

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

**For the Three Months Ended March 31, 2017 and 2016**

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*Notice to readers*

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

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TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
March 31, 2017, December 31, 2016 and March 31, 2016  
(Numbers as of March 31, 2017 and 2016 are reviewed, not audited)  
(In Thousands of New Taiwan Dollars)

Assets	Notes	March 31, 2017	December 31, 2016	March 31, 2016
<b>Current assets</b>				
Cash and cash equivalents	4, 6(1)	\$ 2,829,616	\$ 2,982,208	\$ 3,678,669
Financial assets at fair value through profit or loss, current	4, 6(2)	34,795	36,007	18,333
Notes receivable, net	4, 6(3)	1,593,511	1,542,759	966,232
Accounts receivable, net	4, 6(4)	2,433,133	2,797,975	3,183,369
Other receivables		52,158	47,260	163,464
Inventories, net	4, 6(5)	1,394,304	1,132,399	1,277,839
Prepayments		114,084	101,573	108,257
Other current assets	8	87,186	43,676	162,475
Total current assets		8,538,787	8,683,857	9,558,638
<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)	2,743,664	2,789,520	2,753,858
Intangible assets	4, 6(9,11)	113,026	113,598	119,637
Deferred income tax assets	4, 6(21)	152,073	129,825	129,894
Other non-current assets	4, 6(10)	71,853	80,854	82,713
Total non-current assets		3,080,616	3,113,797	3,086,102
<b>Total assets</b>		<b>\$ 11,619,403</b>	<b>\$ 11,797,654</b>	<b>\$ 12,644,740</b>

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

(Continued)

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS-(Continued)  
March 31, 2017, December 31, 2016 and March 31, 2016  
(Numbers as of March 31, 2017 and 2016 are reviewed, not audited)  
(In Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	March 31, 2017	December 31, 2016	March 31, 2016
<b>Current liabilities</b>				
Short-term loans	6(12)	\$ 1,309,823	\$ 939,783	\$ 1,640,719
Financial liabilities at fair value through profit or loss, current	4, 6(13)	-	-	16,422
Notes payable		130,833	177,893	113,396
Accounts payable		2,005,823	2,133,276	1,916,680
Other payables		463,268	560,381	520,399
Current income tax liabilities	4, 6(21)	115,426	84,828	128,462
Current portion of long-term loans	6(14)	127,476	27,372	732,851
Other current liabilities		10,623	15,899	27,404
Total current liabilities		<u>4,163,272</u>	<u>3,939,432</u>	<u>5,096,333</u>
<b>Non-current liabilities</b>				
Long-term loans	6(14)	308,047	743,426	324,585
Deferred income tax liabilities	4, 6(21)	162,248	159,115	195,192
Net defined benefit liabilities, non-current	4, 6(15)	192,079	190,276	112,773
Other non-current liabilities	4, 12	32	46	47
Total non-current liabilities		<u>662,406</u>	<u>1,092,863</u>	<u>632,597</u>
Total liabilities		<u>4,825,678</u>	<u>5,032,295</u>	<u>5,728,930</u>
<b>Equity attributable to shareholders of the parent</b>				
Capital	6(16)			
Common stock		2,083,252	2,083,252	2,042,858
Capital collected in advance		1,200	-	-
Total capital		<u>2,084,452</u>	<u>2,083,252</u>	<u>2,042,858</u>
Capital surplus	6(16)	1,410,774	1,407,558	1,447,952
Retained earnings				
Legal capital reserve		684,163	684,163	611,177
Special capital reserve		102,158	102,158	102,158
Unappropriated earnings		2,660,657	2,561,335	2,639,807
Total retained earnings		<u>3,446,978</u>	<u>3,347,656</u>	<u>3,353,142</u>
Others	4	(149,002)	(74,673)	46,805
Treasury stock	6(16)	(98,744)	(98,744)	(98,744)
Total equity attributable to shareholders of the parent		<u>6,694,458</u>	<u>6,665,049</u>	<u>6,792,013</u>
Non-controlling interests	4, 6(16)	99,267	100,310	123,797
Total equity		<u>6,793,725</u>	<u>6,765,359</u>	<u>6,915,810</u>
<b>Total liabilities and equity</b>		<u>\$ 11,619,403</u>	<u>\$ 11,797,654</u>	<u>\$ 12,644,740</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 Ended March 31, 2017 and 2016  
(Reviewed, Not Audited)  
(In Thousands of New Taiwan Dollars)

	Notes	<u>Three Months Ended March 31</u>	
		<u>2017</u>	<u>2016</u>
Net revenue	4, 6(18)	\$ 2,312,657	\$ 2,283,325
Cost of revenue	4, 6(19)	(1,849,262)	(1,850,105)
Gross profit		<u>463,395</u>	<u>433,220</u>
Unrealized sales profit or loss		(95)	(95)
Gross profit, net		<u>463,300</u>	<u>433,125</u>
Operating expenses	4, 6(19)		
Sales and marketing expenses		(101,812)	(83,194)
General and administrative expenses		(79,643)	(85,088)
Research and development expenses		(52,269)	(48,116)
Total operating expenses		<u>(233,724)</u>	<u>(216,398)</u>
Operating income		<u>229,576</u>	<u>216,727</u>
Non-operating income and expenses	6(20)		
Other income		7,540	7,406
Other gains and losses		(78,051)	(40,857)
Finance costs		(18,938)	(31,510)
Share of profit or loss of associates under the equity method	4, 6(7)	-	-
Total non-operating income and expenses		<u>(89,449)</u>	<u>(64,961)</u>
Income before income tax		140,127	151,766
Income tax expense	4, 6(21)	(41,499)	(40,589)
Net income of continuing operations		<u>98,628</u>	<u>111,177</u>
Net income		<u>98,628</u>	<u>111,177</u>
Other comprehensive income (loss)	6(20)		
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(89,973)	(17,643)
Income tax benefit (expense) related to components of other comprehensive income that may be reclassified subsequently to profit or loss		15,295	2,999
Total other comprehensive income, net of tax		<u>(74,678)</u>	<u>(14,644)</u>
Total comprehensive income		<u>\$ 23,950</u>	<u>\$ 96,533</u>
Net income (loss) attributable to:	4, 6(22)		
Shareholders of the parent		\$ 99,322	\$ 121,399
Non-controlling interests		(694)	(10,222)
		<u>\$ 98,628</u>	<u>\$ 111,177</u>
Total comprehensive income (loss) attributable to:			
Shareholders of the parent		\$ 24,993	\$ 106,829
Non-controlling interests		(1,043)	(10,296)
		<u>\$ 23,950</u>	<u>\$ 96,533</u>
Earnings per share (NT\$)	4, 6(22)		
Earnings per share - basic		\$ 0.48	\$ 0.59
Earnings per share - diluted		<u>\$ 0.48</u>	<u>\$ 0.59</u>

