations or modifications to any of the employee stock option plans by September 30, 2016.

	Nine Months Ended September 30			
	2016		2015	
	Options	Weighted average exercise price per share (NT\$)	Options	Weighted average exercise price per share (NT\$)
Stock options				
Outstanding at beginning of period	1,002	\$ 39.70	1,022	\$ 43.40
Granted	—	—	—	—
Forfeited	—	—	—	—
Exercised	—	—	(10)	43.40
Expired	(50)	—	—	—
Outstanding at end of period	<u>952</u>	36.80	<u>1,012</u>	39.70
Exercisable at end of period	<u>952</u>	36.80	<u>1,012</u>	39.70

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The information on the aforementioned outstanding employee stock options as of September 30, 2016 and 2015 was as follows:

Date of Grant	Weighted Average Remaining Contractual Years	
	September 30, 2016	September 30, 2015
April 30, 2010	1.58	2.58

(18) Revenue

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Sale of goods	\$ 2,440,013	\$ 3,007,500	\$ 7,345,715	\$ 7,358,738

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

Function Nature	Three Months Ended September 30					
	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	97,089	85,114	182,203	113,526	126,467	239,993
Labor and health insurance	9,043	6,363	15,406	9,486	6,307	15,793
Pension	4,422	3,635	8,057	3,964	3,279	7,243
Other employee benefits expense	10,400	8,538	18,938	10,163	7,351	17,514
Depreciation	63,192	4,500	67,692	61,987	4,828	66,815
Amortization	4,146	4,069	8,215	5,145	4,801	9,946

Function Nature	Nine Months Ended September 30					
	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	287,346	270,329	557,675	293,462	305,363	598,825
Labor and health insurance	28,750	20,140	48,890	28,443	19,745	48,188
Pension	12,958	11,003	23,961	11,647	9,620	21,267
Other employee benefits expense	29,960	20,490	50,450	27,884	18,252	46,096
Depreciation	185,245	14,038	199,283	186,361	14,621	200,982
Amortization	13,017	13,397	26,414	16,646	14,029	30,675

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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.

Based on earnings for the period, the Company recognized NT\$ 35,719 thousand and NT\$ 10,716 thousand as compensation to employees and remuneration to directors and supervisors, respectively, as payroll expenses for the nine months ended September 30, 2016. If compensation to employees is resolved by the Board to be distributed in shares, the calculation for number of shares is based on the closing price of shares on the day preceding the Board meeting. If amounts resolved in the Board of Directors' meeting differ from the estimates, the difference would be recognized in the profit or loss of the subsequent year.

The bonus to employees and remuneration to directors and supervisors for the nine months ended September 30, 2015 were accrued based on net income for the period, after taking into account factors such as legal capital reserve, and ratios stipulated in the Article of Incorporation. Those estimates were recognized as payroll 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 recognized in the profit or loss of that year. If bonus to employees is resolved to be distributed in shares in the shareholders' meeting, the calculation for number of shares is based on the closing price (after considering the effect of cash and stock dividends) of shares on the day preceding the shareholders' meeting. The Company recognized NT\$ 52,825 thousand and NT\$ 15,847 thousand as bonus to employees and remuneration to directors and supervisors, respectively, for the nine months ended September 30, 2015.

On January 28, 2016, the Board of Directors' meeting resolved to pay NT\$ 64,754 thousand and NT\$ 19,426 thousand as compensation to employees and remuneration to directors and supervisors for 2015, respectively, by cash.

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There was no significant difference between the actual amount of bonus to employees and remuneration to directors and supervisors paid from the 2015 and 2014 earnings and the amount recognized as expense in the financial statements for the years ended December 31, 2015 and 2014, respectively.

The information about the compensation (bonus) 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.

