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TAIFLEX Scientific Co., Ltd.

2016 Annual Report

Corporate Website: http://www.taiflex.com.tw
Market Observation Post System Website: http://mops.twse.com.tw

Published on March 31, 2017

Notice to readers

This English-version annual report is a summary translation of the Chinese version and is not an official document of the Shareholders' Meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

1. **Name, Title and Contact Details of Company's Spokesperson and Deputy Spokesperson:**

Spokesperson: Fang-I Hsieh
Title: Chief Financial Officer
Telephone Number: (07)813-9989
E-mail address: shieh@taiflex.com.tw
Deputy Spokesperson: Qi-Xun Zhang
Title: Project Manager
Telephone Number: (07)813-9989 ext 52818
E-mail address: charles_chang@taiflex.com.tw

2. **Address and Telephone Numbers of Company's Headquarters, Branches and Fabs:**

Fab 1: No. 4, S. 3rd Rd., KEPZ, Qianzhen Dist., Kaohsiung City 806, Taiwan (R.O.C.)
Fab 2 (Headquarters): No.1, Huanqu 3rd Rd., KEPZ, Qianzhen Dist., Kaohsiung City 806, Taiwan (R.O.C.)
Fab 3: No. 3, S. 2nd Rd., KEPZ, Qianzhen Dist., Kaohsiung City 806, Taiwan (R.O.C.)
Telephone Number: (07)813-9989

3. **Name, Address, Website and Telephone Number of the Share Registrar:**

Name: Stock Management Service Department, Yuanta Securities
Address: No.210-B1, Sec. 3, Chengde Rd., Datong Dist., Taipei City 103, Taiwan (R.O.C.)
Website: http://www.yuanta.com.tw
Telephone Number: (02)2586-5859

4. **Names, Accounting Firm, Address, Website and Telephone Number of Independent Auditors in the Most Recent Year:**

Names: Fang-Wen Li and Hong-Guang Lin
CPA Firm: Ernst & Young
Address: 17F., No.2, Zhongzheng 3rd Rd., Xinxing Dist., Kaohsiung City 800, Taiwan (R.O.C.)
Website: http://www.ey.com
Telephone Number: (07)238-0011

5. **Overseas Securities Exchange:**

None

6. **Corporate Website:**

http://www.taiflex.com.tw

Contents

I. Letter to Shareholders

1. 2016 Operating Results

The Company generated net revenue of NT$ 10.28 billion in 2016, a growth of 0.16% compared to the NT$ 10.27 billion in 2015. Net income attributable to shareholders of the parent amounted to NT$ 580 million, a decrease of 21% year-over-year. Earnings per share was NT$ 2.81. The decrease in profit was primarily caused by the significant and continued depreciation of RMB against US and New Taiwan dollars, which led to a larger foreign exchange loss and impacted adversely on operating profit. In addition, market growth was slowing comparing to previous years, resulting in increasingly fierce competitions. It affects not only the returns of the whole industry and supply chain, but also their margins.

The business unit of electronics materials generated net revenue of NT$ 6.46 billion in 2016, an increase of 15.2% comparing to 2015. The enormous growth was contributed by a) improvement in technical capabilities broadened the range of product applications and b) the massive growth of Chinese mobile phone makers, such as Huawei, OPPO and VIVO, drove up the FPC demand in China which in turn spurred demand for FPC materials. As the major FPC material supplier in the Greater China Region, we have comprehensive distribution channels and can thus benefit from this upsurge of growth.

The business unit of energy materials generated revenue of NT$ 3.66 billion in 2016, a year-over-year decrease of 17.4%. The downturn was mostly due to China slashed its electricity subsidies after June 30. Magnitude of the cut varied by regions with a maximum of 11%. Consequently, the solar demand in China plunged in the second half of 2016 and the supply chain as a whole faced the challenges of diminishing demand and lowering prices. Nevertheless, after a few months of adjustments, the market had gradually returned to normal.

(1) Consolidated revenue and net income

(In Thousands of New Taiwan Dollars)

	2016	2015	Change (in Dollar Amount)	Change (in Percentage)
Net revenue	10,283,979	10,267,868	16,111	0.16%
Gross profit	1,895,746	2,164,815	(269,069)	(12.43%)
Net income	546,610	707,308	(160,698)	(22.72%)

(2) Profitability analysis

	2016	2015
Net profit margin	5.32%	6.89%
Return on assets	5.23%	5.88%
Return on equity	8.05%	10.42%

(3) Directions of research and development

To cope with trends towards lighter, thinner, highly-efficient and multi-functional electronic devices, the Company will continuously invests resources to develop products with features of high frequency, heat-resistant and fine pitch. Moreover, we will actively utilize our core formula capabilities in developing a wide range of new materials to nurture our ability in providing a total solution to customers. As for PV backsheets, we will relentless pursue various types of products to satisfy market demand and offer one-stop shop services. We will also allocate resources on the research of heat-resistant and high heat-dissipation backsheets to enhance the efficiency of PV modules and move toward lower costs and grid parity.

2. Overview of 2017 Business Plan

(1) Business policy

As US economy recovers and the global raw material prices gradually increases, growth momentum of the overall market is expected to improve comparing to prior years. However, uncertainties including the protectionism of US president Trump, the official launch of Brexit process, US interest rate increase and volatility in RMB bring both opportunities and challenges to 2017.

Being the key material supplier in the Greater China Region, our operation decisions and performance are greatly affected by RMB volatility and US trade protectionism against China. We would focus on preventive measures such as cost reduction and expense control during this period of uncertainty.

In 2017, China's budget smartphone is expected to maintain a relatively fast growth and the growth opportunities in the emerging market remain optimistic, especially the India market, which is the focus of worldwide smartphone makers. In those fast-growing territories, having cost advantage is a crucial determinant. We will utilize our advantages in economies of scale and fulfill market demand with competitive cost structure. For high-end applications, global brands constantly launch products with new designs and functions which create new opportunities for upstream FPC vendors. We will continue to work closely with the global brands and expand our market shares in the premium market.

Solar industry is heavily dependent on government subsidies and those subsidy policies have a direct impact on the demand of solar system installation. As a result, the production and demand of solar industry is relatively volatile which in turn affects the working capital of module assembly plants. We will keep track of each nation's energy policies and develop new types of PV backsheets to exploit customers in the emerging market in order to mitigate the impacts from Chinese subsidy policies. We will also closely monitor the financial standing of our customers and strictly follow the credit management policy so as to balance our market shares and credit risk and maintain operation stability.

(2) Sales forecast and basis

Electronic materials: the sales in 2017 is expected to grow 10% comparing to 2016.

Basis:

A. Shipment growth from Chinese smartphone brands is expected to continue. Other than strong demand in China, one of the main reasons being the aggressive development of those Chinese phone makers in the emerging markets. Due to the integration of supply chain, the trend of dominance by large-scale companies persists. With our cost advantages stemming from economies of scale and comprehensive distribution channels, we aim to explore opportunities for further collaboration with local leading companies to drive the overall shipment growth.

B. Even though the shipment of high-end smartphone approaches saturation, opportunities for new applications emerge as global brands proactively introduce products with new functions. Being one of the key global FPC suppliers, we will seize those opportunities to achieve further growth in the high-end market.

C. Due to the two factors above, we expect the shipment in 2017 to maintain 2016 growth momentum.

PV backsheets: the sales volume in 2017 is expected to grow 10% to 15% comparing to 2016.

Basis:

A. The demand of PV industry ties closely with government subsidy policies. As China plans to lower the wholesale electricity price again by roughly 13% to 18% in the second half of 2017, a portion of market demand is expected to shift toward PV backsheets with relatively lower prices. We have laid the groundwork in associated product lines and thus expect to gain growth during the shift.

B. Strong growth momentum is observed in the overseas markets, especially India. After a thorough market research, we have developed PV backsheets specifically designed for Indian market and obtained some results. Therefore, we expect to enjoy new opportunities from the rapid growth of this market.

C. Due to the combined effect of new products and market, we expect positive growth in 2017 sales volume.

(3) Key production and marketing policies

A. Continue to communicate with key suppliers on the establishment of VMI warehouses to accelerate the inventory flow and avoid stagnation of capital.

B. Adopt an automated planning and scheduling system to speed up response time and shorten cycle time.

C. Establish reginal sales centers and agent channels to deepen our market presence and broaden the scope of local services.

D. Build a technical service team for end-customers in order to perceive end-market requirements and enhance efficiency of product research and development.

E. Expand the product lines to satisfy customers' needs for both premium and low-end products and extend our market scope.

3. Strategies for Future Developments

(1) Exploit current material formulas and precision manufacturing technology and explore market opportunities to develop new business in pursue of the Company's long-term growth.

(2) Combine end-customers' participation in design and collaboration in material development with the Company's existing technology and advantages in economies of scale to stabilize and strengthen the overall supply chain connectivity and create high barriers to entry for competitors.

(3) Utilize the advantages of joint purchase and vertical integration to carry out horizontal expansion for products requested by customers through the enormous sales network and customer base built by the Company. We can provide lower-cost, high-efficient and one-stop shop services via self- or cooperative development or joint-agency.

(4) Continue to rationalize workflow and carry out waste reduction measures in order to lower operation costs and increase work efficiency.

4. Impacts from external competition, regulatory compliance and macro-environment

(1) External competition

A. The slowing growth momentum of overall smartphone and increasing production capacity of competitors result in potential risk of fierce price competition.

B. The massive capacity expansion previously undertook by players in the solar industry pushed market supply to grow at a faster rate than the demand. The Company now faces price war.

C. Quick changes in customers' demand force the Company to identify new technologies and launch new products at a faster rate which drives up the development cost. At the same time, increasing difference in demand of peak and low seasons brings greater challenge to the capacity flexibility and ability to allocate resources.

D. Being the dominant producer of FPC and PV backsheets in the Greater China Region, the Company has competitive advantages in supply chain relationships and economies of scale. In addition to the cost competitiveness due to scale, we can also satisfy our customers' demand timely in the peak season. Furthermore, we collaborate with companies in the supply chain to accelerate our progress in research and development in order to satisfy customers' demand for new products and assist them with seizing the growth opportunity.

(2) Regulatory environment

A. Our allocation of resources is directly impacted by whether cross-strait bilateral investments are permissible.

B. Energy subsidies of each nation and trade wars (e.g. anti-dumping and countervailing investigations by U.S. and Europe) also have enormous impacts on the PV industry. Those factors directly influence the global operation strategies of module assembly plants.

(3) Macro-environment

A. The slowdown in China's economic growth and highly volatile RMB raise the exchange rate risk and impact the overall operation structure on both sales and purchases. The relatively higher cost of RMB hedging poses a greater challenge to our operation.

B. Our government has less participation in the regional integration agreements than the competing nations. Even though we enjoy some tariff concessions under ECFA with China, we are falling behind in the war of tariffs within the Southeast Asia market.

Looking back at 2016, the economic environment as a whole was unstable with frequent black swan events which affected both foreign exchange rates and consumer demand. Facing with harsh changes in external environment and challenges posed by competitors, we did our utmost to adopt adequate business strategies for each business unit in accordance with market changes, strived to balance our operations against risks and persistently optimized our operation efficiency. We could not detach ourselves from those changes especially when the severe currency fluctuations had enormous effects on Taiwanese businessmen in Taiwan, Hong Kong and China and eroded the overall profitability.

Nevertheless, we continue to strengthen our core competitiveness and continuously invest research and development resources in advanced flexible materials to move towards high value products. We also utilize our advantages in flexible materials and collaborate with customers to capture the driving forces of market growth and build the foundation for sustainability.

Sincerely yours,

Chairperson: Ta-Wen Sun

II. Company Profile

1. Founded on August 16, 1997

2. Company History

Year	Milestones
August, 1997	Founded at the Incubator Center of Industrial Technology Research Institute (ITRI) with paid-in capital of NT$ 4,000,000. Focused on manufacturing of polymer film based copper clad laminates and associated high-tech products.
June, 1998	Moved to Kaohsiung Export Processing Zone at Qianzhen District, Kaohsiung with an area of 3,638 square meters.
Februrary, 1999	Mass production.
April, 1999	Obtained ISO 9001 Certification.
December, 1999	Formed strategic alliance with Arisawa MFG Co. Ltd., a leading FPC manufacturer in Japan.
March, 2000	Signed technology transfer agreement with Arisawa.
May, 2000	Underwent the supplemental public issuance procedure and approved by Securities and Futures Institute with Official Letter (2000) Tai-Cai-Zheng-Quan (1) No. 44617.
March, 2002	Received Best R&D Award and Best Sales of Own-Brand Award from Ministry of Economic Affairs, R.O.C.
January, 2003	Traded on the Emerging Stock Market.
December, 2003	Listed on the OTC Stock Exchange on December 19.
June, 2004	Paid-in capital of NT$ 587,500,000 after the merge with HuaPeng Technology on June 1.
October, 2004	Received National Award for Outstanding SMEs from Small and Medium Enterprise Administration, Ministry of Economic Affairs, R.O.C.
July, 2006	Obtained TS16949 Certification.
October, 2008	Obtained TÜV certification. Obtained TOSHMS: 2007 certification. Obtained OHSAS 18001: 2007 certification.
November, 2009	Obtained ISO14064 certification.
December, 2009	Listed on Taiwan Stock Exchange since December 17, 2009.
March, 2010	The first company in the Kaohsiung Export Processing Zone approved by Customs Administration, Ministry of Finance to be Authorized Economic Operator (AEO).
March, 2010	Share swap between Koatech Technology Corporation and Taiflex with issuance of new shares amounting to NT$ 46,650,590.
November, 2011	Received Golden Award of TTQS from Executive Yuan.
August, 2012	Ranked 10th in the CommonWealth Magazine's Corporate Citizenship Awards in Medium-Sized Enterprises.
January, 2013	Selected in the “Enterprises as Backbones of Industries Leaping Promotion Program” of Industrial Development Bureau, Ministry of Economic Affairs, R.O.C.
June, 2013	Received 2013 National TrainQuali Prize.
August, 2013	Ranked 10th in the CommonWealth Magazine's Corporate Citizenship Awards.
January, 2014	Received Badge of Accredited Healthy Workplace from Health Promotion Administration, Ministry of Health and Welfare.
February, 2014	Received Administration-Enthusiastic Prize of Public Welfare from Export Processing Zone Administration, Ministry of Economic Affairs, R.O.C.

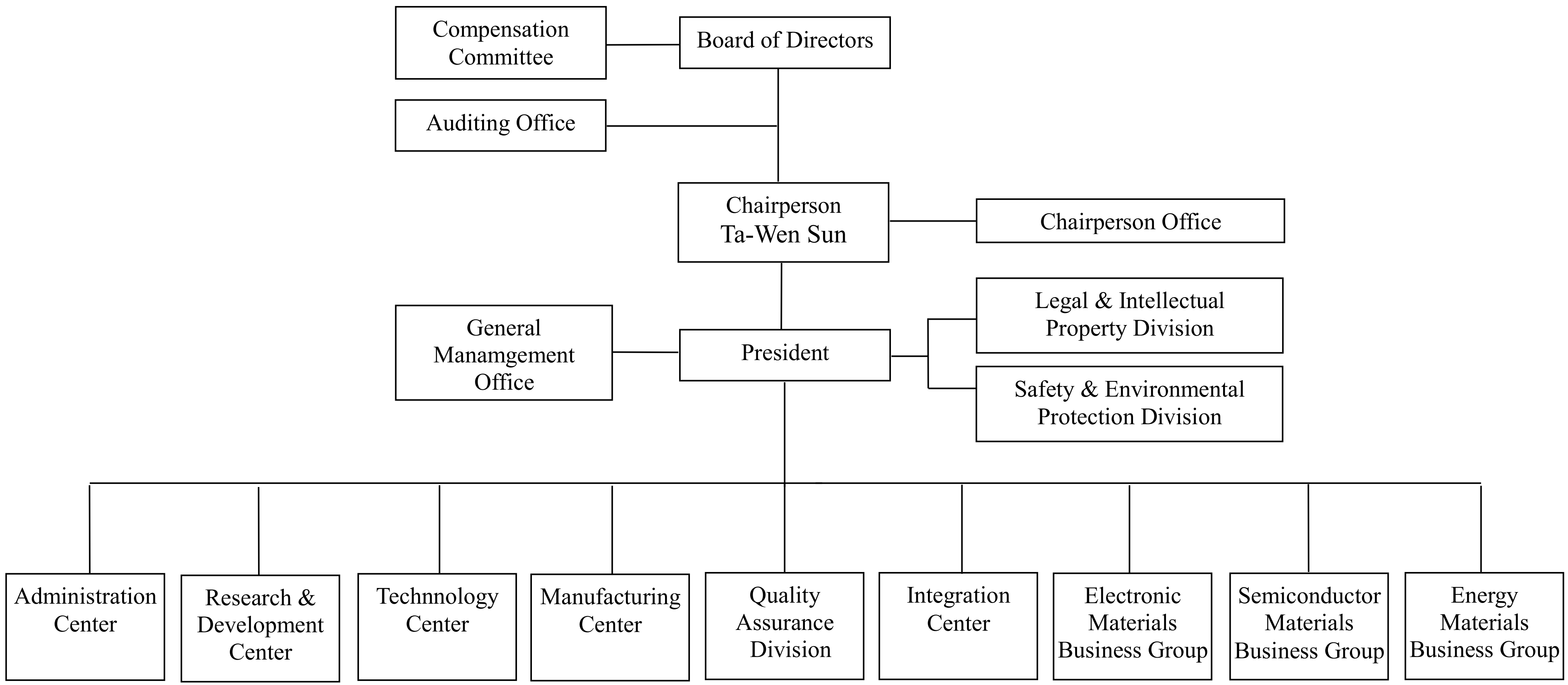
Year	Milestones
May, 2015	Received A++ Award in the 12th Information Transparency and Disclosure Ranking for Exchange and OTC-Listed Companies.
August, 2015	Ranked 38th in the CommonWealth Magazine's Corporate Citizenship Awards in Large-Scale Enterprises.
Novenmber, 2015	Received Copper Pyramid Award in the 24th National Quality Control Circle Competition.
December, 2015	Received Golden Award of TTQS (Enterprise Version).
December, 2015	Received award in the Corporate Benefit Plan Competition, Labor Affairs Bureau of Kaohsiung City Government.
December, 2015	Received awards from Export Processing Zone Administration for (1) being the models of water-use efficiency, (2) charities and community services, (3) industry-academia collaboration, and (4) fab transformation.
January, 2016	Established Taiflex Scientific Japan Co., Ltd.
July, 2016	Received the 2015 certification mark for Exporters/Importers with Excellent Trade Performance, the Bureau of Foreign Trade, Ministry of Economic Affairs, R.O.C.
August, 2016	Paid-in capital of NT$ 2,083,251,920 after capitalizing capital surplus of NT$ 40,393,570. Ranked 37th in the CommonWealth Magazine's Corporate Citizenship Awards in Large-Scale Enterprises.
September, 2016	Received 2016 Work and Life Balance Award - Work Autonomy and Achievement, Ministry of Labor.
December, 2016	Obtained ISO 27001 Information Security Management certification.

III. Corporate Governance

1. Organization

(1) Organizational Structure

March 31, 2017



(2) Functions

Departments	Functions
Auditing Office	1. To review and assess the internal control system and to provide analysis and evaluations 2. To conduct routine and non-routine audits
Chairperson Office	1. To assist the Chairperson with internal management and external issues
General Management Office	1. To assist in the planning of founding the next emerging industry and product 2. To assist the Company in formulating important investment decisions and strategies 3. To assist the President in supervising the operations and performance of each business group, center and division 4. Operation cost analysis and business plans
Legal & Intellectual Property Division	1. To review the Company's legal contracts 2. To manage the Company's commercial contracts, patents and other intellectual property rights 3. To provide consultation and handle relevant legal issues
Safety & Environmental Protection Division	1. In charge of public safety, sanitary control and employee well-being
Administration Center	It commands two divisions of which the functions and duties are as follows: <u>Finance and Accounting Division</u> 1. In charge of financial planning, accounting and tax management 2. To maintain relationships with external investors and media <u>Human Resources Division</u> 1. In charge of policies for the organization, human resource, education and training, general affairs and asset management 2. To plan and execute corporate social responsibility and maintain corporate image 3. To maintain and repair public facilities within the Company
Research & Development Center	1. To develop short-, mid- and long-term products and technology 2. To study and improve product formulas and develop new products
Technology Center	1. To set conditions for pilot runs and mass production 2. To manage high-mix, low-volume orders and test runs of samples
Manufacturing Center	1. To improve the manufacturing process 2. In charge of the maintenance, upkeep, repair and automation enhancement of manufacturing equipment
Quality Assurance Division	1. To establish and uphold quality control system 2. To inspect and accept raw materials and perform quality controls on process and products 3. To monitor product quality and provide relevant data to manufacturing units

<table>
<tr><th>Departments</th><th>Functions</th></tr>
<tr><td>Integration Center</td><td>It commands three divisions of which the functions and duties are as follows:
<u>Production Planning Division</u>
1. To plan production capacity based on sales and purchase strategies of each division; to obtain, allocate and integrate the management of raw materials and finished goods levels to meet the sale and cost targets
<u>Supply Chain Management Division</u>
1. To purchase, allocate and manage raw materials, supplies and equipment
2. In charge of bonding and customs
3. To ensure a smooth supply chain operation through supplier relationship management
<u>Information Technology Service Division</u>
1. To maintain and control software and hardware, including computers and IT system</td></tr>
<tr><td>Electronic Materials Business Group</td><td>1. To formulate business philosophy and short-term, mid-term, long-term and annual business plans
2. In charge of the planning, selling, marketing and servicing of FPC products
3. To analyze domestic and overseas FPC markets and relevant electronic material data; to formulate and execute marketing plans</td></tr>
<tr><td>Semiconductor Materials Business Group</td><td>1. To formulate business philosophy and short-term, mid-term, long-term and annual business plans
2. In charge of the planning, selling, marketing and servicing of semiconductor products
3. To analyze domestic and overseas semiconductor market and relevant material data; to formulate and execute marketing plans</td></tr>
<tr><td>Energy Materials Business Group</td><td>1. To formulate business philosophy and short-term, mid-term, long-term and annual business plans
2. In charge of the planning, selling, marketing and servicing of energy products
3. To analyze domestic and overseas energy market and relevant material data; to formulate and execute marketing plans</td></tr>
</table>

2. Directors, Supervisors, President, Vice Presidents, Assistant Vice Presidents and Managers of Departments and Branches:

(1) Directors and Supervisors

A. Directors and Supervisors

As of March 31, 2017 (In Shares; %)

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding (Note 1)		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Taiflex and Other Companies	Managers, Directors or Supervisors Who are Spouses or within Second-Degree of Kinship to Each Other		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Corporate Director	Taiwan	Qiao Mei Development Corporation	-	2014.06	3 years	2000.04	10,366,401	5.08	14,963,729	7.26	0	0	0	0	-	-	-	-	-
Representative of Corporate Director	Taiwan	Ta-Wen Sun	Male	2014.06	3 years	2000.04	782,314	0.38	838,760	0.41	145,444	0.07	0	0	B.S. Degree in Business Administration, Fu Jen Catholic University	Chairperson and President of the Taiflex Scientific Co., Ltd. (Note 3) Chairperson of Qiao Mei Development Corporation Chairperson of Innatech Co., Ltd. Chairperson of Yu Pen Investment Corp. Chairperson of Kunshan Taiflex Electronic Material Co., Ltd (Note 2) Supervisor of BIONET Corp. Independent Director of Advanced Ceramic X Corp. Corporate Director (Representative) of San Far Property Limited Executive Director of Puren Youth Care Foundation Chief Counselor of Youth	-	-	-

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding (Note 1)		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Taiflex and Other Companies	Managers, Directors or Supervisors Who are Spouses or within Second-Degree of Kinship to Each Other		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
																Career Development Association Headquarters, R.O.C.			
Representative of Corporate Director	Taiwan	Jun-Yan Jiang	Male	2014.06	3 years	2011.08	736,733	0.36	536,047	0.26	0	0	0	0	EMBA, Entrepreneur Business Administration Class, National Chengchi University Former President of Taiflex Scientific Co., Ltd. (Note 3)	Corporate Director (Representative) of Taiflex Scientific Co., Ltd. Chairperson of Taiflex Scientific (Kunshan) Co., Ltd. (Note 2) Director of Kunshan Taiflex Electronic Material Co., Ltd (Note 2)	-	-	-
Director	Taiwan	Ching-Yi Chang	Male	2014.06	3 years	2002.06	4,313,022	2.11	4,599,282	2.23	442,313	0.21	0	0	Ph.D. in Business Administration, Shanghai Jiao Tong University	Founder/Chairperson of the CID Group Executive Director of Taiwan Venture Capital Association Chairperson of HuaHe Cultural & Creative Management Consultant Corp. Chairperson of HuaWei International Technologies Consultant Corp. Chairperson of Global Vision Venture Capital Co., Ltd. Chairperson of HuaWei Century Venture Capital Co., Ltd. Supervisor of Quanta Storage Inc. Corporate Director (Representative) of Huasheng International Investment Corp.	-	-	-

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding (Note 1)		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Taiflex and Other Companies	Managers, Directors or Supervisors Who are Spouses or within Second-Degree of Kinship to Each Other		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director	Taiwan	Fu-Le Lin	Male	2014.06	3 years	1997.08	434,803	0.21	370,249	0.18	10,663	0.01	0	0	Ph.D. in Polymer Science, University of Akron Former Senior Engineer of Vishay General Semiconductor Taiwan Ltd. Former Analyst of Material Research Laboratories, Industrial Technology Research Institute	Senior R&D Director of Taiflex Scientific Co., Ltd. Chairperson of Koatech Technology Corporation	-	-	-
Director	Taiwan	Jyh-Bing Chen	Male	2014.06	3 years	2014.06	232,795	0.11	237,450	0.12	0	0	0	0	Information Management, Fairleigh Dickinson University, New Jersey	Chairperson of Derjian Enterprises Ltd.	-	-	-
Independent Director	Taiwan	Ming-Tung Kuo	Male	2014.06	3 years	2003.05	0	0	0	0	0	0	0	0	Engineering, Taipei Institute of Technology President of UNICAP Electronics Industry Corp.	Chairperson and CEO of Kinsus Interconnect Technology Corp. Director of Pegavision Investment Corp. Vice Chairperson of Pegavision Corporation Director of Piotek (HK) Trading Limited Director of Piotek Holding Limited Director of Piotek Holdings Limited (Cayman) Director of Kinsus Holding	-	-	-

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding (Note 1)		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Taiflex and Other Companies	Managers, Directors or Supervisors Who are Spouses or within Second-Degree of Kinship to Each Other		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
																Limited (Samoa) Director of Kinsus Holding Limited (Cayman) Chairperson of Kinsus Corporation (USA)			
Independent Director	Taiwan	Po-Hsun Chen	Male	2014.06	3 years	2008.06	0	0	0	0	0	0	0	0	B.S. Degree in Finance, Hawaii Pacific University, Hawaii Chairperson & President of Top High Image Corp.	Corporate Director (Representative) of Top High Image Corp. Corporate Supervisor (Representative) of KangPu Technology Co., Ltd. Chairperson of LiuFu Investment Limited Compensation Committee Convener of Hsin Kao Gas Co., Ltd. Independent Director of Holiday Garden Hotel	-	-	-
Supervisor	Taiwan	Chuan-Sheng Kao	Male	2014.06	3 years	2004.05	1,064,575	0.52	1,085,866	0.53	2,395	0.00	0	0	International Trade, Chung Kuo Institute of Technology	Chairperson of Yuten Corp. Chairperson of Yuten Electronics Co., Ltd.	-	-	-
Corporate Supervisor	Taiwan	Fuding Investment Co., Ltd.	-	2014.06	3 years	2014.06	1,000,000	0.49	1,020,000	0.49	0	0	0	0	-	-	-	-	-
Representative of Corporate Supervisor	Taiwan	Re-Zhang Lin	Male	2014.06	3 years	2014.06	0	0	0	0	0	0	0	0	B.S. Degree in Accounting, Soochow University	Chairperson of Taiwan Fu Hsing Industrial Co., Ltd. Chairperson of Fortress Industrial Co., Ltd. Chairperson of Tong Hsing Co., Ltd. Chairperson of ARCTEK	-	-	-

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding (Note 1)		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Taiflex and Other Companies	Managers, Directors or Supervisors Who are Spouses or within Second-Degree of Kinship to Each Other		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
																Industrial Co., Ltd. Director of Fu Hsing Americas Inc. Director of Fine Blanking & Tool Co., Ltd. Director of Launch Technologies Co., Ltd. Supervisor of Advanced International Multitech Co. Ltd. Director of Arctek (Shanghai) Co., Ltd. Director of Allegion Fu Hsing Limited Director of Allegion Fu Hsing Holdings., Ltd.			
Supervisor	Taiwan	Pai-Chun Wu	Female	2014.06	3 years	2009.09	0	0	0	0	0	0	0	0	Master of Law, Keio University, Japan Law, National Taiwan University Director of LandMark Optoelectronics Corporation Supervisor of Collins Co., Ltd.	Chairperson of Raise Investment Ltd. Vice Professor of Financial Law, Ming Chuan University Supervisor of TAINET Communication System Corp. Compensation Committee Member of FLEXium Interconnect Inc.	-	-	-

Note 1: For the calculation of shareholding percentage, number of shares outstanding excludes the repurchased treasury share of 2,318,000 shares.
Note 2: Kunshan Taiflex Electronic Material Co., Ltd. and Taiflex Scientific (Kunshan) Co., Ltd. are 100% owned investees of the Company.
Note 3: The board meeting of Taiflex Scientific Co., Ltd. on February 23, 2017 resolved to relieve Mr. Jun-Yan Jiang, the Chairperson of Taiflex Scientific (Kunshan) Co., Ltd. (a 100% owned subsidiary of the Company), from his concurrent position as the President of Taiflex Scientific Co., Ltd. in order to carry out future strategies and create greater value for the subsidiary. The Chairperson of Taiflex Scientific Co., Ltd. has concurrently served as the President starting March 1, 2017.

(a) Major shareholders of corporate shareholders

As of March 31, 2017

Name of Corporate Shareholder	Major Shareholders of Corporate Shareholders	Shareholding %
Qiao Mei Development Corporation	You Ben Investment Co., Ltd.	22.74
	Ching-Yi Chang	21.58
	Tai Cheng International Co., Ltd	20.00
	Ju Yang Investment Ltd.	12.54
	Xiang Yao International Investment Co., Ltd.	9.95
	Xiu-Zhen Yang	4.98
	Qian-Ying Yang	2.49
	Zhi-Cheng Zhang	2.49
	Ai-Lin Sun	2.23
	Jun-Xiang Zhang	0.50
	Jia-Dong Zhang	0.50
Fuding Investment Co., Ltd.	Fuxun Investment Co., Ltd.	42.0
	Hongcheng Investment Co., Ltd.	16.8
	ShengYou Investment Co., Ltd.	10.4
	LianYu Investment Development Co., Ltd.	7.9
	DeLi International Investment Co., Ltd.	7.3
	LianQuang Investment Co., Ltd.	3.7
	Jian-Kun Chen	2.6
	Zi-Yang Lin	2.1
	Yi-Xin Wu	1.8
	Zi-Xuan Lin	1.4

(b) Major shareholders of the major shareholders that are juridical persons in the table above

Name of Juridical Person	Major Shareholders of the Juridical Person
You Ben Investment Co., Ltd.	Ta-Wen Sun
Tai Cheng International Co., Ltd	Zhi-Cheng Zhang
	Pei-Ru Lin
Ju Yang Investment Ltd.	Xiu-Zhen Yang
	Ming-Zhi Zheng
Xiang Yao International Investment Co., Ltd.	Yu-Hui Lin
	Yu-Mei Lin
	Mei-Dai Zhang
FuXun Investment Co., Ltd.	Rui-Bi Zhang
	Zi-Xuan Lin
	Shan Zhang
	Zi-Yang Lin
	Re-Zhang Lin
HongCheng Investment Co., Ltd.	Li-Wen Lin-Yin
	Zhao-Hong Lin
	Shao-Qian Lin
	Shao-Jie Lin
ShengYou Investment Co., Ltd.	Miao-Zhen Lin
	Deng-Cai Lin
	Shan Zhang
	Bing-Kuan Lin
	Zhi-Wei Lin
	Zhi Ning Lin
	Jin-Yi Shi
	Wei-Ming Shi
	Jin-Hong Shi
LianYu Investment Development Co., Ltd.	Wen-Xing Lin
	Mei-Hui Xu

Name of Juridical Person	Major Shareholders of the Juridical Person
DeLi International Investment Co., Ltd.	Miao-Yin Lin
	Zhen-Yue Chen
	Si-Kai Chen
	Si-Jin Chen
LianQuang Investment Co., Ltd.	Wen-Xing Lin
	Mei-Hui Xu
	Zhi-Cheng Lin
	Zhi-You Lin

B. Independence Status of Directors and Supervisors

Conditions / Name	Over Five Years of Work Experience and the Following Professional Qualifications			Independence Status (Note 1)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, CPA, or Other Professional or Technical Specialist Who has Passed a National Examination with a Certificate in a Profession Necessary for the Business of the Company	With Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Qiao Mei Development Corporation Representative: Ta-Wen Sun	No	No	Yes			✓	✓		✓	✓	✓	✓		1
Qiao Mei Development Corporation Representative: Jun-Yan Jiang	No	No	Yes			✓	✓	✓	✓	✓	✓	✓		None
Ching-Yi Chang	No	No	Yes	✓	✓		✓	✓	✓	✓	✓	✓	✓	None
Fu-Le Lin	No	No	Yes			✓	✓	✓	✓	✓	✓	✓	✓	None
Jyh-Bing Chen	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Po-Hsun Chen	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Ming-Tung Kuo	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Chuan-Sheng Kao	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Pai-Chun Wu	Yes	Yes	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Fuding Investment Co., Ltd. Representative: Re-Zhang Lin	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓		None

Note 1: Please tick the corresponding boxes if directors or supervisors have met any of the following conditions during the two years prior to being elected or during the term of office:

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company's affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary appointed in accordance with the Securities and Exchange Act or local laws and regulations.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by nominee arrangement, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranks in the top ten in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that ranks in the top five shareholding.
6. Not a director, supervisor, manager, or shareholder with 5% or more of the shareholding of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. However, the same does not apply to any member of the compensation committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Compensation Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEx".
8. Not a spouse or a relative within the second degree of kinship to any other director of the Company.
9. Not being a person of any conditions defined in Article 30 of the Company Act.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

(2) President, Vice Presidents, Assistant Vice Presidents and Managers of Departments and Branches

As of March 31, 2017 (In Shares; %)