(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 Three Months Ended March 31, 2017 and 2016  
(Reviewed, Not Audited)  
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Shareholders of the Parent										
	Retained Earnings						Others		Total	Non-controlling Interests	Total Equity
	Common Stock	Capital Collected in Advance	Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Treasury Stock			
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
Net income for the three months ended March 31, 2016						121,399			121,399	(10,222)	111,177
Other comprehensive income (loss) for the three months ended March 31, 2016							(14,570)		(14,570)	(74)	(14,644)
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>121,399</u>	<u>(14,570)</u>	<u>-</u>	<u>106,829</u>	<u>(10,296)</u>	<u>96,533</u>
Balance as of March 31, 2016	<u>\$ 2,042,858</u>	<u>\$ -</u>	<u>\$ 1,447,952</u>	<u>\$ 611,177</u>	<u>\$ 102,158</u>	<u>\$ 2,639,807</u>	<u>\$ 46,805</u>	<u>\$ (98,744)</u>	<u>\$ 6,792,013</u>	<u>\$ 123,797</u>	<u>\$ 6,915,810</u>
Balance as of January 1, 2017	\$ 2,083,252	\$ -	\$ 1,407,558	\$ 684,163	\$ 102,158	\$ 2,561,335	\$ (74,673)	\$ (98,744)	\$ 6,665,049	\$ 100,310	\$ 6,765,359
Changes in other capital surplus											
Share-based payment		1,200	3,216						4,416		4,416
Net income for the three months ended March 31, 2017						99,322			99,322	(694)	98,628
Other comprehensive income (loss) for the three months ended March 31, 2017							(74,329)		(74,329)	(349)	(74,678)
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>99,322</u>	<u>(74,329)</u>	<u>-</u>	<u>24,993</u>	<u>(1,043)</u>	<u>23,950</u>
Balance as of March 31, 2017	<u>\$ 2,083,252</u>	<u>\$ 1,200</u>	<u>\$ 1,410,774</u>	<u>\$ 684,163</u>	<u>\$ 102,158</u>	<u>\$ 2,660,657</u>	<u>\$ (149,002)</u>	<u>\$ (98,744)</u>	<u>\$ 6,694,458</u>	<u>\$ 99,267</u>	<u>\$ 6,793,725</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 Three Months Ended March 31, 2017 and 2016  
(Reviewed, Not Audited)  
(In Thousands of New Taiwan Dollars)

	Three Months Ended March 31	
	2017	2016
Cash flows from operating activities:		
Income before income tax	\$ 140,127	\$ 151,766
Adjustments:		
Non-cash income and expense items:		
Depreciation	68,575	66,231
Amortization	8,444	9,848
Gain on reversal of bad debt expense	(401)	(22,990)
Net loss (gain) of financial assets (liabilities) at fair value through profit or loss	(9,274)	31,050
Interest expense	18,938	31,510
Interest income	(3,801)	(4,428)
Loss (gain) on disposal of property, plant and equipment	36	(195)
Gain on reversal of impairment loss for non-financial assets	-	(1,297)
Others	1,676	11,087
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss, current	10,486	(13,661)
Increase in notes receivable	(50,752)	(107,862)
Decrease in accounts receivable	365,433	548,798
(Increase) decrease in other receivables	(5,379)	15,711
Increase in inventories	(263,581)	(172,874)
Increase in prepayments	(12,511)	(32,900)
(Increase) decrease in other current assets	(710)	14,651
Increase in other non-current assets	(189)	(3,170)
(Decrease) increase in notes payable	(47,060)	61,500
(Decrease) increase in accounts payable	(127,453)	15,059
Decrease in other payables	(60,224)	(73,378)
(Decrease) increase in other current liabilities	(5,276)	21,087
Increase in net defined benefit liabilities	1,803	1,764
Decrease in other non-current liabilities	(14)	-
Cash generated from operations	<u>28,893</u>	<u>547,307</u>
Interest received	4,282	6,263
Interest paid	(17,212)	(28,919)
Income tax paid	(14,721)	(9,494)
Net cash generated by operating activities	<u>1,242</u>	<u>515,157</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 Three Months Ended March 31, 2017 and 2016

(Reviewed, Not Audited)

(In Thousands of New Taiwan Dollars)

	Three Months Ended March 31	
	2017	2016
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(89,769)	(164,379)
Disposal of property, plant and equipment	-	320
Increase in refundable deposits	-	(1,011)
Decrease in refundable deposits	3,063	-
Acquisition of intangible assets	(4,539)	(5,853)
Increase in other current assets - other financial assets, current	(42,800)	(8,871)
Net cash used in investing activities	(134,045)	(179,794)
 Cash flows from financing activities:		
Increase in short-term loans	370,040	759,541
Repayment of long-term loans	(335,275)	(134,298)
Exercise of employee stock options	4,416	-
Net cash provided by financing activities	39,181	625,243
 Effect of exchange rate changes on cash and cash equivalents	(58,970)	(11,172)
Net (decrease) increase in cash and cash equivalents	(152,592)	949,434
Cash and cash equivalents at beginning of period	2,982,208	2,729,235
Cash and cash equivalents at end of period	\$ 2,829,616	\$ 3,678,669

(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 Three Months Ended March 31, 2017 and 2016 and the Year Ended December 31, 2016  
(Numbers for the Three Months Ended March 31, 2017 and 2016 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 three months ended March 31, 2017 and 2016 were approved and authorized for issue in the Board of Directors’ meeting on April 27, 2017.

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

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

<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 financial statements, the Group has not adopted the following standards or interpretations issued by IASB but not yet endorsed by FSC:

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

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>
IFRS 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	-
IAS 40	Transfers of Investment Property	January 1, 2018

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The consolidated financial statements for the three months ended March 31, 2017 and 2016 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, 2016. Please refer to the consolidated financial statements for the year ended December 31, 2016 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 (%)		
			2017.3.31	2016.12.31	2016.3.31
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 of electronic materials and technical support	100.00%	100.00%	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%
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%

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

(Reviewed, not Audited)

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

(4) Except for the following accounting policies, the consolidated financial statements for the three months ended March 31, 2017 and 2016 adopt the same accounting policies as the ones used in the consolidated financial statements for the year ended December 31, 2016. Please refer to the consolidated financial statements for the year ended December 31, 2016 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 three months ended March 31, 2017 and 2016 as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2016. For the summary of significant accounting judgments, estimates, and assumptions, please refer to the consolidated financial statements for the year ended December 31, 2016.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	March 31, 2017	December 31, 2016	March 31, 2016
Cash on hand	\$ 659	\$ 606	\$ 687
Bank deposits	2,828,957	2,981,602	3,677,982
Total	<u>\$ 2,829,616</u>	<u>\$ 2,982,208</u>	<u>\$ 3,678,669</u>

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

(Reviewed, not Audited)

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

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

	March 31, 2017	December 31, 2016	March 31, 2016
Held for trading:			
Non-hedging derivative financial assets			
- Forward foreign exchange contracts	\$ 16,641	\$ 19,762	\$ —
Non-derivative financial assets			
- Stocks	18,154	16,245	18,333
Total	<u>\$ 34,795</u>	<u>\$ 36,007</u>	<u>\$ 18,333</u>

(3) Notes receivable, net

	March 31, 2017	December 31, 2016	March 31, 2016
Notes receivable, net	<u>\$ 1,593,511</u>	<u>\$ 1,542,759</u>	<u>\$ 966,232</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

