

(English Translation of Financial Report Originally Issued in Chinese)
Flytech Technology Co., Ltd. and Subsidiaries
Consolidated Financial Statements
December 31, 2015 and 2014
(With Independent Auditors' Report Thereon)



安侯建業聯合會計師事務所
KPMG

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Independent Auditors' Report

The Board of Directors
Flytech Technology Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Flytech Technology Co., Ltd. (the "Company") and subsidiaries as of December 31, 2015, the restated consolidated balance sheet as of December 31, 2014, and the related consolidated statements of comprehensive income, changes in equity (restated), and cash flows for the years ended December 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of Flytech Technology Co., Ltd. and subsidiaries as of December 31, 2015 and 2014, and the results of their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2015 and 2014, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission of the Republic of China.

As described in Note 3 to the consolidated financial statements, starting January 1, 2015, the Company and its subsidiaries have prepared the consolidated financial statements in accordance with the 2013 Taiwan-IFRSs version of International Accounting Standard 19 "Employee Benefits" endorsed by the Financial Supervisory Commission. Consequently, the consolidated financial statements as of and for the year ended December 31, 2014, have been restated retrospectively.



We have also audited the parent-company-only financial statements of Flytech Technology Co., Ltd. as of and for the years ended December 31, 2015 and 2014, on which we have issued a modified unqualified opinion and an unqualified opinion, respectively.

KPMG
CPA: Huei Chen, Chang

Taipei, Taiwan (the Republic of China)
March 15, 2016

Notes to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations, and cash flows in accordance with the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission of the Republic of China. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese language auditors' report and consolidated financial statements shall prevail.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2015 and 2014

(in thousands of New Taiwan dollars)

Assets	2015.12.31	2014.12.31 (Restated)
Current assets:		
Cash and cash equivalents (notes 6(1) and (21))	\$ 2,413,793	2,394,500
Financial assets at fair value through profit or loss—current (notes 6(2), (21) and (22))	160,121	-
Notes and accounts receivable, net (notes 6(3) and (21))	1,076,074	1,040,820
Other receivables (notes 6(3) and (21))	7,076	4,539
Inventories (note 6(4))	671,025	470,493
Prepayments and other current assets	39,679	25,955
Other financial assets—current (notes 6(1) and (21) and 8)	<u>150,200</u>	<u>149,488</u>
Total current assets	<u>4,517,968</u>	<u>4,085,795</u>
Non-current assets:		
Investments in associates (note 6(5))	-	4,349
Property, plant and equipment (note 6(8))	1,156,416	1,148,004
Intangible assets (notes 6(6) and (9))	208,409	10,399
Deferred income tax assets (note 6(14))	29,379	27,546
Prepayments for equipment	11,872	5,017
Other financial assets—non-current (note 6(21))	<u>52,055</u>	<u>32,684</u>
Total non-current assets	<u>1,458,131</u>	<u>1,227,999</u>
Total assets	<u>\$ 5,976,099</u>	<u>5,313,794</u>

(Continued)

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets (Continued)

December 31, 2015 and 2014

(in thousands of New Taiwan dollars)

Liabilities and Equity	2015.12.31	2014.12.31 (Restated)
Current liabilities:		
Financial liabilities at fair value through profit or loss—current (notes 6(2), (21) and (22))	\$ -	5,929
Notes and accounts payable (notes 6(21) and (22))	562,827	428,529
Other payables (notes 6(15), (19), (21) and (22))	267,880	219,784
Current income tax liabilities	146,752	125,155
Provisions (note 6(11))	12,341	27,332
Other current liabilities	29,247	21,960
Current portion of bonds payable (notes 6(10), (21) and (22))	-	302,789
Total current liabilities	<u>1,019,047</u>	<u>1,131,478</u>
Non-current liabilities:		
Deferred income tax liabilities (note 6(14))	29,357	35,431
Accrued pension liabilities (note 6(13))	<u>33,040</u>	<u>28,686</u>
Total non-current liabilities	<u>62,397</u>	<u>64,117</u>
Total liabilities	<u>1,081,444</u>	<u>1,195,595</u>
Equity (notes 6(7), (10), (15) and (16)):		
Common stock	1,463,683	1,329,472
Capital surplus	756,228	586,395
Retained earnings:		
Legal reserve	651,916	555,984
Unappropriated earnings	1,670,446	1,594,326
Other equity	<u>15,975</u>	<u>15,294</u>
Equity attributable to shareholders of the Company	<u>4,558,248</u>	<u>4,081,471</u>
Non-controlling interests	<u>336,407</u>	<u>36,728</u>
Total equity	<u>4,894,655</u>	<u>4,118,199</u>
Total liabilities and equity	<u>\$ 5,976,099</u>	<u>5,313,794</u>

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2015 and 2014

(in thousands of New Taiwan dollars, except earnings per share)

	2015	2014
Net revenue (note 6(18))	\$ 5,213,056	4,748,478
Cost of revenue (notes 6(4), (8), (9), (11), (12), (13), (15) and (19) and 12)	<u>3,419,309</u>	<u>3,223,533</u>
Gross profit	<u>1,793,747</u>	<u>1,524,945</u>
Operating expenses (notes 6(3), (8), (9), (12), (13), (15) and (19), 7 and 12):		
Selling expenses	268,358	228,801
Administrative expenses	189,530	117,816
Research and development expenses	<u>207,163</u>	<u>156,637</u>
Total operating expenses	<u>665,051</u>	<u>503,254</u>
Operating income	<u>1,128,696</u>	<u>1,021,691</u>
Non-operating income and loss (notes 6(5), (10) and (20)):		
Other income	31,917	37,820
Other gains and losses	46,376	52,225
Finance costs	(1,255)	(6,127)
Share of losses of associates	<u>(1,820)</u>	<u>(604)</u>
Total non-operating income and loss	<u>75,218</u>	<u>83,314</u>
Income before income tax	1,203,914	1,105,005
Income tax expense (note 6(14))	<u>161,182</u>	<u>140,103</u>
Net income	<u>1,042,732</u>	<u>964,902</u>
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss (notes 6(13), (14) and (15)):		
Remeasurement of defined benefit plans	(4,053)	(268)
Less: Income tax benefit related to items that will not be reclassified subsequently to profit or loss	<u>689</u>	<u>46</u>
	<u>(3,364)</u>	<u>(222)</u>
Items that may be reclassified subsequently to profit or loss(note 6(15)):		
Exchange differences on translation of foreign operations	4,024	13,771
Income tax related to items that may be reclassified subsequently to profit or loss	<u>-</u>	<u>-</u>
	<u>4,024</u>	<u>13,771</u>
Other comprehensive income for the year, net of income tax	<u>660</u>	<u>13,549</u>
Total comprehensive income for the year	\$ <u>1,043,392</u>	\$ <u>978,451</u>
Net income attributable to:		
Shareholders of the Company	\$ 1,016,596	959,324
Non-controlling interests	<u>26,136</u>	<u>5,578</u>
	\$ <u>1,042,732</u>	\$ <u>964,902</u>
Total comprehensive income attributable to:		
Shareholders of the Company	\$ 1,017,277	972,873
Non-controlling interests	<u>26,115</u>	<u>5,578</u>
	\$ <u>1,043,392</u>	\$ <u>978,451</u>
Earnings per share (in New Taiwan dollars, note 6(17)):		
Basic earnings per share	\$ <u>7.02</u>	\$ <u>6.89</u>
Diluted earnings per share	\$ <u>6.89</u>	\$ <u>6.54</u>