(20) Non-operating income and expenses

A. Other income

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Interest income	\$ 3,646	\$ 6,666	\$ 13,103	\$ 22,621
Other income	3,813	5,902	2,018	14,571
Total	<u>\$ 7,459</u>	<u>\$ 12,568</u>	<u>\$ 15,121</u>	<u>\$ 37,192</u>

B. Other gains and losses

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Gain (loss) on disposal of property, plant and equipment	\$ 226	\$ (34)	\$ 419	\$ 156
Foreign exchange gain (loss), net	(79,998)	61,697	(168,989)	(4,662)
Gain (loss) from recovery of impairment	(3,527)	1,382	(932)	4,164
Gain (loss) of financial assets (liabilities) at fair value through profit or loss	8,109	203	(3,143)	12,066
Other losses	(1,729)	(1,211)	(4,731)	(46,117)
Total	<u>\$ (76,919)</u>	<u>\$ 62,037</u>	<u>\$ (177,376)</u>	<u>\$ (34,393)</u>



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C. Finance costs

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Interest on borrowings from bank	\$ (18,478)	\$ (17,518)	\$ (72,240)	\$ (42,798)

D. Components of other comprehensive income

For the three months ended September 30, 2016:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	\$ (60,567)	\$ —	\$ (60,567)	\$ 10,297	\$ (50,270)

For the three months ended September 30, 2015:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	\$ 80,749	\$ —	\$ 80,749	\$ (13,727)	\$ 67,022

For the nine months ended September 30, 2016:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	\$ (136,125)	\$ —	\$ (136,125)	\$ 23,141	\$ (112,984)

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For the nine months ended September 30, 2015:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	\$ 35,865	\$ —	\$ 35,865	\$ (6,097)	\$ 29,768

(21) Income tax

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

Income tax recognized in profit or loss

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Current income tax expense:				
Current income tax expense	\$ 20,298	\$ 29,001	\$ 108,301	\$ 147,288
Income tax adjustments on prior years	(780)	4,929	(2,311)	(13,766)
Effect of exchange rate changes	(314)	(194)	15	(169)
Deferred tax expense (benefit):				
Income tax expense (benefit) relating to origination and reversal of temporary differences	3,012	28,972	(8,434)	(8,540)
Total income tax expense	\$ 22,216	\$ 62,708	\$ 97,571	\$ 124,813

Income tax recognized in other comprehensive income

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Deferred tax expense:				
Exchange differences arising on translation of foreign operations	\$ (10,297)	\$ 13,727	\$ (23,141)	\$ 6,097
Income tax relating to components of other comprehensive income	\$ (10,297)	\$ 13,727	\$ (23,141)	\$ 6,097

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B. Imputation credit information:

	September 30, 2016	December 31, 2015	September 30, 2015
Balance of imputation credit account	<u>\$ 443,712</u>	<u>\$ 481,752</u>	<u>\$ 389,603</u>

The actual creditable ratios for 2015 and 2014 were 21.74% and 21.54%, 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.

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

D. The assessment of income tax returns:

As of September 30, 2016, the assessment of income tax returns of the Group in ROC was as follows:

	<u>The assessment of income tax returns</u>
The Company	Assessed and approved up to 2011
Subsidiary – Koatech Technology Corporation	Assessed and approved up to 2014

(22) Earnings per share

	<u>Three Months Ended September 30, 2016</u>		
	<u>Amount after-tax</u>	<u>Weighted average number of outstanding shares (in thousands)</u>	<u>EPS (NT\$)</u>
<u>Basic earnings per share</u>			
Net income available to common shareholders of the Company	\$ 137,422	206,007	\$ 0.67
<u>Diluted earnings per share</u>			
Effect of dilutive potential common shares			
Employee compensation – stock	—	438	
Net income available to common shareholders of the Company and effect of potential common shares	<u>\$ 137,422</u>	<u>206,445</u>	<u>\$ 0.67</u>

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	Three Months Ended September 30, 2015		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT\$)
<u>Basic earnings per share</u>			
Net income available to common shareholders of the Company	\$ 301,233	206,001	\$ 1.46
<u>Diluted earnings per share</u>			
Effect of dilutive potential common shares			
Employee stock options	—	4	
Employee compensation – stock	—	680	
Net income available to common shareholders of the Company and effect of potential common shares	\$ 301,233	206,685	\$ 1.46