Title	Nationality	Name	Gender	On-Board Date	Shareholding		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Other Companies Relation	Managers Who are Spouses or within Second-Degree of Kinship to Each Other		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
President (Note 3)	Taiwan	Ta-Wen Sun	Male	2017.03	838,760	0.41	145,444	0.07	0	0	B.S. Degree in Business Administration, Fu Jen Catholic University	Chairperson of Qiao Mei Development Corporation Chairperson of Innatech Co., Ltd. Chairperson of Yu Pen Investment Corp. Chairperson of Kunshan Taiflex Electronic Material Co., Ltd (Note 2) Supervisor of BIONET Corp. Independent Director of Advanced Ceramic X Corp. Corporate Director (Representative) of San Far Property Limited Executive Director of Puren Youth Care Foundation Chief Counselor of Youth Career Development Association Headquarters, R.O.C.	-	-	-
Vice President	Taiwan	Zhi-Ming Yen	Male	2017.03	404,064	0.20	0	0	0	0	Bachelor of Accounting, Chung Yuan Christian University Former Assistant Manager of Finance of Thinking Electronic Industrial Co. Ltd.	Corporate Director (Representative) of Koatech Technology Corporation President of Kunshan Taiflex Electronic Material Co., Ltd. (Note 2) Chairperson of Shenzhen Taiflex Electronic Co., Ltd. (Note 2)	-	-	-
Vice President	Taiwan	Jiang-Zhi Chen	Male	2017.03	88,444	0.04	2,700	0.00	0	0	Commerce Department, Szu-Wei Senior High School CEO of Topco Scientific Co., Ltd.	Director of Topco Scientific Co., Ltd. Independent Director of Taiwan Name Plate Co., Ltd. Chairperson of Taiwan E&M Systems Inc. Chairperson of Ren Yue Trading Co., Ltd. Director of Topco Scientific (Shanghai) Co., Ltd.	-	-	-

Title	Nationality	Name	Gender	On-Board Date	Shareholding		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Other Companies Relation	Managers Who are Spouses or within Second-Degree of Kinship to Each Other		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Vice President	Taiwan	Jiang-Zhi Zhao	Male	2007.04	112,200	0.05	0	0	0	0	Master of Science in Finance, Drexel University Former Vice President of Cradle Technology Corp. Former Vice President of Origo Co., Ltd.	-	-	-	-
Vice President	Taiwan	Xiao-Zhong Hu	Male	2016.05	35,700	0.02	10,200	0.00	0	0	Master of Business and Management, National Chiao Tung University Former Vice Director of TSMC Global Supply Chain	Corporate Director (Representative) of Koatech Technology Corporation President of Koatech Technology Corporation	-	-	-
Vice President	Taiwan	Qiu-Feng Chen	Male	2013.08	0	0	0	0	0	0	Master of Chemical Engineering, National Taiwan University Former President of Witty Corp.	-	-	-	-
Vice President	Taiwan	Fu-Le Lin	Male	1998.04	380,249	0.18	10,663	0.01	0	0	Ph.D. in Polymer Science, University of Akron Former Senior Engineer of Vishay General Semiconductor Taiwan Ltd. Former Analyst of Material Research Laboratories, Industrial Technology Research Institute	Senior R&D Director of Taiflex Scientific Co., Ltd. Chairperson of Koatech Technology Corporation	-	-	-
Vice President	Taiwan	Xing-Ze Liu	Male	2014.09	0	0	0	0	0	0	Ph.D. in Polymer Science, University of Akron Former Marketing Manager of DuPont Taiwan	Director and President of Taiflex Scientific (Kunshan) Co., Ltd. (Note 2)	-	-	-
Vice President	Taiwan	Yung-Mao Yeh	Male	2008.06	166,260	0.08	0	0	0	0	Bachelor of Economics, Hosei University Former President of Inoac Taiwan	Director and Vice President of Taiflex Scientific (Kunshan) Co., Ltd. (Note 2)	-	-	-
Vice President	Taiwan	Zong-Han Jiang	Male	2016.08	102,000	0.05	0	0	0	0	Master of Mechanical Engineering, University of Southern California Former Assistant Vice President of Ko-E Limited, Yageo Corp.	Chairperson of Taiflex Scientific (Japan) Co., Ltd. (Note 2) Director of Shenzhen Taiflex Electronic Co., Ltd. (Note 2)	-	-	-

Title	Nationality	Name	Gender	On-Board Date	Shareholding		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Other Companies Relation	Managers Who are Spouses or within Second-Degree of Kinship to Each Other		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Assistant Vice President	Taiwan	Jin-Cheng Zhang	Male	2014.03	21,420	0.01	0	0	0	0	Dual Bachelor Degrees in International Business and Law, National Taiwan University Candidate for Ph.D. in Economic Law, East China University of Political Science and Law Former Legal Manager of Investment at Hon Hai Precision Industry	-	-	-	-
Assistant Vice President	Taiwan	Zhen Lin	Male	2014.02	54,060	0.03	0	0	0	0	Master of Mechanical Engineering, National Taiwan University Former Acting Plant Chief of Himax Technologies, Inc	-	-	-	-
Assistant Vice President	Taiwan	Xiao-Lei Long	Male	2016.02	0	0	0	0	0	0	Master of General Management, Chang Gung University Former Manager of DuPont Taiwan	-	-	-	-
Assistant Vice President	Taiwan	Zi-Kang Yang	Male	2015.08	0	0	0	0	0	0	Bachelor of Business Management, National Sun Yat-Sen University	-	-	-	-
Assistant Vice President	Taiwan	Yu-Cheng Qiu	Male	2016.08	0	0	0	0	0	0	Ph.D. of Institute of Manufacturing Information and Systems, National Cheng Kung University Former Manager of Production Automation at ASE Group	-	-	-	-
Assistant Vice President	Taiwan	Guo-Xiong Xia	Male	2017.02	573	0	0	0	0	0	Master of Biomedical Science and Engineering, National Yang-Ming University	-	-	-	-
Assistant Vice President	Taiwan	Jing-Wen Lu	Male	2017.02	0	0	0	0	0	0	Master of BioMedical Engineering, National Cheng Kung University	-	-	-	-
Assistant Vice President	Taiwan	Chong-Chen Liu	Male	2016.02	136,561	0.07	0	0	0	0	Bachelor of Information Technology and Computer Science, Feng-Chia University Former Assistant Vice President of W&Jsoft Inc.	-	-	-	-

Title	Nationality	Name	Gender	On-Board Date	Shareholding		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Other Companies Relation	Managers Who are Spouses or within Second-Degree of Kinship to Each Other		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Assistant Vice President	Taiwan	Fang-I Hsieh	Female	2005.10	197,583	0.09	616	0	0	0	Master of Finance, National Sun Yat-Sen University	Supervisor of Koatech Technology Corporation	-	-	-
Supervisor of Internal Audit	Taiwan	Shu-Zhen Guo	Female	2002.09	108	0	0	0	0	0	Bachelor of Business Management-Accounting, National Sun Yat-Sen University	-	-	-	-

Note 1: For the calculation of shareholding percentage, number of shares outstanding excludes the repurchased treasury share of 2,318,000 shares.

Note 2: Kunshan Taiflex Electronic Material Co., Ltd., Taiflex Scientific (Kunshan) Co., Ltd., Shenzhen Taiflex Electronic Co., Ltd. and Taiflex Scientific (Japan) Co., Ltd. are 100% owned investees of the Company.

Note 3: The board meeting of Taiflex Scientific Co., Ltd. on February 23, 2017 resolved to relieve Mr. Jun-Yan Jiang, the Chairperson of Taiflex Scientific (Kunshan) Co., Ltd. (a 100% owned subsidiary of the Company), from his concurrent position as the President of Taiflex Scientific Co., Ltd. in order to carry out future strategies and create greater value for the subsidiary. The Chairperson of Taiflex Scientific Co., Ltd. has concurrently served as the President starting March 1, 2017.

3. Remuneration Paid to Directors (including Independent Directors), Supervisors, President and Vice Presidents:

Distribution for 2016 earnings was approved by the Board of Directors on February 23, 2017. It will be presented in the Shareholders' Meeting for approval.

(1) Remuneration Paid to Directors (including Independent Directors)

As of December 31, 2016 (In Thousands of New Taiwan Dollars; Thousands of Shares; %)

Title	Name	Remuneration to Directors								Total of A, B, C and D as a % of 2016 Net Income		Compensation Earned by Being an Employee of Taiflex or Taiflex's Consolidated Entities														Total of A, B, C, D, E, F and G as a % of 2016 Net Income		Compensation from Non-consolidated Affiliates
		Base Compensation (A)		Severance Pay and Pensions (B)		Compensation to Directors (C)		Allowances (D)				Base Compensation, Bonus and Allowances, etc. (E)		Severance Pay and Pensions (F)		Employee Compensation (G)				Exercisable Employee Stock Options (H)		Granted Employee Restricted Stock (I)				
		From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	From Taiflex		From All Consolidated Entities		From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	
																Cash	Stock	Cash	Stock							
Chairperson	Ta-Wen Sun (Note 1)	0	0	0	0	12,139	12,139	420	426	2.17	2.17	10,307	10,867	0	0	6,376	0	6,376	0	190	390	0	0	5.04	5.14	0
Director	Jun-Yan Jiang (Note 1)																									
Director	Ching-Yi Chang																									
Director	Fu-Le Lin																									
Director	Jyh-Bing Chen																									
Independent Director	Ming-Tung Kuo																									
Independent Director	Po-Hsun Chen																									
*Except for information disclosed above, remuneration paid for services rendered by Directors of the Company to all consolidated entities (e.g. being a nonemployee consultant): None.																										

Note 1: Representatives of corporate directors of Qiao Mei Development Corporation

Remuneration Paid to Directors

Ranges	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	From Taiflex	From All Consolidated Entities I	From Taiflex	From All Consolidated Entities J
NT$ 1,999,999 and under	Ching-Yi Chang, Fu-Le Lin, Ming-Tung Kuo, Po-Hsun Chen, Jyh-Bing Chen	Ching-Yi Chang, Fu-Le Lin, Ming-Tung Kuo, Po-Hsun Chen, Jyh-Bing Chen	Ching-Yi Chang, Ming-Tung Kuo, Po-Hsun Chen, Jyh-Bing Chen	Ching-Yi Chang, Ming-Tung Kuo, Po-Hsun Chen, Jyh-Bing Chen
NT$ 2,000,000 ~ NT$ 4,999,999	-	-	Fu-Le Lin	Fu-Le Lin
NT$ 5,000,000 ~ NT$ 9,999,999	Corporate Directors of Qiao Mei Development Corporation Representatives: Ta-Wen Sun, Jun-Yan Jiang	Corporate Directors of Qiao Mei Development Corporation Representatives: Ta-Wen Sun, Jun-Yan Jiang	-	-
NT$ 10,000,000 ~ NT$ 14,999,999	-	-	Corporate Directors of Qiao Mei Development Corporation Representatives: Ta-Wen Sun, Jun-Yan Jiang	Corporate Directors of Qiao Mei Development Corporation Representatives: Ta-Wen Sun, Jun-Yan Jiang
NT$ 15,000,000 ~ NT$ 29,999,999	-	-	-	-
NT$ 30,000,000 ~ NT$ 49,999,999	-	-	-	-
NT$ 50,000,000 ~ NT$ 99,999,999	-	-	-	-
NT$ 100,000,000 and above	-	-	-	-
Total	7	7	7	7

(2) Remuneration Paid to Supervisors

As of December 31, 2016 (In Thousands of New Taiwan Dollars; %)

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="6">Remuneration to Supervisors</th><th colspan="2" rowspan="2">Total of A, B and C as a % of 2016 Net Income</th><th rowspan="3">Compensation from Non-Consolidated Affiliates</th></tr>
<tr><th colspan="2">Base Compensation (A)</th><th colspan="2">Compensation (B)</th><th colspan="2">Allowances (C)</th></tr>
<tr><th>From Taiflex</th><th>From All Consolidated Entities</th><th>From Taiflex</th><th>From All Consolidated Entities</th><th>From Taiflex</th><th>From All Consolidated Entities</th><th>From Taiflex</th><th>From All Consolidated Entities</th></tr>
<tr><td>Supervisor</td><td>Chuan-Sheng Kao</td><td>0</td><td>0</td><td>1,349</td><td>1,349</td><td>25</td><td>25</td><td>0.24</td><td>0.24</td><td>0</td></tr>
<tr><td>Supervisor</td><td>Re-Zhang Lin (Note 1)</td><td rowspan="2">0</td><td rowspan="2">0</td><td rowspan="2">2,697</td><td rowspan="2">2,697</td><td rowspan="2">50</td><td rowspan="2">50</td><td rowspan="2">0.47</td><td rowspan="2">0.47</td><td rowspan="2">0</td></tr>
<tr><td>Supervisor</td><td>Pai-Chun Wu</td></tr>
</table>

Note 1: Representative of corporate supervisor of Fuding Investment Co., Ltd.

Remuneration Paid to Supervisors

<table>
<tr><th rowspan="3">Ranges</th><th colspan="2">Names of Supervisors</th></tr>
<tr><th colspan="2">Total of (A+B+C)</th></tr>
<tr><th>From Taiflex</th><th>From All Consolidated Entities D</th></tr>
<tr><td>NT$ 1,999,999 and under</td><td>Chuan-Sheng Kao, Pai-Chun Wu, Corporate Supervisor of Fuding Investment Co., Ltd. Representative: Re-Zhang Lin</td><td>Chuan-Sheng Kao, Pai-Chun Wu, Corporate Supervisor of Fuding Investment Co., Ltd. Representative: Re-Zhang Lin</td></tr>
<tr><td>NT$ 2,000,000 ~ NT$ 4,999,999</td><td>-</td><td>-</td></tr>
<tr><td>NT$ 5,000,000 ~ NT$ 9,999,999</td><td>-</td><td>-</td></tr>
<tr><td>NT$ 10,000,000 ~ NT$ 14,999,999</td><td>-</td><td>-</td></tr>
<tr><td>NT$ 15,000,000 ~ NT$ 29,999,999</td><td>-</td><td>-</td></tr>
<tr><td>NT$ 30,000,000 ~ NT$ 49,999,999</td><td>-</td><td>-</td></tr>
<tr><td>NT$ 50,000,000 ~ NT$ 99,999,999</td><td>-</td><td>-</td></tr>
<tr><td>NT$ 100,000,000 and above</td><td>-</td><td>-</td></tr>
<tr><td>Total</td><td>3</td><td>3</td></tr>
</table>

(3) Compensation Paid to President and Vice Presidents

As of December 31, 2016 (In Thousands of New Taiwan Dollars; Thousands of Shares; %)

Title	Name	Salary (A)		Severance Pay and Pensions (B)		Bonus and Allowance (C)		Employee Compensation (D)				Total of A, B, C and D as a % of 2016 Net Income		Exercisable Employee Stock Options		Exercisable Employee Restricted Stock		Compensation from Non-Consolidated Affiliates
		From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	From Taiflex		From All Consolidated Entities		From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	
								Cash	Stock	Cash	Stock							
Chairperson and CEO of Reinvestment (Note 1)	Ta-Wen Sun	19,185	20,849	0	0	10,033	10,593	12,615	0	12,615	0	7.22	7.60	420	620	0	0	0
President (Note 1)	Jun-Yan Jiang																	
Vice President	Zhi-Ming Yen																	
Vice President	Yung-Mao Yeh																	
Vice President	Jiang-Zhi Zhao																	
Vice President	Fu-Le Lin																	
Vice President	Xiao-Zhong Hu																	
Vice President	Qiu-Feng Chen																	
Vice President	Xing-Ze Liu																	
Vice President	Zong-Han Jiang																	

Note 1: The board meeting of Taiflex Scientific Co., Ltd. on February 23, 2017 resolved to relieve Mr. Jun-Yan Jiang, the Chairperson of Taiflex Scientific (Kunshan) Co., Ltd. (a 100% owned subsidiary of the Company), from his concurrent position as the President of Taiflex Scientific Co., Ltd. in order to carry out future strategies and create greater value for the subsidiary. The Chairperson of Taiflex Scientific Co., Ltd. has concurrently served as the President starting March 1, 2017.

Compensation Paid to President and Vice Presidents

Ranges	Names of President and Vice Presidents	
	From Taiflex	From All Consolidated Entities E
NT$ 1,999,999 and under	-	-
NT$ 2,000,000 ~ NT$ 4,999,999	Zhi-Ming Yen, , Jiang-Zhi Zhao, Fu-Le Lin, Yung-Mao Yeh, Xiao-Zhong Hu, Qiu-Feng Chen, Xing-Ze Liu, Zong-Han Jiang	Zhi-Ming Yen, , Jiang-Zhi Zhao, Fu-Le Lin, Yung-Mao Yeh, Xiao-Zhong Hu, Qiu-Feng Chen, Xing-Ze Liu, Zong-Han Jiang
NT$ 5,000,000 ~ NT$ 9,999,999	Ta-Wen Sun, Jun-Yan Jiang	Ta-Wen Sun, Jun-Yan Jiang
NT$ 10,000,000 ~ NT$ 14,999,999	-	-
NT$ 15,000,000 ~ NT$ 29,999,999	-	-
NT$ 30,000,000 ~ NT$ 49,999,999	-	-
NT$ 50,000,000 ~ NT$ 99,999,999	-	-
NT$ 100,000,000 and above	-	-
Total	10	10

(4) Employee Compensation Granted to Managers

As of December 31, 2016 (In Thousands of New Taiwan Dollars)

	Title	Name	Stock	Cash	Total	Total as a % of 2016 Net Income
Managers	Chairperson and CEO of Reinvestment (Note 1)	Ta-Wen Sun	0	16,977	16,977	2.93
	President (Note 1)	Jun-Yan Jiang				
	Vice President	Zhi-Ming Yen				
	Vice President	Yung-Mao Yeh				
	Vice President	Jiang-Zhi Zhao				
	Vice President	Fu-Le Lin				
	Vice President	Xiao-Zhong Hu				
	Vice President	Qiu-Feng Chen				
	Vice President	Xing-Ze Liu				
	Vice President	Zong-Han Jiang				
	Assistant Vice President	Jin-Cheng Zhang				
	Assistant Vice President	Zhen Lin				
	Assistant Vice President	Fang-I Hsieh				
	Assistant Vice President	Chong-Chen Liu				
	Assistant Vice President	Zi-Kang Yang				
	Assistant Vice President	Xiao-Lei Long				
	Assistant Vice President	Yu-Cheng Qiu				
	Assistant Vice President	Guo-Xiong Xia				
	Assistant Vice President	Jing-Wen Lu				

Note 1: The board meeting of Taiflex Scientific Co., Ltd. on February 23, 2017 resolved to relieve Mr. Jun-Yan Jiang, the Chairperson of Taiflex Scientific (Kunshan) Co., Ltd. (a 100% owned subsidiary of the Company), from his concurrent position as the President of Taiflex Scientific Co., Ltd. in order to carry out future strategies and create greater value for the subsidiary. The Chairperson of Taiflex Scientific Co., Ltd. has concurrently served as the President starting March 1, 2017.

(5) Analysis of remuneration and compensation paid to Directors, Supervisors, President and Vice Presidents by the Company and all consolidated entities in 2015 and 2016 as a percentage of net income in the parent company only or individual financial statements and explanation on remuneration policy, standards and composition, procedures and the correlation with operation performance and future risks are as follows:

A. Analysis of remuneration and compensation paid to Directors, Supervisors, President and Vice Presidents by the Company and all consolidated entities in 2015 and 2016 as a percentage of net income in the parent company only or individual financial statements

(In %)

Year / Item	2016		2015	
	Taiflex	All Consolidated Entities	Taiflex	All Consolidated Entities
Directors and Supervisors	5.76	5.85	5.22	5.32
President and Vice Presidents	7.22	7.60	5.84	6.03

Note: The remuneration above includes travel allowance, base compensation, compensation from profit sharing, bonus and other compensations.

B. Remuneration policy, standards and composition, procedures and the correlation with operation performance and future risks:

(a) Remuneration to Directors and Supervisors: Remuneration is determined based on the Articles of Incorporation. The Compensation Committee would evaluate the involvement of Directors and Supervisors in the business operation of the Company and their contributions to the Company, and make recommendations to the Board concerning their remuneration. The Board of Directors has been delegated to determine the remuneration based on the recommendations from the Compensation Committee with reference to the remuneration standard of the industry. The Board of Directors would present the distribution proposal at the Shareholders' Meeting for shareholders to approve and finalize the amount.

(b) Compensation to President and Vice President: Compensation is determined based on the salary levels among peers, job scopes and degree of contributions by individuals to the Company's operation target. It also takes into account the Company's overall performance and individual's performance and contributions.

4. Corporate Governance Implementation

(1) Board of Directors Meeting Status:

Board of Directors Meeting Status

The President, Mr. Ta-Wen Sun, convened five (A) Board Meetings in 2016. The attendance status of the Directors and Supervisors are as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A)	Remark
Chairperson	Qiao Mei Development Corporation Representative: Ta-Wen Sun	5	0	100%	
Director	Qiao Mei Development Corporation Representative: Jun-Yan Jiang	5	0	100%	
Director	Jyh-Bing Chen	4	0	80%	
Director	Ching-Yi Chang	5	0	100%	
Director	Fu-Le Lin	5	0	100%	
Independent Director	Ming-Tung Kuo	5	0	100%	
Independent Director	Po-Hsun Chen	5	0	100%	
Supervisor	Chuan-Sheng Kao	5	0	100%	
Supervisor	Fuding Investment Co., Ltd. Representative: Re-Zhang Lin	5	0	100%	
Supervisor	Pai-Chun Wu	5	0	100%	

Annotations:

1. For matters specified in Article 14-3 of the Securities and Exchange Act and resolutions on which an independent director expresses objection or reservation, either by recorded statement or in writing, the date and session of the Board Meeting, contents of motions, all independent directors' opinions and actions taken by the Company regarding the opinions shall be specified: None.
2. For situations where directors recuse themselves from any motion due to conflict of interest, the directors' names, contents of motions, causes for the recusal, and participation in voting shall be specified:
   A. Directors: Ta-Wen Sun, Jun-Yan Jiang and Fu-Le Lin
      (a) Date of Board Meeting: January 28, 2016
      (b) Motion:
      To discuss the 2015 year-end bonus to management
      (c) Cause for recusal and participation in voting:
      The Chairperson, Ta-Wen Sun, and Directors, Jun-Yan Jiang and Fu-Le Lin, are part of the management under discussion. Thus, they recused themselves from the discussion.
3. Objectives of strengthening the functionality of the Board of Directors in the current year and most recent year and evaluation of the execution thereof:
   A. The Board had approved "Code of Ethical Conduct", "Principles of Business Ethics", "Guidelines on Corporate Governance" and "Guidelines on Corporate Social Responsibility" in order to strengthen the functionality of the Board and enhance information transparency.
   B. The Company had drawn up the "Rules of Procedure for the Board of Directors' Meeting" in accordance with "Regulations Governing Procedure for Board of Directors Meetings of Public Companies". Directors' attendance of the Board Meetings is available at the Market Observation Post System (MOPS) website and major resolutions from the Board Meetings and election of Independent Directors are disclosed on the Company's official website.
   C. The Board Meeting on December 23, 2011 had approved the establishment of Compensation Committee. The Committee assists the Board of Directors to regularly review and determine the amount of remunerations paid to Directors and management team. It also performs periodic reviews on performance evaluation and the policy, system, standards and structure of remuneration. Please refer to Page 38 for details.

(2) Operations of Audit Committee or Participation of Supervisors at Board Meetings:
A. The Company has not established an Audit Committee.
B. Participation of Supervisors at Board Meetings:

Participation of Supervisors at Board Meetings

The Chairperson, Ta-Wen Sun, held five (A) Board Meetings in 2016. The record of the Supervisors' attendance is as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A)	Remark
Supervisor	Chuan-Sheng Kao	5	0	100%	
Supervisor	Fuding Investment Co., Ltd. Representative: Re-Zhang Lin	5	0	100%	
Supervisor	Pai-Chun Wu	5	0	100%	

Annotations:

1. Composition and duties of Supervisors:

   A. Communication between Supervisors and employees and shareholders:

      If deemed necessary, Supervisors would communicate with employees and shareholders through mails, phone calls and emails, etc.

   B. Communication between Supervisors and internal audit supervisor and CPAs:

      (a) The audit supervisor submitted an audit report to the Supervisors in the month following the completion of audit. There was no objection from the Supervisors.

      (b) The audit supervisor attended the regular Board Meetings and filed an audit report. There was no objection from the Supervisors.

      (c) Supervisors communicated with CPAs with regard to the Company's finance and business.

      (d) With regard to issues communicated in 2016, there was no disagreement between Supervisors and internal audit supervisor and CPAs.

2. Where a Supervisor attends the Board Meetings and states his/her opinion, the date and session of the Board Meeting, contents of motions, resolution and actions taken by the Company regarding the opinions shall be specified: No such circumstance occurred in 2016.

(3) Implementation of Corporate Governance Practices and Non-compliance with Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Status</th><th rowspan="2">Non-compliance and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td>1. Does the Company follow “Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” to establish and disclose its corporate governance practices?</td><td>V</td><td></td><td>The Company has established “Guidelines on Corporate Governance” in order to enhance its performance in corporate governance, secure shareholders’ rights, improve the performance of the Board, respect stakeholder’s right and enhance information transparency.</td><td>None</td></tr>
<tr><td>2. Ownership structure and shareholders’ rights
(1) Does the Company have internal operation procedures to handle shareholders’ suggestions, concerns, disputes and litigations? If yes, has these procedures been implemented accordingly?
(2) Does the Company possess a list of major shareholders and ultimate owners of these major shareholders?
(3) Does the Company build and execute a risk management system and firewall between itself and affiliates?</td><td>V
V
V</td><td></td><td>(1) The Company has spokesperson, deputy spokesperson and departments such as investor relation, shareholder service and legal to handle shareholders’ suggestions or complaints.
(2) Pursuant to Article 25 of the Securities and Exchange Act, the Company has monthly updated the changes in shareholdings of internal parties, including Directors, Supervisors, managers and shareholders with more than 10% shareholdings, at MOPS website designated by Securities and Futures Bureau.
(3) In addition to various risk management mechanism already in place, there are Procedures to be followed for operational, business and financial transactions between the Company and its affiliates, for instance, the Procedures for Long-term Investment. They provide guidance for the subsidiaries to establish internal controls in writing, set authorization levels and formulate Procedures for Acquisition or Disposal of Assets, Endorsement and Guarantee, and Lending Funds to Other Parties based on the Company’s corresponding Procedures in order to enforce risk management mechanism on subsidiaries.</td><td>None</td></tr>
<tr><td>(4) Does the Company have internal rules to prevent insiders from using undisclosed information to trade securities?</td><td>V</td><td></td><td>(4) The Company has established “Procedures for Prevention of Insider Trading” prohibiting insiders from using undisclosed information to trade securities. The Company also holds sessions</td><td></td></tr>
</table>

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Status</th><th rowspan="2">Non-compliance and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td></td><td></td><td></td><td>to inform all relevant personnel of the Procedures to avoid any violations.</td><td></td></tr>
<tr><td>3. Composition and Duties of the Board of Directors
(1) Has the Company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly?
(2) Other than Compensation and Audit Committees which are required by law, does the Company plan to set up other functional Committees?
(3) Has the Company established methods to evaluate the performance of its Board of Directors annually?
(4) Has the Company periodically evaluate the independence of its CPAs?</td><td>V
V
V
V</td><td></td><td>(1) Members of the Board are diversified, with different professional backgrounds and genders, to form a well-balanced structure.
(2) In addition to the existing Compensation Committee and Corporate Social Responsibility Committee, the Company plans to establish an Audit Committee or other functional ones to assist the Board in managing the Company.
(3) The Compensation Committee regularly reviews the standards and structure of remunerations to Directors and the management team. Members would submit their recommendations to the Board for discussion.
(4) The Board annually evaluates the independence of the CPAs and obtains the Declaration of Independence. Once it is confirmed that other than audit and tax fees, there is no financial interests nor business between the Company and the CPAs, and the family members of CPAs do not violate the requirements for independence, the Company would report to the Board. When discussing the independence and appointment of CPAs in the Board meeting, the resume (detailing the CPA's past and current customers) and independence declaration (he/she did not violate Article 10 of the Bulletins of Professional Ethics Code for CPAs) of each CPA shall be submitted for evaluation.
The Board evaluated the independence of CPAs, Fang-Wen Li and Hong-Guang Lin, from Ernst & Young on February 24, 2016. As they both met the Company's standards for independence, they were qualified to be its CPAs.</td><td>None</td></tr>
</table>

Assessment Item	Status			Non-compliance and Reasons
	Yes	No	Description	
4. Has the Company established an exclusively (or concurrently) dedicated corporate governance unit or personnel to handle matters pertaining to corporate governance (including but not limited to provide information required for business execution by directors and supervisors, handle matters relating to board meetings and shareholders' meetings according to laws and regulations, handle corporate registration and amendment registration, produce minutes of board meetings and shareholders meetings, etc.)	V		The Company has concurrently dedicated corporate governance personnel from finance, shareholder service and legal divisions to handle matters pertaining to corporate governance, including providing information required for business execution by Directors and Supervisors, handling matters relating to Board Meetings and Shareholders' Meetings according to laws and regulations, handling corporate registration and amendment registration, producing minutes of Board meetings and shareholders meetings, etc.	None
5. Has the Company established a communication channel with its stakeholders (including but not limited to shareholders, employees, customers and suppliers) and created a stakeholder section on the Company's website to respond to their questions on corporate social responsibilities?	V		The Company has spokesperson and deputy spokesperson. Depending on the circumstances, investor relation, shareholder service and legal divisions would also communicate with stakeholders (including but not limited to shareholders, employees, customers and suppliers). In addition, the contact information of spokesperson and each department can be found on the Company's website and a stakeholder section has been created to respond to stakeholders' questions on corporate social responsibilities with care.	None
6. Has the Company appointed a professional registrar to organize the Shareholders' Meetings?	V		To service our shareholders, the Company has appointed the stock management service department of Yuanta Securities to manage issues related to shareholders and organize the Shareholders' Meetings.	None
7. Information disclosure (1) Has the Company established a corporate website to disclose information regarding the Company's financials, business and corporate governance status?	V		(1) The Company discloses financial and business information through the corporate website, http://www.taiflex.com.tw, which is maintained by designated persons. Information is available in both Chinese and English. Material information, financial status, organization and operation of internal audit, significant laws and regulations and major resolutions of the Boards are disclosed on the Company's official website for foreign and domestic investors to access.	None

Assessment Item	Status			Non-compliance and Reasons
	Yes	No	Description	
(2) Does the Company have other information disclosure channels (e.g. maintaining an English-language website, designating people to handle information collection and disclosure, appointing spokesperson, webcasting investor conference)?	V		(2) The Company would hold investor conferences when deemed necessary and the video or audio recording of such event would be available in the shareholders section on the website. Relevant information would be filed on the MOPS website. The Company has dedicated personnel for collection of data and disclosure of material information. Spokesperson / deputy spokesperson are responsible for communication with external parties.	
8. Does the Company have other important information to facilitate better understanding of the Company's corporate governance practices (including but not limited to employees' rights and welfare, investor relations, supplier relations, rights of stakeholders, continuing education of directors and supervisors, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and insurance for directors and supervisors provided by the company) ?	V		(1) Employees' rights and welfare: A Welfare Committee is formed by employees of the Company to undertake various welfare projects and activities. Please refer to "5. Industrial Relations" (Page 90 to 96) for details. (2) Investor relations: The Company values investors' rights. Relevant information is disclosed timely on the MOPS website pursuant to laws and regulations and on the Company's official website simultaneously. (3) Supplier relations: The Company maintains good relationship with suppliers. There has been no complaints regarding the quality and delivery schedule of purchases and there is no shortage or interruption of supplies. (4) Stakeholder relations: The Company's official website has set up a stakeholder section, which is served as a communication channel to protect the legal rights of both parties. (5) Continuing education of Directors and Supervisors: Please refer to the table of "Continuing Education of Directors and Supervisors in 2016" for details. (6) The implementation of risk management policies and risk evaluation measures: Please refer to "Risk Analysis and Assessment" (page 114 to 117) for details. (7) The implementation of customer policies: The Company follows ethical guidelines and maintains good relationship with customers. Quality policy includes innovation on research and development, continuous improvement, quick response, customer	None

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Status</th><th rowspan="2">Non-compliance and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td></td><td></td><td></td><td>satisfaction, environmental protection and green environment. The Company provides on-time delivery and after-sale services by technical personnel.
(8) Insurance for Directors and Supervisors provided by the Company: The Company provides liability insurance for Directors and Supervisors each year.
(9) The Company adopted electronic voting in Shareholders' Meetings since 2016, ahead of the schedule announced by Financial Supervisory Commission (FSC).</td><td></td></tr>
<tr><td colspan="5">9. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange Corporate Governance Center and the priority of pending issues. (Companies not included in the Evaluation are exempted.)
(1) The Company was ranked in the top 6% to 20% in 2015 Corporate Governance Evaluation. It recognized the Company's outstanding performance in various management aspects, such as corporate governance, corporate social responsibility, protection of shareholders' rights, information transparency and timely disclosure of information.
(2) After 2015 Corporate Governance Evaluation, the Company improved the following items in 2016: Directors and Supervisors of the Company completed their continuing education based on the number of hours stipulated in the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies" and the dividend policy was explicitly stated in the annual report.
(3) Pending issues with high priority:
A. To protect shareholders' rights
(a) When disclosing resolutions of Shareholders' Meetings in the annual report, the distribution of dividends shall be stated in detail based on the example provided within the Corporate Governance Evaluation.
(b) The amount and nature of the non-audit fees paid to CPAs, CPA's accounting firms and their affiliates shall be disclosed in the annual report.
B. To strengthen the structure and operation of the Board
The Shareholders' Meeting on May 26, 2017 will elect three Independent Directors and establish an audit committee.
C. To enhance information transparency
The Company's website shall timely update its organizational chart and include the operations of compensation and audit committees.
D. To fulfill corporate social responsibilities
(a) The annual report shall include details on the policies and targets for energy conservation, greenhouse gas reduction, water conservation and management of other waste.
(b) The contact persons and their contact information shall be explicitly stated in the stakeholder section of the Company's website.
(4) The Company performed self-assessment based on 2016 Corporate Governance Evaluation in January 2017. The outcome will be reviewed to determine the performance improvement plans.</td></tr>
</table>

Continuing education of Directors and Supervisors in 2016 is as follows:

Personnel	Date	Host	Class	Duration
Representative of corporate director: Ta-Wen Sun	2016.03.17	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Action Plans for Tax Reforms	3 hours
	2016.06.29	Taiwan Corporate Governance Association	Challenges of Sustainable Development – Business Continuity	3 hours
Representative of corporate director: Jun-Yan Jiang	2016.03.17	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Action Plans for Tax Reforms	3 hours
	2016.12.21	Taiwan Academy of Banking and Finance	Corporate Governance Forum – Legal Compliance under Corporate Governance	3 hours
Director: Ching-Yi Chang	2016.01.26	Taiwan Securities Association	Corporate Governance and Responsibilities of Board of Directors (Supervisors)	3 hours
	2016.05.10	Securities & Futures Institute	2016 Corporate Governance Forum	3 hours
Director: Fu-Le Lin	2016.01.26	Taiwan Corporate Governance Association	The 12th Corporate Governance International Summit Forum	3 hours
	2016.10.07	Securities & Futures Institute	Practice Advanced Seminar for Directors and Supervisors (including Independent Directors)	3 hours
Director: Jyh-Bing Chen	2016.12.22	Taipei Foundation of Finance	Corporate Governance – Big Data Analysis and Fraud Detection Session 0001	3 hours
	2016.12.22	Taipei Foundation of Finance	Corporate Governance – Protection of Trade Secret and Non-compete Clause Session 0002	3 hours
Independent Director: Ming-Tung Kuo	2016.04.25	Taiwan Corporate Governance Association	Mergers and Acquisitions and Tax Planning	3 hours
	2016.10.24	Taiwan Corporate Governance Association	Group Governance	3 hours
Independent Director: Po-Hsun Chen	2016.04.14	Taiwan Academy of Banking and Finance	Corporate Governance Forum – Wealth Management and Tax Planning for High Net Worth Individual	3 hours
	2016.04.21	Securities & Futures Institute	2016 Corporate Governance Forum – Insider Trading and Corporate Social Responsibility	3 hours

Personnel	Date	Host	Class	Duration
Supervisor: Chuan-Sheng Kao	2016.09.26	Taiwan Academy of Banking and Finance	Seminar for Corporate Governance / Sustainable Development Certification	3 hours
	2016.10.20	Financial Supervisory Commission	The 11th Taipei Corporate Governance Forum	3 hours
Supervisor: Pai-Chun Wu	2016.01.26	Securities & Futures Institute	2016 Corporate Governance Forum	3 hours
	2016.06.16	Securities & Futures Institute	Awards Ceremony and Seminar for 2015 Corporate Governance Evaluation	3 hours
Representative of Corporate Supervisor: Re-Zhang Lin	2016.03.17	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Action Plans for Tax Reforms	3 hours
	2016.04.21	Securities & Futures Institute	2016 Corporate Governance Forum – Insider Trading and Corporate Social Responsibility	3 hours

(4) If the company has established an compensation committee, please specify its composition, duties and operations:

A. The Board has appointed Independent Directors, Po-Hsun Chen and Ming-Tung Kuo, and Pu-Shan Xu to form the second Compensation Committee.