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2015 and 2014

(in thousands of New Taiwan dollars)

	Attributable to shareholders of the Company											
	Retained earnings					Other equity						
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Total	Foreign currency translation differences	Remeasurements of defined benefit plans	Total	Non-controlling interests	Total equity	
Balance at January 1, 2014	\$ 1,199,651	674,190	470,015	10,675	1,431,823	1,912,513	700	-	700	3,787,054	34,885	3,821,939
Effects of retrospective restatements	-	-	-	-	(1,045)	(1,045)	-	1,045	1,045	-	-	-
Restated balance at January 1, 2014	1,199,651	674,190	470,015	10,675	1,430,778	1,911,468	700	1,045	1,745	3,787,054	34,885	3,821,939
Appropriation approved by the stockholders:												
Legal reserve	-	-	85,969	-	(85,969)	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(10,675)	10,675	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(720,482)	(720,482)	-	-	-	(720,482)	-	(720,482)
Distribution of stock dividends from capital surplus	120,080	(120,080)	-	-	-	-	-	-	-	-	-	-
Convertible bonds converted into common stock	2,891	11,211	-	-	-	-	-	-	-	14,102	-	14,102
Issuance of common stock for exercise of employee stock options	6,850	21,074	-	-	-	-	-	-	-	27,924	-	27,924
Distribution of cash dividend by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(3,735)	(3,735)
Net income in 2014	-	-	-	-	959,324	959,324	-	-	-	959,324	5,578	964,902
Other comprehensive income in 2014	-	-	-	-	-	-	13,771	(222)	13,549	-	-	-
Total comprehensive income in 2014	-	-	-	-	959,324	959,324	13,771	(222)	13,549	972,873	5,578	978,451
Restated balance at December 31, 2014	1,329,472	586,395	555,984	-	1,594,326	2,150,310	14,471	823	15,294	4,081,471	36,728	4,118,199
Appropriation approved by the stockholders:												
Legal reserve	-	-	95,932	-	(95,932)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(829,900)	(829,900)	-	-	-	(829,900)	-	(829,900)
Distribution of stock dividends from capital surplus	69,158	(69,158)	-	-	-	-	-	-	-	-	-	-
Convertible bonds converted into common stock	65,053	238,991	-	-	-	-	-	-	-	304,044	-	304,044
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	452,655	452,655
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	(14,644)	(14,644)	-	-	-	(14,644)	(145,356)	(160,000)
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	-	12,000	12,000
Distribution of cash dividend by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(45,735)	(45,735)
Net income in 2015	-	-	-	-	1,016,596	1,016,596	-	-	-	1,016,596	26,136	1,042,732
Other comprehensive income in 2015	-	-	-	-	-	-	4,045	(3,364)	681	-	(21)	660
Total comprehensive income in 2015	-	-	-	-	1,016,596	1,016,596	4,045	(3,364)	681	1,017,277	26,115	1,043,392
Balance at December 31, 2015	\$ 1,463,683	756,228	651,916	-	1,670,446	2,322,362	18,516	(2,541)	15,975	4,558,248	336,407	4,894,655

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(in thousands of New Taiwan dollars)

	2015	2014
Cash flows from operating activities:		
Income before income tax	\$ <u>1,203,914</u>	<u>1,105,005</u>
Adjustments for:		
Depreciation	95,368	86,505
Amortization	49,500	5,152
Provision for (Reversal of) impairment loss on accounts receivable	(365)	2,352
Valuation loss (gain) on financial assets and liabilities at fair value through profit or loss, net	(6,154)	4,179
Interest expense	1,255	6,127
Interest income	(23,191)	(32,544)
Share of losses of associates	1,820	604
Impairment loss on investments in associates	2,529	10,047
Gain on disposal of property, plant and equipment	<u>-</u>	<u>(496)</u>
Total non-cash profit and loss	<u>120,762</u>	<u>81,926</u>
Changes in operating assets and liabilities:		
Notes and accounts receivable, net	60,236	(277,895)
Other receivables	(3,796)	(2,871)
Inventories	(74,348)	(44,757)
Prepayments and other current assets	(5,842)	(464)
Notes and accounts payable	21,737	51,025
Other payables	20,396	10,448
Other current liabilities	(700)	(3,168)
Provisions	(14,991)	16,826
Accrued pension liabilities	<u>990</u>	<u>(36)</u>
Total changes in operating assets and liabilities	<u>3,682</u>	<u>(250,892)</u>
Cash provided by operations	1,328,358	936,039
Income taxes paid	<u>(155,157)</u>	<u>(137,271)</u>
Net cash provided by operating activities	<u>1,173,201</u>	<u>798,768</u>

(Continued)

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2015 and 2014

(in thousands of New Taiwan dollars)