	Nine Months Ended September 30, 2016		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT\$)
<u>Basic earnings per share</u>			
Net income available to common shareholders of the Company	\$ 389,860	206,007	\$ 1.89
<u>Diluted earnings per share</u>			
Effect of dilutive potential common shares			
Employee compensation – stock	—	1,104	
Net income available to common shareholders of the Company and effect of potential common shares	\$ 389,860	207,111	\$ 1.88

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	Nine Months Ended September 30, 2015		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT\$)
<u>Basic earnings per share</u>			
Net income available to common shareholders of the Company	\$ 599,920	205,994	\$ 2.91
<u>Diluted earnings per share</u>			
Effect of dilutive potential common shares			
Employee stock options	—	19	
Employee compensation – stock	—	1,505	
Net income available to common shareholders of the Company and effect of potential common shares	\$ 599,920	207,518	\$ 2.89

7. RELATED PARTY TRANSACTIONS

(1) Acquisition of property, plant and equipment

	Acquisition price		
	September 30, 2016	December 31, 2015	September 30, 2015
Other related parties	\$ —	\$ 4,260	\$ 280

(2) Compensation to key management personnel

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Short-term employee benefits	\$ 25,409	\$ 31,325	\$ 56,381	\$ 69,574
Post-employment benefits	272	257	1,153	772
Share-based payment	—	227	—	682
Total	\$ 25,681	\$ 31,809	\$ 57,534	\$ 71,028

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8. PLEDGED ASSETS

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

	Carrying amount			Purpose of pledge
	September 30, 2016	December 31, 2015	September 30, 2015	
Demand deposits (Note)	\$ 12,778	\$ 127,207	\$ 101,967	Collateral for short-term loans
Time deposits (Note)	20,303	20,264	20,194	Customs guarantee
Notes receivable	90,436	—	—	Collateral for short-term loans
Land	100,843	100,843	100,843	Collateral for long-term loans
Buildings	106,821	114,183	116,044	Collateral for long-term loans
Machinery and equipment	16,225	187	750	Collateral for long-term loans
Total	<u>\$ 347,406</u>	<u>\$ 362,684</u>	<u>\$ 339,798</u>	

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

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

Details of the Group's unused letters of credit as of September 30, 2016 were as follows:

	L/C Amount	
NTD	NT\$	14,900 thousand
USD	US\$	1,035 thousand

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENT

None.

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12. OTHERS

(1) Categories of financial instruments

<u>Financial assets</u>	September 30, 2016	December 31, 2015	September 30, 2015
Financial assets at fair value through profit or loss:			
Non-hedging derivative financial assets –			
Forward foreign exchange contracts	\$ 7,176	\$ —	\$ 1,851
Non-derivative financial assets –			
Stocks	17,492	19,300	23,986
Loans and receivables:			
Cash and cash equivalents (exclude cash on hand)	2,847,700	2,728,550	2,268,834
Receivables	4,283,381	4,748,557	4,922,929
Other financial assets, current	65,264	146,541	122,161

Financial liabilities

Financial liabilities at fair value through profit or loss:			
Non-hedging derivative financial liabilities -			
Forward foreign exchange contracts	\$ 790	\$ —	\$ —
Financial liabilities at amortized cost:			
Short-term loans	1,229,438	881,178	1,009,045
Payables	2,470,187	2,578,172	2,451,617
Long-term loans (current portion included)	779,949	1,191,734	1,091,022

(2) Objectives of financial risk management

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

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

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(3) Market risk

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

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

A. Foreign currency risk

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

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

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

B. Interest rate risk

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

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



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C. Equity price risk

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

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

For the nine months ended September 30, 2016

Key risk	Variation	Sensitivity of profit or loss
Foreign currency risk	NTD/USD Foreign exchange +/- 1%	+/- NT\$ 703 thousand
	NTD/CNY Foreign exchange +/- 1%	+/- NT\$ 1,268 thousand
Interest rate risk	Market rate +/- 10 basis points	+/- NT\$ 838 thousand