	March 31, 2017	December 31, 2016	March 31, 2016
Accounts receivable	\$ 2,644,239	\$ 3,009,672	\$ 3,429,238
Less: allowance for doubtful accounts	(211,106)	(211,697)	(245,869)
Net	<u>\$ 2,433,133</u>	<u>\$ 2,797,975</u>	<u>\$ 3,183,369</u>

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):

	March 31, 2017	March 31, 2016
Beginning balance	\$ 211,697	\$ 331,150
Reversal for the period	(401)	(84,542)
Effect of exchange rate changes	(190)	(739)
Ending balance	<u>\$ 211,106</u>	<u>\$ 245,869</u>

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B. Ageing analysis of net accounts receivables:

	March 31, 2017	December 31, 2016	March 31, 2016
Neither past due nor impaired	\$ 2,260,994	\$ 2,511,606	\$ 2,181,027
Past due but not impaired			
≤ 120 days	171,031	280,415	512,809
121 to 180 days	—	17	215,797
≥ 181 days	1,108	5,937	273,736
Total	<u>\$ 2,433,133</u>	<u>\$ 2,797,975</u>	<u>\$ 3,183,369</u>

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:

March 31, 2017			
Amount of accounts receivable	Amount of factoring	Condition	Unreceived amount (Recorded as other receivables)
US\$ 24,985 thousand	US\$ 24,974 thousand	Without recourse	US\$ 11 thousand (NT\$ 362 thousand)
December 31, 2016			
Amount of accounts receivable	Amount of factoring	Condition	Unreceived amount (Recorded as other receivables)
US\$ 32,322 thousand	US\$ 32,322 thousand	Without recourse	-
March 31, 2016			
Amount of accounts receivable	Amount of factoring	Condition	Unreceived amount (Recorded as other receivables)
US\$ 17,492 thousand	US\$ 17,482 thousand	Without recourse	US\$ 10 thousand (NT\$ 344 thousand)

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(5) Inventories, net

	March 31, 2017	December 31, 2016	March 31, 2016
Raw materials	\$ 268,713	\$ 415,099	\$ 445,930
Inventories in transit	74,039	86,814	70,318
Supplies	4,603	5,660	3,570
Work in process	121,865	159,755	180,449
Finished goods	671,507	312,030	381,482
Merchandise	253,577	153,041	196,090
Total	<u>\$ 1,394,304</u>	<u>\$ 1,132,399</u>	<u>\$ 1,277,839</u>

Expenses or income recognized were as follows:

	Three months ended March 31	
	2017	2016
Cost of inventories sold	\$ 1,853,180	\$ 1,842,816
Loss on net realizable value of inventories	510	6,493
Loss on inventory write-off	1,166	4,594
Revenue from sale of scraps	(5,594)	(3,798)
Cost of revenue	<u>\$ 1,849,262</u>	<u>\$ 1,850,105</u>

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

	March 31, 2017	December 31, 2016	March 31, 2016
Stocks	\$ 6,600	\$ 6,600	\$ 6,600
Less: accumulated impairment	(6,600)	(6,600)	(6,600)
Net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(7) Investments accounted for under the equity method

Investees	March 31, 2017		December 31, 2016		March 31, 2016	
	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	16.72%
Less: accumulated impairment - Innovision FlexTech Corp.	(31,518)		(31,518)		(31,518)	
Net	<u>\$ —</u>		<u>\$ —</u>		<u>\$ —</u>	



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- 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 ended March 31, 2017 and 2016 were as follows:

Investees	Three Months Ended March 31	
	2017	2016
Innovision FlexTech Corp.	\$ —	\$ —

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

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

	March 31, 2017	December 31, 2016	March 31, 2016
Total assets	\$ 272,860	\$ 267,136	\$ 218,086
Total liabilities	\$ 69,031	\$ 57,282	\$ 36,409

  

	Three months ended March 31	
	2017	2016
Revenue	\$ 26,725	\$ 15,665
Net loss	\$ (6,025)	\$ (5,311)

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(8) Property, plant and equipment

	March 31, 2017	December 31, 2016	March 31, 2016
Land	\$ 100,843	\$ 100,843	\$ 100,843
Buildings	973,490	1,005,451	1,022,404
Machinery and equipment	956,538	969,050	842,635
Hydropower equipment	110,949	108,501	101,769
Testing equipment	116,738	115,422	88,692
Miscellaneous equipment	62,434	67,427	44,843
Construction in progress and equipment awaiting inspection	422,672	422,826	552,672
Net	<u>\$ 2,743,664</u>	<u>\$ 2,789,520</u>	<u>\$ 2,753,858</u>

	As of January 1, 2017	Additions	Disposals	Reclassification	Impairment loss	Effect of exchange rate changes	As of March 31, 2017
<u>Cost</u>							
Land	\$ 100,843	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 100,843
Buildings	1,415,480	328	—	296	—	(22,974)	1,393,130
Machinery and equipment	2,488,501	11,183	(13,600)	23,187	—	(19,000)	2,490,271
Hydropower equipment	370,939	1,421	—	8,144	—	(6,156)	374,348
Testing equipment	223,526	5,572	(99)	245	—	(1,096)	228,148
Miscellaneous equipment	334,840	598	(3,796)	165	—	(3,483)	328,324
Total	<u>\$ 4,934,129</u>	<u>\$ 19,102</u>	<u>\$ (17,495)</u>	<u>\$ 32,037</u>	<u>\$ —</u>	<u>\$ (52,709)</u>	<u>\$ 4,915,064</u>
<u>Accumulated depreciation and impairment</u>							
Buildings	\$ 410,029	\$ 15,690	\$ —	\$ —	\$ —	\$ (6,079)	\$ 419,640
Machinery and equipment	1,519,451	39,606	(13,599)	—	—	(11,725)	1,533,733
Hydropower equipment	262,438	4,407	—	—	—	(3,446)	263,399
Testing equipment	108,104	4,134	(89)	—	—	(739)	111,410
Miscellaneous equipment	267,413	4,738	(3,771)	—	—	(2,490)	265,890
Total	<u>\$ 2,567,435</u>	<u>\$ 68,575</u>	<u>\$ (17,459)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (24,479)</u>	<u>\$ 2,594,072</u>
Construction in progress and equipment awaiting inspection	422,826	32,094	—	(32,079)	—	(169)	422,672
Net	<u>\$ 2,789,520</u>						<u>\$ 2,743,664</u>