Members of Compensation Committee

Title (Note 1)	Condition / Name	Over Five Years of Work Experience and the Following Professional Qualifications			Independence Status (Note 2)								Number of Other Public Companies in Which the Individual is Concurrently Serving in the Compensation Committee	Remark (Note 3)
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, CPA, or Other Professional or Technical Specialist Who has Passed a National Examination with a Certificate in a Profession Necessary for the Business of the Company	With Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Po-Hsun Chen	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	1	Yes
Independent Director	Ming-Tung Kuo	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	0	Yes
Other	Pu-Shan Xu	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	1	-

Note 1: Please fill in with director, independent director or other.

Note 2: Please tick the corresponding boxes if members have met any of the following conditions during the two years prior to being elected or during the term of office:

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary, as appointed in accordance with the laws of Taiwan or with the laws of the country of the parent company or subsidiary.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by nominee arrangement, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranks in the top ten in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that ranks in the top five shareholding.
6. Not a director, supervisor, manager, or shareholder with 5% or more of the shareholding of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not being a person of any conditions defined in Article 30 of the Company Act.

Note 3: For member who is also a director, please specified if he/she has the identities specified in paragraph 5, article 6 of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded over the Counter".

B. The primary duty of Compensation Committee is to evaluate the Company's overall salary and welfare policies and the remuneration policy of Directors, Supervisors and Management of the Company from a professional, objective standpoint. It shall make recommendations to the Board for decision-making purpose.

C. Compensation Committee:

(a) The Company's Compensation Committee comprises three members.

(b) Term: June 24, 2014 to June 23, 2017. The Compensation Committee held two (A) meetings in 2016. The attendance status is as follows:

Title	Name	Attendance in Person (B)	In Proxy	Attendance Rate (%) (B/A) (Note)	Remark
Convener	Po-Hsun Chen	2	0	100%	
Member	Ming-Tung Kuo	2	0	100%	
Member	Pu-Shan Xu	2	0	100%	

Annotation:

1. If the Board of Directors decline to adopt or modify a recommendation of the Compensation Committee, the date and session of the Board Meeting, contents of motions, resolution and actions taken by the Company regarding the Committee's opinions shall be specified (if the compensation package approved by the Board is better than the recommendation made by the Committee, please specify the discrepancy and its reason): Not applicable.
2. As to the resolution of the Compensation Committee, if a member expresses any objection or reservation, either by recorded statement or in writing, the date and session of the committee meeting, contents of motions, all members' opinions and actions taken regarding the opinions shall be specified: Not applicable.

(5) Corporate Social Responsibility and Non-compliance with "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies"and Reasons

<table>
<tr><th rowspan="2">Assessment Items</th><th colspan="3">Status</th><th rowspan="2">Non-compliance and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td>1. Implementation of Corporate Governance
(1) Does the Company establish a corporate social responsibility policy and evaluate its implementation?
(2) Does the Company hold training sessions for CSR?
(3) Does the Company have an exclusively (or concurrently) dedicated CSR unit with senior management being authorized by the Board to handle relevant issues and report to the Board?
(4) Does the Company have a reasonable compensation policy which incorporates employees′ performance review with CSR policy and a specific and effective disciplinary system?</td><td>V
V
V
V</td><td></td><td>(1) The Company has established "Corporate Social Responsibility Best Practice Principles" to implement corporate social responsibility (CSR). The Principles are divided into "Caring for Employees", "Caring for Customers", "Commitment to Shareholders", "Preserving Public Welfare", and "Fostering a Sustainable Environment". The Principles would be reviewed and modified based on actual practice.
(2) The Company holds CSR training sessions and promotes relevant policies through posters or internal booklets. All employees are required to attend those sessions or participate on-line. Their participation is incorporated in to their performance review.
(3) The Company has established "Corporate Social Responsibility Committee". Management Division is the dedicated unit in charge of CSR activities and representatives from every department are Committee members. Each member shall report the operation status to the chairperson of the committee.
(4) The Company has established "Code of Ethical Conduct" where the ethics and responsibilities for business transactions conducted by Directors, Supervisors, management and all employees are specified along with the reward-disciplinary mechanism. New recruits are informed of annual performance evaluation and reward-disciplinary rules and their connections with ethical conducts. Directors and Supervisors shall attend relevant sessions for their external continuing education.</td><td>None</td></tr>
<tr><td>2. Sustainable Environment Development
(1) Is the Company committed to improving</td><td>V</td><td></td><td>(1) To enhance the utilization of resources, promote the concept of</td><td></td></tr>
</table>

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
resources utilization and the use of renewable materials?			recycling and reduce the adverse impacts on the environment, the Company takes the following actions: A. Waste solvent recovery rate: (a) 137,798Kg was processed in 2016 and generated 82,678Kg. Recycling saves energy, diminishes adverse impacts on the environment and avoids wastage. (b) Recycling cleaning solutions to reduce waste solvent: The total reduction was 16,535Kg in 2016. B. The Company adopts the concept of 3R (Reduce, Reuse and Recycle) in recycling. Total volume processed was 111,510 Kg. This mitigates the impact of incineration on the environment. C. Packaging materials of raw materials are returned to vendors for reuse to avoid waste on resources. 16 types of materials were returned to vendors in 2016: 32,000Kg.	
(2) Does the Company establish environmental management system designed to industry characteristics?	V		(2) The Company obtained ISO 14001 Environmental Management Systems certification in October, 2004; IECQ-QC080000 HSPM certification in January, 2007; and CNS15506 Taiwan Occupational Safety and Health Management System and OHSAS18001 Occupational Health and Safety Management Systems certification in October, 2008. In September, 2014, it expanded ISO14001 Environmental Management Systems and received OHSAS18001 Occupational Health and Safety Management Systems certification (for Kunshan fab). In addition, it received Excellent Prize for Excellence in Labor Safety and Health in 2011 and Golden Award for Co-Prosperity from supplier, Unimicron in 2014. The Company strives to provide a safe work environment to employees.	None
(3) Does the Company track the impact of climate change on operations, carry out greenhouse gas inventories, and set energy	V		(3) The Company passed the ISO14064 greenhouse gas audit in November, 2009. Strategies to reduce greenhouse gas and carbon footprints were established based on the Company’s emission	

<table>
<tr><th rowspan="2">Assessment Items</th><th colspan="3">Status</th><th rowspan="2">Non-compliance and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td>conservation and greenhouse gas reduction strategy?</td><td></td><td></td><td>level to diminish the negative impact on the environment.
In 2015, the Company purchased 50,000 kWh of green power from the Bureau of Energy, Ministry of Economic Affairs, which reduced CO2e emission by 26,000Kg. Green power refers to electricity which has zero or close to zero CO2 emission during production process.
In 2016, the Company treated waste gas with the new condensation facility to reduce CO2e generated from burning. Also, the solvent recycled can be reused. The target is set to reduce carbon emissions by 1 million Kg each year.
2016 CO2 reduction is summarized as follows:
<table>
<tr><th>Item</th><th>Category</th><th>Usage Reduction</th><th>Unit</th><th>CO2 Reduction Kg/year</th></tr>
<tr><td>1</td><td>Solar power</td><td>661,672</td><td>kWh/ year</td><td>349,363</td></tr>
<tr><td>2</td><td>Chiller replacement</td><td>342,618</td><td>kWh/ year</td><td>180,902</td></tr>
<tr><td>3</td><td>Cooling towers with variable-frequency drive</td><td>303,386</td><td>kWh/ year</td><td>160,188</td></tr>
<tr><td>4</td><td>Switch to LED bulbs in offices and factories</td><td>114,048</td><td>kWh/ year</td><td>60,217</td></tr>
<tr><td>5</td><td>Integrate air-conditioning compressors systems in Factories 1 and 3</td><td>54,600</td><td>kWh/ year</td><td>28,829</td></tr>
<tr><td>6</td><td>Recycle of NMP solvent</td><td>107,301</td><td>kg/year</td><td>262,350</td></tr>
<tr><td>7</td><td>Recycle of MEK waste plastic</td><td>91,848</td><td>kg/year</td><td>204,086</td></tr>
<tr><td></td><td colspan="3">Total</td><td>1,245,936</td></tr>
</table>
Note: Total reduction in carbon emissions = Total power generated x 0.528 (in kg CO2e/kWh, based on 2015 electricity emission factor published by Bureau of Energy, Ministry of Economic Affairs).</td><td>None</td></tr>
</table>

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
3. Promotion of social welfare				
(1) Does the Company comply with relevant labor regulations and respect internationally recognized human right principles, including protection of employees′ rights and interest and adoption of equal employment policy, and set up appropriate means and procedures for management purpose? Please specify the execution status.	V		(1) The Company has established “Code of Conduct”. The rights and obligations of employees and management are in conformity with labor regulations and internationally recognized human right principles. Equal opportunity is provided to all, regardless of gender, age, group and religion.	
(2) Has the Company established complaint mechanism and channels for employees and appropriately managed relevant issues?	V		(2) The Company has set up President Mailbox and HR hotline and email at each factory. Auditing Office will soon establish a whistleblowing system to prevent unethical behavior or misconduct.	None
(3) Does the Company provide a safe and healthy work environment and periodic safety and health training?	V		(3) Pursuant to “Procedures for Safety, Health and Environment Protection Training” in Taiflex’s occupational safety and health management system, employees are taught of dangerous machinery and equipment and “Regulations for Occupation Safety and Health Education and Training”. With regards to employees’ health, relevant caring facilities and management are in place. Measures taken include semi-annual environment monitoring, above-standard health check-up, and annual special health examination. Outcome of these examinations are analyzed to provide improvement schemes, guidance is given to employees with unfavorable outcomes and health-related seminars are available to employees.	
(4) Has the Company established a mechanism for regular communication with employees and use reasonable measures to notify employees of operational changes which	V		(4) The Company periodically holds management-labor meetings to facilitate the communication between both parties. The meeting minutes would be announced to all employees. In addition, there are on-line discussion forums for employees to voice their	

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
may cause significant impact to employees?			thoughts and ask work or system-related questions, which would be answered by dedicated personnel. Surveys on employee satisfaction are conducted annually to improve the less favorable aspects in management and services.	
(5) Has the Company established effective career development training plans?	V		(5) The Company has introduced performance and career interview system in March 2015 to personalize employee career development training.	
(6) Has the Company set policies and consumer appeal procedures in its R&D, purchasing, production, operations, and service processes?	V		(6) The Company places a great deal of importance on consumer rights and interests and the satisfactory level of each service rendered. Thus, a stakeholder section is created in the official website to receive instant feedbacks and take actions accordingly.	
(7) Does the Company follow regulations and international standards in the marketing and labeling of products and services?	V		(7) Taiflex actively obtains various international safety certifications due to market globalization to ensure the quality, safety and reliability of its products. <u>Underwriter Laboratories Inc. (UL)</u> UL is an U.S. non-profit organization which aims to ascertain the safety level of products by inspecting and classifying samples from raw materials, components, system, structure, process and conditions of usage and conducting follow-up tests. The ultimate goal is to ensure the safety of users' life and property. Certification logos are issued for identification purpose. <u>Japan Electrical Safety & Environment Technology Laboratories (JET)</u> JET is a laboratory designated by Japanese government to inspect factories manufacturing electrical products and test the outputs. It issues certification logos to electrical products which meet the safety standards stipulated by Japanese government. According to Japanese DENTORL, safety certifications are required for 498 types of products before entering the Japan market. TUV Rheinland (TUV): German safety certification institution.	None

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
(8) Does the Company evaluate environmental and social track records before engaging with potential suppliers? (9) Do the Company's contracts with major suppliers include termination clauses if they violate CSR policy and cause significant environmental and social impact?	V V		It provides certification services for product safety, quality and management system. (8) The Company would conduct a social and environmental responsibility audit on key suppliers and contractors with environmental and social risks to ensure their compliance with Electronic Industry Code of Conduct or local regulations. Besides fulfilling the CSR, the Company would like our suppliers to join us in improving the sustainable management capability and enhancing the eco-performance of the value chain. (9) The Company is entitled to terminate the contract if the counterparty has a serious breach of CSR policy.	None
4. Enhancement on information disclosure (1) Does the Company disclose relevant and reliable CSR information on official website or MOPS?	V		(1) The Company's official website, www.taiflex.com.tw, has CSR section where relevant and reliable information, including quality policy, environmental policy and charity activities, is disclosed.	None
5. If the Company has established its CSR principles according to "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies", please describe the operational status and difference: The Company has established "Guidelines on Corporate Social Responsibility" providing guidance on topics of environmental protection, community participation, contribution to society, service to society, social and public interests, consumer rights and interests, human rights and safety and health, etc. Information can be downloaded from the website. Please refer to Corporate Social Responsibility under Corporate Governance (page 40 to 47) or CSR report for details.				
6. Other important information to facilitate better understanding of the Company's CSR practices (e.g., systems and measures that the company has adopted with respect to environmental protection, community participation, contribution to society, service to society, social and public interests, consumer rights and interests, human rights, safety and health, other corporate social responsibilities and activities, and the status of implementation.): (1) System and measures taken for environmental protection and safety and health and the implementation status: Taiflex applies ISO14001: Plan-Do-Check-Act (PDCA) cycle to improve its environmental protection management policies. Resource is recycled based on the concept of 3R (Reduce, Reuse and Recycle). Total volume processed was 111,510Kg. Packaging materials are reused to reduce waste and cost. The Company aims at zero waste for recycled resources. Other than compliance with national environmental protection policies and regulations, the Company also spend an enormous amount on improvement of environmental protection and green research. Optimal prevention equipment is				

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	

applied to achieve process efficiency of 98% and above. Moreover, annual risk assessment management strategy and quarterly regulation identification are performed pursuant to Taiwan Occupational Safety and Health. Management System CNS15506 in order to comply with changes in regulatory requirement and reduce hazardous risks. The goal is to control risks, eliminate potential disaster, continuously improve work environment and increase the comfort and safety level of work environment to fulfill the Company's corporate social responsibilities.

(2) Community participation, contribution to society, service to society, social and public interests:
Taiflex establishes charity clubs, i.e. Taiflex Youth Care Association and Taiflex Volunteers, to organize fund-raising events. In addition, they provide voluntary services to the community and disadvantaged teenagers.
The Company periodically donates books to children and has been sponsoring outstanding student clubs at remote areas, such as Chinese Orchestra at MeiLun Junior High School, for a long period of time. Children would have sufficient resources to develop their potentials and courage to realize their dreams. In addition, the Company arranges for children's homes or students at remote areas to visit the Company or other educational institutions for them to enjoy different perspectives and experience. The Company also participates in blood donation and charity events held by schools or welfare organizations in Kaohsiung as ways to enhance its community participation and contributions.
Social activities participated are summarized as follows:

Feb. 2016	Provided internship to 15 students from National Kaohsiung First University of Science and Technology, National Kaohsiung University of Applied Sciences, Shih Chien University, Shu-Te University, Wenzao Ursuline University of Languages, etc.
May. 2016	Hosted study tours with Kaohsiung City Council and Puren Youth Care Foundation and took 25 children to visit Kaohsiung City Council, Pier-2 Art Center, Vigor Kobo, etc. Also, employees provided homestay services for disadvantaged groups to experience different family life.
Jul. 2016	Organized Taiflex Youth Care Concert hosted by the Kaohsiung City Council.
Jul. 2016	Hosted Taiflex summer camp and took disadvantaged groups from remote areas to visit scenic areas in Kaohsiung.
Sep. 2016	Collaborated with Ta Hwa University of Science and Technology and Kao Yuan University and provided dozens of jobs for students to work in the Company.
Nov. 2016	Assisted the Social Affairs Bureau of Kaohsiung City Government in organizing materials for the Love Bank.
Dec. 2016	Sponsored the charity sale for the 50th anniversary of Kaohsiung Export Process Zone. All proceeds were donated to Kaohsiung United Charity Association and Good Shepherd Social Welfare Foundation.

(3) Consumer rights and interests:
The Company performs its contractual obligations to protect the rights of the Company and consumers.

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
(4) Human rights: The Company provides equal opportunities for employment to all individuals, regardless of gender, religion and political affiliation. It also establishes a safe environment to protect employees from discrimination and harassment. (5) Safety and Health: In compliance with the Labor Safety and Health Act, the Regulations for Occupational Safety and Health and Self-inspection Regulations, the Company drafts, plans, promotes and implements various safety and health measures by organization and duties of different units.				
7. Other information regarding CSR report which is verified by certification bodies: None.				

(6) Guidelines on Ethical Management and Non-compliance with "Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies" and Reasons

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
1. Establishment of ethical management policies and implementation measures (1) Does the Company clearly express in the Company's internal policies and external documents of ethical management policies and the Board and management's commitment to implement those policies?	V		(1) The Company has established the "Principles of Business Ethics" and publicly announced to all personnel. Both the Board of Directors and management team are committed to its execution.	None
(2) Does the Company establish policies to prevent unethical conduct, stipulate relevant procedures, guidelines, disciplinary measures and compliant system in those policies and thoroughly execute them?	V		(2) The Company has established "Procedures and Guidelines of Business Ethics" to encourage internal and external parties to report unethical behaviors or misconducts. Based on the degree of misconduct, whistleblowers could receive a citation of merit pursuant to the Company's reward and discipline policy. Internal personnel making false accusation or malicious claims will be disciplined. Serious offense can lead to termination of employment. The Company will create and announce an internal, independent whistleblowing mailbox or hotline for internal and external personnel of the Company.	
(3) Does the Company establish preventive measures for the business activities prescribed in Paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and any other such activities associated with high risk of unethical conduct?	V		(3) The Company has established measures to prevent operating activities involving higher risk of unethical conduct, which include: A. Offering and acceptance of bribes B. Provision of illegal political contribution C. Improper charitable donations or sponsorship D. Offering or acceptance of unreasonable gifts, hospitality or other improper benefits E. Infringement of trade secrets, trademarks, patents, copyrights and other intellectual property rights	

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
			F. Unfair competition G. Maliciously and gravely jeopardize the rights, health and safety of consumers or other stakeholders during the process of research and development, purchase, manufacture, rendering or sale of products and services	
2. Implementation of ethical management (1) Does the Company review the counterparty's history of ethical conduct and include the compliance of business ethics as a clause in the contract?	V		(1) Personnel of the Company shall avoid engaging in business with unethical agents, suppliers, customers or other business counterparties. Once we are aware of the counterparty's misconduct, we will terminate all business dealings and blacklist the counterparty for future dealings to meet our requirement for business ethics.	None
(2) Has the Company established an exclusively or concurrently dedicated department under the Board to promote ethical conducts and report to the Board of Directors periodically?	V		(2) The Company appoints a dedicated division to be in charge of formulating and monitoring the execution of ethics policies and preventive actions. The division shall communicate to the Board of Directors whenever they deem necessary.	
(3) Has the Company established policies to prevent conflicts of interest, provide appropriate communication channels and thoroughly implement the policies?	V		(3) Before signing contracts, the Company and its subsidiaries shall fully understand the degree of business ethics of the counterparty and include the compliance of business ethics as a clause in the contract. Once a party becomes aware of any violation of contractual terms on prohibition of commission, rebates or other benefits, it shall promptly inform the other party of the violator's identity, method of provision, promise, request, or acceptance of improper benefits, amount or other benefits and provide relevant evident to assist with investigation. The Company and its subsidiaries are entitled to make a claim to the other party for any detriment suffered as a result. The claims can be deducted from our payables if this clause was explicitly stated in the contract.	

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
(4) Has the Company established effective accounting and internal control systems for the implementation of ethics policies and appointed internal auditors or CPAs to audit such execution and compliance? (5) Has the Company regularly held internal and external training sessions of business ethics?	V V		Moreover, in order to thoroughly implement the rules regarding conflict of interest and prevent damage to the Company, the Auditing Office will soon establish a whistleblowing system as a proper complaint channel to avoid any conflict of interest. (4) The Company has established Auditing Office, which reports directly to the Board. Each year, the Auditing Office carries out audits according to the Annual Audit Plan, monitors corrective actions for deficiencies and regularly submits audit reports to the Board for management to understand the effectiveness of internal control system. (5) The Company conveys the importance of business ethics at orientation programs, regular meetings and corporate ethics sessions. Ethics is one of the indicators in performance review.	None
3. Implementation of whistleblowing system (1) Has the Company established specific whistleblowing and reward systems, set up conveniently accessible complaint channels, and designated responsible individuals to handle the complaint received? (2) Has the Company established standard operating procedures for investigating the complaints received and ensuring such complaints are handled in a confidential manner? (3) Has the Company established measures to protect whistleblowers from retaliation?	V V V		(1) The Company has provided proper channels for reporting any unethical conducts. It would keep the identity and complaint of the whistleblower confidential. The Company has designated responsible individuals to investigate the complaint. (2) The Company follows standard operating procedures and relevant mechanism to maintain the confidentiality of case details when conducting investigations. (3) The Company follows standard operating procedures and relevant mechanism to protect the whistleblowers from retaliation.	None
4. Enhancement on Information disclosure (1) Does the Company disclose its principles	V		(1) The Company has disclosed the “Principles of Business Ethics”	None

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
of business ethics and information about implementation of such guidelines on its website and MOPS?			on the corporate website, www.taiflex.com.tw. Relevant information is also disclosed in the 2016 annual report.	
5. If the Company has established ethical conduct policies based on "Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies", please specify any discrepancy between the policies and their implementation: The Company upholds the principles of fairness, honesty, trustworthiness and transparency in all business transactions. Principles of Business Ethics are established in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies" for all employees to follow.				
6. Other important information to facilitate better understanding of the Company's ethical conduct practices (e.g. the Company reviews and revises its Principles of Business Ethics, etc.): The Company follows ethical guidelines for all business transactions and encourages business partners to follow suit.				

(7) For companies with guidelines and regulations on corporate governance, access shall be disclosed:

A. Guidelines and regulations on corporate governance: The Company has Code of Ethical Conduct, Principles of Business Ethics, Internal Control System, Procedures for Acquisition or Disposal of Assets, Procedures for Endorsement and Guarantee, Procedures for Lending Funds to Other Parties, Rules of Procedure for Board of Directors' Meeting, Charter for Compensation Committee and Guidelines on Corporate Governance, Procedures and Guidelines of Business Ethics, etc.

B. Please refer to the official website (http://www.taiflex.com.tw) for more details on the Company's guidelines and regulations on corporate governance.

(8) Other important information to facilitate better understanding of the Company's corporate governance:

A. Procedures for internal material information: The Company has established "Procedures for Prevention of Insider Trading" for Directors, Supervisors, management and employees to follow. The Procedures specify that the Company's Directors, Supervisors, management and employees shall not violate laws, regulations and orders regarding insider trading. Please refer to the official website (http://www.taiflex.com.tw) for more details.

B. For details on Independent Directors' nomination and election method, nomination process, (qualified) candidates profile, election process and outcome, please refer to the official website (http://www.taiflex.com.tw).

(9) Internal Control System Execution Status:

A. Statement of Internal Control System

TAIFLEX Scientific Co., Ltd.
Statement of Internal Control System

February 23, 2017

Based on the findings of a self-assessment, Taiflex Scientific Co., Ltd. (Taiflex) states the following with regard to its internal control system during the year 2016:

1. Taiflex's Board of Directors and management are responsible for establishing, implementing, and maintaining an adequate internal control system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operations (including profitability, performance, and safeguarding of assets); reliability, timeliness and transparency of our financial reporting; and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three objectives mentioned above. Moreover, the effectiveness of an internal control system may be subject to changes of environment or circumstances. Nevertheless, our internal control system contains self-monitoring mechanisms, and Taiflex takes immediate remedial actions in response to any deficiencies identified.
3. Taiflex evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five key components of internal control based on the process of management: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several items. Please refer to the Regulations for details.
4. Taiflex has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, Taiflex believes that, as of December 31, 2016, its internal control system (including its supervision of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency; reliability, timeliness and transparency of financial reporting; and compliance with applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-mentioned objectives.
6. This Statement will be an essential content of the Taiflex's Annual Report for the year 2016 and Prospectus, and will be publicly disclosed. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchanged Act.
7. This Statement has been passed by the Board of Directors in their meeting held on February 23, 2017, with 0 of the 7 attending Directors expressing objectives, and the remainder all affirming the content of this Statement.

TAIFLEX Scientific Co., Ltd.
Chairperson: Ta-Wen Sun
President: Jun-Yan Jiang

B. Where CPAs are retained to audit the internal control system, please disclose the CPAs' audit report: None.

(10) Any penalties imposed upon the Company or internal personnel by laws, or punishment imposed by the Company or internal personnel for violation of the Company's internal control system regulations, and the major defects and corrective action thereof in 2016 and as of the date of this annual report: None.

(11) Major resolutions of the Shareholders' Meetings and Board of Directors' Meetings in 2016 and as of the date of this annual report:

A. Major resolutions of Shareholders' Meetings and Board of Directors' meetings are summarized as follows:

Shareholders / Board Meetings	Date	Major Resolutions
Shareholders' Meeting	2016.05.27	1. Approving amendments to "Articles of Incorporation" 2. Approving the audited 2015 financial statements 3. Approving the 2015 earnings distribution 4. Approving the capitalization of capital surplus for the issuance of new shares 5. Approving amendments to "Procedures for Endorsement and Guarantee" 6. Approving amendments to "Procedures for Lending Funds to Other Parties"
Board of Directors' Meeting	2016.01.28	1. Operation plan and capital expenditure budget for 2016 2. Amendments to "Articles of Incorporation" 3. Providing endorsement and guarantee to subsidiaries 4. Applying for an increase in transaction limit and contract renewal with corresponding banks to meet the Company's needs
Board of Directors' Meeting	2016.02.24	1. Approving the 2015 business report and financial statements 2. Approving the 2015 earnings distribution 3. Approving the capitalization of capital surplus for the issuance of new shares 4. Assessing the independence of CPAs for 2016 5. Issues related to the agenda of the 2016 Annual Shareholders' Meeting and shareholders' right to propose
Board of Directors' Meeting	2016.04.28	1. Approving the changes in organizational structure and personnel 2. Lifting the non-compete clauses for management 3. Applying for an increase in transaction limit and contract renewal with corresponding banks to meet the Company's needs 4. Providing endorsement and guarantee to subsidiaries

Shareholders / Board Meetings	Date	Major Resolutions
Board of Directors' Meeting	2016.07.28	1. Reviews by Compensation Committee on the payment of remuneration to Directors and Supervisors and compensation to managers and employees for 2015 2. Approving the changes in personnel 3. Reviews by Compensation Committee on the compensation adjustment of managers 4. Approving the increase in capital expenditure 5. Providing endorsement and guarantee to subsidiaries 6. Applying for an increase in transaction limit and contract renewal with corresponding banks to meet the Company's needs 7. Approving matters relating to the ex-right and ex-dividend scheme for 2016
Board of Directors' Meeting	2016.10.27	1. Approving the changes in personnel 2. Providing endorsement and guarantee to subsidiaries 3. Proposing to lend funds to subsidiaries 4. Applying for an increase in transaction limit and contract renewal with corresponding banks to meet the Company's needs 5. Providing Letter of Support for investee, Taiflex Scientific (Kunshan) Co., Ltd. 6. Approving 2017 annual audit plan of auditing office 7. Determining the dates for 2017 Board Meetings
Board of Directors' Meeting	2017.01.19	1. Approving the changes in organizational structure and personnel 2. Operation plan and capital expenditure budget for 2017 3. Providing endorsement and guarantee to subsidiaries 4. Applying for an increase in transaction limit and contract renewal with corresponding banks to meet the Company's needs 5. Providing Letter of Support for investee, Taiflex Scientific (Kunshan) Co., Ltd.
Board of Directors' Meeting	2017.02.23	1. Approving the changes in organizational structure and personnel 2. Approving the 2016 business report and financial statements 3. Approving the 2016 earnings distribution 4. Assessing the independence of CPAs for 2017 5. Applying for an increase in transaction limit and contract renewal with corresponding banks to meet the Company's needs 6. For the establishment and operations of an audit committee, the Company amended some articles within "Articles of

		Incorporation", "Rules of Procedure for Shareholders' Meeting", "Director and Supervisor Election Procedures", "Rules of Procedure for the Board of Directors' Meetings", "Procedures for Acquisition or Disposal of Assets", "Procedures for Endorsement and Guarantee ", "Procedures for Lending Funds to Other Parties", "Code of Practice for Corporate Governance", "Procedures for Prevention of Insider Trading", "Code of Ethical Conduct", "Principles of Business Ethics", "Procedures and Guidelines of Business Ethics", "Procedures for Application of Trading Suspension and Resumption", "Statement of Internal Control System", etc. 7. Election of all Directors in 2017. 8. Lifting the non-compete clauses for newly elected Directors 9. Issues related to the agenda of the 2017 Annual Shareholders' Meeting and shareholders' right to propose

B. Execution of resolutions of 2016 Annual Shareholders' Meeting:

(a) Approving amendments to "Articles of Incorporation"

Execution: It had been approved and registered by the Ministry of Economic Affairs on June 14, 2016 and published on the Company's website.

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
129,181,231	124,630,632	284	4,550,315
100.00%	96.47%	0.00%	3.52%

(b) Approving the audited 2015 financial statements

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
129,181,231	124,631,280	286	4,549,665
100.00%	96.47%	0.00%	3.52%

(c) Approving the 2015 earnings distribution

Execution: The record date was set to be August 27, 2016 and payment date September 14, 2016. (Cash dividend of NT$ 2 per share.)

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
129,181,231	124,633,074	288	4,547,869
100.00%	96.47%	0.00%	3.52%

(d) Approving the capitalization of capital surplus for the issuance of new shares
Execution: Stock dividend of 20 shares per 1,000 share had been approved by FSC on July 15, 2016.
Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
129,181,231	124,626,627	4,290	4,550,314
100.00%	96.47%	0.00%	3.52%

(e) Approving amendments to “Procedures for Endorsement and Guarantee”
Execution: The amended Procedures had been complied with and published on the Company’s website.
Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
129,181,231	124,632,420	291	4,548,520
100.00%	96.47%	0.00%	3.52%

(f) Approving amendments to “Procedures for Lending Funds to Other Parties”
Execution: The amended Procedures had been complied with and published on the Company’s website.
Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
129,181,231	124,632,418	292	4,548,521
100.00%	96.47%	0.00%	3.52%

(12) Where Directors or Supervisors expressed different opinions regarding major resolutions, either by recorded statement or in writing, in 2016 and as of the date of this annual report, please disclose the details: None.

(13) Resignation or discharge of Chairperson, President and Supervisors of Accounting, Finance, Internal Audit and Research and Development in 2016 and as of the date of this annual report:

March 31, 2017

Title	Name	On-Board Date	Resignation Date	Reasons for Resignations or Dismissals
Senior Manager (R&D)	Jun-Jie Zhang	2015.04.13	2016.06.03	Personal career planning
President	Jun-Yan Jiang	2008.11.01	2017.03.01	He was relieved of his concurrent positions to be the Chairperson of Taiflex Scientific (Kunshan) Co., Ltd. (a 100% owned subsidiary of the Company) to create greater value for the subsidiary.

Note: The said relevant personnel of the company refers to chairperson, president and supervisors of accounting, finance, internal audit and research and development.

5. Audit Fees for CPA

Accounting Firm	Name of CPA		Audit Period	Remarks
Ernst & Young	Fang-Wen Li	Hong-Guang Lin	2016.01.01~2016.12.31	

Ranges \ Items		Audit Fee	Non-Audit Fee	Total
1	NT$ 1,999,999 and under		V	
2	NT$ 2,000,000 ~ NT$ 3,999,999	V		V
3	NT$ 4,000,000 ~ NT$ 5,999,999			
4	NT$ 6,000,000 ~ NT$ 7,999,999			
5	NT$ 8,000,000 ~ NT$ 9,999,999			
6	NT$ 10,000,000 and above			

(1) Non-audit fees paid to CPAs, CPA's accounting firms and their affiliates exceeding 25% of the audit fees: None.
(2) Change of accounting firms with audit fee paid in the year of change being less than the previous year: None.
(3) Over 15% decrease in audit fee on a year-to-year basis: None.

6. Change of CPA: None.

7. Any of the Company's Chairperson, President, or Managers in Charge of Finance or Accounting Held a Position in the CPA's Firm or Its Affiliates in 2016: None.

8. Changes in Shareholding and Shares Pledged by Directors, Supervisors, Managers and Shareholders with 10% Shareholdings or More in 2016 and as of the Date of this Annual Report

(1) Changes in Shareholding and Shares Pledged by Directors, Supervisors, Managers and Shareholders with 10% Shareholdings or More:

(In Shares)

Title	Name	2016		By March 31, 2017	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Corporate Director	Qiao Mei Development Corporation	267,328	(1,000,000)	1,330,000	0
Representative of Corporate Director and Chairperson (Note 1)	Ta-Wen Sun	16,446	0	0	0
Representative of Corporate Director and President (Note 1)	Jun-Yan Jiang	(138,686)	0	(92,000)	0
Director	Ching-Yi Chang	86,260	0	200,000	0
Director	Jyh-Bing Chen	4,655	0	0	0
Director and Vice President	Fu-Le Lin	(80,054)	0	(47,000)	0
Independent Director	Ming-Tung Kuo	0	0	0	0
Independent Director	Po-Hsun Chen	0	0	0	0
Corporate Supervisor	Fuding Investment Co., Ltd.	20,000	0	0	0
Representative of Corporate Supervisor	Re-Zhang Lin	0	0	0	0
Supervisor	Chuan-Sheng Kao	21,291	(340,000)	0	0
Supervisor	Pai-Chun Wu	0	0	0	0
Vice President	Zhi-Ming Yen	7,922	0	0	0
Vice President	Jiang-Zhi Chen	1,734	0	0	0
Vice President	Jiang-Zhi Zhao	2,200	0	0	0
Vice President	Xiao-Zhong Hu	25,700	0	0	0
Vice President	Qiu-Feng Chen	0	0	0	0
Vice President	Xing-Ze Liu	0	0	0	0
Vice President	Zong-Han Jiang	102,000	0	0	0
Vice President	Yung-Mao Yeh	3,260	0	0	0
Assistant Vice President	Fang-I Hsieh	2,697	0	60,000	0
Assistant Vice President	Chong-Chen Liu	1,501	0	60,000	0
Assistant Vice President	Zhen Lin	(16,940)	0	0	0
Assistant Vice President	Jin-Cheng Zhang	420	0	0	0
Assistant Vice President	Zi-Kang Yang	0	0	0	0
Assistant Vice President	Xiao-Lei Long	0	0	0	0
Assistant Vice President	Yu-Cheng Qiu	0	0	0	0
Assistant Vice President	Guo-Xiong Xia	11	0	0	0
Assistant Vice President	Jing-Wen Lu	0	0	0	0

Note 1: The board meeting of Taiflex Scientific Co., Ltd. on February 23, 2017 resolved to relieve Mr. Jun-Yan Jiang, the Chairperson of Taiflex Scientific (Kunshan) Co., Ltd. (a 100% owned subsidiary of the Company), from his concurrent position as the President of Taiflex Scientific Co., Ltd. in order to carry out future strategies and create greater value for the subsidiary. The Chairperson of Taiflex Scientific Co., Ltd. has concurrently served as the President starting March 1, 2017.