	2015	2014
Cash flows from investing activities:		
Purchase of financial assets at fair value through profit or loss	(260,000)	-
Proceeds from disposal of financial assets at fair value through profit or loss	100,104	-
Capital injection to an associate	-	(15,000)
Acquisition of a subsidiary, net of cash acquired	115,667	-
Additions to property, plant and equipment (including prepayments for equipment)	(96,816)	(37,318)
Proceeds from disposal of property, plant and equipment	1	507
Additions to intangible assets	(5,138)	(5,897)
Decrease (increase) in other financial assets	(11,463)	679,131
Interest received	24,450	39,795
Net cash provided by (used in) investing activities	<u>(133,195)</u>	<u>661,218</u>
Cash flows from financing activities:		
Cash dividends	(829,900)	(720,482)
Proceeds from exercise of employee stock options	-	27,924
Cash dividends paid to non-controlling interests	(45,735)	(3,735)
Payments for acquisition of non-controlling interests in a subsidiary	(160,000)	-
Capital injection from non-controlling interests	12,000	-
Net cash used in financing activities	<u>(1,023,635)</u>	<u>(696,293)</u>
Effects of foreign exchange rate changes	<u>2,922</u>	<u>13,030</u>
Net increase in cash and cash equivalents	19,293	776,723
Cash and cash equivalents at beginning of year	2,394,500	1,617,777
Cash and cash equivalents at end of year	<u>\$ 2,413,793</u>	<u>2,394,500</u>

See accompanying notes to consolidated financial statements.

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014
(amounts expressed in thousands of New Taiwan dollars
except for earnings per share information and unless otherwise noted)

1. Organization and business

Flytech Technology Co., Ltd. (the "Company") was incorporated on August 13, 1984, as a company limited by shares under the laws of the Republic of China ("R.O.C.") and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company's registered office is No. 168, Sing-Ai Road, Neihu, Taipei, Taiwan. The Company and its subsidiaries (collectively the "Group") are engaged in the design, manufacture and sale of Book PCs, Net PCs, POS PCs, and IPCs.

2. Authorization of the consolidated financial statements

These consolidated financial statements were authorized for issuance by the Board of Directors on March 15, 2016.

3. Application of new and revised accounting standards and interpretations

(1) Impact of the application of the new and revised accounting standards and interpretations endorsed by the Financial Supervisory Commission of the R.O.C. ("FSC")

Starting 2015, the Group has prepared its consolidated financial statements in accordance with the 2013 version of International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations (collectively "IFRSs") endorsed by the FSC (collectively, "the 2013 Taiwan-IFRSs"). IFRS 9 *Financial Instruments* is excluded from the 2013 Taiwan-IFRSs. The new and amended accounting standards and interpretations issued by the International Accounting Standards Board ("IASB") are summarized as below.

New or amended standards and interpretations	Effective date per IASB
• Amendments to IFRS 1 <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>	July 1, 2010
• Amendments to IFRS 1 <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>	July 1, 2011
• Amendments to IFRS 1 <i>Government Loans</i>	January 1, 2013
• Amendments to IFRS 7 <i>Disclosure — Transfers of Financial Assets</i>	July 1, 2011
• Amendments to IFRS 7 <i>Disclosure — Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2013
• IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (investment entities: effective January 1, 2014)

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

New or amended standards and interpretations	Effective date per IASB
• IFRS 11 <i>Joint Arrangements</i>	January 1, 2013
• IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
• IFRS 13 <i>Fair Value Measurement</i>	January 1, 2013
• Amendments to IAS 1 <i>Presentation of Items of Other Comprehensive Income</i>	July 1, 2012
• Amendments to IAS 12 <i>Deferred Tax: Recovery of Underlying Assets</i>	January 1, 2012
• Amendments to IAS 19 (Revised 2011) <i>Employee Benefits</i>	January 1, 2013
• Amendments to IAS 27 (Revised 2011) <i>Separate Financial Statements</i>	January 1, 2013
• Amendments to IAS 32 <i>Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2014
• IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013

Except for the following items, the Group believed that the adoption of the aforementioned 2013 Taiwan-IFRSs will not have a significant impact on the Group's consolidated financial statements.

A. Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

According to the amendments to IAS 1, the items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. In addition, income tax on items of other comprehensive income is required to be allocated on the same basis. The Group has changed the presentation of its statement of comprehensive income, and the presentation of the comparative period has been restated accordingly.

B. IFRS 12 *Disclosure of Interests in Other Entities*

The Group has increased its disclosures on information related to associates (please refer to note 6(5)) in accordance with the standard.

C. IFRS 13 *Fair Value Measurement*

The Group has applied the standard prospectively and increased the related disclosure with respect to the measurement of fair value (refer to note 6(21)) in accordance with the standard. Nevertheless, the Group is not required to disclose the related information for the comparative period. Although the Group has applied the standard starting 2015, the Group assessed that there is no significant impact on the measurement of the fair value of the Group's assets and liabilities.

D. IAS 19 *Employee Benefits*

IAS 19 (Revised 2011) has eliminated the requirement of recognizing the actuarial gains or losses arising from the defined benefit plans in retained earnings. The Group has opted to recognize the aforementioned actuarial gains or losses in other equity accounts starting 2015, and a retrospective adjustment has been made.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The table below summarizes the impact on the Group's financial position resulting from the aforementioned changes.

Impacted items on the consolidated balance sheet	Reported amounts before restatement	Effects of changes in accounting policies of defined benefit plans	Reported amounts after restatement
December 31, 2014			
Unappropriated earnings	\$ 1,595,149	(823)	1,594,326
Other equity	-	823	823

(2) Impact of IFRSs issued by the IASB but not yet endorsed by the FSC

Below is a summary of IFRSs issued by the IASB but not yet endorsed by the FSC.