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	As of January 1, 2016	Additions	Disposals	Reclassification	Impairment loss	Effect of exchange rate changes	As of March 31, 2016
<u>Cost</u>							
Land	\$ 100,843	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 100,843
Buildings	1,396,219	847	—	—	—	(4,694)	1,392,372
Machinery and equipment	2,261,959	103	—	58,905	—	(3,791)	2,317,176
Hydropower equipment	359,000	—	—	—	—	(1,180)	357,820
Testing equipment	179,198	1,872	(383)	6,911	—	(209)	187,389
Miscellaneous equipment	254,072	860	(2,254)	87	—	(719)	252,046
Total	<u>\$ 4,551,291</u>	<u>\$ 3,682</u>	<u>\$ (2,637)</u>	<u>\$ 65,903</u>	<u>\$ —</u>	<u>\$ (10,593)</u>	<u>\$ 4,607,646</u>
<u>Accumulated depreciation and impairment</u>							
Buildings	\$ 354,164	\$ 16,911	\$ —	\$ —	\$ —	\$ (1,107)	\$ 369,968
Machinery and equipment	1,441,361	35,699	—	(280)	—	(2,239)	1,474,541
Hydropower equipment	252,420	4,284	—	—	—	(653)	256,051
Testing equipment	95,788	3,152	(383)	280	—	(140)	98,697
Miscellaneous equipment	204,828	6,185	(1,986)	—	(1,297)	(527)	207,203
Total	<u>\$ 2,348,561</u>	<u>\$ 66,231</u>	<u>\$ (2,369)</u>	<u>\$ —</u>	<u>\$ (1,297)</u>	<u>\$ (4,666)</u>	<u>\$ 2,406,460</u>
Construction in progress and equipment awaiting inspection	491,705	127,227	—	(66,247)	—	(13)	552,672
Net	<u>\$ 2,694,435</u>						<u>\$ 2,753,858</u>

(9) Intangible assets

	March 31, 2017	December 31, 2016	March 31, 2016
Trademarks	\$ 400	\$ 385	\$ 191
Patents	6,005	7,347	14,894
Software cost	36,840	36,085	34,771
Goodwill	69,781	69,781	69,781
Total	<u>\$ 113,026</u>	<u>\$ 113,598</u>	<u>\$ 119,637</u>

	As of January 1, 2017	Additions	Reclassification	Effect of exchange rate changes	As of March 31, 2017
<u>Cost</u>					
Trademarks	\$ 583	\$ 73	\$ —	\$ —	\$ 656
Patents	42,202	211	—	—	42,413
Software cost	108,294	4,255	—	(666)	111,883
Goodwill	69,781	—	—	—	69,781
Total	<u>\$ 220,860</u>	<u>\$ 4,539</u>	<u>\$ —</u>	<u>\$ (666)</u>	<u>\$ 224,733</u>

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	As of January 1, 2017	Additions	Reclassification	Effect of exchange rate changes	As of March 31, 2017
<u>Accumulated</u>					
<u>Amortization and</u>					
<u>impairment</u>					
Trademarks	\$ 198	\$ 58	\$ —	\$ —	\$ 256
Patents	34,855	1,553	—	—	36,408
Software cost	72,209	3,206	—	(372)	75,043
Total	107,262	\$ 4,817	\$ —	\$ (372)	111,707
Net	<u>\$ 113,598</u>				<u>\$ 113,026</u>

	As of January 1, 2016	Additions	Reclassification	Effect of exchange rate changes	As of March 31, 2016
<u>Cost</u>					
Trademarks	\$ 372	\$ —	\$ —	\$ —	\$ 372
Patents	39,233	624	—	—	39,857
Software cost	93,511	5,229	(175)	(112)	98,453
Goodwill	69,781	—	—	—	69,781
Total	<u>\$ 202,897</u>	<u>\$ 5,853</u>	<u>\$ (175)</u>	<u>\$ (112)</u>	<u>\$ 208,463</u>

<u>Accumulated</u>					
<u>Amortization and</u>					
<u>impairment:</u>					
Trademarks	\$ 151	\$ 30	\$ —	\$ —	\$ 181
Patents	22,330	2,633	—	—	24,963
Software cost	60,936	2,816	—	(70)	63,682
Total	83,417	\$ 5,479	\$ —	\$ (70)	88,826
Net	<u>\$ 119,480</u>				<u>\$ 119,637</u>

(Concluded)

(10) Other non-current assets

	March 31, 2017	December 31, 2016	March 31, 2016
Long-term prepaid rent (Land use rights)	\$ 19,890	\$ 20,997	\$ 23,110
Refundable deposits	20,649	23,711	18,128
Other non-current assets - other	31,314	36,146	41,475
Total	<u>\$ 71,853</u>	<u>\$ 80,854</u>	<u>\$ 82,713</u>

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(11) Impairment testing of goodwill

The Company did not have intangible assets with indefinite useful lives. Goodwill acquired through business combinations was allocated to each of the CGUs, which were expected to benefit from synergies. Impairment evaluation of recoverable amount of goodwill was conducted at each year end. The recoverable amount of the CGU was determined based on value-in-use which was calculated using cash flow projections from financial budgets approved by management covering a five-year period discounted at a pre-tax rate. The projected cash flows were updated to reflect the change in demand for relevant products. As a result of the analysis conducted on December 31, 2016, the Company did not identify any impairment for goodwill.

(12) Short-term loans

	March 31, 2017	December 31, 2016	March 31, 2016
Unsecured bank loans	\$ 1,309,823	\$ 939,783	\$ 1,379,578
Secured bank loans	—	—	261,141
Total	<u>\$ 1,309,823</u>	<u>\$ 939,783</u>	<u>\$ 1,640,719</u>

The interest rates of loans were 1.40% to 4.79%, 0.85% to 4.57% and 0.54% to 5.66% as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively.

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

	March 31, 2017	December 31, 2016	March 31, 2016
Held for trading:			
Non-hedging derivative financial liabilities			
- Forward foreign exchange contracts	\$ —	\$ —	\$ 16,422

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(14) Long-term loans

	March 31, 2017	December 31, 2016	March 31, 2016
Secured loans	\$ 73,205	\$ 76,916	\$ 74,528
Revolving loans	275,010	504,207	278,144
Syndicated loans	91,008	193,675	710,204
Total	439,223	774,798	1,062,876
Less: current portion	(127,476)	(27,372)	(732,851)
Less: unamortized syndicated loan fee	(3,700)	(4,000)	(5,440)
Net	<u>\$ 308,047</u>	<u>\$ 743,426</u>	<u>\$ 324,585</u>
	2017.1.1~ 2017.3.31	2016.1.1~ 2016.12.31	2016.1.1~ 2016.3.31
Interest rate range	0.99%~2.17%	0.98%~1.97%	1.34%~2.10%

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

B. 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:

- (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. The Group has abided by those terms.

C. 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. 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. The Group has abided by those terms.

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(15) Post-employment benefits

A. Defined contribution plan

Expenses under the defined contribution plan for the three months ended March 31, 2017 and 2016 were NT\$ 5,735 thousand and NT\$ 5,470 thousand, respectively.

B. Defined benefits plan

Expenses under the defined benefits plan for the three months ended March 31, 2017 and 2016 were NT\$ 2,525 thousand and NT\$ 2,533 thousand, 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 March 31, 2017, December 31, 2016 and March 31 2016.
- (b) The Company's issued capital was NT\$ 2,083,252 thousand, NT\$ 2,083,252 thousand and NT\$ 2,042,858 thousand, each at a par value of NT\$10, divided into 208,325 thousand shares, 208,325 thousand shares and 204,286 thousand shares as of March 31, 2017, December 31, 2016 and March 31 2016, respectively.
- (c) The shareholders' meeting on May 27, 2016 resolved to capitalize capital surplus of NT\$ 40,394 thousand. The said capital increase was approved by the competent authority and the registration of change was completed.