(2) Stock Transfer

Directors, Supervisors, Managers and Shareholders with 10% shareholdings or more did not transfer stocks to related parties.

(3) Share Pledged

As of March 31, 2017 (In Shares, %, New Taiwan Dollars)

Name	Reasons for Changes in Pledge	Date of Change	Counterparty	Relationship between the Counterparty and the Company, Directors, Supervisors, and Shareholders with 10% Shareholdings or More	Number of Shares	Share holding %	Pledge %	Amount of Pledge (Redemption)
Qiao Mei Development Corporation	Pledge	2016.03.23	Chinatrust Commercial Bank	None	4,800,000	7.26	32.08	97,000,000
Chuan-Sheng Kao	Pledge	2014.01.21	First Bank	None	640,000	0.53	58.94	7,000,000
Chong-Chen Liu	Pledge	2011.12.02	Chinatrust Commercial Bank	None	50,000	0.07	36.61	500,000

Note: For the calculation of shareholding percentage, number of shares outstanding excludes the repurchased treasury share of 2,318,000 shares.

9. Top 10 Shareholders Who are Related Parties, Spouses, or within Second-Degree of Kinship to Each Other

Relationship between Top 10 Shareholders

As of March 27, 2017; (In Shares; %)

Name	Shareholding		Spouses, Minor Children		Nominee Arrangement		Names and Relationship of Top 10 Shareholders who are Related Parties, Spouses or within Second-Degree of Kinship to Each Other		Remark
	Shares	%	Shares	%	Shares	%	Name	Relation	
Qiao Mei Development Corporation Representative: Ta-Wen Sun	14,963,729	7.26	0	0	0	0	-	-	-
BaoJie Funds in custody of Standard Chartered Bank	14,110,320	6.85	0	0	0	0	-	-	-
DaQiao Investment Ltd. Representative: Ji-De Chen	4,980,000	2.42	0	0	0	0	-	-	-
Ching-Yi Chang	4,599,282	2.23	442,313	0.21	0	0	-	-	-
Huasheng International Investment Corp. Representative: Zhi-Cheng Zhang	4,596,945	2.23	0	0	0	0	-	-	-
Taiwan Life Insurance Co., Ltd. Representative: Yin-Bao Ling	4,293,600	2.08	0	0	0	0	-	-	-

Name	Shareholding		Spouses, Minor Children		Nominee Arrangement		Names and Relationship of Top 10 Shareholders who are Related Parties, Spouses or within Second-Degree of Kinship to Each Other		Remark
	Shares	%	Shares	%	Shares	%	Name	Relation	
Fubon Life Insurance Co., Ltd. Representative: Ben-Yuan Zheng	3,776,000	1.83	0	0	0	0	-	-	-
LSV Emerging Markets Equity Fund LP in custody of Bank of Taiwan	2,931,480	1.42	0	0	0	0	-	-	-
Vanguard Emerging Markets Stock Index Fund in custody of Standard Chartered Bank	2,698,920	1.31	0	0	0	0	-	-	-
Shun-Kai Lu	2,203,200	1.07	0	0	0	0	-	-	-

Note: For the calculation of shareholding percentage, number of shares outstanding excludes the repurchased treasury share of 2,318,000 shares.

10. Number of Shares Held and Shareholding Percentage of the Company, the Company's Directors, Supervisors, Managers and Directly or Indirectly Controlled Entities on the Same Investee

Shareholding Percentage

(In Thousands of Shares; %)

Investee (Note 1)	Investment by the Company		Investment by Directors, Supervisors, Managers and Directly or Indirectly Controlled Entities		Total	
	Shares	%	Shares	%	Shares	%
Taistar Co., Ltd.	25,665	100.00	0	0	25,665	100.00
LEADMAX Limited	10	100.00	0	0	10	100.00
Koatech Technology Corporation	27,400	53.86	1,505	2.96	28,905	56.82
Innovision FlexTech Corp.	4,513	16.72	8	0.03	4,521	16.75
TFS Co., Ltd.	6,020	100.00	0	0	6,020	100.00
Taiflex Scientific Japan Co., Ltd.	6	100.00	0	0	6	100.00
TSC International Ltd.	0	0	25,010	100.00	25,010	100.00
Kunshan Taiflex Electronic Material Co., Ltd. (Note 2)	0	0	0	100.00	0	100.00
Taiflex Scientific (Kunshan) Co., Ltd. (Note 2)	0	0	0	100.00	0	100.00
Richstar Co., Ltd.	0	0	6,010	100.00	6,010	100.00
Shenzhen Taiflex Electronic Co., Ltd. (Note 2)	0	0	0	100.00	0	100.00

Note 1: Long-term investment of the Company as of March 31, 2017

Note 2: Investment in companies in China through reinvestment of a company established in the third area

IV. Capital Overview

1. Capital and Shares

(1) Source of Capital:

A. History

As of March 27, 2017 (In Shares; NT$)

Month / Year	Issue Price	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount	Shares	Amount	Source	Capital Increase by Assets Other than Cash	Others
2016.08	10	300,000,000	3,000,000,000	208,325,192	2,083,251,920	Capitalization of capital surplus	None	By Jia-Shou-Gao-Zi No. 10540012460 on 2016. 08.31
2017.02	10	300,000,000	3,000,000,000	208,445,192	2,084,451,920	Employee stock options	None	Amendment registration is not yet initiated

B. Type of shares

As of March 27, 2017; (In Shares)

Shares / Type	Authorized Capital			Remark
	Outstanding	Unissued Shares	Total	
Listed Common Shares	208,445,192	91,554,808	300,000,000	The number of shares outstanding includes the repurchased treasury shares of 2,318,000 shares to be transferred to employees

C. Shelf Registration: None.

(2) Shareholder Composition

As of March 27, 2017 (In Shares; %)

Type / Quantities	Government Agencies	Financial Institutions	Other Juridical Persons	Nature Persons	Foreign Institutions and Nature Persons	Treasury Shares	Total
Number of Shareholders	2	4	117	26,083	104	1	26,311
Shares	566,100	8,524,600	38,651,025	117,659,274	40,726,193	2,318,000	208,445,192
%	0.27	4.09	18.54	56.45	19.54	1.11	100

(3) Shareholding Distribution

A. Common share:

As of March 27, 2017 (In Shares; %)

Shareholding			Number of Shareholders	Shares	%
1	~	999	11,966	730,214	0.35
1,000	~	5,000	9,897	19,554,059	9.38
5,001	~	10,000	2,125	13,865,697	6.65
10,001	~	15,000	983	10,973,755	5.26
15,001	~	20,000	319	5,452,841	2.62
20,001	~	30,000	400	9,241,995	4.43
30,001	~	50,000	130	4,371,053	2.10
50,001	~	100,000	94	4,089,649	1.96
100,001	~	200,000	211	14,050,901	6.74
200,001	~	400,000	87	12,189,916	5.85
400,001	~	600,000	38	10,936,405	5.25
600,001	~	800,000	21	10,369,578	4.97
800,001	~	1,000,000	9	6,130,608	2.94
Over 1,000,001			30	86,488,521	41.49
Total			26,310	208,445,192	100.00

B. Preference share: None.

(4) Major Shareholders

The name, number of shares and shareholding percentage of shareholders with holdings equal to or exceed 5% or the top 10 shareholders:

As of March 27, 2017 (In Shares; %)

Shareholding / Major Shareholders	Shares	%
Qiao Mei Development Corporation	14,963,729	7.26
BaoJie Funds in custody of Standard Chartered Bank	14,110,320	6.85
DaQiao Investment Ltd.	4,980,000	2.42
Ching-Yi Chang	4,599,282	2.23
Huasheng International Investment Corp.	4,596,945	2.23
Taiwan Life Insurance Co., Ltd.	4,293,600	2.08
Fubon Life Insurance Co., Ltd.	3,776,000	1.83
LSV Emerging Markets Equity Fund LP in custody of Bank of Taiwan	2,931,480	1.42
Vanguard Emerging Markets Stock Index Fund in custody of Standard Chartered Bank	2,698,920	1.31
Shun-Kai Lu	2,203,200	1.07

Note: For the calculation of shareholding percentage, number of shares outstanding excludes the repurchased treasury share of 2,318,000 shares.

(5) Market Price, Net Worth, Earnings and Dividends Per Share for 2016 and 2015

(In NT$)

Item \ Year			2015	2016	01/01/2017 to 03/31/2017 (Note 6)
Market Price per Share	Highest		51.50	39.80	41.55
	Lowest		28.90	28.95	33.85
	Average		42.03	34.41	38.12
Net Worth per Share (Note 1)	Before Distribution		32.72	31.99	-
	After Distribution		30.75	Note 7	-
Earnings per Share	Weighted Average Shares (thousand shares)		205,997	206,007	-
	Earnings per Share (Note 2)	Before Adjustment	3.61	2.81	-
		After Adjustment	3.54	Note 7	
Dividends per Share	Cash Dividends		2.00	Note 7	
	Stock Dividends	Earnings	-	Note 7	-
		Capital Surplus	0.2	Note 7	-
	Accumulated Undistributed Dividend		-	-	-
Return on Investment	Price/Earnings Ratio (Note 3)		11.87	12.25	-
	Price/Dividend Ratio (Note 4)		21.02	Note 7	-
	Cash Dividend Yield (Note 5)		4.75%	Note 7	-

Note 1: The numbers are based on the number of shares outstanding at the end of year and the distribution plan approved by the following year's Shareholders' Meeting.
Note 2: If numbers are adjusted due to circumstances such as stock dividends, Earnings per Share before and after adjustment shall be listed.
Note 3: Price/Earnings Ratio = Average Closing Price for the Year / Adjusted Earnings per Share
Note 4: Price/Dividend Ratio = Average Closing Price for the Year / Cash Dividends per Share
Note 5: Cash Dividend Yield = Cash Dividends per Share / Average Closing Price for the Year
Note 6: As of the date of this annual report, data is not yet reviewed by CPAs.
Note 7: As of March 31, 2017, earnings distribution for 2016 is pending for approvals from the Shareholders' Meeting.

(6) Dividend Policy and Its Execution Status

A. The dividend policy is stipulated in the Articles of Incorporation as follows:

Article 28 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 the directors and supervisors shall not be higher than four percent of the balance.

The compensation can be made in the form of stock or cash based on the Board resolution. Parties eligible to receive the said compensation shall include employees in affiliated companies who met certain conditions set by the Board. The distribution plan of compensation to employees and remuneration to the directors and supervisors shall be submitted to the shareholders' meeting.

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 the directors and supervisors based on the above-mentioned ratios.

Article 28-1 Current year’s earnings of the Company, if any, shall be distributed in the following order:

(a) Taxes and dues

(b) Deficit compensation

(c) 10% of net profit as legal capital reserves. However, this shall not apply when the accumulated legal capital reserve has equaled the total capital of the Company

(d) Special capital reserve appropriated or reversed as stipulated by relevant laws and regulations or competent securities authority

(e) For the remaining profits, if any, the Board of Directors shall draft a proposal for the distribution of bonus to shareholders and submit it to the shareholders’ meeting for resolution

Article 29 After taking into account the environment and development stage of the Company, the needs of capital in the future, long-term financial planning and shareholders’ demand for cash, the Board of Directors shall draw up an earnings distribution proposal according to the distributable earnings calculated pursuant to Article 28-1 and submit it to the shareholders’ meeting for approval. At least forty percent of the distributable earnings calculated shall be appropriated as shareholders’ dividends. The cash dividend shall not be lower than ten percent of the total dividends and shall be capped at one hundred percent.

B. Earnings distribution proposal (approved by the Board of Directors and pending for approvals from the Shareholders’ Meeting)

The 2016 earnings distribution plan approved by the Board of Directors’ meeting held on February 23, 2017 is as follows:

(a) Cash dividend: NT$ 412,254 thousand from 2016 earnings. Dividend per share is NT$ 2.00. The Board of Directors is authorized to set the record date after the proposal is approved by the Shareholders’ Meeting.

C. Explanation on expected significant changes in dividend policy: None.

(7) Impact of Stock Dividends on Operation Performance and Earnings per Share: Not applicable.

(8) Compensation to Employees, Directors and Supervisors

A. The percentage or range of compensation to employees, Directors and Supervisors in the Articles of Incorporation is as follows:

Article 22 The Compensation Committee would evaluate the involvement of directors and supervisors (including the independent directors) in the business operation of the Company and their contributions to the Company, and make recommendations to the Board concerning their remuneration. The Board of Directors has been delegated to determine the remuneration based on the recommendations from the Compensation Committee with reference to the remuneration standard of the industry.

Article 28 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 the directors and supervisors shall not be higher than four percent of the balance.
The compensation can be made in the form of stock or cash based on the Board resolution. Parties eligible to receive the said compensation shall include employees in affiliated companies who met certain conditions set by the Board. The distribution plan of compensation to employees and remuneration to the directors and supervisors shall be submitted to the shareholders' meeting.
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 the directors and supervisors based on the above-mentioned ratios.

B. The estimation basis of compensation to employees and remuneration to directors and supervisors, calculation basis for number of shares distributed as employee compensation and accounting treatments for difference between estimated and actual payment amount:

(a) Please refer to (8)A “percentage or range of compensation to employees, directors and supervisors” for the estimation basis of compensation to employees and remuneration to directors and supervisors.

(b) The calculation basis for number of shares distributed as employee compensation: The Company did not distribute shares as employee compensation in 2016, thus, this is not applicable.

(c) Accounting treatments for difference between estimates and actual payment amount: Amount resolved to be distributed by the Board of Directors was recognized as operating expense in 2016. Difference between the estimated amount and the resolution of Shareholders’ Meeting will be recognized in profit or loss of 2017.

C. Proposed compensation approved by the Board

With regard to compensation to employees and remuneration to directors and supervisors, the proposed 2016 earnings distribution plan approved by the Board of Directors’ meeting held on January 19, 2017 is as follows:

(a) The proposed compensation to employees of NT$ 53,949,497 (in cash) and remuneration to directors and supervisors of NT$ 16,184,849 approved in the Board of Directors’ meeting were of the same amount as the expenses recognized in 2016.

(b) Amount of stock distributed as employee compensation and it as a percentage to net income of parent company only or individual financial statements and aggregate compensation to employees: Not applicable.

D. Actual payment of compensation to employees and remuneration to directors and supervisors in the previous fiscal year

(In NT$)

Item	Estimates	Amount Resolved at Shareholders' Meeting (2016.05.27)	Difference	Cause of Difference
Remuneration to Directors and Supervisors (in Cash)	19,426,881	19,426,881	0	None
Compensation to Employees (in Cash)	64,615,994	64,753,881	137,887	Change in Estimate

(9) Buyback of Common Shares: In 2016 and as of the date of this annual report, there was no buyback of common shares.

2. Corporate Bonds: None.

3. Preferred Shares: None.

4. Global Depositary Shares: None.

5. Employee Stock Options:

(1) Employee Stock Options and Impacts on Shareholders' Equity:

As of March 31, 2017

Employee Stock Options Granted	Third Grant
Approval Date by The Authority	March 19, 2010
Issue Date	April 30, 2010
Number of Options Granted	2,355 units
Percentage of Shares Exercisable to Outstanding Common Shares	1.15%
Option Duration	8 years
Source of Option Shares	New Common Shares
Vesting Schedule and %	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%

Employee Stock Options Granted	Third Grant
Shares Exercised	951,500 shares
Value of Shares Exercised	NT$ 41,803,650
Shares Unexercised	832 units
Exercise Price Per Share of Shares Unexercised	NT$ 36.8
Percentage of Shares Unexercised to Outstanding Common Shares	0.40%
Effects on Shareholders' Equity	The optionee may exercise the options in accordance with certain schedules as prescribed by the option plan after 2 years from the date of grant. Thus, there is no significant effect on shareholders' equity.

Note: Employee stock options include stock options by public offering and private placement. Employee stock options by public offering are ones approved to be effective by the FSC. Employee stock options by private placement refer to ones passed in the Board meetings.

(2) Details of Employee Stock Option Granted to Management Team and Top 10 Employees:

A. Third Employee Stock Option

As of March 31, 2017

Title	Name	Number of Options Granted (In Thousands of Shares)	As a % to Outstanding Common Shares	Exercised				Unexercised			
				Shares Exercised (In Thousands of Shares)	Exercise Price Per Share	Value of Shares Exercised (In Thousands of NT$)	As a % to Outstanding Common Shares	Shares Unexercised (In Thousands of Shares)	Grant Price Per Share	Value of Shares Unexercised (In Thousands of NT$)	As a % to Outstanding Common Shares
President (Note 2)	Jun-Yan Jiang	700	0.34	180	36.80 ~ 45.30	7,049	0.09	520	36.8	19,136	0.25
Vice President	Zhi-Ming Yen										
Vice President	Fu-Le Lin										
Vice President	Jiang-Zhi Zhao										
Vice President	Yung-Mao Yeh										
Assistant Vice President	Guo-Xiong Xia										
Assistant Vice President	Chong-Cheng Liu										
Assistant Vice President	Fang-I Hsieh										
Assistant Vice President	Jing-Wen Lu										
Assistant Vice President	Guo-Liang Jiang										

Note 1: The list includes top 10 employees.

Note 2: The Board Meeting on February 23, 2017 resolved to relieve Mr. Jun-Yan Jiang, the Chairperson of Taiflex Scientific (Kunshan) Co., Ltd. (a 100% owned subsidiary of the Company), from his concurrent position as the President of Taiflex Scientific Co., Ltd. in order to carry out future strategies and create greater value for the subsidiary. The Chairperson of Taiflex Scientific Co., Ltd. has concurrently served as the President.

6. Status of Employee Restricted Stock: None.

7. Status of New Share Issuance in Connection with Mergers and Acquisitions:

None.

8. Execution of Financing Plans:

(1) Plan details of previous issuance or private placement of securities not yet completed or completed in the past three years with benefits yet to be shown as of March 31, 2017: None.

(2) Implementation status of previous issuance or private placement of securities not yet completed or plans completed in the past three years with benefits yet to be shown as of March 31, 2017: None.

V. Operational Highlights

1. Business

(1) Business Scope

A. Major Products/Services

(a) CC01080 electronic parts and components manufacturing

(b) F119010 wholesale of electronic materials

(c) F219010 retail of electronic materials

(d) ZZ99999 other businesses which are not prohibited or restricted by the laws, in addition to business approved

B. Major Products as a Percentage to Revenue

(In Thousands of New Taiwan Dollars; %)

Main Products	2015		2016	
	Net Revenue	Ratio (%)	Net Revenue	Ratio (%)
Electronic Materials	5,605,218	54.59	6,454,826	62.77
PV Backsheets	4,428,132	43.13	3,645,521	35.45
Others	234,518	2.28	183,632	1.78
Total	10,267,868	100.00	10,283,979	100.00

C. Major Products/Services

The Company mainly engages in the researching, developing, manufacturing and selling of Flexible Copper Clad Laminate (FCCL), Coverlay (CL) and Backsheets of PV (PV).

D. Development of New Products

The Company will allocate more resources to product development and expedite the process of introducing new products to the market. By using the existing core technology, Taiflex would strengthen its capability in R&D through industry-academia collaboration and integration of resources in order to develop the following products:

(a) Electronic Materials:

The design of electronic materials moves in two directions. One is the quest for thin, light, high frequency, high speed and high thermal conductivity products, namely mobile and wearable devices. The other is the demand for high weatherability and stability which can be applied in healthcare, automobile and server markets. With polarized demands, forefront material designs shall also meet the needs of ultimate products. Taiflex develops thin, light, high frequency, high speed, high thermal conductivity and high stability copper clad laminates aiming to satisfy both mainstream trends.

(b) Energy Materials

The Company has engaged in developing green energy products for a long period of time. We develop high-reflectivity and high heat-dissipation PV backsheets to enhance the efficiency of PV modules and further improve the cost effectiveness of solar power in hope to promote the development of green energy.

(2) Industry Overview

A. Industry Status and Development

(a) FPC industry

Flexible Print Circuit (FPC) refers to flexible copper clad laminates processed through photolithographic technology into a conductor for data transmission in electronic devices. FPC composes mainly of insulating materials, bonding adhesive and copper foil conductors. A cover layer (CL) is applied once the flexible circuit is completed to avoid oxidation of copper wires and to protect the circuit from heat and moisture.

Flexible Copper Clad Laminate (FCCL), the primary product of Taiflex, is composed of copper foil and PI resin. It is an essential raw material for FPC. FCCL is categorized into two groups: the traditional 3L-FCCL and 2L-FCCL. The latter has become the mainstream due to demands for thinner and lighter mobile devices.

FPC is more flexible, thinner and lighter. Those characteristics satisfy data transmission and telecommunication products' demands for compact devices. Thus, consumer electronics industry is the primary market for FPC and accounts for approximately 80% to 90% of its sales. A traditional mobile phone uses 3 to 6 FPCs mainly for connecting screen, camera module, keypads and memory card slot with the mainboard. A Notebook (NB) uses 5 to 6 FPCs to connect panels, Hinge, DVD player and NB Cam with the mainboard. It is apparent that FPC was traditionally used to connect external components with the mainboard. However, its application has now broadened to be an extension of the printed circuit board design following the trend for lighter and thinner electronic devices. A wider range of applications is expected following the continuous demand for lighter, thinner and multifunctional electronic devices in the future; for instance, a smartphone on average uses 6 to 8 FPCs, a touch-screen device needs 1 to 2 more FPCs, and a tablet requires 8 to 12 FPCs. The FPC industry is expected to grow from increasing demands for mobile devices.

Applications of FCCL

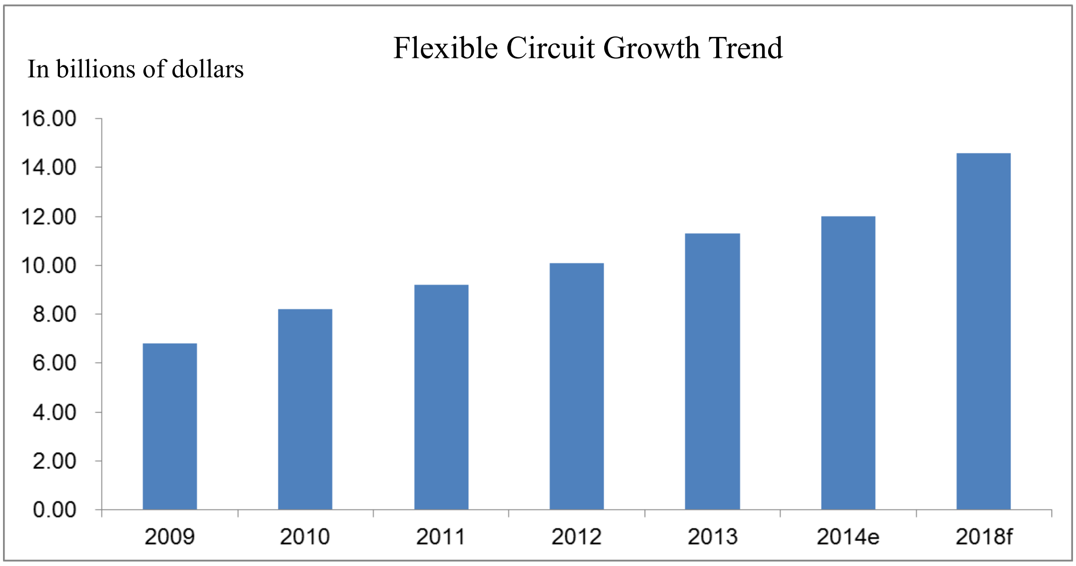
The first wave of growth in FPC took place around year 2000 with booming development in NB and the second one was brought about by high-growth in the demand for mobile devices, such as smartphones and tablets, since 2008. The market is also driven by international corporations allocating significant resources into developing multifunctional compact mobile devices to meet consumer needs and to meet the rapid growth in emerging markets. In the past few years, the FPC industry outgrows the overall PCB industry. Looking into the future, the trend for lighter and thinner electronic devices and the continuous demand for products such as smartphones, tablets, and wearable devices, combine with the growth in emerging markets, such as China, India and Africa, will drive the growth in FPC industry.

FPC is a highly concentrated industry. The main producers are located in Japan, Taiwan and Korea. The top 10 producers contribute to more than 70% of the global output and Japanese suppliers alone produce more than 40%. Even though Japanese producers enjoy superior technology and larger scale, profits are limited by higher production costs. They are forced out of markets with lower technology barrier and profitability, such as single-sided circuit and some double-sided circuit markets. Instead, those orders are fulfilled by Taiwanese, Korean and Chinese suppliers. In Taiwan and Korea, the continual advancement in FPC technology creates fierce competition in the multi-layer circuit market. This drives Japanese producers to expand their capacity in Southeast Asia, mainly Thailand, in order to lower the production costs.

Japanese FPC suppliers (especially Fujikura) suffered massive damage at Thailand floods in 2011. Thus, they started to expand the production lines across Vietnam and Malaysia. Under Abenomics monetary policy, significant depreciation in Japanese yen boosts price competitiveness of Japanese suppliers. During the same period of time, Taiwan and Korean suppliers focus on advancing technology and increasing production scale and market share. In the future, competitions between Japanese, Taiwanese and Korean FPC suppliers will intensify.

Besides the boom in mobile devices in 2010, increasing penetration of smartphones and tablets PCs also boosts the FPC industry, which has enjoyed double-digit growth rate in recent years. However, majority of future demands relies on emerging markets, new products and replacement as the market penetration of smartphones and tablets is already at a high level. Prismark forecasts a single-digit annual compounded growth rate for FCP production from 2014 to 2018 with a relatively stable and mature growth momentum.

FPC Industry Growth Trend



Source: Prismark (2014/10), Company data

(b) Solar Industry

The supply of crude oil increases significantly due to the development in shale oil extraction. Moreover, the middle-east countries refuse to cut down their production in fear of losing market shares. Thus, the price of crude oil continues to fall. However, oil generates only 40% of electricity. Even though the plummeting oil price helps to restrain the electricity price, it is not the sole factor.

In addition, the problem of global warming caused by the emission of carbon dioxide is not mitigated. Issues such as extreme weather and air pollution continue to deteriorate. The smog problem highlighted in the recent documentary in China, Under the Dome, reinforces the nations' determination to control air pollution. Since it is difficult to replace oil for transportation and industrial uses, using alternative energy to generate electricity becomes attractive. Therefore, the overall growth momentum of alternative energy is still promising. This is evident from the fact that alternative energy is always present in the blueprint of each nation's energy policy. Among the various sources, solar power is one of the key options and we expect it to demonstrate a positive growth rate in the future.

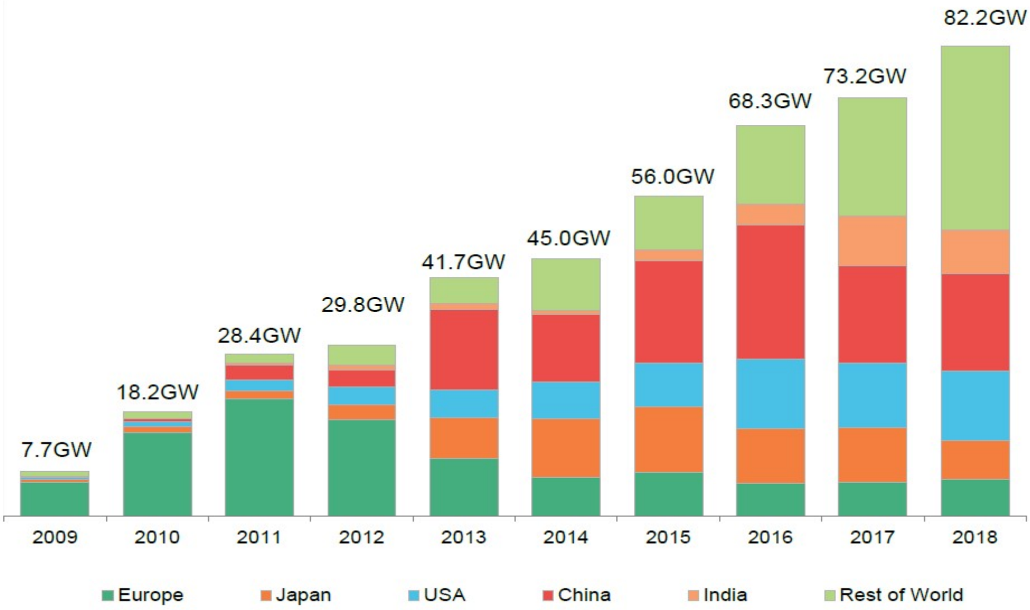
Photovoltaic Cell (or Solar Cell) is a semiconductor device which can be grouped by appearance into two types: wafer-based and thin-film. To further differentiate solar cells by manufacturing materials, wafer-based cells can be sub-divided into silicon-based, such as monocrystalline silicon and polycrystalline silicon; and III-V compound-based HCPV, such as GaAs. As for thin-film cells, they can be sub-divided into 3 major groups, i.e. silicon, chemical compounds and organic semiconductors.

Due to limited resources and distinct operation characteristics, most solar energy producers are inclined to concentrate in its own specialized fields, e.g. crystalline silicon as upstream raw materials, Ag/Al paste for midstream cells and EVA, PV backsheet and glass for PV module producers. Even though some system integrators adopt vertical integration, overall, solar industry can be divided into polycrystalline silicon and silicon wafer in the upstream, solar cells and modules in the midstream, and system suppliers in the downstream. The backsheets manufactured by the Company protect the back surface of PV modules. Its primary function is to keep moisture out and avoid damages from outdoor weather conditions.

In 2009, immense supply of polycrystalline silicon and massive capacity expansion across China led to an oversupply in PV industry and drastic decline in solar module prices. Moreover, the major market player, Europe, cut solar energy subsidies due to European Sovereign Debt Crisis, which further weakened market demands and consequently the module prices. From downstream upwards, lower prices placed enormous pressure upon the production cost of entire solar supply chain. Consequently, there was a shift in manufacturing locations towards low-cost regions, where Chinese producers dominates. At present, majority of the world’s top ten producers are in China.

Even though the cutback in government subsidies led to stagnant growth in PV installation rate within the European major markets, i.e. Germany and Italy, the rate in China and Japan was booming for a period of time under favorable subsidy policies. Despite the slowing growth at present, those two countries still play an important role in the global PV system. However, the current growth momentum comes from emerging markets such as India and Southeast Asia.

Looking forward, with increasing global warming and pollution from energy production, environmental awareness will continue to drive the development of alternative energy. Combined with expansion of production lines in raw materials and modules and development of new technologies, solar cell efficiency would continue to be enhanced. In contrast to high pollution or controversial ways of power generation, solar energy demonstrates cost-effectiveness with immense cost reduction. Even with the presence of extracting technologies for new energy (e.g. shale oil), solar energy remains irreplaceable given it virtually has no environmental impact. Thus, solar industry continues to show long-term momentum in growth.



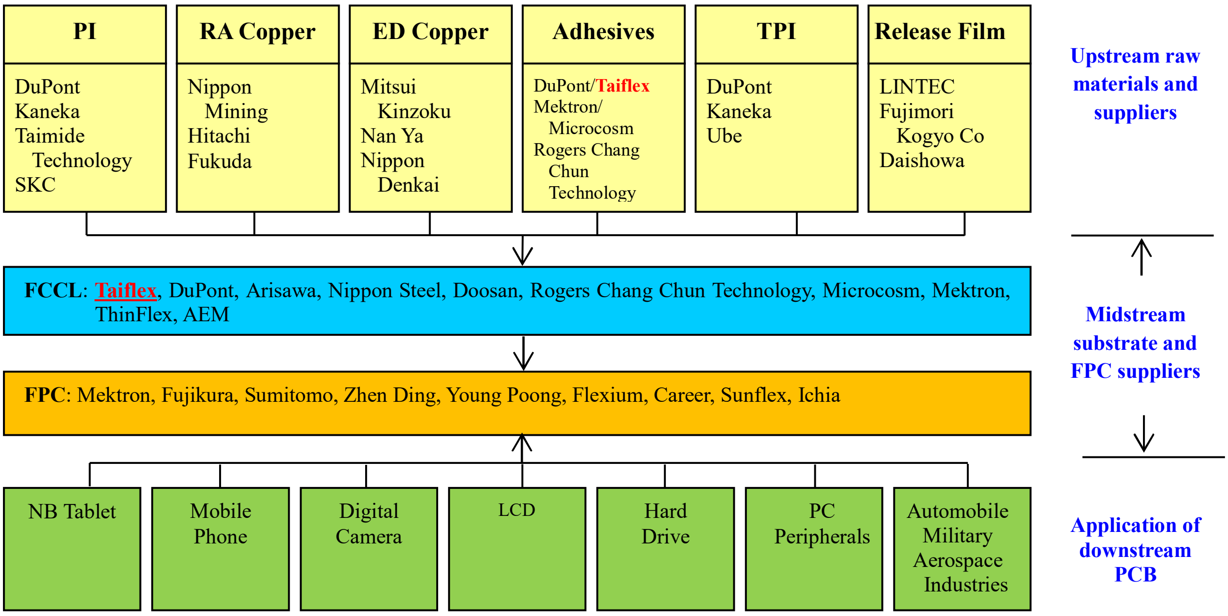
Source: Bloomberg New Energy Finance (2016)

B. Supply Chain

(a) FPC industry

Raw materials in the upstream of FPC industry include PI film, copper foil and adhesive. Midstream material, FCCL, is the primary product of the Company. Major producers include Taiflex, AEM, ThinFlex, DuPont, Microcosm, Rogers Chang Chun Technology, Mektron, NSC, Doosan, Toray, and Arisawa. Downstream suppliers are FPC producers, for instance, Mektron, Career, Ichia, Sunflex, Flexium and Zhen Ding, etc.