New or amended standards and interpretations	Effective date per IASB
• IFRS 9 <i>Financial Instruments</i>	January 1, 2018
• Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Pending IASB resolution
• Amendments to IFRS10, IFRS12 and IAS 28 <i>Investment Entities: Applying the Consolidation Exception</i>	January 1, 2016
• Amendments to IFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i>	January 1, 2016
• IFRS 14 <i>Regulatory Deferral Accounts</i>	January 1, 2016
• IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2018
• IFRS 16 <i>Leases</i>	January 1, 2019
• Amendments to IAS 1 <i>Disclosure Initiative</i>	January 1, 2016
• Amendments to IAS 7 <i>Disclosure Initiative</i>	January 1, 2017
• Amendments to IAS 12 <i>Recognition of Deferred Tax Assets for Unrealized Losses</i>	January 1, 2017
• Amendments to IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>	January 1, 2016
• Amendments to IAS 16 and IAS 41 <i>Agriculture: Bearer Plants</i>	January 1, 2016
• Amendments to IAS 19 <i>Defined Benefit Plans: Employee Contributions</i>	July 1, 2014
• Amendments to IAS 27 <i>Equity Method in Separate Financial Statements</i>	January 1, 2016
• Amendments to IAS 36 <i>Recoverable Amount Disclosures for Non-Financial Assets</i>	January 1, 2014
• Amendments to IAS 39 <i>Novation of Derivatives and Continuation of Hedge Accounting</i>	January 1, 2014
• 2010-2012 & 2011-2013 Annual Improvements Cycles	July 1, 2014
• 2012-2014 Annual Improvements Cycles	January 1, 2016

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

New or amended standards and interpretations	Effective date per IASB
• IFRIC 21 <i>Levies</i>	January 1, 2014

The Group continues to evaluate the impact on the consolidated financial position and the results of operations as a result of the adoption of the above standards or interpretations. The related impact will be disclosed when the Group completes the assessments.

4. Summary of significant accounting policies

The significant accounting policies presented in the financial statements are summarized as follows and have been applied consistently to all periods presented in these financial statements.

The consolidated financial statements are the English translation of the original Chinese version prepared and used in the R.O.C. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese language consolidated financial statements shall prevail.

(1) Statement of compliance

The Group's accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations") and the IFRSs, IASs, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (collectively "Taiwan-IFRSs").

(2) Basis of preparation

(a) Basis of measurement

The accompanying consolidated financial statements have been prepared on a historical cost basis except for the following items in the balance sheets:

- i. Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
- ii. Defined benefit liabilities recognized as the present value of the benefit obligation less the fair value of plan assets.

(b) Functional and presentation currency

The functional currency of each individual consolidated entity is determined based on the primary economic environment in which the entity operates. The Group's consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional currency. Except when otherwise indicated, all financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Basis of consolidation

(a) Principles of preparation of consolidated financial statements

The accompanying consolidated financial statements incorporate the financial statements of the Company and its controlled entities (the subsidiaries). The Company controls an investee when it is exposed, or has right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Inter-company balances, transactions, and the resulting unrealized income and loss are eliminated in full on consolidation. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, financial statements of subsidiaries are adjusted to align their accounting policies with those adopted by the Company.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The difference between the adjustment of the non-controlling interests and the fair value of the payment or receipt is recognized as equity and belongs to the Company.

(b) List of subsidiaries in the consolidated financial statements

The subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Investee	Main Business and Products	Percentage of Ownership	
			2015.12.31	2014.12.31
The Company	Flytech USA International Co., Ltd. ("Flytech USA BVI, British Virgin Islands)	Investment and holding activity	100.00	100.00
The Company	Flytech JP International Co., Ltd. ("Flytech JP BVI", British Virgin Islands)	Investment and holding activity	100.00	100.00
The Company	Flytech HK International Co., Ltd. ("Flytech HK BVI", British Virgin Islands)	Investment and holding activity	100.00	100.00
The Company	Flytech CN International Co., Ltd. ("Flytech CN BVI", British Virgin Islands)	Investment and holding activity	100.00	100.00
The Company	Flycom Investment Co., Ltd. ("Flycom Investment", Taiwan)	Investment and holding activity	100.00	100.00
Flytech USA BVI	Flytech Technology (U.S.A.) Inc. ("Flytech USA", U.S.A.)	Sale of computers and peripheral equipment	100.00	100.00
Flytech HK BVI	Flytech Technology Hong Kong Ltd. ("Flytech HK", Hong Kong)	Sale of computers and peripheral equipment	100.00	100.00
Flytech CN BVI	Flytech Technology (Shanghai) Co., Ltd. ("Flytech CN", China)	Sale of computers and peripheral equipment	100.00	100.00

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of Investor	Name of Investee	Main Business and Products	Percentage of Ownership		
			2015.12.31	2014.12.31	
Flytech CN BVI	Flytech Inc. Beijing ("Flytech BJ", China)	Sale of computers and peripheral equipment	100.00	-	Note 1
Flycom Investment	OTEK System Co., Ltd. ("OTEK System", Taiwan)	Sale of computers and peripheral equipment	-	68.88	Note 2
Flycom Investment	IRUGGY System Co., Ltd. ("IRUGGY System", Taiwan)	Sale of computers and peripheral equipment	80.00	-	Note 1
Flycom Investment	Poindus Systems Corporation ("Poindus Systems", Taiwan)	Sale of computers and peripheral equipment	53.78	-	Note 2
Poindus Systems	Poindus America Corp. ("Poindus America", U.S.A.)	Sale of computers and peripheral equipment	53.78	-	Note 2
Poindus Systems	Poindus Investment Co., Ltd. ("Poindus Investment", Taiwan)	Investment and holding activity	53.78	-	Note 2
Poindus Systems	Poindus Systems UK Limited ("Poindus UK", the United Kingdom)	Sale of computers and peripheral equipment	53.78	-	Notes 1 and 2
Poindus Investment	Poindus Systems GmbH GroBhandel mit EDV. Oberureel ("Poindus GmbH", Germany)	Sale of computers and peripheral equipment	53.78	-	Note 2

Note 1: Newly established during 2015.

Note 2: Starting February 1, 2015, Poindus Systems and its subsidiaries are included in the consolidated entities as the Company obtained de facto control over Poindus Systems through Flycom Investment. Poindus Systems merged OTEK System on August 1, 2015, while OTEK System was the dissolved company. Refer to notes 6(6) and (7) for more details.

(c) List of subsidiaries which are not included in the consolidated financial statements: None.

(4) Foreign currency

(a) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates at the end of the period (the reporting date) of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate prevailing at the date when the fair value is determined. Exchange differences arising on the translation of non-monetary items are recognized in profit or loss except for exchange differences arising on the translation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items denominated in a foreign currency that are measured at historical cost are not retranslated.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(b) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisitions, are translated into New Taiwan dollars at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated into New Taiwan dollars at the average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

On the disposal of a foreign operation which involves a loss of control over a subsidiary or loss of significant influence over an associate that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the Company are entirely reclassified to profit or loss. In the case of a partial disposal that does not result in the Group losing control over a subsidiary, the proportionate share of accumulated exchange differences is reclassified to non-controlling interests. For a partial disposal of the Group's ownership interest in an associate or joint venture, the proportionate share of the accumulated exchange differences in equity is reclassified to profit or loss.