B. Capital Surplus

	March 31, 2017	December 31, 2016	March 31, 2016
Additional paid-in capital	\$ 1,025,819	\$ 1,022,603	\$ 1,062,997
Premium from merger	262,500	262,500	262,500
Donated assets	1,970	1,970	1,970
Treasury stock transactions	6,937	6,937	6,937
Others	113,548	113,548	113,548
Total	<u>\$ 1,410,774</u>	<u>\$ 1,407,558</u>	<u>\$ 1,447,952</u>

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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 March 31, 2017.

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

D. Appropriation of profits and dividend policies

(a) Appropriation of profits

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

- i. Deficit compensation;
- ii. 10% of net profit as legal capital reserves;
- iii. Special capital reserve appropriated or reversed as stipulated by laws or competent securities authority;
- iv. For the remaining profits, if any, the Board of Directors shall appropriate in the following manners depending on the financial and economic conditions of current year:
  - (i) Bonus to employees shall not be lower than eight percent of the remaining balance after the deductions specified in Paragraphs i to iii of the Article. The bonus to employees, distributed in cash or shares, shall not exceed fifty percent of current period's net profit when calculated by market price, or



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- fifty percent of current period's net profit combined with the undistributed earnings accumulated during the previous years, whichever is higher. The parties receiving the stock dividends shall include employees in affiliated companies who met certain conditions stipulated by the Board of Directors;
- (ii) Remuneration to directors and supervisors shall not be higher than five percent of the remaining balance after the deductions specified in Paragraphs i to iii of the Article;
  - (iii) The shareholders' meeting shall then resolve as to whether the remaining balance combined with the undistributed earnings accumulated during previous years shall be reserved or distributed to the shareholders as dividends. (The cash dividend shall not be lower than ten percent of the total dividends and shall be capped at one hundred percent.)

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

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

(b) Dividend policies

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

(c) Special capital reserve

Following the adoption of IFRS, the FSC issued Order No. Jin-Guan-Zheng-Fa-1010012865 on April 6, 2012, which sets out the following provisions for compliance: On a public company's first-time adoption of the IFRS, for

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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, 2017 and 2016, 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 reserve to undistributed earnings during the three months ended March 31, 2017 and 2016 as a result of the use, disposal or reclassification of related assets.

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

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

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.

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E. Non-controlling interests (NCI)

	Three Months Ended March 31	
	2017	2016
Beginning balance	\$ 100,310	\$ 134,093
Net loss attributable to NCI	(694)	(10,222)
Other comprehensive income attributable to NCI:		
Exchange differences arising on translation of foreign operations	(349)	(74)
Ending balance	\$ 99,267	\$ 123,797

(17) Share-based payment plans

On February 25, 2010, the Company resolved at the Board of Directors' meeting to issue employee stock options with a total number of 2,355 units. Each unit entitles an optionee to subscribe to one thousand share of the Company's common stock. The chairperson is authorized by the Board to set the actual grant date. If a consensus was not reached regarding all terms and conditions, the grant date would be the date when consensuses for all were reached (April 30, 2010). Settlement upon exercise of the options will be made through issuance of new shares by the Company. An optionee may exercise the options in accordance with certain schedules and percentages prescribed by the plan two years from the grant date. The expense of compensatory employee stock option plan for the three months ended March 31, 2017 was NT\$ 0.

There have been no cancellations or modifications to any of the employee stock option plans by March 31, 2017.

	Three Months Ended March 31			
	2017		2016	
	Options	Weighted average exercise price per share (NT\$)	Options	Weighted average exercise price per share (NT\$)
Stock options Outstanding at beginning of period	952	\$ 36.80	1,022	\$ 39.70
Granted	—	—	—	—
Forfeited	—	—	—	—
Exercised	(120)	36.80	—	—
Expired	—	—	(23)	—
Outstanding at end of period	832	36.80	979	39.70
Exercisable at end of period	832	36.80	979	39.70

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The information on the aforementioned outstanding employee stock options as of March 31, 2017 and 2016 was as follows:

Date of grant	Weighted average remaining contractual years	
	March 31, 2017	March 31, 2016
2010.4.30	1.08	2.08

(18) Revenue

	Three Months Ended March 31	
	2017	2016
Sale of goods	\$ 2,312,657	\$ 2,283,325

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

Function  Nature	Three Months Ended March 31					
	2017			2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	101,328	85,251	186,579	93,546	94,505	188,051
Labor and health insurance	10,208	7,251	17,459	10,407	7,375	17,782
Pension	4,675	3,585	8,260	4,285	3,718	8,003
Other employee benefits expense	11,441	6,209	17,650	9,462	5,329	14,791
Depreciation	64,302	4,273	68,575	61,394	4,837	66,231
Amortization	3,742	4,702	8,444	4,503	5,345	9,848

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.

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The accrual basis for compensation to employees and remuneration to directors and supervisors for the three months ended March 31, 2017 and 2016 was formulated by the Board of Directors in accordance with the Articles of Incorporation and relevant laws and regulations with reference to the remuneration standard of the industry. Those estimates were recognized as expenses. If amounts resolved in the Board of Directors' meeting differ significantly from those estimates in the subsequent period, current income would be adjusted. If amounts resolved in the shareholders' meeting differ from those estimates in the subsequent year, the difference would be recorded as a change in accounting estimate and recognized in the profit or loss of that year.

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

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

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

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

(20) Non-operating income and expenses

A. Other income

	Three Months Ended March 31	
	2017	2016
Interest income	\$ 3,801	\$ 4,428
Other income	3,739	2,978
Total	\$ 7,540	\$ 7,406

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B. Other gains and losses

	Three Months Ended March 31	
	2017	2016
(Loss) gain on disposal of property, plant and equipment	\$ (36)	\$ 195
Foreign exchange loss, net	(86,832)	(8,009)
Gain on reversal of impairment loss	—	1,297
Gain (loss) of financial assets (liabilities) at fair value through profit or loss, net	9,274	(31,050)
Other losses	(457)	(3,290)
<b>Total</b>	<b>\$ (78,051)</b>	<b>\$ (40,857)</b>

C. Finance costs

	Three Months Ended March 31	
	2017	2016
Interest on borrowings from bank	\$ (18,938)	\$ (31,510)

D. Components of other comprehensive income

For the three months ended March 31, 2017:

	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	\$ (89,973)	\$ —	\$ (89,973)	\$ 15,295	\$ (74,678)

For the three months ended March 31, 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	\$ (17,643)	\$ —	\$ (17,643)	\$ 2,999	\$ (14,644)

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(21) Income tax

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

Income tax expense (benefit) recognized in profit or loss

	Three Months Ended March 31	
	2017	2016
Current income tax expense (benefit):		
Current income tax expense	\$ 31,945	\$ 41,039
Income tax adjustments on prior years	153	-
Effect of exchange rate changes	415	127
Deferred income tax expense (benefit):		
Deferred income tax expense (benefit) relating to origination and reversal of temporary differences	8,986	(577)
Total income tax expense	<u>\$ 41,499</u>	<u>\$ 40,589</u>