For the nine months ended September 30, 2015

Key risk	Variation	Sensitivity of profit or loss
Foreign currency risk	NTD/USD Foreign exchange +/- 1%	+/- NT\$ 6,406 thousand
	NTD/CNY Foreign exchange +/- 1%	+/- NT\$ 795 thousand
Interest rate risk	Market rate +/- 10 basis points	+/- NT\$ 170 thousand

(4) Credit risk management

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

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

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

(5) Liquidity risk management

The Group maintains its financial flexibility through the use of cash and cash equivalents and bank borrowings. The table below summarized the maturity profile of the Group's financial liabilities 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 estimated yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
<u>September 30, 2016</u>					
Borrowings	\$ 1,256,813	\$ 697,380	\$ —	\$ 58,914	\$ 2,013,107
Payables	2,470,187	—	—	—	2,470,187
<u>December 31, 2015</u>					
Borrowings	\$ 1,186,369	\$ 821,296	\$ —	\$ 66,877	\$ 2,074,542
Payables	2,578,172	—	—	—	2,578,172
<u>September 30, 2015</u>					
Borrowings	\$ 1,312,727	\$ 719,757	\$ —	\$ 69,500	\$ 2,101,984
Payables	2,451,617	—	—	—	2,451,617

Derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
<u>September 30, 2016</u>					
Inflows	\$ 517,744	\$ —	\$ —	\$ —	\$ 517,744
Outflows	521,241	—	—	—	521,241
Net	\$ (3,497)	\$ —	\$ —	\$ —	\$ (3,497)
<u>December 31, 2015</u>					
Inflows	\$ —	\$ —	\$ —	\$ —	\$ —
Outflows	—	—	—	—	—
Net	\$ —	\$ —	\$ —	\$ —	\$ —

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<u>September 30, 2015</u>	<u>Less than 1 year</u>	<u>2 to 3 years</u>	<u>4 to 5 years</u>	<u>&gt; 5 years</u>	<u>Total</u>
Inflows	\$ —	\$ —	\$ —	\$ —	\$ —
Outflows	—	—	—	—	—
Net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The table above contained the undiscounted net cash flows of derivative financial instruments.

(6) Fair values of financial instruments

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

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

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

B. Fair value of financial instruments measured at amortized cost

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

C. Information on the fair value hierarchy of financial instruments

Please refer to Note 12(8) for details.

(7) Derivative financial instruments

As of September 30, 2016, December 31, 2015 and September 30, 2015, the Group's derivative financial instruments that were not eligible for hedge accounting and were outstanding (including forward foreign exchange contracts and embedded derivatives) were listed as follows:

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- 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)
<u>September 30, 2016</u>		
USD to CNY	2016.1~2017.5	US\$ 26,363/CNY 177,009
NTD to CNY	2016.5~2017.2	NT\$ 227,571/CNY 47,420
USD to NTD	2016.9~2016.10	US\$ 1,900/NT\$ 59,696
<u>September 30, 2015</u>		
NTD to JPY	2015.3~2015.11	NT\$ 31,164/JPY 120,000

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.

- 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)
<u>September 30, 2016</u>		
USD to CNY	2016.1~2016.9	US\$ 61,337/CNY 407,593
USD to NTD	2016.8~2016.9	US\$ 7,650/NT\$ 241,774
NTD to CNY	2016.5~2016.9	NT\$ 173,462/CNY 35,000
<u>December 31, 2015</u>		
USD to CNY	2015.1~2015.6	US\$ 2,420/CNY 15,142
USD to NTD	2014.11~2015.5	US\$ 19,000/NT\$ 595,519
CNY to NTD	2015.12~2015.12	CNY 102,000/NT\$ 511,008
NTD to JPY	2015.3~2015.11	NT\$ 62,314/JPY 240,000
<u>September 30, 2015</u>		
USD to CNY	2015.1~2015.6	US\$ 2,420/CNY 15,142
USD to NTD	2014.11~2015.5	US\$ 19,000/NT\$ 595,519
NTD to JPY	2015.3~2015.8	NT\$ 31,150/JPY 120,000