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

An asset is classified as current when one of following criteria is met; all other assets are classified as non-current assets.

- (a) It is expected to be realized, or sold or consumed in the normal operating cycle;
- (b) It is held primarily for the purpose of trading;
- (c) It is expected to be realized within twelve months after the reporting date; or
- (d) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

A liability is classified as current when one of following criteria is met; all other liabilities are classified as non-current liabilities:

- (a) It is expected to be settled in the normal operating cycle;
- (b) It is held primarily for the purpose of trading;
- (c) It is due to be settled within twelve months after the reporting date; or
- (d) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. 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.

(6) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits that meet the aforesaid criteria and are not held for investing purposes are also classified as cash equivalents.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(7) Financial instruments**

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

(a) Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, and loans and receivables. Regular way purchases or sales of financial assets are recognized or derecognized based on the trade date, the date on which the Group commits to purchase or sell the assets.

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of financial assets held for trading and those designated as at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as financial assets at fair value through profit or loss unless they are designated as hedges.

At initial recognition, financial assets carried at fair value through profit or loss are recognized at fair value. Any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to the initial recognition, changes in fair value (including dividend income and interest income) are recognized in profit or loss and included in the non-operating income and loss of the consolidated statement of comprehensive income.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise accounts receivable, other receivables, and other financial assets. At initial recognition, such assets are recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method less any impairment losses. Interest income is recognized as non-operating income and loss.

iii. Impairment of financial assets

Financial assets, other than those carried at fair value through profit or loss, are assessed for impairment at the end of each reporting period. Those financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, their estimated future cash flows have been affected.

Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, indications that the debtor or issuer will probably enter bankruptcy or other financial reorganization, and the disappearance of an active market for that financial asset because of financial difficulties.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, such asset is included in a group of financial assets with similar credit risk characteristics which are then collectively assessed for impairment. Objective evidence that receivables are impaired includes the Group's collection experience in the past, an increase in delayed payments, and national or local economic conditions that correlate with overdue receivables.

An impairment loss is recognized by reducing the carrying amount of the respective financial assets with the exception of receivables, where the carrying amount is reduced through an allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

An impairment loss in respect of a financial asset measured at amortized cost is measured as the excess of the asset's carrying amount over the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

The impairment loss and the reversal gain for accounts receivable are recognized as administrative expenses, and as non-operating income and loss for financial assets other than accounts receivable.

iv. Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers out substantially all the risks and rewards of ownership of the financial assets to other enterprises.

On derecognition of part of a financial asset, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of relative fair values of those parts on the date of transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received or receivable for the part of the financial asset derecognized and the cumulative gain or loss that had been recognized in other comprehensive income allocated to the part derecognized is charged to profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(b) Financial liabilities and equity instruments****i. Classification of debt or equity**

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recognized at the amount of consideration received less the direct issuing cost.

The holders of compound financial instruments issued by the Group were granted an option to convert a fixed amount of bonds into a fixed number of common shares.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any transaction costs directly attributable to the issuance of the bonds are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, bonds payable is measured at amortized cost using the effective interest method, and the redemption options and conversion of the embedded bonds payable are measured at fair value. The equity component is not re-measured subsequent to initial recognition. Interest and gain or loss related to the financial liability are recognized in profit or loss.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

ii. Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held for trading or is designated as a financial liability at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also categorized as financial liabilities at fair value through profit or loss unless they are designated as hedges.

At initial recognition, this type of financial liability is recognized at fair value, and any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, the financial liabilities are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss and included in the non-operating income and loss of the consolidated statement of comprehensive income.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

iii. Other financial liabilities

Financial liabilities not classified as held for trading or not designated as at fair value through profit or loss, which comprise accounts payable and other payables, are measured at fair value plus any directly attributable transaction costs at initial recognition. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Interest expenses not capitalized as asset cost are recognized in profit or loss and included in the non-operating income and loss of the consolidated statement of comprehensive income.

iv. Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been fulfilled or cancelled, or has expired. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss and included in the non-operating income and loss of the consolidated statement of comprehensive income.

v. Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis only when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(c) Derivative financial instruments

Derivative financial instruments are held to hedge the Group's foreign currency exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and included in non-operating income and loss. If the valuation of a derivative instrument results in a positive fair value, it is classified as a financial asset; otherwise, it is classified as a financial liability.

(8) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated based on the weighted-average method and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other cost incurred in bringing them to a location and condition ready for sale. Fixed manufacturing overhead is allocated to finished products and work in process based on the higher of normal capacity or actual capacity; variable manufacturing overhead is allocated based on the actual capacity of machinery and equipment. Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(9) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

Investments in associates are accounted for using the equity method and are recognized initially at cost plus any transaction costs. The carrying amount of the investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized as other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, 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. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes such change in the associate's equity in "capital surplus" in proportion to its ownership.

Unrealized profits resulting from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

Adjustments are made to associates' financial statements to conform to the accounting policies applied by the Group.

(10) Property, plant and equipment

(a) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The gain or loss arising from the disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized in other gains and losses.

(b) Subsequent costs

Subsequent costs are capitalized only when it is probable that future economic benefits associated with the costs will flow to the Group and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognized in profit or loss. All other repairs and maintenance are charged to expense as incurred.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(c) Depreciation**

Depreciation is provided for property, plant and equipment over the estimated useful lives using the straight-line method. When an item of property, plant and equipment comprises significant individual components for which different depreciation methods or useful lives are appropriate, each component is depreciated separately. Land is not depreciated. The depreciation is recognized in profit or loss.

The estimated useful lives for property, plant and equipment are as follows: machinery and equipment: 3 to 12 years; mold equipment: 2 to 5 years; office equipment: 3 to 15 years; other equipment 2 to 10 years; buildings – main structure: 50 years; mechanical & electrical power equipment: 20 years; and air-conditioning system: 10 years.

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

(11) Leases

Leases are classified as finance leases when the Group assumes substantially all of the risks and rewards of ownership of the leased assets. All other leases are classified as operating leases and are not recognized in the Group's balance sheets.