Income tax recognized in other comprehensive income

	Three Months Ended March 31	
	2017	2016
Deferred income tax expense (benefit):		
Exchange differences arising on translation of foreign operations	\$ (15,295)	\$ (2,999)
Income tax relating to components of other comprehensive income	<u>\$ (15,295)</u>	<u>\$ (2,999)</u>

B. Imputation credit information:

	March 31, 2017	December 31, 2016	March 31, 2016
Balance of imputation credit account	<u>\$ 522,966</u>	<u>\$ 522,966</u>	<u>\$ 481,641</u>

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

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

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

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D. The assessment of income tax returns:

As of March 31, 2017, the assessment of income tax returns of the Group in ROC was as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2011
Subsidiary – Koatech Technology Corporation	Assessed and approved up to 2015

(22) Earnings per share

	Three Months Ended March 31, 2017		
	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	\$ 99,322	206,079	\$ 0.48
<u>Diluted earnings per share</u>			
Effect of dilutive potential common shares			
Employee compensation – stock	—	239	
Employee stock options	—	21	
Net income available to common shareholders of the Company and effect of potential common shares	\$ 99,322	206,339	\$ 0.48
	Three Months Ended March 31, 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	\$ 121,399	206,007	\$ 0.59
<u>Diluted earnings per share</u>			
Effect of dilutive potential common shares			
Employee compensation – stock	—	265	
Net income available to common shareholders of the Company and effect of potential common shares	\$ 121,399	206,272	\$ 0.59



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7. RELATED PARTY TRANSACTIONS

(1) Names and relationships

Name	Relationship
Innatech Co., Ltd.	Its chairperson is the Company's chairperson

(2) Significant transactions with related parties

A. Acquisition of property, plant, and equipment

	Acquisition price		
	March 31, 2017	December 31, 2016	March 31, 2016
Other related parties	\$ —	\$ 3,200	\$ —

B. Compensation to key management

	Three Months Ended March 31	
	2017	2016
Short-term employee benefits	\$ 19,769	\$ 20,270
Post-employment benefits	252	644
Total	\$ 20,021	\$ 20,914

8. PLEDGED ASSETS

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

	Carrying amount			Purpose of pledge
	March 31, 2017	December 31, 2016	March 31, 2016	
Demand deposits (Note)	\$ 10,857	\$ 16,447	\$ 135,148	Collateral for short-term loans
Time deposits (Note)	20,295	20,295	20,264	Customs guarantee
Notes receivable	—	—	261,141	Collateral for short-term loans
Land	100,843	100,843	100,843	Collateral for long-term loans
Buildings	102,940	106,496	111,125	Collateral for long-term loans
Machinery and equipment	15,400	15,813	—	Collateral for long-term loans
Total	\$ 250,335	\$ 259,894	\$ 628,521	

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

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9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

Details of the Group's unused letters of credit as of March 31, 2017 were as follows:

	<u>L/C Amount</u>	
NTD	NT\$	8,660 thousand
USD	US\$	5,423 thousand

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

12. OTHERS

(1) Categories of financial instruments

Financial assets

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Financial assets at fair value through profit or loss:			
Non-hedging derivative financial assets – Forward foreign exchange contracts	\$ 16,641	\$ 19,762	\$ —
Non-derivative financial assets – Stocks	18,154	16,245	18,333
Loans and receivables:			
Cash and cash equivalents (exclude cash on hand)	2,828,957	2,981,602	3,677,982
Receivables	4,078,802	4,387,994	4,313,065
Other financial assets, current	79,541	36,742	155,412

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Financial liabilities

	March 31, 2017	December 31, 2016	March 31, 2016
Financial liabilities at fair value through profit or loss:			
Non-hedging derivative financial liabilities - Forward foreign exchange contracts	\$ —	\$ —	\$ 16,422
Financial liabilities at amortized cost:			
Short-term loans	1,309,823	939,783	1,640,719
Payables	2,599,924	2,871,550	2,550,475
Long-term loans (current portion included)	435,523	770,798	1,057,436

(2) Objectives of financial risk management

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

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

(3) Market risk

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

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

A. Foreign currency risk

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

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

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

B. Interest rate risk

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

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

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 shall review all equity investment decisions and approve where appropriate.

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

For the three months ended March 31, 2017		
Key risk	Variation	Sensitivity of profit or loss
Foreign currency risk	NTD/USD Foreign exchange +/- 1%	+/- NT\$ 2,942 thousand
	NTD/CNY Foreign exchange +/- 1%	+/- NT\$ 633 thousand
Interest rate risk	Market rate +/- 10 basis points	+/- NT\$ 1,084 thousand

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For the three months ended March 31, 2016

Key risk	Variation	Sensitivity of profit or loss
Foreign currency risk	NTD/USD Foreign exchange +/- 1%	+/- NT\$ 1,395 thousand
	NTD/CNY Foreign exchange +/- 1%	+/- NT\$ 4,849 thousand
Interest rate risk	Market rate +/- 10 basis points	+/- NT\$ 981 thousand

(4) Credit risk management

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

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

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

(5) Liquidity risk management

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

<u>Non-derivative financial instruments</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>
<u>March 31, 2017</u>					
Borrowings	\$ 1,440,395	\$ 254,428	\$ —	\$ 53,619	\$ 1,748,442
Payables	2,599,924	—	—	—	2,599,924

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	<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>
<u>December 31, 2016</u>					
Borrowings	\$ 969,558	\$ 687,142	\$ —	\$ 56,284	\$ 1,712,984
Payables	2,871,550	—	—	—	2,871,550
<u>March 31, 2016</u>					
Borrowings	\$ 2,377,863	\$ 260,349	\$ —	\$ 64,236	\$ 2,702,448
Payables	2,550,475	—	—	—	2,550,475
<u>Derivative financial instruments</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>
<u>March 31, 2017</u>					
Inflows	\$ 353,197	\$ —	\$ —	\$ —	\$ 353,197
Outflows	354,688	—	—	—	354,688
Net	<u>\$ (1,491)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (1,491)</u>
<u>December 31, 2016</u>					
Inflows	\$ 727,398	\$ —	\$ —	\$ —	\$ 727,398
Outflows	735,070	—	—	—	735,070
Net	<u>\$ (7,672)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (7,672)</u>
<u>March 31, 2016</u>					
Inflows	\$ 862,045	\$ —	\$ —	\$ —	\$ 862,045
Outflows	883,166	—	—	—	883,166
Net	<u>\$ (21,121)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (21,121)</u>

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

(6) Fair values of financial instruments

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

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

- (a) The carrying amount of cash and cash equivalents, receivables, payables and other current liabilities approximate their fair value due to short maturity terms.

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- (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 March 31, 2017, December 31, 2016 and March 31, 2016, the Group's derivative financial instruments that were not eligible for hedge accounting and were outstanding (including forward foreign exchange contracts and embedded derivatives) were listed as follows:

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

Currency	Contract period	Contract amount (in thousands)
<u>March 31, 2017</u>		
USD to CNY	2016.09~2017.12	US\$ 11,643/CNY 80,455
NTD to CNY	2016.10~2017.06	NT\$ 432,076/CNY 95,500
<u>December 31, 2016</u>		
NTD to CNY	2016.08~2017.06	NT\$ 727,398/CNY 159,020
USD to CNY	2016.08~2017.06	US\$ 14,602/CNY 99,394
<u>March 31, 2016</u>		
USD to CNY	2016.05~2016.08	US\$ 26,704/CNY 177,094

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.