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

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

	Level 1	Level 2	Level 3	Total
<u>September 30, 2016</u>				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	\$ —	\$ 7,176	\$ —	\$ 7,176
Stocks	17,492	—	—	17,492
Financial liabilities:				
Forward foreign exchange contracts	—	790	—	790

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	Level 1	Level 2	Level 3	Total
<u>December 31, 2015</u>				
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	—	—	—	—
<u>September 30, 2015</u>				
Financial assets:				
Financial assets at fair value through profit or loss				
Stocks	\$ 23,986	\$ —	\$ —	\$ 23,986
Forward foreign exchange contracts	—	1,851	—	1,851
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	—	—	—

For the nine months ended September 30, 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:

	September 30, 2016			December 31, 2015		
	Foreign currencies (in thousands)	Exchange rate	NTD	Foreign currencies (in thousands)	Exchange rate	NTD
Financial assets						
Monetary items						
USD	\$ 77,996	31.3660	\$ 2,446,423	\$ 69,499	33.0660	\$ 2,298,054
CNY	27,460	4.6955	128,938	3,964	5.0310	19,943
HKD	31,026	4.0450	125,500	—	—	—

(Continued)

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	September 30, 2016			December 31, 2015		
	Foreign currencies (in thousands)	Exchange rate	NTD	Foreign currencies (in thousands)	Exchange rate	NTD
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$ 75,756	31.3660	\$ 2,376,163	\$ 75,023	33.0660	\$ 2,480,711
CNY	483	4.6955	2,268	—	—	—
JPY	216,356	0.3108	67,243	495,469	0.2747	136,105

(Concluded)

	September 30, 2015		
	Foreign currencies (in thousands)	Exchange rate	NTD
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 71,500	32.8700	\$ 2,350,205
CNY	15,356	5.1760	79,483
HKD	30,442	4.2410	129,105
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	\$ 90,971	32.8700	\$ 2,990,217
JPY	560,262	0.2739	153,456

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

As entities within the Group transact in various currencies, the exchange gain (loss) of monetary financial assets and liabilities cannot be disclosed by currencies of significant influence. The Group's foreign exchange gain (loss) amounted to NT\$ (79,998) thousand and NT\$ 61,697 thousand for the three months ended September 30, 2016 and 2015, respectively; and NT\$ (168,989) thousand and NT\$ (4,662) thousand for the nine months ended September 30, 2016 and 2015, respectively.

(10)Capital management

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

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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 September 30, 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 nine months ended September 30, 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 nine months ended September 30, 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 nine months ended September 30, 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 nine months ended September 30, 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 September 30, 2016: Please refer to Table 5.

I. Direct or indirect significant influence or control over the investees as of September 30, 2016 (excluding investments in mainland China): Please refer to Table 6.

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

K. Others: intercompany relationships and significant intercompany transactions for the nine months ended September 30, 2016: Please refer to Table 8.



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

14. SEGMENT INFORMATION

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

The general management segment is responsible for the Group's operation planning and owns manufacturing, R&D and sales functions.

The overseas segment owns manufacturing and sales functions.

No operating segments have been aggregated to form the above reportable operating segments.

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

(1) Segment income (loss)

For the three months ended September 30, 2016

	General management	Overseas	Adjustment and elimination (Note)	Consolidated
Revenue				
External customer	\$ 1,301,428	\$ 1,138,585	\$ —	\$ 2,440,013
Inter-segment	581,962	41,962	(623,924)	—
Total revenue	<u>\$ 1,883,390</u>	<u>\$ 1,180,547</u>	<u>\$ (623,924)</u>	<u>\$ 2,440,013</u>
Segment income (loss) (Income before income tax)	<u>\$ 150,306</u>	<u>\$ (27,416)</u>	<u>\$ 28,128</u>	<u>\$ 151,018</u>

Note: Inter-segment revenues were eliminated on consolidation.