Payments made under an operating lease (excluding insurance and maintenance expenses) are charged to expense over the lease term on a straight-line basis. Contingent rents are recognized as expense in the period when the lease adjustments are confirmed.

(12) Intangible assets**(a) Goodwill**

Goodwill arising from acquisitions of subsidiaries is accounted for as intangible assets. Goodwill arising from acquisitions of associates is included in the carrying amount of investments in associates. Goodwill is not amortized but is measured at cost less accumulated impairment losses.

(b) Other intangible assets

Trademarks, patents and technology, and customer relationships acquired in a business combination are measured at fair value at the acquisition date. Subsequent to the initial recognition, the intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss on a straight-line basis over the following estimated useful lives: Trademarks - 5 years; patents and technology - 5 years; customer relationships - 5 years; acquired software - 1 to 3 years.

The residual value, amortization period, and amortization method are reviewed at least at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(13) Impairment of non-financial assets****(a) Goodwill**

For the purpose of impairment testing, goodwill arising from a business combination is allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the synergies of the combination. The CGUs with goodwill are tested annually (or when there are indications that a CGU may have been impaired) for impairment. When the recoverable amount of a CGU is less than the carrying amount of the CGU, the impairment loss is recognized firstly by reducing the carrying amount of any goodwill allocated to the CGU and then proportionately allocated to the other assets of the CGU on the basis of the carrying amount of each asset in the CGU. Any impairment loss is recognized immediately in profit or loss. A subsequent reversal of the impairment loss on goodwill is prohibited.

(b) Other tangible and intangible assets

Non-financial assets other than inventories and deferred income tax assets are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. When there exists an indication of impairment for an asset, the recoverable amount of the asset is estimated. If the recoverable amount of an individual asset cannot be determined, the Group estimates the recoverable amount of the CGU to which the asset has been allocated.

The recoverable amount for an individual asset or a CGU is the higher of its fair value less costs to sell or its value in use. When the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognized in profit or loss immediately.

The Group assesses at each reporting date whether there is any evidence that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If so, an impairment loss recognized in prior periods for an asset other than goodwill is reversed, and the carrying amount of the asset or CGU is increased to its revised estimate of recoverable amount. The increased carrying amount shall not exceed the carrying amount (net of amortization of depreciation) that would have been determined had no impairment loss been recognized in prior years.

(14) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

A provision for warranties is recognized when the underlying products or services are sold. This provision reflects the historical warranty claim rate and the weighting of all possible outcomes against their associated probabilities.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(15) Revenue recognition**

Revenue from the sale of goods or services is measured at the fair value of consideration received or receivable, net of returns, rebates, and other similar discounts.

(a) Sale of goods

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 been transferred to the buyer; (b) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (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 Group; and (e) the cost incurred or to be incurred in respect of the transaction can be measured reliably.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

(b) Services

Revenue from services rendered is recognized by reference to the stage of completion at the reporting date.

(c) Interest income and dividend income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established, provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(16) Employee benefits**(a) Defined contribution plans**

Obligations for contributions to defined contribution pension plans are expensed during the year in which employees render services.

(b) Defined benefit plans

The liability recognized in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The discount rate for calculating the present value of the defined benefit obligation refers to the interest rate of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the term of the related pension obligation.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

When the defined benefit obligation calculation results in a benefit to the Group, the asset is recognized but is limited to the total amount of any unrecognized past service costs and the present value of economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan. The defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method.

The remeasurements of the net defined benefit liability (asset) comprise (i) actuarial gains and losses; (ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). The remeasurements of the net defined benefit liability (asset) are recognized in other comprehensive income and then transferred immediately to other equity.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets and any change in the present value of the defined benefit obligation.

(c) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed during the period in which employees render services. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to make such payments as a result of past service provided by the employees, and the obligation can be estimated reliably.

(17) Share-based payment

Share-based payment awards granted to employees are measured at fair value at the date of grant. The fair value determined at the grant date is expensed over the period that the employees become unconditionally entitled to the awards, with a corresponding increase in equity. The compensation cost is adjusted to reflect the number of awards given to employees for which the performance and non-market conditions are expected to be met, such that the amount ultimately recognized shall be based on the number of equity instruments that have vested.

(18) Income taxes

Income tax expenses include both current taxes and deferred taxes. Current and deferred taxes are recognized in profit or loss unless they relate to business combinations or items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for:

- (a) Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- (b) Temporary differences arising from investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the differences will not reverse in the foreseeable future; and
- (c) Temporary differences arising from initial recognition of goodwill.

Deferred tax is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets are recognized for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(19) Business combination

Goodwill is measured as the excess of the acquisition-date fair value of consideration transferred (including any non-controlling interest in the acquiree) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed (generally at fair value). If the residual balance is negative, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed and recognize any additional assets or liabilities that are identified in that review, and shall recognize a gain on the bargain purchase thereafter.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, provisional amounts for the items for which the accounting is incomplete are reported in the financial statements. During the measurement period, the provisional amounts recognized at the acquisition date are retrospectively adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date.

Acquisition-related costs are expensed as incurred except for the costs related to issuance of debt or equity instruments.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

Non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership instruments' proportionate share in the recognized amounts of the acquiree's net identifiable assets. All other non-controlling interest is measured at its acquisition-date fair value or other measurement basis in accordance with Taiwan-IFRSs.

The accounting treatment of organizational restructuring involving a business combination under common control through a share swap between subsidiaries is in accordance with Interpretation (2012) No. 301 issued by the Accounting Research and Development Foundation. As there is no change in the Group's controlled entities, the business combination is disclosed only in the notes to the consolidated financial statements.

(20) Earnings per share ("EPS")

The basic and diluted EPS attributable to stockholders of the Company are disclosed in the consolidated financial statements. Basic EPS are calculated by dividing net income attributable to stockholders of the Company by the weighted-average number of common shares outstanding during the year. In calculating diluted EPS, the net income attributable to stockholders of the Company and weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common shares. The Group's dilutive potential common shares include convertible bonds, stock options, and profit sharing for employees to be settled in the form of common stock.

(21) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions on the allocation of resources to the segment and to assess its performance for which discrete financial information is available.

5. Critical accounting judgments and key sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with the Regulations and Taiwan-IFRSs requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in the future periods affected.