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- 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>March 31, 2017</u>		
USD to CNY	2016.09~2017.03	US\$ 7,013/CNY 47,280
NTD to CNY	2016.08~2017.03	NT\$ 376,454/CNY 81,520
<u>December 31, 2016</u>		
USD to CNY	2016.01~2016.12	US\$ 80,882/CNY 538,714
USD to NTD	2016.08~2016.12	US\$ 16,550/NT\$ 523,631
CNY to NTD	2016.05~2016.12	CNY 75,000/NT\$ 365,402
USD to JPY	2016.12	US\$ 100/JPY 11,427
<u>March 31, 2016</u>		
USD to CNY	2016.01~2016.03	US\$ 30,259/CNY 201,391

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

(8) Fair value hierarchy

A. Definition of fair value hierarchy

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

Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities at the measurement date

Level 2 inputs are inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 inputs are unobservable inputs for the asset or liability

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



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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>March 31, 2017</u>				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	\$ —	\$ 16,641	\$ —	\$ 16,641
Stocks	18,154	—	—	18,154
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	—	—	—
<u>December 31, 2016</u>				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	\$ —	\$ 19,762	\$ —	\$ 19,762
Stocks	16,245	—	—	16,245
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	—	—	—
<u>March 31, 2016</u>				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	\$ —	\$ —	\$ —	\$ —
Stocks	18,333	—	—	18,333
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	16,422	—	16,422

For the three months ended March 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value hierarchy.

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(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:

	March 31, 2017			December 31, 2016		
	Foreign currencies (in thousands)	Exchange rate	NTD	Foreign currencies (in thousands)	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 68,301	30.3360	\$ 2,071,970	\$ 80,970	32.2790	\$ 2,613,631
CNY	16,984	4.4085	74,873	22,363	4.6225	103,373
HKD	30,992	3.9050	121,022	30,233	4.1620	125,830
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$ 58,591	30.3360	\$ 1,777,428	\$ 52,438	32.2790	\$ 1,692,646
JPY	108,440	0.2713	29,420	159,796	0.2757	44,056
<u>March 31, 2016</u>						
	Foreign currencies (in thousands)	Exchange rate	NTD			
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 98,837	32.2820	\$ 3,190,656			
CNY	97,868	4.9870	488,068			
HKD	30,951	4.1630	128,849			
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$ 94,517	32.2820	\$ 3,051,198			
JPY	131,220	0.2871	37,673			

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

As entities within the Group transact in various currencies, the exchange gain (loss) of monetary financial assets and liabilities cannot be disclosed by currencies of significant influence. For the three months ended March 31, 2017 and 2016, the Group's foreign exchange gain (loss) amounted to NT\$ (86,832) thousand and NT\$ (8,009) thousand, respectively.

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

(10) Capital management

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

13. ADDITIONAL DISCLOSURES

(1) Information on significant transactions and investees

- A. Financing provided to others: Please refer to Table 1.
- B. Endorsement/Guarantee provided to others: Please refer to Table 2.
- C. Marketable securities held as of March 31, 2017 (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 three months ended March 31, 2017: 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 three months ended March 31, 2017: 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 three months ended March 31, 2017: 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 three months ended March 31, 2017: 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 March 31, 2017: Please refer to Table 5.

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)  
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I. Direct or indirect significant influence or control over the investees for the three months ended March 31, 2017 (excluding investments in China): Please refer to Table 6.

J. Derivative financial instruments transactions: Please refer to Note 12.

K. Others: intercompany relationships and significant intercompany transactions for the three months ended March 31, 2017: Please refer to Table 8.

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

14. OPERATING SEGMENT INFORMATION

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

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

The overseas segment owns manufacturing and sales functions.

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

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

(1) Segment income (loss)

For the three months ended March 31, 2017

	General management	Overseas	Adjustment and elimination (Note)	Consolidated
Revenue				
External customer	\$ 1,001,104	\$ 1,311,553	\$ —	\$ 2,312,657
Inter-segment	543,001	59,561	(602,562)	—
Total revenue	<u>\$ 1,544,105</u>	<u>\$ 1,371,114</u>	<u>\$ (602,562)</u>	<u>\$ 2,312,657</u>

(Continued)

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>General management</u>	<u>Overseas</u>	<u>Adjustment and elimination (Note)</u>	<u>Consolidated</u>
Segment income (loss) (Income before income tax)	\$ 125,220	\$ 51,982	\$ (37,075)	\$ 140,127

Note: Inter-segment revenues were eliminated on consolidation.

(Concluded)

For the three months ended March 31, 2016

	<u>General management</u>	<u>Overseas</u>	<u>Adjustment and elimination (Note)</u>	<u>Consolidated</u>
Revenue				
External customer	\$ 941,463	\$ 1,341,862	\$ —	\$ 2,283,325
Inter-segment	585,882	150,235	(736,117)	—
Total revenue	<u>\$ 1,527,345</u>	<u>\$ 1,492,097</u>	<u>\$ (736,117)</u>	<u>\$ 2,283,325</u>
Segment income (loss) (Income before income tax)	<u>\$ 132,985</u>	<u>\$ 35,504</u>	<u>\$ (16,723)</u>	<u>\$ 151,766</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	Counterparty	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.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	\$ 439,040	\$ 424,704	\$ 29,978	1.20%~7.00%	2	—	Operating capital	—	—	—	\$ 1,338,892	\$ 2,677,783	(Note 7)
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Other receivables - related parties	Y	564,480	546,048	338,931	1.20%~7.00%	2	—	Operating capital	—	—	—	1,338,892	2,677,783	(Note 7)
1	Taistar Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	125,440	121,344	-	1.20%~2.50%	2	—	Operating capital	—	—	—	330,513	661,027	(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 three months ended March 31, 2017.

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 counterparty shall be specified, such as loan repayment, equipment acquisition or operating capital.

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

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

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

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

Note 11: This is the ending balance after evaluation.

TABLE 2: ENDORSEMENT/GUARANTEE PROVIDED TO OTHERS

(In Thousands of New Taiwan Dollars)

No (Note 1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 3)	Maximum Balance for the Period (Note 4)	Ending Balance (Note 5)	Amount Actually Drawn (Note 6)	Amount of Endorsement/ Guarantee Secured by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Worth per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowed (Note 3)	Endorsement Provided by Parent Company to Subsidiaries	Endorsement Provided by Subsidiaries to Parent Company	Endorsement Provided to Subsidiaries in China
		Name	Nature of Relationship (Note 2)										
0	Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	2	\$ 3,347,229	\$ 125,440	\$ 121,344	\$ 106,176	—	1.81%	\$ 3,347,229	Y	N	N
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	3	3,347,229	933,804	900,821	481,948	—	13.46%		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	3	3,347,229	1,864,640	1,801,060	361,412	—	26.90%		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 three months ended March 31, 2017.