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For the three months ended September 30, 2015

	General management	Overseas	Adjustment and elimination (Note)	Consolidated
Revenue				
External customer	\$ 1,366,385	\$ 1,641,115	\$ —	\$ 3,007,500
Inter-segment	508,856	79,784	(588,640)	—
Total revenue	<u>\$ 1,875,241</u>	<u>\$ 1,720,899</u>	<u>\$ (588,640)</u>	<u>\$ 3,007,500</u>
Segment income (loss) (Income before income tax)	<u>\$ 364,207</u>	<u>\$ 1,390</u>	<u>\$ (684)</u>	<u>\$ 364,913</u>

Note: Inter-segment revenues were eliminated on consolidation.

For the nine months ended September 30, 2016

	General management	Overseas	Adjustment and elimination (Note)	Consolidated
Revenue				
External customer	\$ 3,285,184	\$ 4,060,531	\$ —	\$ 7,345,715
Inter-segment	1,765,243	276,551	(2,041,794)	—
Total revenue	<u>\$ 5,050,427</u>	<u>\$ 4,337,082</u>	<u>\$ (2,041,794)</u>	<u>\$ 7,345,715</u>
Segment income (loss) (Income before income tax)	<u>\$ 434,239</u>	<u>\$ 28,212</u>	<u>\$ 587</u>	<u>\$ 463,038</u>

Note: Inter-segment revenues were eliminated on consolidation.

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For the nine months ended September 30, 2015

	General management	Overseas	Adjustment and elimination (Note)	Consolidated
Revenue				
External customer	\$ 3,676,737	\$ 3,682,001	\$ —	\$ 7,358,738
Inter-segment	1,397,303	440,822	(1,838,125)	—
Total revenue	<u>\$ 5,074,040</u>	<u>\$ 4,122,823</u>	<u>\$ (1,838,125)</u>	<u>\$ 7,358,738</u>
Segment income (loss) (Income before income tax)	<u>\$ 687,072</u>	<u>\$ 12,936</u>	<u>\$ 9,826</u>	<u>\$ 709,834</u>

Note: Inter-segment revenues were eliminated on consolidation.

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.	Taiflex Scientific (Kunshan) Co., Ltd.	Other receivables - related parties	Y	\$ 605,700	\$ 564,588	\$ 150,256	1.50%~7.00%	1	\$ 2,738,528	—	—	—	—	\$ 1,311,756	\$ 1,311,756	(Note 7, 8)
0	Taiflex Scientific Co., Ltd.	Kunshan Taiflex Electronic Material Co., Ltd.	Other receivables - related parties	Y	471,100	439,124	—	1.50%~7.00%	1	1,347,604	—	—	—	—	1,311,756	1,311,756	(Note 7, 8)
1	Taistar Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Other receivables - related parties	Y	201,900	188,196	—	1.20%~2.00%	2	—	Operating capital	—	—	—	337,102	674,205	(Note 7, 8)
1	Taistar Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	201,900	188,196	125,464	1.20%~2.00%	2	—	Operating capital	—	—	—	337,102	674,205	(Note 7, 8)
2	Kunshan Taiflex Electronic Material Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	51,230	46,955	—	4.00%~7.00%	2	—	Operating capital	—	—	—	49,673	99,346	(Note 9)

Note 1: Companies are coded as follows:

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

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

Note 3: The maximum balance of financing provided to others for the nine months ended September 30, 2016.

Note 4: Nature of Financing are coded as follows:

- (1) Business transaction is coded "1".
- (2) Short-term financing is coded "2".

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

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

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

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

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

Note 10: If public companies, pursuant to Paragraph 1, Article 14 of Regulations Governing Loaning of Funds and Making of Endorsements / Guarantees by Public Companies, resolve at the board meetings each individually lending, the amounts resolved before drawing shall be the publicly-announced balance to disclose the risk they assume; provided however, if any repayment is made subsequently, the outstanding balance after such

repayment shall be disclosed to reflect the risk adjusted. If public companies, pursuant to Paragraph 2, Article 14 of the same Regulations, authorize the chairperson by board resolution, within a certain monetary limit and a period not to exceed one year, to give loans in instalments or to make a revolving credit line available, the amount resolved shall be the publicly-announced balance. Although repayment may be made subsequently, as drawings are likely to happen, the amount of financing resolved by the board shall be recorded as the publicly-announced balance.