Supply Chain of FPC industry



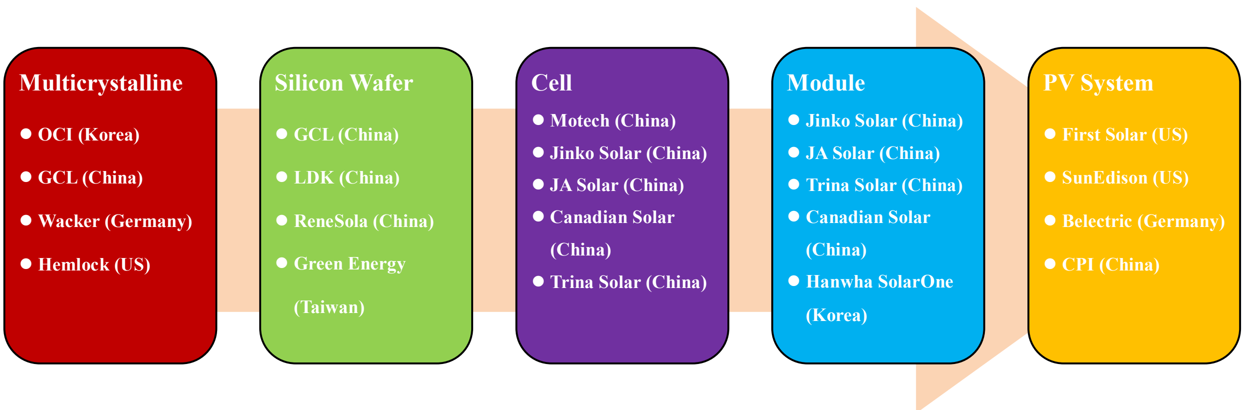
Source: ITIS, Company data

(b) Solar Industry

Backsheets produced by the Company comprise Tedlar, PET and adhesive. The major supplier of Tedlar is DuPont. The product has been applied to the PV backsheet for decades. It meets customers' demand for durability and stability (the ultimate customers of PV modules require 20 to 25 years of warranty), therefore, it is one of the key components in PV module backsheets.

PV backsheets produced by the Company belong to the midstream of solar industry and is one of the key components of both wafer-based and thin-film PV cells. Its main function is to provide protection against moisture to ensure the durability of modules. The existing major suppliers include Taiflex, Jolywood, Cybrid Technology, Isovolta, Madico, Krempel, Coveme, SFC, Toppan, 3M and Toyal.

Supply Chain of Solar Industry



Source: Company data

C. Product Development Trend

(a) FPC industry

CCL product and technology development are driven by downstream demands. Following the trend for compact, reliable and multifunctional electronic products, the needs for high frequency, high speed and anti-electromagnetic interference products are increasing, which brought along development of related products by the FCCL industry.

The use of electronic materials stresses on reducing pollution given the rising awareness in maintaining a green environment. Thus, suppliers intensify their efforts in the research and development of eco-friendly materials. Under European Union RoHS regulations, electronic industry converts to the use of halogen-free materials, which initiates an evolution in materials adopted by CCL industry. At present, smartphone manufacturers gradually utilize eco-friendly substrates. With increasing discussion over environmental issues, eco-friendly materials will become the basic requirement of products.

Among the various demands, the quest for compact devices remains unchanged. Thus, 2L-FCCL, with its advantage of being thinner, officially replaces 3L-FCCL to become the mainstream specification in the market. Its penetration rate continues to rise and drives the major FPC producers to aggressively expand their production capacity. Thus, 2L-FCCL-related materials and technology development will be the main themes for research and development.

(b) Solar industry

The focus in the development of solar products and technology has always been the improvement of conversion efficiency. Higher efficiency means replacing conventional energy with solar energy becomes more feasible and a greater rate of return. The two main methods for enhancing the efficiency rate are as follows:

(i) Improving production process to enhance conversion efficiency, and

(ii) Improving packaging process to reduce energy loss

The latest back-contact module technology belongs to the latter. To conform to the improvements of packaging process, various aspects, such as product structure and materials, shall be studied to reduce the energy loss of modules.

Another key element in the development of PV technology is government regulations. PV system specifications shall conform to government regulations to ensure the system's safety and eligibility for government subsidies. Recently, the residential rooftop PV system develops rapidly. To ensure safety in residence, the flammability requirements would be stricter. Consequently, PV backsheet shall enhance its flame-retardant feature. Without compromising the weatherability and stability of the product, material and adhesive shall also be improved.

With needs for higher conversion efficiency and regulatory compliance, PV backsheet suppliers shall strengthen their research and development on materials and adhesive and continue to improve product structure in order to provide safer and more efficient PV products comparing to the conventional power sources.

D. Product Competition

(a) Electronic materials

The global supply of FCCL is dominated by Japan, Taiwan and Korea. The main competitors include Nippon Steel and Arisawa at Japan, Doosan at Korea and ThinFlex and AEM at Taiwan. At present, suppliers in China are relatively insignificant due to small economy of scale. However, as CCL suppliers, such as ITEQ and Shengyi Technology, aggressively participate in the production of FCCL, the competitions turn fierce. Since those emerging competitors enter the market at a later time, their sources of key materials are not as steady as existing players. Their impacts would be minimal in the short-term.

In addition, in recent years, numerous system integrators shift their production lines to China. China PCB industry achieved tremendous growth as FPC companies also moved to China to stay close to customers. Taiflex has established complete production line and a well-structured distribution channel to meet customers' demands. In whole, Taiflex is in the leading position regarding capacity, revenue, customer portfolio and profitability and remains highly competitive in the FPC industry.

(b) PV backsheets

The Company's major PV backsheet competitors include Jolywood, Cybrid, Madico, Isovolta, Krempel, Coveme, SFC, Toppan, 3M and Toyal. Competitors in Europe and U.S.fail to compete with the Company in delivery schedule, service and prices for Asian customers, and China in particular. Suppliers in China, such as Jolywood and Cybrid, are expanding; thus, the overall competition turns fierce. Nevertheless, the Company maintains its leading position by understading the needs of key customers, differentiating itself from competitors via capacity and services and forging strong strategic alliances with major customers.

In addition, the Company enjoys competitive advantages from diversified products. The human resources, machinery and equipment for solar products can also be used for FPC products and create more advantages from consolidation of production cost and flexibility. Consequently, Taiflex enjoys a relatively leading position in the PV backsheet industry.

(3) Technology and Research and Development

A. Technology and R&D

The Company's R&D division was established when Taiflex was founded in August, 1997. In the early stage, the division focused on the research and development of Polymer film (Coverlay) and copper clad laminate. In 1999, Taiflex signed the "Adhesiveless FPC Material Technology Transfer Agreement" and collaborated on the development of substrate packaging materials with ITRI. In 2000, Arisawa MFG Co., Ltd. transferred FCCL and coverlay process inspection technology to the Company. Those technologies are the foundation of Taiflex's development. In addition to the existing FPC and Solar products, the Company actively researches and develops new products to expand the business scope. Besides independent research and development, the Company improves technical capability by cooperating with other players in the industry; for example, it works with DuPont to develop PV module products and cooperates with ITRI and domestic universities in research and integration. Those efforts transform the Company into a world-class high-precision coating specialist.

B. Education Level of Research and Development Personnel

(In number of people)

Year / Education	2014	2015	2016
Ph.D. and Master's Degree	35	51	43
Bachelor's Degree/College	21	25	20
Senior High School	0	0	0
Total	56	76	63

C. Research and Development Expenses from 2012 to 2016

(In Thousands of New Taiwan Dollars; %)

Year	2012	2013	2014	2015	2016
R&D Expenses	135,036	158,711	189,228	218,559	217,559
Net Revenue	7,853,228	10,138,227	10,127,720	10,267,868	10,283,979
Percentage of Revenue	1.72	1.57	1.87	2.13	2.12

Source: Audited financial statements from 2012 to 2016

D. Technology or Product Developed from 2012 to 2016

Year	Item	Result
2012	2L double-sided FPC	Produce 2L double-sided FPC with independently developed adhesive. Features of 2L double-sided FPC include high planarity, flexibility and dimensional stability. It is also ultra-thin (9um TPI film), a vital feature in pursuit of thinner products.
	Thinner FCCL	9um thin-copper FCCL, more suitable for fine circuits
	Adhesive Base film type CVL	Improve customer manufacturing operability, prevent debris and enhance dimensional stability
	Development of high-frequency FCCL substrate	Dk<2.8 and Df<0.004
	Development of high-frequency Coverlay	Dk~2.6 and Df<0.004
	Development of high-frequency bonding sheet	Dk~2.6 and Df<0.004

Year	Item	Result
	New adhesive	Long shelf life. Used for multi-layers
	Transparent CL&CCL	PET based material, used for transparent electronic products
	High- transmittance 2L FCCL products	Higher transmittance, better positioning precision and efficiency
	Study of thermal-conductive encapsulation layer for PV	Develop thermal conductive layer. Thermal transmittance K=1.0 W/mK. Test for weatherability completed, b=-1.2
	Full-width coating technology applied to PV backsheet	Reduced side-strip waste by 1% and the connecting point
	Low-temperature adhesive with short maturing time	Reduce production time by 30%
2013	Heat curing type solder resist ink	High flexural endurance and low-k
	Photoimageable (PI) solder resist ink	Thickness of 50um. Enhance flexuosity of solder resist ink. Thermal resistant for 300℃
	Development of thin copper product	Thickness of 9um and 6um
	Development of thick copper product	Thickness of 70um
	Second-generation white CVL	Enhanced uniform Illumination of LED
2014	Research and development of high frequency materials	Introduction of high-frequency CL and bonding sheet (Dk<2.9) to pilot production
	Research and development of PIC products	Thickness of 50um. Enhance flexuosity of solder resist ink. Thermal resistant for 300℃
	Novel type of thermal conductive backsheets	The average temperature of modules reduces by 2.5℃
	Research of thermal management composite material	Thermal conductive Bond ply Thermal transmittance: >1w/m-K
	Research of fused laminate composite material	Developed FFC for high speed transmission Dk:2.3 Df:0.003 @10GHz
2015	Research and development of high frequency materials	Low Dk product (Dk:2.7, Df:0.004)
	Research and development of transparent materials	UL94V0
	Research of fused laminate composite material	Developed FFC for high speed transmission Dk:2.3 Df:0.003 @10GHz
	Research and development of EMI materials	EMI SE>40dB (KEC 1000MHz)
	Low gloss white CVL	Gloss(60o) ≦ 30 GU, Reflectance>85%(550nm)
	Research and development of high dimensional stability materials	+- 0.04%

Year	Item	Result
2016	Research and development of high frequency materials	Low Dk product (Dk:2.7, Df:0.004)
	Research and development of transparent materials	UL94V0
	Research of fused laminate composite material	Developed FFC for high speed transmission Dk:2.3 Df:0.003 @10GHz
	Development of PIF material	Solder (288°C,30s), Flame Retardants-UL94 (Lab. Test)
	Development of asymmetric copper clad laminate	For wireless charging
	Development of laminated single-sided FPC	PI thickness of 12.5um to 50um
	Development of pre-laminated double-sided FPC	Combine two single-sided FPC by pre-lamination and separate those two after FPC is made to enhance the production capacity of FPC customers。
	Development of Anti-migration Adhesive	Develop adhesive for protective film which can withstand 85℃/85%RH/100V/1000hr
	Development of quality anti-scratch white protective film	Develop formula for anti-scratch white protective film to reduce damages to the film surface caused by external force during the FPC manufacturing process

(4) Business Development Plan

A. Long-term Business Development Plan

(a) Marketing strategy

(i) Establish regional marketing offices and logistic centers to enhance the competitiveness

(ii) Identify niche markets, diversify product profile to diminish the impacts of business cycle on operation

(iii) Segment target markets precisely and establish appropriate strategies to increase market share

(iv) Form strategic alliances, maintain long-term supply chain relationships and pursue sustained cooperative development.

(b) Production strategy

(i) Establish domestic and overseas production sites to stay close to customers and set up global logistic centers to lower logistic costs

(ii) Identify specific function for each equipment to enhance production efficiency, yield and outputs

(iii) Simplify manufacturing process and identify cost elements to improve production efficiency and reduce unnecessary waste

(c) Product development strategy

(i) Introduce advance materials and technology through cooperation with international companies to develop cutting edge products

(ii) Strengthen industry-academia collaboration to found the basis for material and technology

(iii) Purchase from domestic vendors in compliance with government policies

(iv) Expedite the development and launches of new products through supply chain integration

(d) Scale of operation and financing

Through diversification and internationalization, Taiflex expands its markets to increase operation scale. The Company also utilizes various financial instruments and international fund-raising tools to supplement operating capital, lower finance costs and build global presence to achieve business goals and sustainability.

B. Short-term Business Development Plan

(a) Marketing strategy

(i) Increase the market share in the Greater China Region and Southeast Asia, support the product designs of the market and customers, strengthen customer services, establish good relationships with customers and build customer trust to achieve higher customer satisfaction

(ii) Understand customers' product design and the use of major materials and convey the information to R&D, production and quality assurance divisions to increase customer loyalty

(iii) Develop overseas markets and customers proactively and cooperate with more overseas agents to boost export sales and overall revenues

(iv) Attend overseas seminars, trade shows and product launches to enhance company's presence and identify potential customers

(v) Establish and develop product application database for product promotion

(b) Production strategy

(i) Enhance production flexibility to cope with temporary volatility in orders

(ii) Improve supply-chain management to shorten the delivery of raw material, decrease lead time, expedite product delivery and improve accuracy to enhance customer satisfaction and lower inventory costs

(iii) Identify the optimal cost-efficient material suppliers, taking into accounts the price, service and capability factors, to obtain the lowest costs possible and minimize the overall cost through strategic alliance in supply chain

(c) Product development strategy

(i) Improve the quality of existing products and expand product applications

(ii) Improve manufacturing process and yield, lower product costs and enhance product competitiveness

(d) Operation and financial strategy

Structure ideal fund-raising channels using various financing tools to supplement short-term operating capital and lower the cost of short-term financing. Implement control systems to enhance company identity and attract talented personnel to strengthen management performance and corporate health.

2. Market and Sales Overview

(1) Market Analysis

A. Sales Distribution by Region

(In Thousands of New Taiwan Dollars; %)

Year / Region	2015		2016	
	Amount	Ratio (%)	Amount	Ratio (%)
Taiwan	2,271,770	22.13	1,526,724	14.85
China	7,659,103	74.59	8,318,051	80.88
Others	336,995	3.28	439,204	4.27
Total	10,267,868	100.00	10,283,979	100.00

B. Market Share

(a) FCCL and CL: According to Prismark's market survey, the market share of Taiflex was around 12% to 16% in 2016.

(b) PV backsheet: According to IHS's report, the market share of Taiflex was around 5% to 6% in 2016.

C. Future Supply and Demand and Market Growth

(a) FPC Industry

FCCL and CL produced by the Company are the primary upstream raw materials in FPC industry. The main applications of FPC include portable electronic devices, PC/NBs, panels and digital cameras. Fuji Chimera estimates a global FPC market of 1,330 billion Yen in 2013 and 1,550 billion Yen by 2018, a compound annual growth rate of 3.8%. The major drivers include smartphones, tablets, and emerging applications in automobile industry, Internet of Things and wearable devices.

Smartphone and tablet industries are summarized as follows:

(i) Smartphones

Ever since Apple launched iPhone which creates a wave of demand for smartphone, the smartphone industry has flourished. However, as the smarphone market in China shows signs of saturation, the number of first-time buyers start to decrease. This combined with high penetration at mature markets in U.S. and western Europe reduced the growth rate to a single-digit in 2015. The future growth is expected to slow down.

TrendForce, a worldwide market research company, reports global mobile phone shipment of 1.36 billion units in 2016, an annual growth rate of 4.7%. Emerging markets, such as China, Southeast Asia, India and Latin America, are the key drivers and the growth momentum comes from mid-range and low-end smartphones. Thus, cost competitiveness would be vital in the foreseeable future.

Compared to traditional mobile phone, smartphone requires more FPCs as it provides multi-functions. The addition of various external components, including touch panel, side keys, and antennas, are connected to the mainboard through FPC, leading to the surge in demand. Moreover, FPC gradually becomes the base material for circuit design following the trend for thinner and lighter mobile phone. In general, a traditional mobile phone uses 3 to 6 FPCs whereas a smartphone needs 6 to 8 FPCs and some models require as high as 20 FPCs. The continuous growth in smartphone sales and functions shall warrant similar growth for FPC industry.

Top 10 Smartphone Brands Based on Production Volume from 2015 to 2017

Ranks	2015		2016		2017	
	Brand	Market Share	Brand	Market Share	Brand	Market Share
1	Samsung	24.7%	Samsung	22.8%	Samsung	22.6%
2	Apple	18.2%	Apple	15.3%	Apple	15.6%
3	Huawei	8.3%	Huawei	9.6%	Huawei	11.1%
4	Lenovo	5.4%	OPPO	7.2%	OPPO	8.5%
5	LG	5.2%	BBK/VIVO	6.0%	BBK/VIVO	7.1%
6	Xiaomi	5.2%	LG	5.5%	LG	5.5%
7	OPPO	3.8%	Xiaomi	3.7%	Xiaomi	3.8%
8	TCL	3.7%	Lenovo	3.7%	Lenovo	3.8%
9	BBK/VIVO	3.6%	TCL	3.7%	TCL	3.2%
10	ZTE	3.4%	ZTE	3.5%	ZTE	3.0%
	Others	18.5%	Others	18.9%	Others	15.9%
Production Volume (Unit:M)	1,298.3		1,359.6		1,459.0	

Source: TrendForce, Jan. 2017

(ii) Tablet

Other than the robust growth due to smartphone, tablet consumes the most FPC within the consumer electronic devices in recent years. For desktops, FPC is primarily used for components, such as LCDs and hard drive heads, which consume relatively small quantity. The main growth of FPC comes from NB application, which utilizes 5 to 8 FPCs per set (excluding the screen).

TrendForce statistics show global Tablet shipment of 155 million sets in 2016 and estimate shipment of 146 million sets in 2017, representing an annual decline rate of 8.3%. As the lack of innovation in Tablet increases the replacement cycle by 2 to 3 years and users substitute Tablets with phablets, the Tablet market continues to diminish which in turn suppresses the growth momentum of certain FPCs.

Top 5 Tablet Brands Based on Shipment in 2016 and 2017

Brands	2016(E)		2017(F)	
	Ranking	Market Share	Ranking	Market Share
Apple	1	26.1%	1	24.8%
Samsung	2	17.4%	2	16.9%
Amazon	3	7.4%	3	8.1%
Huawei	5	6.1%	4	7.0%
Lenovo	4	6.6%	5	6.6%
Others	-	36.3%	-	36.5%
Total Shipment (Unit:M)	154.5		146.4	

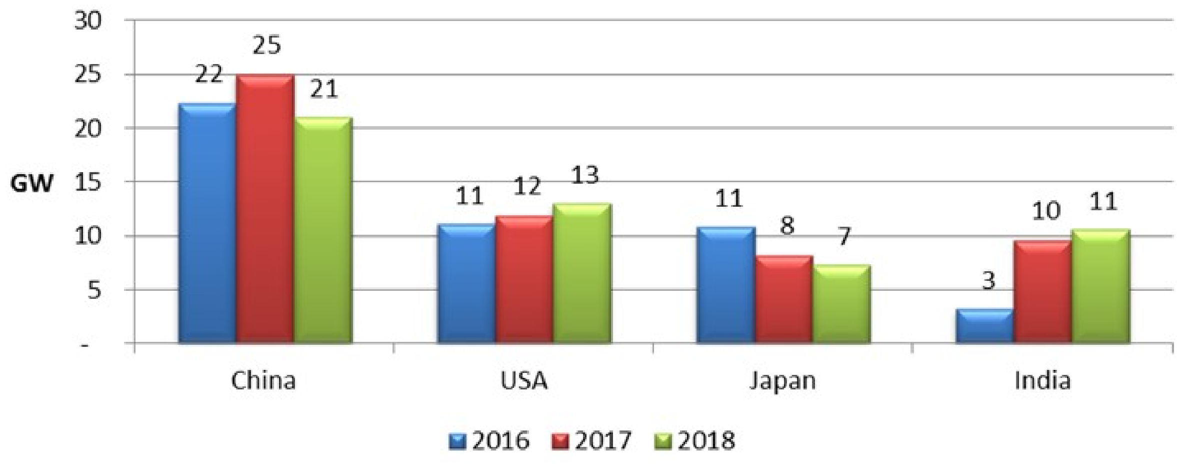
Note: Tablets are defined as models of 7 inches with resolutions of 1024*600 and above. 2-in-1 PC is excluded.
Source: TrendForce, Nov. 2016

(b) Solar Industry

PV backsheet produced by the Company is used in the midstream of solar industry supply chain. It is one of the key components in PV module. End-users include large-scale solar power stations or small power generators (e.g. rooftop application).

In 2014, the solar industry continued to be influenced by the anti-dumping and countervailing investigations of Europe and US. Chinese government invested enormous resources to subsidize solar industry in hope to support domestic solar industry and curb haze resulting from air pollution. As a result, China became the largest PV market in the world. Chinese officials have set a definite target to reduce the CO2 emissions per unit of GDP by 2020 compared to the 2005 level. To combat exhaust gas, China National Energy Administration specified the installation standards for solar and wind power devices in 2014 and proposed detailed allocation plans in 2015. The government plans to install 100GW and 200GW of solar and wind power, respectively, by 2020. Other major markets, such as U.S. and India, also released various subsidy policies. Those factors continue to drive the growth of solar industry. With increasing demands and continuous restructuring of the solar industry, long-term growth momentum is expected.

PV System Installation by Countries



Source: Bloomberg New Energy Finance (2016/Q4); Company data

D. Competitive Advantage

(a) Widespread and stable source of orders to diversify operational risk

Taiflex is a material supplier specializing in FCCL and PV backsheet. Diversified product lines bring large group of customers, including world-renowned corporations. Well-planned diversification protects the Company from concentration risk and improves operation stability.

(b) Proximity to the market to expedite services

The Company has established comprehensive production lines and well-structured distribution channels in the Greater China Region, the largest production and consumer market in the world. Geographical advantages allow the Company to respond to customers promptly and offer highly flexible supply capability and reasonable prices. It also helps customers to cut down costs which in turn facilitates our long-term strategic cooperation with major customers.

(c) Stable supply of raw materials

Some of the key components for FCCL and PV backsheet are highly oligopolized; therefore, supply chain management and stable supply of raw materials are vital elements in the industry competition. As one of the industry leaders, Taiflex has competitive advantages in purchasing volume and customer portfolio and forms long-term strategic alliances with key raw material suppliers on this basis. Consequently, the Company enjoys greater advantages in obtaining key materials.

(d) Strong research and development capabilities

As a professional supplier of electronic materials, the Company's research and development capabilities are acknowledged by international corporations. Fine adhesives are developed according to customer requirements using the core technology of chemical synthesis. Moreover, long-term relationships with key raw material suppliers facilitate collaborations to satisfy customers' needs for new technology and materials. The Company's research and development team receives positive reviews among peers.

(e) Leading automatic high-precision coating technology

In addition to chemical synthesis technology, Taiflex possesses high-precision coating and pressing technology. The complete range of products can be mass produced using the auto high-precision coating machines. Fine technology in coating and pressing ensures products are of excellent quality and have a wide range of application; for instance, they can be used in FPC, PV backsheet, semiconductor and optical industries. The Company can diversify risks and enhance competitiveness.

(f) Bright future for the industry

Communication devices, tablets and NBs, with their advantages in size, portability and multi-functionality and the development of peripheral devices and software, gradually replace desktops to become the mainstream in PC industry. This factor combines with robust development in communication industry stimulate growth in the related supply chains. FPC is one of the industries that benefits from the progress.

As for the solar market, it has maintained high growth rate in the past decade. Even though the growth momentum slows down in recent years due to a higher base period, with the increasing awareness of anti-nuclear and environmental protection, governments continue to support the solar energy. The industry now shows signs of recovery and potential for long-term growth.

E. Favorable and unfavorable factors for long-term development

(a) Favorable factors:

(i) New innovative applications for FPC guarantee growth momentum

FPCs are traditionally used in NB to connect panels to the mainboard and in CD/DVD-ROMs. However, the demand for thinner and lighter mobile devices in communication and computer markets leads to a surge in smartphones and tablets sales. As smartphones are driven to provide multi-functions, various external components, including touch panels, side keys, and antennas, are added and the number of FPCs used are several times greater than ones consumed by conventional mobile phones. In addition to smartphones and tablets which still demonstrate strong growth potential in the next few years, flat-panel TVs and new mobile devices also use a large quantity of FPCs with the launch of new models. Thus, FPC, along with FCCL, continue to show sustainable growth.

(ii) Good relationships with suppliers

As one of the leading FCCL suppliers, purchasing volume and liquidity of the Company are superior to others. Taiflex also forms strategic alliance with suppliers of key materials to ensure stable supply, which is another competitive advantage over peers. As for the key component of PV backsheet, Tedlar, Taiflex is one of the few companies with sources of supply. The strong strategic alliance provides Taiflex with supports from key suppliers as the industry continues to grow and a competitive edge.

(iii) With governments' continuous support on the development of alternative energy and gradual stabilization in the solar industry, profit margins of large-scaled PV companies are increasing

As prices continue to fall in the solar industry because of aggressive capacity expansion by Chinese competitors and European Sovereign Debt Crisis, the ranking of players is reshuffled. Majority of top 10 players are located in China where the cost of production is low. The industry is moving towards being dominated by large-scale companies.

After adjustments in the past few years, PV industry begins to show signs of positive growth and profitability of international module plants starts to improve. In addition, nations in the Paris climate summit demonstrate their determination in supporting the development of alternative energy. Thus, the overall PV market continues to have a bright future.

As the major supplier of PV backsheet in the Greater China Region with production lines in China, Taiflex possesses advantages in manufacturing costs, delivery time and service quality and becomes one of the key suppliers to Chinese solar companies. With unparalleled advantages in economy of scale and robust market growth, China will be a vital PV market and Chinese solar companies are expected to dominate the industry. Taiflex intends to grow with customers and maintains the competitive edge.

(b) Unfavorable factors:

(i) Key raw materials are concentrated on few vendors

As some of the key materials for FCCL and PV backsheet (primary products of the Company) have high technology barriers to entry, qualified suppliers are mostly international corporations in Japan and US. Key materials for FCCL include polyimide (PI) from DuPont and Taimide Technology, rolled annealed Copper foil (RA Copper) from Nippon Mining in Taiwan, and electrodeposited copper foil (ED copper) from Mitsui Kinzoku. Tedlar, the key material for PV backsheet, is primarily provided by DuPont. The said purchase policy is determined based on stability of products and customer requests. The supply of key raw materials is concentrated on a few international corporations.

Countermeasures:

① To maintain good relationship with other vendors as a secondary source of supply to ensure competitive prices and sufficient supply

② To build a sound feedback mechanism. Opinions from customers of the Company would be summarized and communicated to suppliers to facility relevant testing, improve product quality and strengthen the relationships.

(ii) Rapid price erosion

With fierce competitions in the consumer electronics and solar industries, gross profit is eroded and customers continuously ask for price cuts. Those factors combine with price competitions from peers result in enormous pressure to lower the prices.

Countermeasures:

① To expand market share with superior quality and solid relationship with customers to enhance equipment efficiency and product yield, and effectively lower the product cost.

② To improve bargaining power with large volume purchases to lower material costs

③ To forge strategic alliance with international corporations to secure orders and strengthen technology.

(2) Main applications and production procedures for key products

A. Main application for key products

Key products of the Company include Coverlay, FCCL and PV backsheet. Their main applications are as follows:

- Coverlay: Protect FPC against oxidation
- FCCL: Connect external components to the mainboard and extend circuit wirings. Widely used in electronic products, including NB, mobile phone, hard drive, CD/DVD-ROM, calculator, V8 camera, stereo, DVD player, Optoelectronic Display, IC substrate and LCD
- PV backsheet: Seal the back surfaces of PV modules against air and water, and protect those modules against damages from outdoor weather

B. Production procedures

Product				
Process Flow	Coverlay	3L-FCCL	2L-FCCL	PV Backsheet
	Adhesive mixing	Adhesive mixing	Mixing	Mixing
	Filtering	Filtering	Coating	Coating
	Coating	Coating	Curing	Curing
	Drying	Drying	Thermal Imidization	Slitting
	Laminating	Laminating	Slitting	Packaging
	Rolling	Rolling	Packaging	Warehousing
	Slitting	Re-rolling	Warehousing	-
	Packaging	Setting	-	-
	Warehousing	Slitting	-	-
	-	Packaging	-	-
	-	Warehousing	-	-

(3) Supply of key raw materials

Raw Material	Main Source	Supply
PI Film	Japan, U.S., Taiwan	Good
Copper foil	Japan	Good
PET Film	Taiwan, China	Good
Release film	Japan	Good
Tedlar	U.S.	Good

Given the advanced technologies and economy of scale possessed by Japanese and U.S. suppliers, they provide majority of upstream materials. To maintain product stability and meet customers' requests, the Company purchases materials from a small number of major material suppliers abroad. However, the Company also maintains strong relationship with other vendors of the same products to ensure price competitiveness and sufficient supply of materials to diminish the risk of purchase concentration. In whole, Taiflex maintains solid relationships with raw material suppliers. There has been no shortage or interruption of supply and the quality and delivery schedule have been normal.

(4) Suppliers/Customers account for 10% or more of the Company's total purchase/ revenue in 2015 and 2016:

A. Key suppliers in 2015 and 2016

(In Thousands of New Taiwan Dollars)

	2015				2016			
Item	Name	Amount	Percentage to Annual Net Purchase (%)	Relationship with the Company	Name	Amount	Percentage to Annual Net Purchase (%)	Relationship with the Company
1	Supplier A	1,705,741	26.69	None	Supplier A	2,026,698	26.75	None
					Supplier B	967,973	12.77	
	Others	4,684,417	73.31		Others	4,582,613	60.48	
	Net Purchase	6,390,158	100.00		Net Purchase	7,577,284	100.00	

Note 1: Net purchase includes processing fee.

Note 2: As of the date of this annual report, CPA-audited or reviewed financial information of the latest period is not available; therefore, it is not disclosed.

Variance Analysis:

The Company's suppliers of key raw materials are long-term business partners with a steady supply of quality products. Other than small changes due to requests from customers, there is no significant change in supplier ranking.

B. Key customers in 2015 and 2016

In 2015 and 2016, no customer accounts for 10% or more of the Company and its subsidiaries' total revenue.

(5) Production in 2015 and 2016

(In Thousands of New Taiwan Dollars; Thousands of M^2)

Year	2015			2016		
Production / Product	Capacity (Note 2)	Output	Amount	Capacity (Note 2)	Output	Amount
Electronic Materials	-	27,466	3,860,959	-	36,993	5,855,227
PV Backsheet	-	30,381	3,941,666	-	24,253	3,188,240
Others	-	4,213	217,457	-	3,707	158,167
Total	80,431	62,060	8,020,082	80,431	64,953	9,201,634

Note 1: Capacity refers to production quantity generated by existing machinery and equipment under normal operation after incorporating factors such as necessary shutdown and holidays.

Note 2: The same machinery and equipment can be used for different products; therefore, capacity is calculated on an aggregate basis.

(6) Shipments and Sales in 2015 and 2016

(In Thousands of New Taiwan Dollars; Thousands of M^2)

Year	2015				2016			
Shipment/Sales Product	Domestic		Overseas		Domestic		Overseas	
	Shipment	Sales	Shipment	Sales	Shipment	Sales	Shipment	Sales
Electronic Materials	14,321	1,896,089	13,032	3,709,129	12,382	1,397,064	17,448	5,057,985
PV Backsheet	2,068	227,592	28,112	4,200,540	684	64,414	24,027	3,581,115
Others	3,062	142,087	1,593	92,431	1,264	67,574	2,556	115,827
Total	19,451	2,265,768	42,737	8,002,100	14,330	1,529,052	44,031	8,754,927

3. Human Resources

(No. of people; %)

Item	Year	2015	2016	As of March 31, 2017
No. of Employees	Direct	565	527	565
	Indirect	593	595	600
	Total	1,158	1,122	1,165
Average Age		34.34	34.31	34.11
Average Year of Service		4.57	4.69	4.58
Education	Ph.D.	1.04	1.07	1.03
	Master’s Degree	14.42	12.85	12.38
	Bachelor’s Degree	50.86	54.51	53.85
	Senior High School	31.43	30.06	31.36
	Below Senior High School	2.25	1.51	1.38

Note: Number of employees is calculated based on personnel at work.

4. Expenditure Related to Environmental Protection

(1) In the past two years and as of the date of this annual report, the aggregate amount of loss (including indemnity) and punishment as a result of pollution: None.

(2) Action plans (including improvement measures) and expected spending: None.

5. Industrial Relations

(1) Employees' welfare, education, training and pension, employee relations and protection of employees' rights:

A. Employee Welfare

(a) Medical treatment and insurance coverage:

(i) Group and life insurances: Based on the nature of their work, employees are entitled to life insurance, total and permanent disability insurance, critical illness insurance, occupational injury insurance, accidental injury insurance, cancer insurance, etc. Premiums are paid by the Company. Employees' family dependents can participate in the insurance scheme at a discounted rate.

(ii) Periodic health check-up:

① New employee: New employees are entitled to physical examination

② Employees: Comprehensive health check-ups for all employees and specific ones for personnel engaging in special operations are conducted annually

(b) Profit sharing:

Employee bonus and stock options are distributed in accordance with laws and regulations, Articles of Incorporation and relevant Procedures.

(c) Cash gifts:

Cash gifts for important festivals, birthday, wedding and new babies, subsidies for hospitalization and education of employees' children

(d) Activities:

Welfare committee would organize activities such as trips, family day, year-end party, free movies, various ball games and fun contests, etc.

(e) Facilities:

Cafeterias, coffee machines, dormitory, parking lots, reading area, nursery room, fridges reserved for nursing mothers, sports field, official vehicles, electric vehicles, bicycles, exercise equipment, blind massage sessions, etc.

(f) Clubs:

Clubs of charity, bicycle, running, softball, basketball, hiking, mountain climbing, badminton, shrimp fishing, etc.

(g) Employee of the year:

3-day official leave, exclusive business card and parking space, travel fund

B. Employee education and training

(a) Training sessions:

(i) For long-term development of the Company and enhancement of employee quality, the budget for education and training is set to be 3% of overall salary in the previous year. The amount is divided into the following categories:

① Internal training: to have qualified consulting firms or professional lecturers to hold various sessions in the Company

② External training: employees would attend sessions held at training institutions based on specific job requirement.

③ License: hours of training on professional qualification requested by competent authorities

④ Language: subsidies to employees learning languages due to personal interest or job requirement

(ii) Work environment and safety training for employees:

① New recruits: We provide safety and health trainings, such as general knowledge on safety and health, special safety and health training, firefighting drill and chemical disaster response procedures, to new recruits

② Employees: Based on actual job requirements, the Company provides trainings on safety and health and certification to enhance employees' knowledge and capabilities in emergency situations.

③ Contractor: Besides submitting relevant application documents, contractors shall be informed of safety precautions and preventive measures before commencement of work and contractor management system shall be implemented to ensure the safety of contractors and employees.

(b) The Company arranges training sessions based on job and professional requirements, aiming to enhance employees' knowledge and quality in order to improve operational performance.

Employee education and training expenses amounted to NT$ 5,656 thousand in 2016. Classes are summarized as follows:

Category	Duration
Training of New Recruits	2,454.5
Language Training	2,449.0
Quality Control Circle	1,222.0
Internal Training	762.0
Manners	376.5
Production Management	798.0
Engineering Technology	2,538.5
Marketing and Sales	468.5
Human Resource	349.0
Research and Development	529.0
Finance and Purchase	124.0
Quality System	1,175.0
Project Management	444.0
Operational Management	650.0
Administrative Management	648.0
Occupational and Environmental Safety	674.0

Category	Duration
Internal Audit and Control	60.0
Information Technology	188.0
Use and Teaching of Computer Data	494.5
Seminar	244.0
Others	1,555.0
Total	18,203.5

(Note) Duration is calculated based on sessions, attendance and class hours. It combines internal and external sessions.

(c) Certification obtained by the Company's financial personnel:

(i) Financial supervisors obtained the certifications from "Professional Certification for Finance and Accounting Managers in Public Companies" held by Accounting Research and Development Association

(ii) Two persons obtained CPA certification from Ministry of examination

(iii) Five persons obtained Professional Shareholder Service Personnel Certification issued by Securities & Futures Institute

(iv) Four persons obtained Basic Skills of Internal Control of Corporations Certification issued by Securities & Futures Institute.