There is no information involving critical judgments in applying the accounting policies in the consolidated financial statements.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

(1) Valuation of inventory

Inventories are stated at the lower of cost or net realizable value, and the Group uses judgment and estimates to determine the net realizable value of inventory at each reporting date. Due to rapid technological changes, the Group estimates the net realizable value of inventory based on obsolescence and unmarketable items at the reporting date 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, which could result in significant adjustments.

(2) Impairment of intangible assets

In the process of evaluating the potential impairment of intangible assets, the Group is required to make subjective judgments in determining the useful lives and expected future revenue and expenses related to the specific asset groups considering the usage of assets and business characteristics. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges or reversal in future years.

6. Significant account disclosures

(1) Cash and cash equivalents

	December 31, 2015	December 31, 2014
Cash on hand	\$ 1,182	1,264
Demand deposits and checking accounts	2,120,111	1,575,876
Time deposits with original maturities less than 3 months	<u>292,500</u>	<u>817,360</u>
	\$ <u><u>2,413,793</u></u>	\$ <u><u>2,394,500</u></u>

As of December 31, 2015 and 2014, the time deposits with original maturities of more than three months amounted to \$146,967, and \$146,341, respectively, which were classified as other financial assets—current.

(2) Financial assets and liabilities at fair value through profit or loss

	December 31, 2015	December 31, 2014
Financial assets at fair value through profit or loss—current:		
Financial assets held-for-trading—fund beneficiary certificates	\$ <u><u>160,121</u></u>	<u><u>-</u></u>
Financial liabilities at fair value through profit or loss—current:		
Financial liabilities held-for-trading—forward foreign exchange contracts	\$ <u><u>-</u></u>	<u><u>5,929</u></u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Group entered into derivative contracts to manage foreign currency exchange risk resulting from its operating activities. The derivative financial instruments that did not conform to the criteria for hedge accounting were classified as financial assets and liabilities at fair value through profit or loss.

At each reporting date, the outstanding forward foreign exchange contracts consisted of the following:

December 31, 2014		
Contract amount (USD in thousands)	Sell / Buy	Maturity period
<u>\$ 9,000</u>	USD/NTD	2015/1/2~2015/3/20

(3) Notes and accounts receivable, and other receivables

	December 31, 2015	December 31, 2014
Notes receivable	\$ 15,670	10,208
Accounts receivable	1,070,191	1,040,764
Less: allowance for doubtful receivables	<u>(9,787)</u>	<u>(10,152)</u>
	1,076,074	1,040,820
Other receivables	<u>7,076</u>	<u>4,539</u>
	<u>\$ 1,083,150</u>	<u>1,045,359</u>

(a) Movements of the allowance for doubtful receivables were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2015	\$ -	10,152	10,152
Reversal of impairment loss	<u>-</u>	<u>(365)</u>	<u>(365)</u>
Balance at December 31, 2015	<u>\$ -</u>	<u>9,787</u>	<u>9,787</u>

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2014	\$ 2,158	7,800	9,958
Provision for impairment loss	-	2,352	2,352
Write-off	<u>(2,158)</u>	<u>-</u>	<u>(2,158)</u>
Balance at December 31, 2014	<u>\$ -</u>	<u>10,152</u>	<u>10,152</u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) The aging analysis of notes and accounts receivable that are overdue but not impaired is as follows:

	December 31, 2015	December 31, 2014
Past due 0-30 days	\$ 108,738	241,238
Past due 31-60 days	37,830	28,374
Past due 61-90 days	5,170	13,859
Past due 91-120 days	787	91
Past due 121-365 days	<u>675</u>	<u>-</u>
	\$ <u>153,200</u>	<u>283,562</u>

The allowance for doubtful receivables is assessed by referring to the collectability of receivables based on historical payment behavior and an analysis of specific customer credit quality. Notes and accounts receivable that are past due but for which the Group has not recognized a specific allowance for doubtful receivables after the assessment are still considered recoverable.

(4) Inventories

	December 31, 2015	December 31, 2014
Raw materials	\$ 400,967	273,813
Work in process	162,047	149,821
Finished goods	95,066	46,232
Merchandise	<u>12,945</u>	<u>627</u>
	\$ <u>671,025</u>	<u>470,493</u>

For the years ended December 31, 2015 and 2014, the write-downs of inventories to net realizable value amounted to \$10,923 and \$4,413, respectively, and were included in cost of revenue.

As of December 31, 2015 and 2014, the inventories were not pledged as collateral.

(5) Investments in associates

(a) Associates:

<u>Name of Associates</u>	December 31, 2015		December 31, 2014	
	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
NeoVideo Technology Corp. ("NeoVideo")	27.27%	\$ <u>-</u>	27.27%	\$ <u>4,349</u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (b) For the years ended December 31, 2015 and 2014, the Group's share of losses of associates was as follows:

	2015	2014
Share of losses of associates	\$ (1,820)	(604)
Share of other comprehensive income of associates	<u>-</u>	<u>-</u>
	\$ <u><u>(1,820)</u></u>	<u><u>(604)</u></u>

In October 2014, the Group invested \$15,000 in NeoVideo and acquired 1,500 shares of its common stock. In 2015 and 2014, the Group determined the investment was impaired and recognized impairment losses of \$2,529 and \$10,047, respectively, in non-operating income and loss. Refer to note 6(20).

- (c) Summarized financial information on investments in associates is as follows (before being adjusted to the Group's proportionate share):

	December 31, 2015	December 31, 2014
Total assets	\$ <u><u>17,365</u></u>	<u><u>31,131</u></u>
Total liabilities	\$ <u><u>11,269</u></u>	<u><u>15,186</u></u>
	2015	2014
Revenue	\$ <u><u>27,462</u></u>	<u><u>37,255</u></u>
Net loss	\$ <u><u>(9,849)</u></u>	<u><u>(1,921)</u></u>

- (d) As of December 31, 2015 and 2014, the investments in associates were not pledged as collateral.

(6) Acquisition of subsidiaries

To expand the market share of POS products and enhance competitiveness of operations, the Company's board of directors resolved to acquire 25% equity ownership of Poindus Systems through Flycom Investment on January 14, 2015. Concurrently, the Company signed an agreement with Poindus Systems and its major shareholders to obtain de facto control over Poindus System. Poindus Systems and its subsidiaries are included in the consolidated entities starting from the date that control commences (February 1, 2015).