Note 11: This is the ending balance after evaluation.

TABLE 2: ENDORSEMENT/GUARANTEE PROVIDED TO OTHERS

(In Thousands of New Taiwan Dollars)

No (Note 1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 3)	Maximum Balance for the Period (Note 4)	Ending Balance (Note 5)	Amount Actually Drawn (Note 6)	Amount of Endorsement/ Guarantee Secured by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Worth per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowed (Note 3)	Endorsement Provided by Parent Company to Subsidiaries	Endorsement Provided by Subsidiaries to Parent Company	Endorsement Provided to Subsidiaries in China
		Name	Nature of Relationship (Note 2)										
0	Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	2	\$ 3,279,389	\$ 201,900	\$ 125,464	\$ 125,464	—	1.91%	\$ 3,279,389	Y	N	N
0	Taiflex Scientific Co., Ltd.	Kunshan Taiflex Electronic Material Co., Ltd.	3	3,279,389	151,425	—	—	—	—		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	3	3,279,389	736,613	723,394	247,813	—	11.03%		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	3	3,279,389	2,043,656	2,006,766	570,987	—	30.60%		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 nine months ended September 30, 2016.

Note 5: As of September 30, 2016, the Company assumed endorsement or guarantee liabilities for endorsement/guarantee contracts signed or bill facilities approved; any 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 SEPTEMBER 30, 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	September 30, 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	\$ 17,492	0.03%	\$ 17,492	—

Note 1: The marketable securities stated in this table shall refer to stocks, bonds, beneficiary certificates and securities derived from the said items stated in 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 carrying value of the original cost or 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 Relationships	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.	Holds 100% of the third-tier subsidiary	Sales	\$ 375,504	7.66%	Collection within 120 days from the end of delivery month by TT	—	—	\$ 175,703	9.80%	—
	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	Purchases	240,711	5.25%	Payment within 120 days from the end of delivery month by TT	—	—	(88,160)	(5.44%)	—
	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	Sales	1,606,693	32.76%	Collection within 120 days from the end of delivery month by TT	—	—	69,296	3.87%	—
	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	Sales	1,209,116	24.66%	Collection within 120 days from the end of delivery month by TT	—	—	807,965	45.09%	—
Taiflex Scientific (Kunshan) Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Sales	240,711	8.80%	Collection within 120 days from the end of delivery month by TT	—	—	88,160	3.91%	—
	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Purchases	1,606,693	64.39%	Payment within 120 days from the end of delivery month by TT	—	—	(69,296)	(6.20%)	—
Kunshan Taiflex Electronic Material Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Purchases	375,504	82.83%	Payment within 120 days from the end of delivery month by TT	—	—	(175,703)	(98.92%)	—
Shenzhen Taiflex Electronic Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Purchases	1,209,116	89.69%	Payment within 120 days from the end of delivery month by TT	—	—	(807,965)	(94.23%)	—

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 Relationships	Ending Balance	Turnover Ratio (times)	Overdue		Amounts Received in Subsequent Periods	Allowance for Doubtful Accounts	Note
					Amount	Action Taken			
Taiflex Scientific Co., Ltd.	Kunshan Taiflex Electronic Material Co., Ltd.	Holds 100% of the third-tier subsidiary	\$ 175,703	1.41	—	—	\$ 42,519	—	—
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	664,019	(Note 1)	—	—	88,461	—	—
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	69,296	19.03	—	—	9,110	—	—
Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	807,965	2.77	—	—	—	—	—

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

TABLE 6: INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE OR CONTROLS DIRECTLY OR INDIRECTLY (EXCLUDING INVESTEEES IN MAINLAND CHINA)  
(In Thousands of New Taiwan Dollars)