(v) Four persons obtained High Level Sales Representative in Stock Company Certification issued by Securities & Futures Institute.

(vi) One persons obtained Certificate for Professional Test on Trust Businesses issued by Taiwan Academy of Banking and Finance

(vii) One person obtained Basic Proficiency Test for International Banking Personnel issued by Taiwan Academy of Banking and Finance

(viii)One person obtained Basic Proficiency Test for Bank Lending Personnel issued by Taiwan Academy of Banking and Finance

C. Retirement system:

Pension Policy of the Company is established based on the Labor Standards Act. For statutory compliance, the Company has increased its contribution from an amount equivalent to 2% of the employees' total salaries and wages to 6% on a monthly basis to the pension fund managed by the administered pension fund committee since August, 2015.

The Labor Pension Act took effect on July 1, 2005 and adopted a defined contribution plan. Employees can choose the pension systems under the Labor Standards Act or the one under the Labor Pension Act and retain prior seniority. For the defined contribution plan, the Company will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan.

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

D. Industrial relations and employee welfare:

The Company has maintained a good industrial relation. Frequent communication and coordination facilitate the Company and employees in reaching consensus and smooth the work flow.

(a) Monthly employee meetings: Meetings are held as a channel for communication, training and promotion of policies. Agenda include performance of the Company, quality goal, environmental policy, eco-concepts, public safety, knowledge or concepts in disaster prevention and other work-related issues. Those meetings help to cultivate fine traditions and provide a co-learning environment for employees and Company.

(b) Department meetings: Meetings are served as a channel for communication, problem-finding and policy promotion, so that employees can fully understand the technical, safety and health and quality control aspects of the production process and to voice their thoughts in order to reach consensus.

(c) Employees can communicate with management regarding welfares and improve the relationship through labor-management meetings, afternoon teas and meetings of employee welfare committee. Recommendations from those meetings would be used as reference for administrative management.

(d) The Company has established Code of Conduct for employees to follow.

(e) The Company has established Procedures for Management of Vendor Working Permits to ensure the safety of employees and work environment.

(f) The Company has established Rules for Occupational Safety and Health and a dedicated unit (Safety & Environmental Protection Division) pursuant to the Occupational Safety and Health Act. The division reports directly to the President. Occupational Safety and Health Committee is also established for employees to participate in the planning and organizing of safety, health promotion and environmental protection events and proactively take parts in relevant activities to ensure their safety and health and prevent occupational disasters.

(2) Loss incurred due to industrial disputes, estimated amount at present or in the future and actions taken in 2016 and as of the date of this annual report:

There has been no industrial dispute in the history of Taiflex. The Company strives to implement various employees' benefits to avoid losses from the disputes.

(3) Code of Conduct or Ethics:

The Company has established Code of Conduct for employees to follow.

Extracts from the Code of Conduct are as follows:

Article 24: Permissions of direct supervisors shall be obtained before temporary leave during office hour.

Article 25: No visitors are allowed except for recess periods, unless prior approvals from supervisors are obtained due to special circumstances.

Article 137: Bribe, corruption, blackmail or embezzlement

Bribe, corruption, blackmail and embezzlement are strictly forbidden. All employees are prohibited to participate in any forms of bribe, corruption, blackmail or embezzlement. Violation of rule could result in termination of employment and prosecution.

Article 138: Information disclosure

The Company shall comply with relevant laws and regulations and industry practice when disclosing information of labor, health and safety, environmental protection, commercial activities, organization and structures, financial status and sales. The status and practice of supply chain shall not be forged nor falsely stated.

Article 139: Illegal profit is prohibited

The Company shall not offer or receive bribes or obtain illegal profits through any means.

Article 140: Fair trade, advertisement and competition

The Company shall follow the principle of fair trade in advertisement, sales and competition.

Article 141: Protection of whistleblowers and anonymous complaints

The Company shall establish mechanism or communication procedures to protect the confidentiality of the Company and the whistleblower. Revenge on employees participating in the scheme in good-faith or rejecting orders from vendors in violation of the Code is prohibited. Means shall be provided for employees to file work place complaints anonymously pursuant to local laws and regulations without being fearful of retaliation.

Article 142: Community participation

The Company encourages every employee to participate in community activities to support social and economic development and contribute to the sustainability of the community where the Company located.

Article 156: All employees shall endeavor to protect “confidential information” obtained or held during the employment and follow the regulations or instructions of the Company with regard to the information. Other than during normal course of business, employees shall not disclose, inform, deliver or in any means transfer or provide the “confidential information” to a third-party company, nor shall them make public announcement or utilize the information for their own or any third-party’s benefit without prior written consent. Upon termination or discharge of employment, employees agree to abide by the rules until the information was made public or no longer confidential.

(4) Safety measures at work place:

Category	Details
Access Security	1 The Company has established "Regulations Governing Fab Access", "Procedures for Security Guards on Duty", etc. to specify the routes for personnel entering the factory premises in order to maintain the safety of factories and all personnel. 2 Stringent surveillance on all exterior and major interior entrances and exits using security camera or access security system. 3 Security guards are situated in Factory One and Three at all times, and in Factory Two at night time to assist with securing the premises. 4 Quarterly inspection and maintenance on security camera and access security systems. 5 All factories have security systems with on-line connection to the security firm. 6 Monthly education and training sessions for security guards, simulating all possible scenarios and carrying out security drills.
Equipment Maintenance	1 Annual public safety inspection by specialized company in accordance with Regulations for Inspecting and Reporting Buildings Public Security. 2 In accordance with the Fire Services Act, annual fire safety inspection shall be conducted by external parties and periodic maintenance and inspection of fire safety equipment shall be performed. 3 Pursuant to the Regulations for Management of Occupational Safety and Health, periodic maintenance and inspection on high/low pressure electrical equipment, dangerous equipment/machineries, ventilation systems, drinking fountains…etc. shall be performed.
Disaster Prevention and Response	1 The Company has stipulated "Rules for Occupational Safety and Health", "Emergency Procedures", "Regulations for Emergency Management Services and Investigations"…etc. to clearly define individual's responsibilities and tasks in major events such as fire and floods. Sessions on preventive measures and drills are held regularly. 2 The Company invites local fire department to hold lectures on fire drills and safety annually, and participates in local fire unions to maintain operation safety in the neighborhood. 3 The Company establishes a first-class, professional safety and health department, the Safety & Environmental Protection Division, to promote safety and health related activities.
Physical Health	1 Health checkup: New recruits are required to take pre-employment health checkups. Present employees are entitled to periodic health screenings at a shorter interval than what is required by laws. Based on the test results, specialized personnel will make recommendations on relevant health management plans. 2 Work environment: Periodic disinfection and cleaning of the premises by specialized personnel.

Category	Details
	3 Sessions of health education and sports competitions to improve relevant knowledge and health awareness. 4 Ergonomic hazard prevention, control measures for labor overload, and guidelines for maternity health protection.
Mental Health	1 Education and training: provide lectures of stress relief and communication techniques to assist employees with mental adjustment. 2 Feedback: Set up suggestion boxes in all factories and employee discussion forum on the company website to provide an outlet for employees to express ideas and thoughts. 3 Prevention of violence and sexual harassment: Set up means to file complaints and establish rules on penalties.
Management of Contractor Operations	The Company establishes “Rules Governing the Management of Contractors’ Workplace and Safety and Health” to prevent occupational hazard, protect the safety and well-being of contractors and Company employees, and define contractors’ rights and responsibilities regarding safety and health issues. The Rules are served as the basis for managing contractors.
Insurance and Medical Relief	The Company participates in employee’s labor insurance and national health insurance in compliance with relevant regulations. Pursuant to the Labor Insurance Act and Enforcement Rules of the Labor Insurance Act issued by the Ministry of Labor, the Company assists employees in apply for insurance benefit payments from the Bureau of Labor in instances of child birth, injury, illness, disability, seniority and death. In addition, the Company also provides group insurances paid by the Company. The insurance policy covers life insurance, critical illness insurance, accidental injury insurance, accidental medical and hospitalization cover, and cancer treatment insurance. Employees’ family dependents can participate in the insurance scheme at their own expenses at a special rate. Employees are also entitled to cash gifts for new babies and reliefs for hospitalization.

6. Material Contracts

Nature	Counterparty	Duration	Description	Covenant
Land Lease	Kaohsiung Export Process Zone Administration, Ministry of Economic Affairs	2008.03.05 - 2018.02.028	Land lease	No sub-lease, transfer or sub-lent
Long-term loans	Bank of Taiwan and others	2015.03.21 - 2017.03.21	Syndicated Loan	Syndicated loan agreement
Long-term loans	Bank of Taiwan and others	2016.06.15 - 2021.06.15	Syndicated Loan	Syndicated loan agreement

VI. Financial Highlights

1. Condensed Balance Sheet and Statement of Comprehensive Income from 2012 to 2016

(1) International Financial Reporting Standards:

Condensed Consolidated Balance Sheet

(In Thousands of New Taiwan Dollars)

Item \ Year		Highlights from 2012 to 2016 (Note 1)				
		2012	2013	2014	2015	2016
Current Assets		-	8,916,609	9,392,639	8,856,609	8,683,857
Property, Plant and Equipment		-	2,367,002	2,422,737	2,694,435	2,789,520
Intangible Assets		-	119,595	117,086	119,480	113,598
Other Assets (Note 2)		-	191,574	250,322	208,183	210,679
Total Assets		-	11,594,780	12,182,784	11,878,707	11,797,654
Current Liabilities	Before Distribution	-	3,281,520	3,837,299	3,866,032	3,939,432
	After Distribution	-	3,791,461	4,443,149	4,269,968	(Note 3)
Non-Current Liabilities		-	1,909,508	1,589,799	1,193,398	1,092,863
Total Liabilities	Before Distribution	-	5,191,028	5,427,098	5,059,430	5,032,295
	After Distribution	-	5,700,969	6,032,948	5,463,366	(Note 3)
Equity Attributable to Shareholders of the Parent		-	6,250,099	6,598,919	6,685,184	6,665,049
Capital		-	2,039,254	2,042,678	2,042,858	2,083,252
Capital Surplus		-	1,436,848	1,447,619	1,447,952	1,407,558
Retained Earnings	Before Distribution	-	2,756,079	3,126,822	3,231,743	3,347,656
	After Distribution	-	2,246,138	2,520,972	2,827,807	(Note 3)
Other Components of Equity		-	17,918	80,544	61,375	(74,673)
Treasury Shares		-	-	(98,744)	(98,744)	(98,744)
Non-controlling Interests		-	153,653	156,767	134,093	100,310
Total Equity	Before Distribution	-	6,403,752	6,755,686	6,819,277	6,765,359
	After Distribution	-	5,893,811	6,149,836	6,415,341	(Note 3)

Note 1: The above figures were audited by CPAs and prepared in conformity with International Financial Reporting Standards (IFRSs) endorsed by FSC.

Note 2: Other Assets are non-current assets excluding Property, Plant and Equipment and Intangible Assets.

Note 3: As of March 31, 2017, earnings for 2016 are pending for approvals from Shareholders' Meeting.

Note 4: As of the date of this annual report, CPA-audited or reviewed financial information of the latest period is not available; therefore, it is not disclosed.

Condensed Consolidated Statement of Comprehensive Income

(In Thousands of New Taiwan Dollars)

Year / Item	Highlights from 2012 to 2016 (Note 1)				
	2012	2013	2014	2015	2016
Net Revenue	-	10,138,227	10,127,720	10,267,868	10,283,979
Gross Profit, Net	-	2,169,433	2,256,436	2,164,720	1,895,651
Operating Income (Loss)	-	1,112,458	1,009,918	1,049,120	954,586
Non-operating Income and Expenses	-	166,219	97,265	(181,850)	(271,188)
Income Before Income Tax	-	1,278,677	1,107,183	867,270	683,398
Net Income of Continuing Operations	-	1,025,446	884,979	707,308	546,610
Loss from Discontinued Operations	-	-	-	-	-
Net Income	-	1,025,446	884,979	707,308	546,610
Other Comprehensive Income, Net of Tax	-	64,957	61,445	(38,381)	(196,592)
Total Comprehensive Income (Loss)	-	1,090,403	946,424	668,927	350,018
Net Income (Loss) Attributable to Shareholders of the Parent	-	1,005,346	882,421	729,856	579,678
Net Income (loss) Attributable to Non-controlling Interests	-	20,100	2,558	(22,548)	(33,068)
Total Comprehensive Income (Loss) Attributable to Shareholders of the Parent	-	1,070,303	943,310	691,601	383,801
Total Comprehensive Income (Loss) Attributable to Non-controlling Interests	-	20,100	3,114	(22,674)	(33,783)
Earnings per Share	-	4.86	4.24	3.54	2.81

Note 1: The above figures were audited by CPAs and prepared in conformity with IFRSs endorsed by FSC.

Note 2: As of the date of this annual report, CPA-audited or reviewed financial information of the latest period is not available; therefore, it is not disclosed.

Condensed Balance Sheet

(In Thousands of New Taiwan Dollars)

Item \ Year		Highlights from 2012 to 2016 (Note 1)				
		2012	2013	2014	2015	2016
Current Assets		-	7,671,206	7,135,898	6,309,771	5,312,441
Property, Plant and Equipment		-	1,261,925	1,353,023	1,725,671	1,936,821
Intangible Assets		-	24,724	27,916	32,560	36,897
Other Assets (Note 2)		-	2,009,369	2,259,551	2,354,510	2,205,832
Total Assets		-	10,967,224	10,776,388	10,422,512	9,491,991
Current Liabilities	Before Distribution	-	2,922,380	2,891,113	2,833,355	1,936,230
	After Distribution	-	3,432,321	3,496,963	3,237,291	(Note 3)
Non-Current Liabilities		-	1,794,745	1,286,356	903,973	890,712
Total Liabilities	Before Distribution	-	4,717,125	4,177,469	3,737,328	2,826,942
	After Distribution	-	5,227,066	4,783,319	4,141,264	(Note 3)
Equity Attributable to Shareholders of the Parent		-	6,250,099	6,598,919	6,685,184	6,665,049
Capital		-	2,039,254	2,042,678	2,042,858	2,083,252
Capital Surplus		-	1,436,848	1,447,619	1,447,952	1,407,558
Retained Earnings	Before Distribution	-	2,756,079	3,126,822	3,231,743	3,347,656
	After Distribution	-	2,246,138	2,520,972	2,827,807	(Note 3)
Other Components of Equity		-	17,918	80,544	61,375	(74,673)
Treasury Shares		-	-	(98,744)	(98,744)	(98,744)
Non-controlling Interests		-	-	-	-	-
Total Equity	Before Distribution	-	6,250,099	6,598,919	6,685,184	6,665,049
	After Distribution	-	5,740,158	5,993,069	6,281,248	(Note 3)

Note 1: The above figures were audited by CPAs and prepared in conformity with IFRSs endorsed by FSC.

Note 2: Other Assets are non-current assets excluding Property, Plant and Equipment and Intangible Assets.

Note 3: As of March 31, 2017, earnings for 2016 are pending for approvals from Shareholders' Meeting.

Note 4: As of the date of this annual report, CPA-audited or reviewed financial information of the latest period is not available; therefore, it is not disclosed.

Condensed Statement of Comprehensive Income

(In Thousands of New Taiwan Dollars)

Item \ Year	Highlights from 2012 to 2016 (Note 1)				
	2012	2013	2014	2015	2016
Net Revenue	-	8,000,478	7,411,756	6,528,844	6,712,397
Gross Profit, Net	-	1,377,649	1,519,169	1,510,128	1,307,674
Operating Income (Loss)	-	648,871	610,701	785,719	710,292
Non-operating Income and Expenses	-	588,998	469,907	90,634	12,785
Income Before Income Tax	-	1,237,869	1,080,608	876,353	723,077
Net Income of Continuing Operations	-	1,005,346	882,421	729,856	579,678
Loss from Discontinued Operations	-	-	-	-	-
Net Income	-	1,005,346	882,421	729,856	579,678
Other Comprehensive Income (Loss), Net of Tax	-	64,957	60,889	(38,255)	(195,877)
Total Comprehensive Income	-	1,070,303	943,310	691,601	383,801
Earnings per Share	-	4.86	4.24	3.54	2.81

Note 1: The above figures were audited by CPAs and prepared in conformity with IFRSs endorsed by FSC.

Note 2: As of the date of this annual report, CPA-audited or reviewed financial information of the latest period is not available; therefore, it is not disclosed.

(2) ROC GAAP:

Condensed Consolidated Balance Sheet

(In Thousands of New Taiwan Dollars)

Item \ Year		Highlights from 2012 to 2016 (Note)				
		2012	2013	2014	2015	2016
Current Assets		6,957,664	-	-	-	-
Funds and Investments		42,403	-	-	-	-
Fixed Assets		2,163,227	-	-	-	-
Intangible Assets		144,103	-	-	-	-
Other Assets		65,724	-	-	-	-
Total Assets		9,373,121	-	-	-	-
Current Liabilities	Before Distribution	3,034,270	-	-	-	-
	After Distribution	3,338,171	-	-	-	-
Long-term Liabilities		651,114	-	-	-	-
Other Liabilities		123,224	-	-	-	-
Total Liabilities	Before Distribution	3,808,608	-	-	-	-
	After Distribution	4,112,509	-	-	-	-
Capital		2,025,707	-	-	-	-
Capital Surplus		1,425,057	-	-	-	-
Retained Earnings	Before Distribution	1,932,855	-	-	-	-
	After Distribution	1,628,954	-	-	-	-
Unrealized Gain (Loss) on Financial Instruments		(2,928)	-	-	-	-
Cumulative Translation Adjustment		50,269	-	-	-	-
Net Loss not Recognized as Pension Cost		-	-	-	-	-
Total Shareholders' Equity	Before Distribution	5,564,513	-	-	-	-
	After Distribution	5,260,612	-	-	-	-

Note: The above figures were audited by CPAs and prepared in conformity with ROC GAAP.

Condensed Consolidated Statement of Income

(In Thousands of New Taiwan Dollars)

Item \ Year	Highlights from 2012 to 2016 (Note)				
	2012	2013	2014	2015	2016
Net Revenue	7,853,228	-	-	-	-
Gross Profit	1,563,657	-	-	-	-
Operating Income (Loss)	782,828	-	-	-	-
Non-operating Income and Gains	85,633	-	-	-	-
Non-operating Expenses and Losses	130,243	-	-	-	-
Income (Loss) Before Tax of Continuing Operations	738,218	-	-	-	-
Net Income (Loss) of Continuing Operations	604,451	-	-	-	-
Income (Loss) from Discontinued Operations	-	-	-	-	-
Extraordinary Gain or Loss	-	-	-	-	-
Cumulative Effect of Changes in Accounting Principles	-	-	-	-	-
Net Income	604,451	-	-	-	-
Earnings per Share	3.00	-	-	-	-

Note: The above figures were audited by CPAs and prepared in conformity with ROC GAAP.

Condensed Balance Sheet

(In Thousands of New Taiwan Dollars)

Item \ Year		Highlights from 2012 to 2016 (Note)				
		2012	2013	2014	2015	2016
Current Assets		5,103,813	-	-	-	-
Funds and Investments		1,742,876	-	-	-	-
Fixed Assets		980,636	-	-	-	-
Intangible Assets		18,873	-	-	-	-
Other Assets		5,644	-	-	-	-
Total Assets		7,851,842	-	-	-	-
Current Liabilities	Before Distribution	1,763,751	-	-	-	-
	After Distribution	2,067,652	-	-	-	-
Long-term Liabilities		533,907	-	-	-	-
Other Liabilities		123,224	-	-	-	-
Total Liabilities	Before Distribution	2,420,882	-	-	-	-
	After Distribution	2,724,783	-	-	-	-
Capital		2,025,707	-	-	-	-
Capital Surplus		1,425,057	-	-	-	-
Retained Earnings	Before Distribution	1,932,855	-	-	-	-
	After Distribution	1,628,954	-	-	-	-
Unrealized Gain (Loss) on Financial Instruments		(2,928)	-	-	-	-
Cumulative Translation Adjustment		50,269	-	-	-	-
Net Loss not Recognized as Pension Cost		-	-	-	-	-
Total Shareholders' Equity	Before Distribution	5,430,960	-	-	-	-
	After Distribution	5,127,059	-	-	-	-

Note: The above figures were audited by CPAs and prepared in conformity with ROC GAAP.

Condensed Statement of Income

(In Thousands of New Taiwan Dollars)

Item \ Year	Highlights from 2012 to 2016 (Note)				
	2012	2013	2014	2015	2016
Net Revenue	5,977,422	-	-	-	-
Gross Profit	1,240,488	-	-	-	-
Operating Income (Loss)	754,911	-	-	-	-
Non-operating Income and Gains	326,232	-	-	-	-
Non-operating Expenses and Losses	335,631	-	-	-	-
Income (Loss) Before Tax of Continuing Operations	745,512	-	-	-	-
Net Income (Loss) of Continuing Operations	620,067	-	-	-	-
Income (Loss) from Discontinued Operations	-	-	-	-	-
Extraordinary Gain or Loss	-	-	-	-	-
Cumulative Effect of Changes in Accounting Principles	-	-	-	-	-
Net Income	620,067	-	-	-	-
Earnings per Share	3.00	-	-	-	-

Note: The above figures were audited by CPAs and prepared in conformity with ROC GAAP.

(3) Names and auditor’s opinions from 2012 to 2016:

Year	CPAs	CPA Firm	Audit Opinion	Remark
2012	Zheng-Chu Chen Hong-Guang Lin	Ernst & Young	An Unqualified Opinion	-
2013	Zheng-Chu Chen Hong-Guang Lin	Ernst & Young	An Unqualified Opinion	-
2014	Zheng-Chu Chen Hong-Guang Lin	Ernst & Young	An Unqualified Opinion	-
2015	Fang-Wen Li Hong-Guang Lin	Ernst & Young	An Unqualified Opinion	Change of CPA due to administrative adjustment within the accounting firm
2016	Fang-Wen Li Hong-Guang Lin	Ernst & Young	An Unqualified Opinion	-

2. Financial Analysis from 2012 to 2016

(1) Financial Analysis (Consolidated)

Item			Financial Analysis from 2012 to 2016 (Note 1)				
		Year	2012	2013	2014	2015	2016
Financial Structure %	Debt Ratio		40.63	44.77	44.55	42.59	42.65
	Long-term Fund to Fixed Assets Ratio		281.16	-	-	-	-
	Long-term Fund to Property, Plant and Equipment Ratio		-	344.72	344.47	297.38	281.70
Liquidity Analysis %	Current Ratio		229.30	271.72	244.77	229.09	220.43
	Quick Ratio		191.30	239.27	217.70	198.27	189.11
	Times Interest Earned		1,549	3,073	1,746	1,357	839
Operating Performance	Average Collection Turnover (Times)		3.22	2.82	2.28	2.23	2.32
	Days Sales Outstanding		113	130	160	164	157
	Inventory Turnover (Times)		5.30	7.99	8.36	7.93	7.46
	Average Payment Turnover (Times)		7.31	6.32	4.74	4.27	3.93
	Average Inventory Turnover Days		69	46	44	46	49
	Fixed Assets Turnover (Times)		3.57	-	-	-	-
	Property, Plant and Equipment Turnover (Times)		-	4.48	4.23	4.01	3.75
	Total Assets Turnover (Times)		0.86	0.96	0.85	0.85	0.86
Profitability	Return on Total Assets (%)		7.05	10.08	7.91	6.36	5.26
	Return on Shareholders' Equity (%)		11.28	-	-	-	-
	Return on Equity (%)		-	17.58	13.78	10.42	8.04
	Paid-in Capital %	Operating Income	38.64	-	-	-	-
		Income Before Income Tax	36.44	-	-	-	-
	Net Income Before Income Tax To Paid-in Capital Ratio (%)		-	62.70	54.20	42.45	32.80
	Net Margin (%)		7.70	10.11	8.74	6.88	5.31
	Earnings Per Share (NT$)		3.00	4.86	4.24	3.54	2.81
Cash Flow	Cash Flow Ratio (%)		16.60	26.83	26.30	25.11	37.97
	Cash Flow Adequacy Ratio (%)		73.61	77.06	81.06	72.32	116.18
	Cash Flow Reinvestment Ratio (%)		1.79	5.77	4.89	3.60	10.72
Leverage	Operating Leverage		2.86	2.37	2.74	2.92	2.92
	Financial Leverage		1.07	1.04	1.07	1.07	1.10

Note 1: Financial figures of 2012 were prepared in conformity with ROC GAAP and audited by CPAs. Financial figures from 2013 to 2016 were prepared in conformity with IFRSs and audited by CPAs.

Note 2: As of the date of this annual report, CPA-audited or reviewed financial information of the latest period is not available; therefore, it is not disclosed.

Explanations for ratios varying by over 20% from 2015 to 2016 are as follows:

A. Liquidity Analysis
   - Decrease in Times Interest Earned: Decrease in income (loss) before income taxes comparing to 2015

B. Operating Performance
   - Decrease in Average Payment Turnover: Adjust payment terms of purchases in accordance with operations within the industry

C. Profitability
   - Decrease in Return on Equity, Net Income Before Income Tax To Paid-in Capital Ratio, Net Margin and Earnings Per Share: Primarily due to a 23% decrease in net income comparing to 2015

D. Cash Flow
   - Increase in Cash Flow, Cash Flow Adequacy and Cash Flow Reinvestment Ratios: Primarily due to an increase in net cash generated by operating activities comparing to 2015

(2) Financial Analysis (Parent Company Only)

Item			2012	2013	2014	2015	2016
Year			Financial Analysis from 2012 to 2016 (Note)				
Financial Structure %	Debt Ratio		30.83	43.01	38.77	35.86	29.78
	Long-term Fund to Fixed Assets Ratio		608.27	-	-	-	-
	Long-term Fund to Property, Plant and Equipment Ratio		-	637.51	582.79	439.78	390.11
Liquidity Analysis %	Current Ratio		289.37	262.50	246.82	222.70	274.37
	Quick Ratio		260.91	247.58	228.34	200.53	246.04
	Times Interest Earned		2,551	6,214	3,316	3,257	3,572
Operating Performance	Average Collection Turnover (Times)		4.58	4.11	3.33	3.38	4.12
	Days Sales Outstanding		80	89	109	108	89
	Inventory Turnover (Times)		10.97	15.11	13.11	9.06	9.56
	Average Payment Turnover (Times)		5.49	4.48	3.10	2.60	3.35
	Average Inventory Turnover Days		33	24	28	40	38
	Fixed Assets Turnover (Times)		6.09	-	-	-	-
	Property, Plant and Equipment Turnover (Times)		-	7.14	5.67	4.24	3.66
	Total Assets Turnover (Times)		0.78	0.85	0.68	0.62	0.67
Profitability	Return on Total Assets (%)		8.38	10.82	8.37	7.10	5.99
	Return on Shareholders' Equity (%)		11.67	-	-	-	-
	Return on Equity (%)		-	17.23	13.74	10.99	8.68
	Paid-in Capital %	Operating Income	37.27	-	-	-	-
		Income Before Income Tax	36.80	-	-	-	-
	Net Income Before Income Tax To Paid-in Capital Ratio (%)		-	60.70	52.90	42.90	34.70
	Net Margin (%)		10.37	12.57	11.91	11.18	8.63
	Earnings Per Share (NT$)		3.00	4.86	4.24	3.54	2.81
Cash Flow	Cash Flow Ratio (%)		46.51	1.60	46.92	39.81	82.30
	Cash Flow Adequacy Ratio (%)		153.24	107.95	114.55	100.40	116.11
	Cash Flow Reinvestment Ratio (%)		6.26	-	9.21	5.80	13.04
Leverage	Operating Leverage		2.18	2.83	3.22	2.52	2.51
	Financial Leverage		1.04	1.03	1.05	1.04	1.03

Note 1: Financial figures of 2012 were prepared in conformity with ROC GAAP and audited by CPAs. Financial figures from 2013 to 2016 were prepared in conformity with IFRSs and audited by CPAs.

Note 2: As of the date of this annual report, CPA-audited or reviewed financial information of the latest period is not available; therefore, it is not disclosed.

Explanations for ratios varying by over 20% from 2015 to 2016 are as follows:

A. Financial Structure

- Increase in Quick and Current Ratios: Well-managed inventories brought down the level of associated current liabilities

B. Operating Performance

- Increase in Average Collection Turnover and Average Payment Turnover: Adjust credit and payment terms in accordance with operations within the industry

C. Profitability

- Decrease in Return on Equity, Net Margin and Earnings Per Share: Primarily due to a 21% decrease in net income comparing to 2015

D. Cash Flow

- Increase in Cash Flow and Cash Flow Reinvestment Ratios: Primarily due to an increase in net cash generated by operating activities comparing to 2015

Financial Analysis is based on the following formulas:

A. Financial Structure
   (a) Debt Ratio = Total Liabilities / Total Assets
   (b) Long-term Fund to Fixed Assets Ratio = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets
   (c) Long-term Fund to Property, Plant and Equipment Ratio = (Equity + Non-current Liabilities) / Net Property, Plant and Equipment

B. Liquidity Analysis
   (a) Current Ratio = Current Assets / Current Liabilities
   (b) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
   (c) Times Interest Earned = Income before Interest and Taxes / Interest Expenses

C. Operating Performance
   (a) Average Collection Turnover = Net Revenue / Average Trade Receivables (includes accounts receivable and notes receivable from operations)
   (b) Days Sales Outstanding = 365 / Average Collection Turnover
   (c) Inventory Turnover = Cost of Revenue / Average Inventory
   (d) Average Payment Turnover = Cost of Revenue / Average Trade Payables (includes accounts payable and notes payable from operations)
   (e) Average Inventory Turnover Days = 365 / Inventory Turnover
   (f) Fixed Assets Turnover = Net Revenue / Net Fixed Assets
   (g) Property, Plant and Equipment Turnover = Net Revenue / Average Net Property, Plant and Equipment
   (h) Total Assets Turnover = Net Sales / Average Total Assets

D. Profitability Analysis
   (a) Return on Total Assets = (Net Income (Loss) + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets
   (b) Return on Shareholders' Equity = Net Income (Loss) / Average Shareholders' Equity
   (c) Return on Equity = Net Income (Loss) / Average Equity
   (d) Net Margin = Net Income (Loss) / Net Revenue
   (e) Earnings Per Share = (Net income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding
   (f) Earnings Per Share = (Net income attributable to Shareholders of the Parent - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

E. Cash Flow
   (a) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
   (b) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
   (c) Cash Flow Reinvestment Ratio = (Net Cash Provided by Operating Activities - Cash Dividends) / (Gross Fixed Assets + Long-term Investments + Other Assets + Working Capital)
   (d) Cash Flow Reinvestment Ratio = (Net Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant and Equipment + Long-term Investments + Other Non-current Assets + Working Capital)

F. Leverage
   (a) Operating Leverage = (Net Revenue - Variable Cost) / Operating Income
   (b) Financial Leverage = Operating Income / (Operating Income - Interest Expenses)

3. Supervisors' Review Report for 2016

Supervisors' Review Report

The Board of Directors has prepared the Company's 2016 operation report, consolidated and parent company only financial statements and earnings distribution proposal. The consolidated and parent company only financial statements were audited by independent auditors, Fang-Wen Li and Hong-Guang Lin, of Ernst & Young with independent auditors' reports issued.

The above-mentioned operation report, consolidated and parent company only financial statements and earnings distribution proposal have been reviewed and determined to be in conformity with the Company Act and associated regulations. Thus, according to Article 219 of the Company Act, we hereby submit this report.

Taiflex Scientific Co., Ltd.

Supervisor: Chuan-Sheng Kao

Supervisor: Pai-Chun Wu

Supervisor: Fuding Investment Co., Ltd.

Representative: Re-Zhang Lin

February 23, 2017

4. Audited Consolidated Financial Statements for the Years Ended December 31, 2016 and 2015

Please refer to page 123 to 204.

5. Audited Parent Company Only Financial Statements for the Years Ended December 31, 2016 and 2015

Please refer to page 205 to 278.

6. The Company Should Disclose the Financial Impact to the Company if the Company and Its Affiliate Have Incurred any Financial or Cash Flow Difficulties in 2016 and as of the Date of this Annual Report

The Company and its affiliates did not incur any financial or cash flow difficulties in 2016 and as of March 31, 2017.

VII. Review and Analysis of Financial Position and Performance and Associated Risks

1. Financial Position

(1) Reasons and Impact of Significant Changes in Asset, Liability and Equity

(In Thousands of New Taiwan Dollars)

Item \ Year	2016	2015	Difference	
			Increase (Decrease)	%
Current Assets	8,683,857	8,856,609	(172,752)	(1.95)
Long-term Investment	0	0	0	0.00
Property, Plant and Equipment	2,789,520	2,694,435	95,085	3.53
Intangible Assets	113,598	119,480	(5,882)	(4.92)
Deferred Income Tax Assets	129,825	125,309	4,516	3.60
Other Non-current Assets	80,854	82,874	(2,020)	(2.44)
Total Assets	11,797,654	11,878,707	(81,053)	(0.68)
Current Liabilities	3,939,432	3,866,032	73,400	1.90
Non-current Liabilities	1,092,863	1,193,398	(100,535)	(8.42)
Total Liabilities	5,032,295	5,059,430	(27,135)	(0.54)
Total Capital	2,083,252	2,042,858	40,394	1.98
Capital Surplus	1,407,558	1,447,952	(40,394)	(2.79)
Retained Earnings	3,347,656	3,231,743	115,913	3.59
Other Components of Equity	(173,417)	(37,369)	(136,048)	364.07
Non-controlling Interests	100,310	134,093	(33,783)	(25.19)
Total equity	6,765,359	6,819,277	(53,918)	(0.79)

Significant variance:

A. The decrease in Other Components of Equity was mainly due to the exchange differences on translation of foreign operations.

B. The decrease in Non-controlling Interests arose from increased loss incurred by investees.

2. Financial Performance

(1) Reasons for Significant Changes in Revenue, Operating Income and Income before Income Tax:

(In Thousands of New Taiwan Dollars)

Item \ Year	2016	2015	Difference	
			Increase (Decrease)	%
Net revenue	10,283,979	10,267,868	16,111	0.16
Cost of revenue	8,388,328	8,103,148	285,180	3.52
Gross profit, net	1,895,651	2,164,720	(269,069)	(12.43)
Operating expenses	941,065	1,115,600	(174,535)	(15.64)
Operating Income	954,586	1,049,120	(94,534)	(9.01)
Non-operating Income and Expenses	(271,188)	(181,850)	(89,338)	49.13
Income before Income Tax	683,398	867,270	(183,872)	(21.20)
Less: Income Tax Expense	136,788	159,962	(23,174)	(14.49)
Net Income	546,610	707,308	(160,698)	(22.72)

Significant variance:

A. The increase in net Non-operating Expenses was the result of an increase in net foreign exchange loss.

B. The decrease in Income before Income Tax and Net Income was due to the decrease in gross margin and increase in exchange loss.

(2) Expected Sales Volume in 2017 with Basis and Its Impact on the Company's Finance and Business:

Based on factors including expected growth potential of end market, competition in the industry, capacity planning of customers and advancement in technology, the Company expects a slight increase in 2017 sales. It would have a positive impact on the Company's finance and business.