Note 5: As of March 31, 2017, the Company assumed endorsement or guarantee liabilities for endorsement/guarantee contracts signed or bill facilities approved. All other related endorsement or guarantee shall be included in the balance of guarantee/endorsement.

Note 6: This is the ending balance after evaluation.

TABLE 3: MARKETABLE SECURITIES HELD AS OF MARCH 31, 2017 (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	March 31, 2017				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	\$ 18,154	0.03%	\$ 18,154	—

Note 1: The marketable securities stated in this table shall refer to stocks, bonds, beneficiary certificates and securities derived from the said items within the scope of IAS 39 "Financial Instruments: Recognition and Measurement".

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

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



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

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction (Note 1)		Notes/Accounts Receivable (Payable)		Note
			Purchases/Sales	Amount	Percentage to Total	Credit / Payment Terms	Unit Price	Credit / Payment Terms	Ending Balance	Percentage to Total	
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	Purchases	\$ 58,439	5.19%	Payment within 120 days from the end of delivery month by TT	—	—	\$ (54,855)	(4.25%)	—
	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	Sales	51,639	3.47%	Collection within 120 days from the end of delivery month by TT	—	—	56,076	3.19%	—
	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	Sales	475,056	31.96%	Collection within 120 days from the end of delivery month by TT	—	—	1,153,798	65.69%	—
Taiflex Scientific (Kunshan) Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Sales	58,439	6.25%	Collection within 120 days from the end of delivery month by TT	—	—	54,855	2.38%	—
	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Purchases	51,639	6.64%	Payment within 120 days from the end of delivery month by TT	—	—	(56,076)	(5.73%)	—
Shenzhen Taiflex Electronic Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Purchases	475,056	78.11%	Payment within 120 days from the end of delivery month by TT	—	—	(1,153,798)	(95.51%)	—

Note 1: The sales prices and credit 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.	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	\$ 88,393	(Note 1)	—	—	\$ 12,918	—	—
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	56,076	5.42	—	—	887	—	—
Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	1,153,798	1.69	—	—	192,397	—	—

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

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

Investor	Investee	Business Location	Main Businesses and Products	Original Investment Amount		Balance as of March 31, 2017			Net Income (Losses) of Investee	Share of Profits/Losses	Note
				March 31, 2017	December 31, 2016	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%	\$ 1,636,560	\$ 41,517	\$ 41,913	(Note 1)
Taiflex Scientific Co., Ltd.	Leadmax Limited	Samoa	Trading of electronic materials	337	337	10	100.00%	15,597	500	500	—
Taiflex Scientific Co., Ltd.	Koatech Technology Corporation	Taiwan	Manufacturing and selling of electronic materials and components	294,102	294,102	27,400	53.86%	220,124	(552)	(2,234)	(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	(6,025)	—	(Note 3)
Taiflex Scientific Co., Ltd.	TFS Co., Ltd.	Belize	Investment holding	192,657	192,657	6,020	100.00%	124,616	(955)	(955)	—
Taiflex Scientific Co., Ltd.	Taiflex Scientific Japan Co., Ltd.	Japan	Trading of electronic materials and technical support	16,260	16,260	6	100.00%	13,756	(3,650)	(3,650)	—
TFS Co., Ltd.	RICHSTAR Co., Ltd.	Samoa	Investment holding	192,423	192,423	6,010	100.00%	147,509	(955)	(955)	—
Taistar Co., Ltd.	TSC International Ltd.	Cayman Islands	Investment holding	801,604	801,604	25,010	100.00%	1,595,351	44,340	44,340	—
Koatech Technology Corporation	KTC Global Co., Ltd.	Samoa	Investment holding	28,649	28,649	960	100.00%	15,622	(612)	(612)	—
KTC Global Co., Ltd	KTC PanAsia Co., Ltd.	Samoa	Investment holding	28,500	28,500	955	100.00%	17,239	(15)	(15)	—

Note 1: Including unrealized gain/loss between affiliates.

Note 2: Including amortization of fixed assets.

Note 3: The net amount of investments accounted for under the equity method was NTS\$ 0 thousand.

TABLE 7: INFORMATION ON INVESTMENTS IN MAINLAND CHINA

(In Thousands of New Taiwan Dollars)

Investee	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, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of March 31, 2017	Profits/Losses of Investee	Percentage of Ownership (Direct or Indirect Investment)	Share of Profits/Losses	Carrying Amount as of March 31, 2017	Accumulated Inward Remittance of Earnings as of March 31, 2017
					Outflow	Inflow						
Kunshan Taiflex Electronic Material Co., Ltd.	Trading of coating materials for high polymer film and copper foil	\$184,126 (USD5,603,350)	Through reinvestment of a company established in the third area	\$ 32,536	—	—	\$ 32,536	\$ 89	100.00%	\$ 89	\$ 235,875	\$ 128,532
Taiflex Scientific (Kunshan) Co., Ltd.	Manufacturing and selling of coating materials for high polymer film and copper foil	\$767,141 (USD24,000,000)	Through reinvestment of a company established in the third area	767,141	—	—	767,141	44,250	100.00%	44,250	1,359,129	—
Kunshan Koatech Technology Corporation	Wholesale and act as a commission agent of electronic materials and components	\$28,351 (USD950,000)	Through reinvestment of a company established in the third area	28,351	—	—	28,351	21	53.86%	11	9,274	—
Shenzhen Taiflex Electronic Co., Ltd.	Trading of coating materials for high polymer film and copper foil	\$193,020 (USD6,000,000)	Through reinvestment of a company established in the third area	193,020	—	—	193,020	(955)	100.00%	(955)	147,161	—
Accumulated Outflow of Investment from Taiwan to Mainland China as of March 31, 2017				Investment Amounts Authorized by Investment Commission, MOEA				Upper Limit on Investment				
\$1,021,048				\$1,054,876				\$4,016,675				

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 investees in China directly or indirectly through the third area and the relevant prices, payment terms and unrealized gains and losses:

- (1) Purchase, ending balance of related accounts payable and their weightings: see Table 4.
- (2) Sales, ending balance of related accounts receivable and their weightings: see Tables 4 and 5.
- (3) The transaction amount and gain or loss arising from property transactions: N/A.
- (4) Ending balance of endorsements/guarantees or collateral provided and the purposes: see Table 2.
- (5) Maximum balance, ending balance, interest rate range and total interest of current period from financing provided to others: refer to Table 1.
- (6) Transactions that have significant impact on profit or loss or the financial position of current period, such as services provided or rendered: N/A.

TABLE 8: INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS FOR THE THREE MONTHS ENDED MARCH 31, 2017  
(In Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counterparty	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.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Sales revenue	\$ 51,639	General trading terms	2.23%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Accounts receivable	56,076	General trading terms	0.48%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Other receivables	88,393	—	0.76%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Other receivables	338,931	Financing	2.92%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Cost of revenue	58,439	General trading terms	2.53%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Accounts payable	54,855	General trading terms	0.47%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Purchase on behalf of others	24,458	—	1.06%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Sales revenue	475,056	General trading terms	20.54%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Accounts receivable	1,153,798	General trading terms	9.93%

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

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

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

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

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

Note 4: This is the ending balance after evaluation.