Investor	Investee	Business Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2016			Net Income (Losses) of the Investee	Share of Profits/Losses	Note
				September 30, 2016	December 31, 2015	Shares (In Thousands)	Shareholding Percentage	Carrying Value			
Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	Belize	Investment holding	\$ 822,194	\$ 822,194	25,665	100.00%	\$ 1,656,450	\$ 13,302	\$ 12,271	(Note 1)
Taiflex Scientific Co., Ltd.	LEADMAX LIMITED	Samoa	Trading of electronic materials	337	337	10	100.00%	15,117	1,528	1,528	—
Taiflex Scientific Co., Ltd.	Koatech Technology Corporation	Taiwan	Manufacturing and selling of electronic materials and components	294,102	294,102	27,400	53.86%	234,388	(52,866)	(32,745)	(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	89	—	(Note 3)
Taiflex Scientific Co., Ltd.	TFS Co., Ltd.	Belize	Investment holding	192,657	192,657	6,020	100.00%	149,753	3,455	3,455	—
Taiflex Scientific Co., Ltd.	Taiflex Scientific Japan Co., Ltd.	Japan	Trading and technical support of electronic materials	16,260	—	6	100.00%	14,743	(3,767)	(3,767)	—
TFS Co., Ltd.	RICHSTAR Co., Ltd.	Samoa	Investment holding	192,423	192,423	6,010	100.00%	162,660	3,455	3,455	—
Taistar Co., Ltd.	TSC INTERNATIONAL Ltd.	Cayman Islands	Investment holding	801,604	801,604	25,010	100.00%	1,618,890	24,403	24,403	—
Koatech Technology Corporation	KTC Global Co., Ltd.	Samoa	Investment holding	28,649	28,649	960	100.00%	18,722	(3,826)	(3,826)	—
KTC Global Co., Ltd	KTC PanAsia Co., Ltd.	Samoa	Investment holding	28,500	28,500	955	100.00%	18,945	(3,499)	(3,499)	—

Note 1: Including unrealized gain/loss from 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 INVESTMENT 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 September 30, 2016	Profits/Losses of Investee	Percentage of Ownership (Direct or Indirect Investment)	Share of Profits/Losses	Carrying Amount as of September 30, 2016	Accumulated Inward Remittance of Earnings as of September 30, 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	\$ 21,941	100.00%	\$ 21,941	\$ 248,366	\$ 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	2,462	100.00%	2,462	1,370,166	—
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	(3,464)	53.86%	(1,866)	10,173	—
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	3,484	100.00%	3,484	162,300	—
Accumulated Outflow of Investment from Taiwan to Mainland China as of September 30, 2016				Investment Amounts Authorized by Investment Commission, MOEA				Upper Limit on Investment				
\$1,021,048				\$1,054,876				\$3,935,267				

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, the 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 for current period from financing provided to others: refer to Table 1.
- (6) Transactions that have significant impact on profit or loss of current period or the financial position, such as services provided or rendered: N/A.

TABLE 8: INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Account	Amount (Note 4)	Terms	Percentage to Consolidated Net Revenue or Total Assets (Note 3)
0	Taiflex Scientific Co., Ltd.	Kunshan Taiflex Electronic Material Co., Ltd.	1	Sales revenue	\$ 375,504	General trading terms	5.11%
0	Taiflex Scientific Co., Ltd.	Kunshan Taiflex Electronic Material Co., Ltd.	1	Accounts receivable	175,703	General trading terms	1.52%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Sales revenue	1,606,693	General trading terms	21.87%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Accounts receivable	69,296	General trading terms	0.60%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Other receivables	664,019	—	5.75%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Cost of revenue	240,711	General trading terms	3.28%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Accounts payable	88,160	General trading terms	0.76%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Sales revenue	1,209,116	General trading terms	16.46%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Accounts receivable	807,965	General trading terms	7.00%
1	Taistar Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	3	Other receivables	125,464	Financing	1.09%
2	Kunshan Taiflex Electronic Material Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	3	Accounts receivable	3,792	General trading terms	0.03%

Note 1: Transaction information between Taiflex and its subsidiaries should be disclosed by codes below:

- (1) Taiflex is coded "0".
- (2) The subsidiaries are coded from "1" in the order presented in the table above.

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

- (1) From the parent company to a subsidiary.
- (2) From a subsidiary to the parent company.
- (3) Between subsidiaries.

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

Note 4: This is the ending balance after evaluation.