(3) Industry-specific Key Performance Indicator (KPI):

KPIs can be set for finance, customer relation, process, and organizational growth and education aspects. Based on those four aspects, KPIs are developed in accordance with the Company's philosophy and strategies.

Finance KPIs of the Company include debt ratio, operating cycle (days sales outstanding + days inventory outstanding - days payable outstanding), fixed assets turnover, return on shareholders' equity and net margin.

In addition to periodic review of finance KPIs, the Company establishes non-finance KPIs such as market shares, yields, sales percentage of major customers, and productivity of employees. The Company manages peer competitions and comprehends the dynamics of industry through data collection and analysis.

3. Cash Flows

(1) Variance Analysis of Cash Flows in 2016:

(In Thousands of New Taiwan Dollars)

Cash, Beginning of Year	Net Cash Provided by Operating Activities	Net Increase in Cash	Cash, End of Year	Remedies for Cash Shortage	
				Investment Plans	Financing Plans
2,729,235	1,495,852	252,973	2,982,208	-	-

Analysis of variance:

A. Operating Activities: Mainly due to net income and collection of accounts receivable which generates cash provided by operating activities

B. Investing Activities: Mainly due to investment in equipment

C. Financing Activities: Mainly due to the repayment of bank loans and distribution of cash dividends

(2) Liquidity Analysis for 2017:

Cash, Beginning of Year	Net Cash Provided by Operating Activities	Net Increase in Cash	Cash, End of Year	Remedies for Cash Shortage	
				Investment Plans	Financing Plans
2,982,208	906,625	(34,458)	2,947,750	-	-

Analysis: We do not expect any cash shortage in 2017.

4. Major Capital Expenditures in 2016 and Their Impacts on the Company's Finance and Business

On the consolidated basis, the Company paid NT$ 452 million for the acquisition of fixed assets in 2016. This amount was equivalent to 4.39% of net revenue and had no significant impact on the Company's financial status.

5. 2016 Reinvestment Policies, Main Reasons for Investment Gains or Losses, Improvement Plans and 2017 Investment Plans

The Company's reinvestment policies stress the importance of operation strategy and industry trends for long-term investment. Profits from investments under equity method increased to NT$ 316 thousand for the year ended December 31, 2016 (NT$ 0 thousand on the consolidated basis), as profitability of investees improved. We will continue to focus on strategic investments in relation to our core business and prudently review future reinvestment plans based on operational demands and development strategy.

6. Risk Analysis and Assessment:

(1) Impacts of fluctuations in interest rate and foreign exchange rate and inflation on the Company's profitability and associated action plans

A. Impacts of interest rate fluctuations in 2016 on the Company's profitability and associated action plans:

(In Thousands of New Taiwan Dollars)

Item	2016
Net Interest Income (Expense) (1)	(72,830)
Net Revenue (2)	10,283,979
Operating Income (3)	954,586
(1)/(2)	(0.71%)
(1)/(3)	(7.63%)

The Company incurred interest expense of NT$ 72,830 thousand in 2016, which was 0.71% and 7.63% of revenue and operating income, respectively, for the same period. The percentages increased comparing to 2015 due to increased short-term loans to meet capital demands and higher interest rates. 1% increase in the market interest rate would increase the Company's annual interest expense by NT$ 12,720 thousand. To hedge the interest rate risk, the Company adopts the following actions:

(a) To establish a sound financial structure: The Company would increase capital by cash to meet the demands from operation and funding in order to reduce its dependency on bank financing.

(b) To increase the means for financing: The Company would assess the possibility of issuing convertible corporate bonds to increase direct financing and reduce the cost of funds.

(c) To use banking facilities flexibly: The Company would review banks' lending rates periodically and increase the transaction volume with banks in order to obtain a better borrowing rate than the market average.

B. Impacts of foreign exchange rate fluctuations in 2016 on the Company's profitability and associated action plans:

(In Thousands of New Taiwan Dollars)

Item	2016
Net Foreign Exchange Gain (Loss) (1)	(216,617)
Net Revenue (2)	10,283,979
Operating Income (3)	954,586
(1)/(2)	(2.11%)
(1)/(3)	(22.69%)

The foreign exchange loss amounted to NT$ 216,617 thousand in 2016, which was 2.11% and 22.69% of revenue and operating income, respectively, for the same period. The loss was mainly because RMB had depreciated and New Taiwan Dollar has appreciated against U.S. dollar in 2016.

Even though revenue and cost of revenue are mainly denominated in U.S. dollars and RMB, natural hedging does not take place as foreign-currency revenues are greater than foreign-currency purchases. Thus, exchange rates fluctuations in U.S. dollars and RMB would impact on the Company's revenue and profits. The Company would keep a close watch on the exchange rates and carry out the following actions:

(a) In addition to natural hedging from sales and purchases, the Finance Division would take into account the exchange market data and future movement of the currencies before entering forward exchange contracts to eliminate foreign currency risk.

(b) The Company would work with its main banks to monitor the exchange rates and provide relevant data for management to take appropriate actions and as a reference for price quotes.

C. Impacts of inflation on the Company's profitability and associated action plans:

The domestic inflation rate is in a reason range and the prices of our raw materials are stable. Thus, short-term inflation does not have a significant impact on the Company's profitability.

(2) The policies, main causes of gain or loss and action plans with respect to high-risk, highly-leveraged investment, lending funds to other parties, endorsement and guarantee and derivative trading:

A. In 2016 and as of the date of this annual report, the Company did not engage in high-risk, high-leveraged investments. Lending between the Company and its subsidiaries is processed in accordance with "Procedures for Lending Funds to Other Parties". Endorsement and guarantees provided by the Company are for investees to receive credit lines and are processed in accordance with "Procedures for Endorsement and Guarantee".

B. The Company engages in derivative trading mainly to hedge its currency exposure from foreign-currency assets and liabilities by utilizing forward contracts. Transactions are conducted in accordance with "Procedures for Acquisition or Disposal of Assets".

(3) Future Research and Development Plans and Estimated Expenses:

Based on existing core technology, relevant technology, 2-Layer products and high-frequency, thermal conductive material are integrated by industry-academia collaboration and applied to green products, such as fire-resistant PV backsheet. In addition, the Company extends nano particles dispersing technique to develop functional masterbatch which can be used in the spinning industry. We endeavor to mitigate the adverse effects of global warming.

The Company would continue its efforts in research and development. The estimated R&D expenses is NT$ 257,000 thousand in 2017.

(4) Impacts of Changes in Major Domestic and Overseas Policies and Regulations on Company's Finance and Business and Associated Action Plans:

Impacts of changes in major policies and regulations on the Company's finance and business were minimal in 2016. Asia region is the Company's major market and the sales in China are growing rapidly. The Company has established plants in Kunshan to capture timely market information and adapt to future changes in policies and regulations to minimize adverse impacts on the Company.

(5) Impacts of Changes in Technology and Industry on Company's Finance and Business and Associated Action Plans:

The rapid decline in the prices of electronic consumables due to short life-span and price competitions from peers had significant impacts on the Company's gross margin. Therefore, the Company would timely adjust the development of product and apply our core technology of precision coating in other industry for sustainable growth.

(6) Impacts of Changes in Corporate Image on Corporate Risk Management and Associated Action Plans:

With excellent performance and a positive corporate image, the impacts of changes in corporate image on the Company's risk management were minimal.

(7) Expected Benefits and Risks Relating to Merger and Acquisition and Associated Action Plans:

The Company has no plans to merge or acquire other companies in the near future.

(8) Expected Benefits and Risks Relating to Plant Expansion and Associated Action Plans:

Plant expansion increases our production capacity and the room to take on more orders, which benefit our revenue and profitability and strengthen our position in the industry. Moreover, once we reach economies of scale, product costs can be reduced significantly. However, electronic consumables have short life-spans and market demands often change considerably. When market faces downturn, capacity would turn idle and depreciation expenses of those plant equipment would weigh heavily on the Company's profitability. Therefore, we thoroughly review our capital expenditure plans by considering the industry growth and actual orders from customers in order to optimize the use of our capital.

(9) Risks of Concentrated Sources of Sales or Purchases and Associated Action Plans:

Sales of the Company are not concentrated on certain customers. Purchases of critical raw materials, such as copper-clad and PI, are concentrated on certain foreign vendors mainly due to quality control and customer specification. However, the Company maintains good relationships with other vendors providing similar components to ensure competitive purchase prices and adequate supplies and minimize the risk of single-source supplier. Overall, the Company has a good relationship with suppliers. The quality and delivery time of materials have been normal and there has been no shortage or delay in supply of materials.

(10) Impact and Risk of Sale or Transfer of Significant Number of Shares by the Directors, Supervisors or Shareholders with Over 10% of Shareholding and Associated Action Plans:

There was no sale or transfer of significant number of shares by the Directors, Supervisors and shareholders with over 10% of shareholding in 2016.

(11) Impact and Risk of Change in Management and Associated Action Plans:

The major shareholders, Directors and Supervisors of the Company have a steady ownership base and there is no foreseeable plan to change the management.

(12) For Major Litigations, Non-litigations, or Administrative Disputes in 2016 and as of the Date of This Annual Report which Involve the Company, Directors, Supervisors, President, De Facto Responsible Person, Major Shareholders with Over 10% of Shareholding and Affiliates and Have Significant Impacts on the Interests of Shareholders or Share Prices, the Facts, Amount in Dispute, Commencement Date, Major Parties Involved, and the Status Shall be Disclosed: None.

(13) Other Significant Risks and Associated Action Plans: None

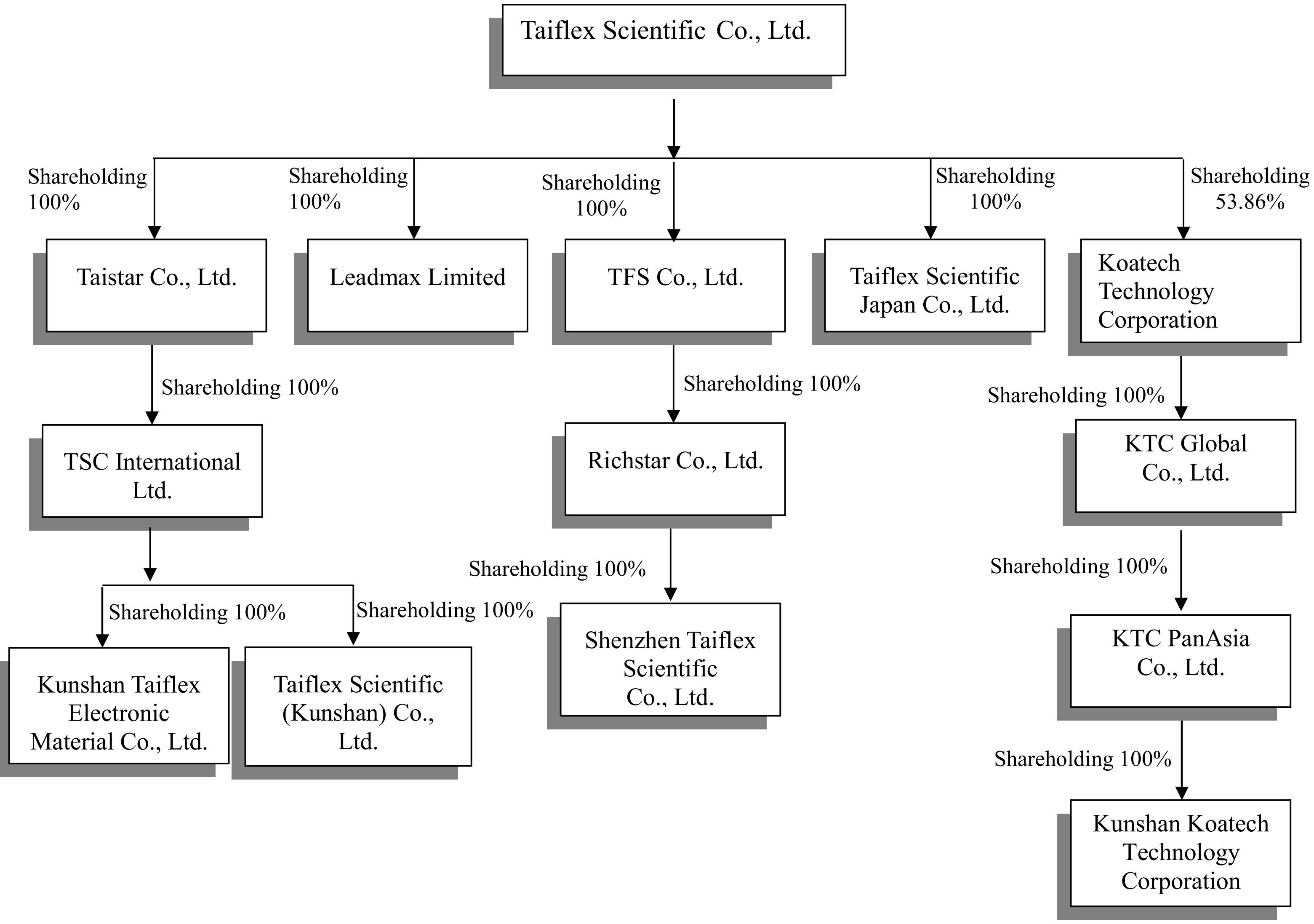
7. Other Significant Matters: None.

VIII. Special Notes

1. Affiliates

(1) Consolidated Business Report of the Affiliates

A. Chart of affiliates (as of December 31, 2016)



B. Basic information on affiliates

As of December 31, 2016 (In Thousands of New Taiwan Dollars)

Name	Date of Incorporation	Address	Paid-in Capital	Main Business / Products
Taistar Co., Ltd.	2001.03	60 Market Square, PO Box 364, Belize City, Belize	822,194	Investment holding company
TSC International Ltd.	2005.02	Scotia Centre, 4th Floor, P.O. BOX 2804, George Town, Grand Cayman Islands	801,604	Investment holding company
Kunshan Taiflex Electronic Material Co., Ltd.	2002.04	No. 1, Taihong Rd., Yushan Township, Kunshan City, Jiangsu Province, China	184,126	Trading of coating materials for high polymer film and copper foil
Taiflex Scientific (Kunshan) Co., Ltd.	2004.05	No. 1, Taihong Rd., Yushan Township, Kunshan City, Jiangsu Province, China	767,141	Manufacturing and selling of coating materials for high polymer film and copper foil
Leadmax Limited	2005.05	Offshore Chambers, P.O. Box 217, Apia, Samoa	337	Trading of electronic materials
Koatech Technology Corporation	2006.06	No.79, Guangfu Rd., Hsinchu Industrial Park, Hukou Township, Hsinchu County, Taiwan	508,760	Manufacturing and selling of electronic materials and components
KTC Global Co., Ltd.	2013.03	Offshore Chambers, P.O. Box 21, Apia, Samoa	28,649	Investment holding company
KTC PanAsia Co., Ltd.	2013.03	Offshore Chambers, P.O. Box 21, Apia, Samoa	28,500	Investment holding company
Kunshan Koatech Technology Corporation	2014.06	Room 12, No. 1, Taihong Rd., Yushan Township, Kunshan City, Jiangsu Province, China	28,351	Wholesale and act as a commission agent of electronic materials and components
TFS Co., Ltd.	2013.09	1 ½ Miles Northern Highway, Belize City, Belize	192,657	Investment holding company
Richstar Co., Ltd.	2013.09	Novasage Chambers, PO Box 3018, Level 2, CCCS Building, Beach Road, Apia, Samoa	192,423	Investment holding company
Shenzhen Taiflex Electronic Co., Ltd.	2015.05	Unit 102, 1st floor and Unit 906, 9th floor, Building B, ZhongHengCheng High-tech Industrial Park, No. 3, Xinyu Road, Shajing Sub-district, Baoan District, Shenzhen City, Guangdong Province, China	193,020	Trading of coating materials for high polymer film and copper foil
Taiflex Scientific Japan Co., Ltd.	2016.01	9th floor Sotetsu KS Building, 1-11-5 Kitasaiwai, Nishi-ku, Yokohama 220-0004	16,260	Trading of electronic materials and technical support

C. Shareholders in common of Taiflex and its affiliates with deemed control and subordination: None.

D. Industries in which the affiliates operate: Electronic manufacturing industry.

E. Names and shareholding or capital contribution of the Directors, Supervisors and Presidents of the Affiliates:

As of December 31, 2016 (In Shares; %)

Company	Title	Name or Representative	Shareholding	
			Shares	%
Taistar Co., Ltd.	Chairperson	Taiflex Scientific Co., Ltd. Representative: Ta-Wen Sun	25,665,000	100
TSC International Ltd.	Chairperson	Taistar Co., Ltd. Representative: Ta-Wen Sun	25,010,000	100
Kunshan Taiflex Electronic Material Co., Ltd.	Chairperson	TSC International Ltd. Representative: Ta-Wen Sun	(Note)	100
	Director	TSC International Ltd. Representative: Jun-Yan Jiang		
Taiflex Scientific (Kunshan) Co., Ltd.	Chairperson	TSC International Ltd. Representative: Jun-Yan Jiang	(Note)	100
	Director	TSC International Ltd. Representative: Ta-Wen Sun		
		TSC International Ltd. Representative: Zhi-Ming Yen		
		TSC International Ltd. Representative: Yung-Mao Yeh		
		TSC International Ltd. Representative: Xing-Ze Liu		
Leadmax Limited	Chairperson	Taiflex Scientific Co., Ltd. Representative: Ta-Wen Sun	10,000	100
Koatech Technology Corporation	Chairperson	Taiflex Scientific Co., Ltd. Representative: Fu-Le Lin	27,400,252	53.86
KTC Global Co., Ltd.	Chairperson	Koatech Technology Corporation Representative: Fu-Le Lin	960,000	100
KTC PanAsia Co., Ltd.	Chairperson	KTC Global Co., Ltd. Representative: Fu-Le Lin	955,000	100
Kunshan Koatech Technology Corporation	Chairperson	KTC PanAsia Co., Ltd. Representative: Fu-Le Lin	(Note)	100
TFS Co., Ltd.	Chairperson	Taiflex Scientific Co., Ltd. Representative: Ta-Wen Sun	6,020,000	100
Richstar Co., Ltd.	Chairperson	Taiflex Scientific Co., Ltd. Representative: Ta-Wen Sun	6,010,000	100
Shenzhen Taiflex Electronic Co., Ltd.	Chairperson	Richstar Co., Ltd. Representative: Zhi-Ming Yen	(Note)	100
	Director	Richstar Co., Ltd. Representative: Zong-Han Jiang		
	Director	Richstar Co., Ltd. Representative: Bing-Xun Zhang		
Taiflex Scientific Japan Co., Ltd.	Chairperson	Taiflex Scientific Co., Ltd. Representative: Zong-Han Jiang	6,000	100

Note: Those limited companies do not issue shares.

F. Operational highlights of Affiliates:

As of December 31, 2016

(In Thousands of New Taiwan Dollars)

Company	Capital	Total Assets	Total Liabilities	Net Worth	Net Revenue	Operating Income (Loss)	Net Income (Loss)	Earnings per Share (NT$) After-tax
Taistar Co., Ltd.	822,194	1,827,234	135,472,	1,691,762	-	(16,200)	44,225	-
TSC International Ltd.	801,604	1,627,956	-	1,627,955	-	-	60,025	-
Kunshan Taiflex Electronic Material Co., Ltd.	184,126	249,776	2,539	247,236	481,232	30,309	24,495	-
Taiflex Scientific (Kunshan) Co., Ltd.	767,141	3,483,102	2,102,752	1,380,650	3,595,386	116,988	35,530	-
Leadmax Limited	337	17,540	1,463	16,077	-	-	2,040	-
Koatech Technology Corporation	508,760	396,360	178,957	217,403	231,371	(58,180)	(71,671)	-
KTC Global Co., Ltd.	28,649	18,153	1,162	16,991	-	(1,198)	(5,236)	-
KTC PanAsia Co., Ltd.	28,500	18,093	-	561	-	(35)	(4,038)	-
Kunshan Koatech Technology Corporation	28,351	18,075	42	18,033	9,624	(4,024)	(4,003)	-
TFS Co., Ltd.	192,657	155,862	-	155,862	-	(55)	(1,379)	-
Richstar Co., Ltd.	192,423	155,650	-	155,649	-	(29)	(1,324)	-
Shenzhen Taiflex Electronic Co., Ltd.	193,020	1,780,982	1,625,702	155,280	1,928,268	20,082	(1,294)	-
Taiflex Scientific Japan Co., Ltd.	16,260	18,010	349	17,660	7,395	1,206	1,207	-

Note 1: For foreign companies, the capitals are converted into New Taiwan Dollars at the historical exchange rates.

Note 2: For foreign companies, the assets and liabilities are converted into New Taiwan Dollars at the exchange rates as of the reporting date. Net revenue, operating income (loss), net income (loss) and earnings per share are converted into New Taiwan Dollars at the average exchange rates of the year.

(2) Consolidated Financial Statements of Affiliates:

The entities that are required to be included in the consolidated financial statements of affiliates are identical to those included in the consolidated financial statements. Thus, both statements are the same. Please refer to Page 205 to 278.

(3) Affiliation Reports: Not applicable

2. Private Placement of Securities in 2016 and as of the Date of this Annual Report: None.

3. **The Company's Shares Held or Disposed of by Subsidiaries in 2016 and as of the Date of this Annual Report:** None.

4. **Other Necessary Supplement:** None.

IX. Any Events in 2016 and as of the Date of this Annual Report that had Significant Impacts on Shareholders' Right or Security Prices as Stated in Subparagraph 2 Paragraph 3 of Article 36 of the Securities and Exchange Act: None.

Representation Letter

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

Very truly yours,
Taiflex Scientific Company Limited
By

Ta-Wen Sun
Chairperson

February 23, 2017

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

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

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

(Continued)

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

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

(Concluded)

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

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

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

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

(Continued)

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

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

(Concluded)

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

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

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

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

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

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

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

(Continued)

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

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

(Concluded)

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015
(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

1. HISTORY AND ORGANIZATION

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

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

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS

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

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

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

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

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

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

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

(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statements

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

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

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

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

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

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

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

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

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

The consolidated entities are listed as follows:

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

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

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

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

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

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

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

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

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

An asset is classified as current when:

A. the Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
B. the Group holds the asset primarily for the purpose of trading
C. the Group expects to realize the asset within twelve months after the reporting period
D. the asset is cash or cash equivalent, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

A. the Group expects to settle the liability in its normal operating cycle
B. the Group holds the liability primarily for the purpose of trading
C. the liability is due to be settled within twelve months after the reporting period
D. the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including fixed deposits with terms equal to or less than twelve months).

(7) Financial instruments

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

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

A. Financial assets

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

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

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

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

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

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

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

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

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

(b) Available-for-sale financial assets

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

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

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

(c) Held-to-maturity financial assets

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

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

(d) Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

Derecognition of financial assets

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

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

B. Financial liabilities and equity instruments

Classification between liabilities or equity

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

Equity instruments

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

Compound instruments

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

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

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

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

Financial liabilities

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

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

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

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

pattern of short-term profit-taking; or

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

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

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

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

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

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

(b) Financial liabilities at amortized cost

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

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

(c) Derecognition of financial liabilities

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

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

C. Offsetting of financial assets and liabilities

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

D. Fair value of financial instruments

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

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

(8) Derivative financial instrument

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

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

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

(9) Inventories

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

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

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

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

(10) Investments accounted for under the equity method

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

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

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

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

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

(11) Property, plant and equipment

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

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

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

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

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

(12) Borrowing costs

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

(13) Intangible assets

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

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

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

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

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

In-process intangible assets - research and development costs

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

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

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

(14) Impairment of non-financial assets

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

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

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

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

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

(15) Provisions

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

(16) Revenue recognition

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

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

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

(17) Post-employment benefits

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

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

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

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

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

(18) Share-based payment transactions

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

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

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

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

(19) Income tax

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

Current income tax

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

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

Deferred income tax

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

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

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

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

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

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

(20) Business combinations and goodwill

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

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

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

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

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

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

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

(21) Fair value

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

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

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

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

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

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

(1)Fair value of financial instruments

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

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

(2)Valuation of inventory

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

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

(3)Post-employment benefits

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

(4)Share-based payment transactions

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

(5)Income tax

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

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

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

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

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

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

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

(3) Notes receivable, net

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

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

(4) Accounts receivable, net

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

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

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

B. Ageing analysis of net accounts receivable:

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

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

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

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

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

(5) Inventories, net

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

Expenses or income recognized were as follows:

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

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

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

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

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

(7) Investments accounted for under the equity method

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

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

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

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

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

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

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

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

(8) Property, plant and equipment

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

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

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

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

(9) Intangible assets

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

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

(Continued)

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

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

(Concluded)

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

(10) Other non-current assets

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

(11) Impairment testing of goodwill

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

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

Key assumptions used in value-in-use calculations

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

Sensitivity to changes in assumptions

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

(12) Short-term loans

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

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

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

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

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

(14) Long-term loans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(15) Post-employment benefits

A. Defined contribution plan

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

B. Defined benefits plan

Expenses under the defined benefits plan were as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

(Concluded)

(16) Equity

A. Capital

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

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

B. Capital surplus

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

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

C. Treasury Stock

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

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

D. Appropriation of profits and dividend policies

(a) Appropriation of profits

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

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

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

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

(b) Dividend policies

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

(c) Special capital reserve

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

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

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

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

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

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

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

E. Non-controlling interests (NCI)

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

(17) Share-based payment plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(18) Revenue

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

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

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

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

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

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

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

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

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

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

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

(20) Non-operating income and expenses

A. Other income

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

B. Other gains and losses

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

C. Finance costs

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

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

D. Components of other comprehensive income

For the year ended December 31, 2016

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

For the year ended December 31, 2015

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

(21) Income tax

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

Income tax recognized in profit or loss

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

(Continued)

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

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

(Concluded)

Income tax recognized in other comprehensive income

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

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

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

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

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

For the year ended December 31, 2016

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

For the year ended December 31, 2015

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

(Continued)

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

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

(Concluded)

D. Unrecognized deferred income tax assets:

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

E. Imputation credit information:

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

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

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

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

G. The assessment of income tax returns:

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

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

(22) Earnings per share

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

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

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

7. RELATED PARTY TRANSACTIONS

(1) Names and relationships

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

(2) Significant transactions with related parties

A. Acquisition of property, plant, and equipment

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

B. Compensation to key management

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

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

8. PLEDGED ASSETS

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

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

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

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

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

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

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

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

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

12. OTHERS

(1) Categories of financial instruments

Financial assets

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

Financial liabilities

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

(2) Objectives of financial risk management

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

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

(3) Market risk

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

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

A. Foreign currency risk

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

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

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

B. Interest rate risk

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

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

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

C. Equity price risk

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

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

For the year ended December 31, 2016

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

For the year ended December 31, 2015

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

(4) Credit risk management

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

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

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

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

(5) Liquidity risk management

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

Non-derivative financial instruments

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

Derivative financial instruments

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

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

(6) Fair values of financial instruments

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

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

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

B. Fair value of financial instruments measured at amortized cost

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

C. Information on the fair value hierarchy of financial instruments

Please refer to Note 12(8) for details.

(7) Derivative financial instruments

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

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

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

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

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

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

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

(8) Fair value hierarchy

A. Definition of fair value hierarchy

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

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

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

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

B. Hierarchy of fair value measurement

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

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

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

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

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

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

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

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

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

(10) Capital management

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

13. ADDITIONAL DISCLOSURES

(1) Information on significant transactions and investees

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

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

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

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

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

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

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

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

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

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

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

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

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

14. OPERATING SEGMENT INFORMATION

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

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

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

(1) Segment income (loss)

For the year ended December 31, 2016

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

Note: Inter-segment revenues were eliminated on consolidation.

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

For the year ended December 31, 2015

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

Note: Inter-segment revenues were eliminated on consolidation.

(2) Geographic information

A. Revenue from external customers:

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

Revenue was categorized based on countries where customers are located.

B. Non-current assets:

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

(3) Major customers

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

Name	2016
Customer A	$ 1,454,304

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

TABLE 1: FINANCING PROVIDED TO OTHERS

(In Thousands of New Taiwan Dollars)

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

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

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

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

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

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

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

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

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

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

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

Note 11: This is the ending balance after evaluation.

TABLE 2: ENDORSEMENT/GUARANTEE PROVIDED TO OTHERS (In Thousands of New Taiwan Dollars)

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

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

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

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

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

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

Note 6: This is the ending balance after evaluation.

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

(In Thousands of New Taiwan Dollars)

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

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

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

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

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

(In Thousands of New Taiwan Dollars)

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

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

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

(In Thousands of New Taiwan Dollars)

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

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

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

(In Thousands of New Taiwan Dollars)

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

Note 1: Including unrealized gain/loss between affiliates.
Note 2: Including amortization of fixed assets.
Note 3: The net amount of investments accounted for under the equity method was zero.

TABLE 7: INFORMATION ON INVESTMENTS IN MAINLAND CHINA

(In Thousands of New Taiwan Dollars)

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

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

Note 1: The methods for investment in Mainland China are divided into the following three types. Please specify the type.
(1) Direct investment in Mainland China.
(2) Investment in Mainland China through companies in the third area.
(3) Others.

Note 2: Significant transactions with the investee companies in China directly or indirectly through the third area and the relevant prices, payment terms and unrealized gains and losses:
(1) Purchase, ending balance of related accounts payable and their weightings: see Table 4.
(2) Sales, ending balance of related accounts receivable and their weightings: see Tables 4 and 5.
(3) The transaction amount and gain or loss arising from property transactions: N/A.
(4) Ending balance of endorsements/guarantees or collateral provided and the purposes: see Table 2.
(5) Maximum balance, ending balance, interest rate range and total interest of current period from financing provided to others: refer to Table 1.
(6) Transactions that have significant impact on profit or loss or the financial position of current period, such as services provided or rendered: N/A.

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

(In Thousands of New Taiwan Dollars)

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

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

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

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

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

(1) From the parent company to a subsidiary.

(2) From a subsidiary to the parent company.

(3) Between subsidiaries.

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

Note 4: This is the ending balance after evaluation.

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

Assets	Notes	December 31, 2016	December 31, 2015
Current assets			
Cash and cash equivalents	4, 6(1)	$ 2,574,444	$ 2,223,777
Financial assets at fair value through profit or loss, current	4, 6(2)	22,802	19,300
Notes receivable, net	4, 6(3)	7,344	11,797
Accounts receivable, net	4, 6(4)	407,495	670,834
Accounts receivable – related parties	6(4), 7	1,111,868	1,044,628
Other receivables		38,926	121,529
Other receivables – related parties	7	577,261	1,552,485
Inventories, net	4, 6(5)	520,989	609,307
Prepayments		27,536	18,831
Other current assets	8	23,776	37,283
Total current assets		5,312,441	6,309,771
Non-current assets			
Financial assets carried at cost, non-current	4, 6(6)	-	-
Investments accounted for under the equity method	4, 6(7)	2,068,159	2,207,017
Property, plant and equipment	4, 6(8)	1,936,821	1,725,671
Intangible assets	4, 6(9)	36,897	32,560
Deferred income tax assets	4, 6(20)	126,425	121,598
Prepayments for investments		-	16,260
Other non-current assets	4, 6(10)	11,248	9,635
Total non-current assets		4,179,550	4,112,741
Total assets		$ 9,491,991	$ 10,422,512

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

(Continued)

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

Liabilities and Equity	Notes	December 31, 2016	December 31, 2015
Current liabilities			
Short-term loans	6(11)	$ 4,287	$ 98,367
Financial liabilities at fair value through profit or loss, current	4, 6(12)	-	-
Accounts payable		1,342,665	1,757,623
Accounts payable – related parties	7	15,327	107,567
Other payables		482,576	499,931
Other payables – related parties		5,680	-
Current income tax liabilities	4, 6(20)	83,657	85,894
Current portion of long-term loans		-	281,061
Other current liabilities		2,038	2,912
Total current liabilities		1,936,230	2,833,355
Non-current liabilities			
Long-term loans	6(13)	541,321	599,297
Deferred income tax liabilities	4, 6(20)	159,115	193,667
Net defined benefit liabilities, non-current	4, 6(14)	190,276	111,009
Total non-current liabilities		890,712	903,973
Total liabilities		2,826,942	3,737,328
Equity			
Capital	6(15)		
Common stock		2,083,252	2,042,858
Capital surplus	6(15)	1,407,558	1,447,952
Retained earnings			
Legal capital reserve		684,163	611,177
Special capital reserve		102,158	102,158
Unappropriated earnings		2,561,335	2,518,408
Total retained earnings		3,347,656	3,231,743
Others	4	(74,673)	61,375
Treasury stock		(98,744)	(98,744)
Total equity		6,665,049	6,685,184
Total liabilities and equity		$ 9,491,991	$ 10,422,512

(Concluded)

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

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

	Notes	2016	2015
Net revenue	4, 6(17), 7	$ 6,712,397	$ 6,528,844
Cost of revenue	4, 6(5), 6(18), 7	(5,407,622)	(5,018,175)
Gross profit		1,304,775	1,510,669
Unrealized sales profit or loss		-	(541)
Realized sales profit or loss		2,899	-
Gross profit, net		1,307,674	1,510,128
Operating expenses	4, 6(18)		
Sales and marketing expenses		(179,888)	(257,058)
General and administrative expenses		(220,384)	(273,820)
Research and development expenses		(197,110)	(193,531)
Total operating expenses		(597,382)	(724,409)
Operating income		710,292	785,719
Non-operating income and expenses	6(19)		
Other income		155,718	253,444
Other gains and losses		(122,424)	(95,956)
Finance costs		(20,825)	(27,756)
Share of profit or loss of subsidiaries and associates under the equity method	4, 6(7)	316	(39,098)
Total non-operating income and expenses		12,785	90,634
Income before income tax		723,077	876,353
Income tax expense	4, 6(20)	(143,399)	(146,497)
Net income of continuing operations		579,678	729,856
Net income		579,678	729,856
Other comprehensive income (loss)	6(19)		
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit obligation		(72,083)	(22,995)
Income tax benefit (expense) related to components of other comprehensive income that will not be reclassified subsequently		12,254	3,909
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(163,913)	(23,095)
Income tax benefit (expense) related to components of other comprehensive income that may be reclassified subsequently to profit or loss	6(20)	27,865	3,926
Total other comprehensive income, net of tax		(195,877)	(38,255)
Total comprehensive income		$ 383,801	$ 691,601
Earnings per share (NT$)	4, 6(21)		
Earnings per share - basic		$ 2.81	$ 3.54
Earnings per share - diluted		$ 2.79	$ 3.51

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

TAIFLEX SCIENTIFIC COMPANY LIMITED
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2016 and 2015
(In Thousands of New Taiwan Dollars)

				Retained Earnings			Others		
	Common Stock	Capital Collected in Advance	Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Treasury Stock	Total Equity
Balance as of January 1, 2015	$ 2,042,608	$ 70	$ 1,447,619	$ 522,935	$ 102,158	$ 2,501,729	$ 80,544	$ (98,744)	$ 6,598,919
Appropriation and distribution of 2014 earnings									
Legal capital reserve				88,242		(88,242)			-
Cash dividends for common stocks						(605,849)			(605,849)
Changes in other capital surplus									
Share-based payment	250	(70)	333						513
Net income for the year ended December 31, 2015						729,856			729,856
Other comprehensive income (loss) for the year ended December 31, 2015						(19,086)	(19,169)		(38,255)
Total comprehensive income	-	-	-	-	-	710,770	(19,169)	-	691,601
Balance as of December 31, 2015	2,042,858	-	1,447,952	611,177	102,158	2,518,408	61,375	(98,744)	6,685,184
Appropriation and distribution of 2015 earnings									
Legal capital reserve				72,986		(72,986)			-
Cash dividends for common stocks						(403,936)			(403,936)
Changes in other capital surplus									
Stock dividends from capital surplus	40,394	-	(40,394)						-
Net income for the year ended December 31, 2016						579,678			579,678
Other comprehensive income (loss) for the year ended December 31, 2016						(59,829)	(136,048)		(195,877)
Total comprehensive income	-	-	-	-	-	519,849	(136,048)	-	383,801
Balance as of December 31, 2016	$ 2,083,252	$ -	$ 1,407,558	$ 684,163	$ 102,158	$ 2,561,335	$ (74,673)	$ (98,744)	$ 6,665,049

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

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

	2016	2015
Cash flows from operating activities:		
Income before income tax	$ 723,077	$ 876,353
Adjustments:		
Non-cash income and expense items:		
Depreciation	153,254	143,703
Amortization	12,131	10,061
(Gain on reversal of) bad debt expense	(100,660)	8,752
Net loss (gain) of financial assets (liabilities) at fair value through profit or loss	9,834	(4,417)
Interest expense	20,825	27,756
Interest income	(19,296)	(52,991)
Share of (profit) loss of subsidiaries and associates under the equity method	(316)	39,098
Gain on disposal of property, plant and equipment	-	(86)
Others	8,899	(53,976)
Changes in operating assets and liabilities:		
(Increase) decrease in financial assets at fair value through profit or loss, current	(13,336)	1,158
Decrease (increase) in notes receivable	4,453	(1,456)
Decrease in accounts receivable	299,383	699,461
Increase in accounts receivable – related parties	(67,240)	(235,394)
Decrease (increase) in other receivables	145,392	(46,508)
Decrease in other receivables – related parties	975,224	138,467
Decrease (increase) in inventories	79,419	(56,954)
(Increase) decrease in prepayments	(8,705)	17,200
Decrease (increase) in other current assets	13,538	(15,882)
(Decrease) increase in accounts payable	(414,958)	233,135
Decrease in accounts payable – related parties	(92,240)	(366,513)
Increase (decrease) in other payables	6,476	(40,882)
Increase in other payables – related parties	5,680	-
Decrease in other current liabilities	(9,353)	(18,277)
Increase in net defined benefit liabilities	7,185	6,540
Cash generated from operations	1,738,666	1,308,348
Interest received	21,122	51,421
Interest paid	(21,218)	(27,737)
Income tax paid	(144,895)	(204,124)
Net cash generated by operating activities	1,593,675	1,127,908

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

(Continued)

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

	2016	2015
Cash flows from investing activities:		
Acquisition of investments accounted for under the equity method	-	(126,394)
Increase in prepayments for investments	-	(16,260)
Acquisition of property, plant and equipment	(387,843)	(441,778)
Disposal of property, plant and equipment	-	230
Increase in refundable deposits	(1,613)	(4,331)
Acquisition of intangible assets	(16,468)	(14,705)
Increase in other current assets - other financial assets, current	(31)	-
Decrease in other current assets - other financial assets, current	-	31,403
Net cash used in investing activities	(405,955)	(571,835)
Cash flows from financing activities:		
Decrease in short-term loans	(94,080)	(172,186)
Repayment of long-term loans	(339,037)	(118,792)
Distribution of cash dividends	(403,936)	(605,849)
Exercise of employee stock options	-	513
Net cash used in financing activities	(837,053)	(896,314)
Net increase (decrease) in cash and cash equivalents	350,667	(340,241)
Cash and cash equivalents at beginning of period	2,223,777	2,564,018
Cash and cash equivalents at end of period	$ 2,574,444	$ 2,223,777

(Concluded)

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

TAIFLEX SCIENTIFIC COMPANY LIMITED
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015
(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

1. HISTORY AND ORGANIZATION

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

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

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS

The parent company only financial statements of the Company for the years ended December 31, 2016 and 2015 were approved and authorized for issue in the Board of Directors' meeting on February 23, 2017.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

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

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

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

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

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

(2) Basis of preparation

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

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

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

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

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

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

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

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

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

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

An asset is classified as current when:

A. the Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
B. the Company holds the asset primarily for the purpose of trading
C. the Company expects to realize the asset within twelve months after the reporting period
D. the asset is cash or cash equivalent, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

A. the Company expects to settle the liability in its normal operating cycle
B. the Company holds the liability primarily for the purpose of trading
C. the liability is due to be settled within twelve months after the reporting period
D. the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(5) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including fixed deposits with terms equal to or less than twelve months).

(6) Financial instruments

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

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

A. Financial assets

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

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

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

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

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

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

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

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

(b) Available-for-sale financial assets

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

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

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

(c) Held-to-maturity financial assets

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

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

(d) Loans and receivables

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

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

Impairment of financial assets

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

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

Other loss events include:
(a) significant financial difficulty of the issuer or counterparty; or
(b) breach of contract, such as a default or delinquency in interest or principal payments; or
(c) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(d) the disappearance of an active market for the financial asset due to financial difficulties of the issuer.

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

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

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

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

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

Derecognition of financial assets

A financial asset is derecognized when:

(a) the rights to receive cash flows from the asset have expired

(b) the Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred

(c) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred its control of the asset.

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

B. Financial liabilities and equity instruments

Classification between liabilities or equity

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

Equity instruments

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

Compound instruments

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

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

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

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

Financial liabilities

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

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

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

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

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

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

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

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

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

(b) Financial liabilities at amortized cost

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

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

(c) Derecognition of financial liabilities

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

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

C. Offsetting of financial assets and liabilities

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

D. Fair value of financial instruments

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

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

(7) Derivative financial instrument

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

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

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

(8) Inventories

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

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

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

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

(9) Investments accounted for under the equity method

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

A. Investment in subsidiaries

A subsidiary is an entity controlled by the Company.

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

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

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

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

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

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

B. Investment in associates

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

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

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

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

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

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

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

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

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

(10) Property, plant and equipment

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

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

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

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

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

(11) Borrowing costs

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

(12) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, which fail to meet the recognition criteria, are not capitalized. They are recognized in profit or loss as incurred.

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

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

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

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

In-process intangible assets - research and development costs

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

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

E. the ability to measure reliably the expenditure during development

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

(13) Impairment of non-financial assets

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

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

(14) Provisions

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

(15) Revenue recognition

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

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

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

(16) Post-employment benefits

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

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

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

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

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

(17) Share-based payment transactions

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

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

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

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

(18) Income tax

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

Current income tax

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

The 10% income tax for undistributed earnings is recognized as income tax expense in the year when the distribution proposal is approved by the shareholders' meeting.

Deferred income tax

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

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

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

Deferred income tax assets are recognized for all deductible temporary differences, any unused tax losses and carryforward of unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

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

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

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

(19) Fair value

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

A. the principal market for the asset or liability, or
B. in the absence of a principal market, the most advantageous market for the asset or liability.
   The principal or most advantageous markets shall be the ones that the Company have access to and can transact in.

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

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

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

(1)Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including income approach (for example, the discounted cash flows model) or the market approach. Changes in assumptions of those models could affect the reported fair value of the financial instruments. Please refer to Note 12 for details.

(2)Valuation of inventory

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

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

(3)Post-employment benefits

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

(4)Share-based payment transactions

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

(5)Income tax

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

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

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

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

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

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

	December 31, 2016	December 31, 2015
Held for trading:		
Non-hedging derivative financial assets		
- Forward foreign exchange contracts	$ 6,557	$ -
Non-derivative financial assets - Stocks	16,245	19,300
	$ 22,802	$ 19,300

(3) Notes receivable, net

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

(4) Accounts receivable, net

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

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

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

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

B. Ageing analysis of net accounts receivable:

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

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

December 31, 2016

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

December 31, 2015

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

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

(5) Inventories, net

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

Expenses or income recognized were as follows:

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

For the years ended December 31, 2016 and 2015, gain on inventory value recovery due to a decrease in allowance for inventory valuation losses from price recovery of inventories with allowance for inventory valuation losses at beginning of period, inventories sold or inventories used amounted to NT$ 1,500 thousand and NT$ 62,663 thousand, respectively.

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

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

(7) Investments accounted for under the equity method

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

(Continued)

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

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

(Concluded)

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

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

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

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

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

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

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

(8) Property, plant and equipment

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

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

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

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

(9) Intangible assets

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

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

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

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

(10) Other non-current assets

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

(11) Short-term loans

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

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

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

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

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

(13) Long-term loans

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

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

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

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

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

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

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

(a) The contract term is five years from the initial draw-down date, i.e. June 15, 2016 to June 15, 2021.

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

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

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

E. The Company entered into a mid-term revolving loan agreement with the China Development Industrial Bank on October 30, 2014. The credit line amounted to NT$ 300 million. The China Development Industrial Bank transferred its claims to KGI Bank on May 4, 2015. As of December 31, 2016, the amount drawn down equaled NT$ 300 million.

F. The Company entered into a mid-term revolving loan agreement with the Export-Import Bank of the ROC on June 5, 2015. The credit line amounted to US$ 4.8 million. As of December 31, 2016, the amount drawn down equaled US$ 1.6 million.

(14) Post-employment benefits

A. Defined contribution plan

Expenses under the defined contribution plan for the years ended December 31, 2016 and 2015 were NT$ 18,779 thousand and NT$ 17,000 thousand, respectively.

B. Defined benefits plan

Expenses under the defined benefits plan were as follows:

	Years ended December 31	
Financial Statement Account	2016	2015
Operating costs	$ 5,095	$ 4,218
Sales and marketing expenses	1,286	986
General and administrative expenses	2,017	1,787
Research and development expenses	1,610	1,208
Total	$ 10,008	$ 8,199

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Years ended December 31	
	2016	2015
Present value of defined benefit obligation, ending balance	$ 222,272	$ 139,920
Fair value of plan assets, ending balance	(31,996)	(28,911)
Surplus/deficit of plan, ending balance	$ 190,276	$ 111,009
Experience adjustments on plan liabilities	$ (2,266)	$ (8,614)
Experience adjustments on plan assets	$ 316	$ (106)

(15) Equity

A. Capital

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

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

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

B. Capital surplus

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

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

C. Treasury Stock

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

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

D. Appropriation of profits and dividend policies

(a) Appropriation of profits

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

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

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

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

ii. The remuneration to directors and supervisors shall not be higher than four percent of the balance.

(b) Dividend policies

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

(c) Special capital reserve

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

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

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

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

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

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

Please refer to Note 6(18) for information about the accrual basis and amounts recognized for bonus to employees and remuneration to directors and supervisors.

(16) Share-based payment plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(17) Revenue

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

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

Function / Nature	Years ended December 31					
	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Payroll	302,546	322,788	625,334	256,260	292,293	548,553
Labor and health insurance	23,639	18,464	42,103	23,251	17,671	40,922
Pension	15,653	13,134	28,787	13,850	11,349	25,199
Other employee benefits expense	27,417	19,311	46,728	24,061	17,577	41,638
Depreciation	133,619	19,635	153,254	126,389	17,314	143,703
Amortization	4,411	7,720	12,131	4,081	5,980	10,061

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

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

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

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

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

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

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

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

(19) Non-operating income and expenses

A. Other income

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

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

B. Other gains and losses

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

C. Finance costs

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

D. Components of other comprehensive income

For the year ended December 31, 2016

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plan	$ (72,083)	$ –	$ (72,083)	$ 12,254	$ (59,829)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	(163,913)	–	(163,913)	27,865	(136,048)
Total	$ (235,996)	$ –	$ (235,996)	$ 40,119	$ (195,877)

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

For the year ended December 31, 2015

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plan	$ (22,995)	$ －	$ (22,995)	$ 3,909	$ (19,086)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	(23,095)	－	(23,095)	3,926	(19,169)
Total	$ (46,090)	$ －	$ (46,090)	$ 7,835	$ (38,255)

(20) Income tax

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

Income tax recognized in profit or loss

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

Income tax recognized in other comprehensive income

	Years ended December 31 2016	2015
Deferred income tax expense:		
Exchange differences arising on translation of foreign operations	$ (27,865)	$ (3,926)
Remeasurement of defined benefit plan	(12,254)	(3,909)
Income tax relating to components of other comprehensive income	$ (40,119)	$ (7,835)

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

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

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

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

For the year ended December 31, 2016

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

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

For the year ended December 31, 2015

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

D. Unrecognized deferred income tax assets:

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

E. Imputation credit information:

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

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

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

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

G. The assessment of income tax returns:

As of December 31, 2016, the Company's income tax return was assessed and approved up to 2011.

(21) Earnings per share

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

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

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

7. RELATED PARTY TRANSACTIONS

(1) Names and relationships

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

(2) Significant transactions with related parties

A. Sales

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

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

B. Purchases

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

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

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

C. Accounts receivable - related parties

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

D. Other receivables - related parties

(a) Non-financing

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

(b) Financing

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

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

E. Accounts payable - related parties

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

F. Acquisition of property, plant, and equipment

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

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

G. Compensation to key management

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

8. PLEDGED ASSETS

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

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

Note: Those assets were recognized as other current assets.

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

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

	L / C Amount
NTD	NT$ 4,790 thousand
USD	US$ 715 thousand

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

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

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

12. OTHERS

(1) Categories of financial instruments

Financial assets

	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss:		
Non-hedging derivative financial assets – Forward foreign exchange contracts	$ 6,557	$ –
Non-derivative financial assets - Stocks	16,245	19,300
Loans and receivables:		
Cash and cash equivalents (excluding cash on hand)	2,574,272	2,223,525
Receivables	2,142,894	3,401,273
Other financial assets, current	20,295	20,264

Financial liabilities

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

(2) Objectives of financial risk management

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

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

(3) Market risk

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

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

A. Foreign currency risk

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

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

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

B. Interest rate risk

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

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

C. Equity price risk

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

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

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

For the year ended December 31, 2016

Key risk	Variation	Sensitivity of profit and loss
Foreign currency risk	NTD/USD Foreign currency +/− 1%	+/− NT$13,077 thousand
	NTD/CNY Foreign currency +/− 1%	+/− NT$ 513 thousand
Interest rate risk	Market rate +/− 10 basis points	+/− NT$ 2,029 thousand

For the year ended December 31, 2015

Key risk	Variation	Sensitivity of profit and loss
Foreign currency risk	NTD/USD Foreign currency +/− 1%	+/− NT$ 3,093 thousand
	NTD/CNY Foreign currency +/− 1%	+/− NT$ 43 thousand
Interest rate risk	Market rate +/− 10 basis points	+/− NT$ 1,245 thousand

(4) Credit risk management

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

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

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

(5) Liquidity risk management

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

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

Non-derivative financial instruments

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

Derivative financial instruments

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

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

(6) Fair values of financial instruments

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

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

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

B. Fair value of financial instruments measured at amortized cost

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

C. Information on the fair value hierarchy of financial instruments

Please refer to Note 12(8) for details.

(7) Derivative financial instruments

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

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

Currency	Contract period	Contract amount (in thousands)
2016.12.31		
CNY to NTD	2016.08～2017.06	CNY 159,020/NT$ 727,398

For the transactions of forward foreign exchange contracts, the main purpose is to hedge the foreign currency risk of net assets or liabilities denominated in foreign currencies. As there will be corresponding cash inflows or outflows upon expiration and the Company has sufficient operation funds, no significant cash flow risk is expected.

B. Forward foreign exchange contracts that were not eligible for hedge accounting and have expired as of the balance sheet date were listed as follows:

Currency	Contract period	Contract amount (in thousands)
2016.12.31		
USD to NTD	2016.08～2016.12	US$ 16,550/NT$ 523,631
USD to JPY	2016.12	US$ 100/JPY 11,427
CNY to USD	2016.01～2016.12	CNY 386,732/US$ 58,142
CNY to NTD	2016.05～2016.12	CNY 75,000/NT$ 365,402

Currency	Contract period	Contract amount (in thousands)
2015.12.31		
USD to NTD	2014.11～2015.05	US$ 19,000/NT$ 595,519
CNY to NTD	2015.12～2015.12	CNY 102,000/NT$ 511,008
NTD to JPY	2015.03～2015.11	NT$ 62,314/JPY 240,000

For the transactions of forward foreign exchange contracts, the main purpose is to hedge the foreign currency risk of net assets or liabilities denominated in foreign currencies. As there will be corresponding cash inflows or outflows upon expiration and the Company has sufficient operation funds, no significant cash flow risk is expected.

(8) Fair value hierarchy

A. Definition of fair value hierarchy

For assets and liabilities measured or disclosed in fair values, they are categorized in the level of the lowest level input that is significant to the entire measurement. Inputs of each level are as follows:

Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities at the measurement date
Level 2 inputs are inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly
Level 3 inputs are unobservable inputs for the asset or liability

For assets and liabilities measured at a recurring basis, their categories shall be re-evaluated at the end of each reporting period to determine if there is any transfer between different levels of fair value hierarchy.

B. Hierarchy of fair value measurement

The Company does not have assets that are measured at fair value on a non-recurring basis. The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis was disclosed as follows:

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	$ —	$ 6,557	$ —	$ 6,557
Stocks	16,245	—	—	16,245
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	—	—	—

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Financial assets:				
Financial assets at fair value through profit or loss				
Stocks	$ 19,300	$ —	$ —	$ 19,300
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	—	—	—

For the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value hierarchy.

(9) Significant financial assets and liabilities denominated in foreign currencies

Information regarding the significant financial assets and liabilities denominated in foreign currencies was listed below:

	December 31, 2016			December 31, 2015		
	Foreign currencies (in thousands)	Exchange rate	NTD	Foreign currencies (in thousands)	Exchange rate	NTD
Financial assets						
Monetary items						
USD	$ 79,748	32.2790	$ 2,574,186	$ 65,810	33.0660	$ 2,176,073
CNY	11,407	4.6225	52,729	851	5.0310	4,281

(Continued)

	December 31, 2016			December 31, 2015		
	Foreign currencies (in thousands)	Exchange rate	NTD	Foreign currencies (in thousands)	Exchange rate	NTD
Financial liabilities						
Monetary items						
USD	$ 39,261	32.2790	$ 1,267,306	$ 56,466	33.0660	$ 1,867,105
JPY	151,316	0.2757	41,718	487,828	0.2747	134,006

(Concluded)

(10) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages and adjusts its capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. ADDITIONAL DISCLOSURES

(1) Information on significant transactions and investees

A. Financing provided to others: Please refer to Table 1.

B. Endorsement/Guarantee provided to others: Please refer to Table 2.

C. Marketable securities held as of December 31, 2016 (excluding investments in subsidiaries, associates and joint ventures): Please refer to Table 3.

D. Individual securities acquired or disposed of with accumulated amount of at least NT$ 300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.

E. Acquisition of individual real estate with amount of at least NT$ 300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.

F. Disposal of individual real estate with amount of at least NT$ 300 million or 20 percent of the paid-in capital for the year ended December 31, 2016: None.

G. Related party transactions with purchase or sales amount of at least NT$ 100 million or 20 percent of the paid-in capital for the year ended December 31, 2016: Please refer to Table 4.

H. Receivables from related parties of at least NT$ 100 million or 20 percent of the paid-in capital as of December 31, 2016: Please refer to Table 5.

I. Direct or indirect significant influence or control over the investees for the year ended December 31, 2016 (excluding investments in China): Please refer to Table 6.

J. Financial instruments and derivative transactions: Please refer to Note 12.

(2) Information on investments in Mainland China: Please refer to Table 7.

TABLE 1: FINANCING PROVIDED TO OTHERS

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Financing Company	Counter -party	Financial Statement Account (Note 2)	Whether a Related Party	Maximum Balance for the Period (Note 3)	Ending Balance (Note 10)	Amount Actually Drawn (Note 11)	Interest Rate Range	Nature of Financing (Note 4)	Transaction Amounts (Note 5)	Reason for Financing (Note 6)	Allowance for Doubtful Accounts	Collateral Item	Collateral Value	Financing Limits for Each Borrower	Financing Company's Total Financing Amount Limits	Note
0	Taiflex Scientific Co., Ltd.	Kunshan Taiflex Electronic Material Co., Ltd.	Other receivables - related parties	Y	$ 471,100	$ —	$ —	1.50%~7.00%	2	—	Operating capital	—	—	—	$ 1,333,010	$ 2,666,020	(Note 7)
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	451,906	451,906	—	1.50%~7.00%	2	—	Operating capital	—	—	—	1,333,010	2,666,020	(Note 7)
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Other receivables - related parties	Y	605,700	581,022	323,575	1.50%~7.00%	2	—	Operating capital	—	—	—	1,333,010	2,666,020	(Note 7)
1	Taistar Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Other receivables - related parties	Y	201,900	193,674	—	1.20%~2.00%	2	—	Operating capital	—	—	—	338,352	676,705	(Note 9)
1	Taistar Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	201,900	129,116	129,116	1.20%~2.00%	2	—	Operating capital	—	—	—	338,352	676,705	(Note 9)
2	Kunshan Taiflex Electronic Material Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	51,230	—	—	4.00%~7.00%	2	—	Operating capital	—	—	—	49,447	98,894	(Note 10)

Note 1: Companies are coded as follows:
(1) Taiflex Scientific Co., Ltd. is coded "0".
(2) The investees are coded from "1" in the order presented in the table above.

Note 2: Receivables from affiliates and related parties, shareholder transactions, prepayments and temporary payments etc. are required to be disclosed in this field if they are financings provided to others.

Note 3: The maximum balance of financing provided to others for the year ended December 31, 2016.

Note 4: Nature of Financing are coded as follows:
(1) Business transaction is coded "1".
(2) Short-term financing is coded "2".

Note 5: If nature of financing is business transaction, the amount of transaction should be disclosed. Amount of transaction shall refer to the business transaction amounts of the most recent year between the financing company and the borrower.

Note 6: With respect to short-term financing, the reasons of financing and the purpose of use by the counter-party shall be specified, such as loan repayment, equipment acquisition or operating capital.

Note 7: The Company's "Procedures for Lending Funds to Other Parties" stipulates that the amount of financing provided shall not exceed 40% of the Company's net worth in the most recent financial statements, except for financings between foreign companies of which the Company holds, directly and indirectly, 100% of the voting shares. The amount of financing provided to any single entity shall not exceed 20% of the Company's net worth in the most recent financial statements.

Note 8: Total amount of financing to firms or companies having business relationship with the Company shall not exceed 20% of the Company's net worth. The financing amount to an individual party is limited to the transaction amount between both parties. The transaction amount means the sales or purchasing amount between the parties, whichever is higher, and shall not exceed 10% of the Company's net worth. However, the lending amount to a single enterprise, whose voting shares are 100% held, directly or indirectly, by the Company, shall not exceed 20% of the Company's net worth.

Note 9: For subsidiaries that the Company holds, directly and indirectly, 100% of the voting shares, the financing provided to any single entity shall not exceed 20% of the net worth in the most recent financial statements of the financing company. Total financing shall not exceed 40% of the net worth in the most recent financial statements of the financing company.

Note 10: Financing provided is limited to the parent company in Taiwan or subsidiaries that the parent company holds, directly and indirectly, 100% of the voting shares. The financing provided to any single entity shall not exceed 20% of the net worth in the most recent financial statements of the financing company. Total financing shall not exceed 40% of the net worth in the most recent financial statements of the financing company.

Note 11: If public companies, pursuant to Paragraph 1, Article 14 of Regulations Governing Loaning of Funds and Making of Endorsements / Guarantees by Public Companies, resolve at the board meetings each individually lending, the amounts resolved before drawing shall be the publicly-announced balance to disclose the risk they assume; provided however, if any repayment is made subsequently, the outstanding balance after such repayment shall be disclosed to reflect the risk adjusted. If public companies, pursuant to Paragraph 2, Article 14 of the same Regulations, authorize the chairperson by board resolution, within a certain monetary limit and a period not to exceed one year, to give loans in instalments or to make a revolving credit line available, the amount resolved shall be the publicly-announced balance. Although repayment may be made subsequently, as drawings are likely to happen again, the amount of financing resolved by the board shall be recorded as the publicly-announced balance.

Note 12: This is the ending balance after evaluation.

TABLE 2: ENDORSEMENT/GUARANTEE PROVIDED TO OTHERS (In Thousands of New Taiwan Dollars)

No (Note 1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 3)	Maximum Balance for the Period (Note 4)	Ending Balance (Note 5)	Amount Actually Drawn (Note 6)	Amount of Endorsement/ Guarantee Secured by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Worth per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowed (Note 3)	Endorsement Provided by Parent Company to Subsidiaries	Endorsement Provided by Subsidiaries to Parent Company	Endorsement Provided to Subsidiaries in China
		Name	Nature of Relationship (Note 2)										
0	Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	2	$ 3,332,525	$ 201,900	$ 129,116	$ 129,116	—	1.94%	$ 3,332,525	Y	N	N
0	Taiflex Scientific Co., Ltd.	Kunshan Taiflex Electronic Material Co., Ltd.	3	3,332,525	151,425	—	—	—	—		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	3	3,332,525	989,715	989,715	364,710	—	14.85%		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	3	3,332,525	2,050,502	2,050,502	196,902	—	30.76%		Y	N	Y

Note 1: Companies are coded as follows:
(1) Taiflex Scientific Co., Ltd. is coded "0".
(2) The investees are coded from "1" in the order presented in the table above.

Note 2: The relationships between endorsement/guarantee providers and guaranteed parties are categorized into the following six types. Please specify the type.
(1) A company that has a business relationship with Taiflex.
(2) A subsidiary in which Taiflex holds directly over 50% of common equity interest.
(3) An investee in which Taiflex and its subsidiaries jointly hold over 50% of common equity interest.
(4) A parent company that holds directly over 50%, or indirectly over 50% through a subsidiary, of the company's common equity interest.
(5) A company that has provided guarantees to Taiflex, and vice versa, due to contractual requirements.
(6) A company in which Taiflex jointly invests with other shareholders, and for which Taiflex has provided endorsement/guarantee in proportion to its shareholding percentage.

Note 3: The overall amount of guarantees/endorsements shall not exceed 50% of the Company's net worth in the most recent financial statements. The amount of guarantees/endorsements provided to any single entity shall not exceed 20% of the net worth in the most recent financial statements. However, the restriction does not apply to guarantees and endorsements to companies, whose voting shares are 100% held, directly or indirectly, by the Company.

Note 4: The maximum endorsement/guarantee balance for the year ended December 31, 2016.

Note 5: As of December 31, 2016, the Company assumed endorsement or guarantee liabilities for endorsement/guarantee contracts signed or bill facilities approved. All other related endorsement or guarantee shall be included in the balance of guarantee/endorsement.

Note 6: This is the ending balance after evaluation.

TABLE 3: MARKETABLE SECURITIES HELD AS OF DECEMBER 31, 2016 (EXCLUDING INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES)

(In Thousands of New Taiwan Dollars)

Name of Held Company	Type of Marketable Securities (Note 1)	Name of Marketable Securities (Note 1)	Relationship with the Company (Note 2)	Financial Statement Account	December 31, 2016				Note
					Shares (In Thousands)	Carrying Amount (Note 3)	Percentage of Ownership	Fair Value	
Taiflex Scientific Co., Ltd.	Not listed (OTC) stocks	Exploit Technology Co., Ltd.	—	Financial assets measured at cost, non-current	25	—	0.30%	—	—
	Not listed (OTC) stocks	Kyoritsu Optronics Co., Ltd.	—	Financial assets measured at cost, non-current	741	—	18.10%	—	—
	Listed stocks	Zhen Ding Technology Holding Limited	—	Financial assets at fair value through profit or loss, current	255	$ 16,245	0.03%	$ 16,245	—

Note 1: The marketable securities stated in this table shall refer to stocks, bonds, beneficiary certificates and securities derived from the said items within the scope of IAS No. 39 "Financial Instruments: Recognition and Measurement".

Note 2: Not required if the issuer of the marketable securities is not a related party.

Note 3: If measured at fair value, please fill in the carrying amount after valuation adjustment of fair value and net of accumulated impairment. If not measured at fair value, please fill in the original cost or the carrying value of amortized cost, net of accumulated impairment.

TABLE 4: RELATED PARTY TRANSACTIONS WITH PURCHASE OR SALES AMOUNT OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction (Note 1)		Notes/Accounts Receivable (Payable)		Note
			Purchases/ Sales	Amount	Percentage to Total	Collection / Payment Terms	Unit Price	Collection / Payment Terms	Ending Balance	Percentage to Total	
Taiflex Scientific Co., Ltd.	Kunshan Taiflex Electronic Material Co., Ltd.	100% owned third-tier subsidiary	Sales	$ 370,560	5.52%	Collection within 120 days from the end of delivery month by TT	–	–	$ –	–	–
	Taiflex Scientific (Kunshan) Co., Ltd.	100% owned third-tier subsidiary	Purchases	262,921	4.52%	Payment within 120 days from the end of delivery month by TT	–	–	(13,666)	(1.01%)	–
	Taiflex Scientific (Kunshan) Co., Ltd.	100% owned third-tier subsidiary	Sales	1,678,323	25.00%	Collection within 120 days from the end of delivery month by TT	–	–	20,105	1.16%	–
	Shenzhen Taiflex Electronic Co., Ltd.	100% owned third-tier subsidiary	Sales	1,791,345	26.69%	Collection within 120 days from the end of delivery month by TT	–	–	1,091,763	62.86%	–
Taiflex Scientific (Kunshan) Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Sales	262,921	6.94%	Collection within 120 days from the end of delivery month by TT	–	–	13,666	0.60%	–
	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Purchases	1,678,323	49.05%	Payment within 120 days from the end of delivery month by TT	–	–	(20,105)	(1.75%)	–
Kunshan Taiflex Electronic Material Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Purchases	370,560	81.57%	Payment within 120 days from the end of delivery month by TT	–	–	–	–	–
Shenzhen Taiflex Electronic Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Purchases	1,791,345	87.00%	Payment within 120 days from the end of delivery month by TT	–	–	(1,091,763)	(93.35%)	–

Note 1: The sales prices and collection terms to related parties are not significantly different from those of sales to non-related parties.

TABLE 5: RECEIVABLES FROM RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Ratio (times)	Overdue		Amounts Received in Subsequent Periods	Allowance for Doubtful Accounts	Note
					Amount	Action Taken			
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	100% owned third-tier subsidiary	$ 574,167	(Note 1)	—	—	$ 140,648	—	—
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	100% owned third-tier subsidiary	20,105	19.08	—	—	2,433	—	—
Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	100% owned third-tier subsidiary	1,091,763	2.47	—	—	199,213	—	—

Note 1: Those receivables from related parties are recognized as other receivables; thus, turnover ratio analysis is not applicable.

TABLE 6: INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE OR CONTROLS DIRECTLY OR INDIRECTLY (EXCLUDING INVESTEES IN MAINLAND CHINA)

(In Thousands of New Taiwan Dollars)

Investor	Investee	Business Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2016			Net Income (Losses) of the Investee	Share of Profits/Losses	Note
				December 31, 2016	December 31, 2015	Shares (In Thousands)	Shareholding Percentage	Carrying Amount			
Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	Belize	Investment holding	$ 822,194	$ 822,194	25,665	100.00%	$ 1,677,148	$ 44,225	$ 42,745	(Note 1)
Taiflex Scientific Co., Ltd.	Leadmax Limited	Samoa	Trading of electronic materials	337	337	10	100.00%	16,077	2,040	2,040	—
Taiflex Scientific Co., Ltd.	Koatech Technology Corporation	Taiwan	Manufacturing and selling of electronic materials and components	294,102	294,102	27,400	53.86%	222,766	(71,671)	(44,297)	(Note 2)
Taiflex Scientific Co., Ltd.	Innovision FlexTech Corp.	Taiwan	Manufacturing and selling of electronic materials	102,894	102,894	4,513	16.72%	31,518	22,866	—	(Note 3)
Taiflex Scientific Co., Ltd.	TFS Co., Ltd.	Belize	Investment holding	192,657	192,657	6,020	100.00%	134,508	(1,379)	(1,379)	—
Taiflex Scientific Co., Ltd.	Taiflex Scientific Japan Co., Ltd.	Japan	Trading of electronic materials and technical support	16,260	—	6	100.00%	17,660	1,207	1,207	—
TFS Co., Ltd.	RICHSTAR Co., Ltd.	Samoa	Investment holding	192,423	192,423	6,010	100.00%	155,650	(1,324)	(1,324)	—
Taistar Co., Ltd.	TSC International Ltd.	Cayman Islands	Investment holding	801,604	801,604	25,010	100.00%	1,627,955	60,025	60,025	—
Koatech Technology Corporation	KTC Global Co., Ltd.	Samoa	Investment holding	28,649	28,649	960	100.00%	16,991	(5,236)	(5,236)	—
KTC Global Co., Ltd	KTC PanAsia Co., Ltd.	Samoa	Investment holding	28,500	28,500	955	100.00%	18,093	(4,038)	(4,038)	—

Note 1: Including unrealized gain/loss between affiliates.

Note 2: Including amortization of fixed assets.

Note 3: The net amount of investments accounted for under the equity method was zero.

TABLE 7: INFORMATION ON INVESTMENTS IN MAINLAND CHINA

(In Thousands of New Taiwan Dollars)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2016	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2016	Profits/ Losses of Investee	Percentage of Ownership (Direct or Indirect Investment)	Share of Profits/ Losses	Carrying Amount as of December 31, 2016	Accumulated Inward Remittance of Earnings as of December 31, 2016
					Outflow	Inflow						
Kunshan Taiflex Electronic Material Co., Ltd.	Trading of coating materials for high polymer film and copper foil	$184,126 (US$5,603,350)	Through reinvestment of a company established in the third area	$ 32,536	–	–	$ 32,536	$ 24,495	100.00%	$ 24,495	$ 247,236	$ 128,532
Taiflex Scientific (Kunshan) Co., Ltd.	Manufacturing and selling of coating materials for high polymer film and copper foil	$767,141 (US$24,000,000)	Through reinvestment of a company established in the third area	767,141	–	–	767,141	35,530	100.00%	35,530	1,380,350	–
Kunshan Koatech Technology Corporation	Wholesale and act as a commission agent of electronic materials and components	$28,351 (US$950,000)	Through reinvestment of a company established in the third area	28,351	–	–	28,351	(4,003)	53.86%	(2,156)	9,713	–
Shenzhen Taiflex Electronic Co., Ltd.	Trading of coating materials for high polymer film and copper foil	$193,020 (US$6,000,000)	Through reinvestment of a company established in the third area	193,020	–	–	193,020	(1,294)	100.00%	(1,294)	155,280	–

Accumulated Outflow of Investment from Taiwan to Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$1,021,048	$1,054,876	$3,999,029

Note 1: The methods for investment in Mainland China are divided into the following three types. Please specify the type.

(1) Direct investment in Mainland China.

(2) Investment in Mainland China through companies in the third area.

(3) Others.

Note 2: Significant transactions with the investee companies in China directly or indirectly through the third area and the relevant prices, payment terms and unrealized gains and losses:

(1) Purchase, ending balance of related accounts payable and their weightings: see Table 4.

(2) Sales, ending balance of related accounts receivable and their weightings: see Tables 4 and 5.

(3) The transaction amount and gain or loss arising from property transactions: N/A.

(4) Ending balance of endorsements/guarantees or collateral provided and the purposes: see Table 2.

(5) Maximum balance, ending balance, interest rate range and total interest of current period from financing provided to others: refer to Table 1.

(6) Transactions that have significant impact on profit or loss or the financial position of current period, such as services provided or rendered: N/A.

TAIFLEX Scientific Co., Ltd.

Chairperson: Ta-Wen Sun