The acquisition of Poindus Systems enables the Group to increase revenue through access to the brand market and existing customers of Poindus Systems. The patents and technology acquired are expected to be integrated into the Group's design and manufacturing specialty to improve product performance and production efficiency. The Group also expects to reduce costs through economies of scale.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(a) Consideration transferred

According to an investment agreement, on February 1, 2015, the Group subscribed 4,000 thousand new shares of Poindus Systems for total consideration of \$160,000, at \$40 per share. The consideration transferred did not include any arrangement of contingent consideration or other equity instrument.

(b) In accordance with IFRSs, the identifiable assets and liabilities assumed at the acquisition date are measured at fair value. The measurement made by the expert engaged by the Company is as follows:

Items	Amount
Consideration transferred	\$ 160,000
Plus: Non-controlling interest	452,655
Less: Identifiable assets acquired and liabilities assumed at fair value	
Cash and cash equivalents	275,667
Accounts receivable	95,126
Inventories	126,184
Prepayments and other current assets	7,848
Other financial assets — current	3,015
Property, plant and equipment	13,240
Intangible assets — trademarks	65,951
Intangible assets — patents and technology	102,847
Intangible assets — customer relationships	63,185
Intangible assets — others	1,274
Deferred income tax assets	576
Other financial assets — non-current	5,608
Accounts payable	(112,561)
Other payables	(35,871)
Other current liabilities	(7,987)
Deferred income tax liabilities	<u>(562)</u>
The fair values of identifiable net assets acquired	<u>603,540</u>
Goodwill	\$ <u><u>9,115</u></u>

(c) Goodwill

The goodwill is attributable mainly to the reputation in the POS market, profitability, and the value of the workforce of Poindus Systems and its subsidiaries. None of the goodwill recognized is expected to be deductible for income tax purposes.

(d) Pro forma information

From the acquisition date to December 31, 2015, Poindus Systems and its subsidiaries contributed revenue of \$732,052 and net income of \$34,203 to the Group's results (including merger with OTEK System since August 1). If the acquisition had occurred on January 1, 2015, management estimates that consolidated revenue would have been \$5,230,005, and consolidated net income would have been \$1,042,947.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Changes in ownership interest in subsidiaries

(a) The business combination under joint control

On June 16, 2015, Poindus Systems' shareholders resolved to merge with Company subsidiary OTEK System. The effective date of the merger is August 1, 2015. Poindus Systems issued a total of 4,000 thousand new shares to OTEK System's shareholders for the merger, with one common share of Poindus Systems in exchange for two common shares of OTEK system. Poindus Systems is the surviving company, while OTEK system was dissolved. The transaction also caused the Company's interest in Poindus Systems to increase from 25% to 33.78%.

The following table summarizes the effect on the equity attributable to the shareholders of the Company arising from the abovementioned change in ownership interests in subsidiaries:

	2015
Capital surplus arising from changes in ownership interests in subsidiaries	\$ <u>6,846</u>

(b) Increase in investments in subsidiaries

In addition to the descriptions in Notes 6(6) and (7), on October 1, 2015, the Group acquired additional equity interest in Poindus Systems for consideration of \$160,000, which caused the Group's interest in Poindus Systems to increase from 33.78% to 53.78%.

The following table summarizes the effect on the equity attributable to the shareholders of the Company arising from the abovementioned change in ownership interests in subsidiaries:

	2015
The carrying amount of non-controlling interest acquired	\$ 138,510
Consideration transferred to non-controlling interest	<u>(160,000)</u>
Difference resulting from equity transactions	\$ <u>(21,490)</u>
Recognized in capital surplus	\$ <u>(6,846)</u>
Recognized in retained earnings	\$ <u>(14,644)</u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(8) Property, plant and equipment

The movements of cost and accumulated depreciation of the property, plant and equipment were as follows:

	Land	Buildings	Machinery	Mold equipment	Furniture and fixtures	Other equipment	Total
Cost:							
Balance at January 1, 2015	\$ 319,238	635,939	289,735	279,605	44,155	25,892	1,594,564
Acquisition through business combination	-	-	-	10,562	529	2,149	13,240
Additions	-	18,824	8,077	24,618	6,609	157	58,285
Reclassification from prepayment	-	645	60	25,382	2,871	2,718	31,676
Disposals	-	-	(202)	(9,593)	(534)	(1,275)	(11,604)
Effect of exchange rate changes	-	407	(21)	-	99	101	586
Balance at December 31, 2015	\$ <u>319,238</u>	<u>655,815</u>	<u>297,649</u>	<u>330,574</u>	<u>53,729</u>	<u>29,742</u>	<u>1,686,747</u>
Balance at January 1, 2014	\$ 319,238	634,683	288,936	249,512	46,248	27,693	1,566,310
Additions	-	-	762	16,109	701	328	17,900
Reclassification from prepayment	-	-	-	14,201	-	2,250	16,451
Accumulated disposals	-	-	-	(217)	(3,058)	(4,613)	(7,888)
Effect of exchange rate changes	-	1,256	37	-	264	234	1,791
Balance at December 31, 2014	\$ <u>319,238</u>	<u>635,939</u>	<u>289,735</u>	<u>279,605</u>	<u>44,155</u>	<u>25,892</u>	<u>1,594,564</u>
Accumulated depreciation:							
Balance at January 1, 2015	\$ -	90,855	127,872	186,830	24,219	16,784	446,560
Depreciation	-	14,375	24,070	48,044	5,299	3,580	95,368
Disposals	-	-	(202)	(9,593)	(533)	(1,275)	(11,603)
Effect of exchange rate changes	-	(170)	(19)	-	93	102	6
Balance at December 31, 2015	\$ <u>-</u>	<u>105,060</u>	<u>151,721</u>	<u>225,281</u>	<u>29,078</u>	<u>19,191</u>	<u>530,331</u>
Balance at January 1, 2014	\$ -	76,268	103,468	145,576	22,400	19,165	366,877
Depreciation	-	14,013	24,371	41,471	4,636	2,014	86,505
Disposals	-	-	-	(217)	(3,047)	(4,613)	(7,877)
Effect of exchange rate changes	-	574	33	-	230	218	1,055
Balance at December 31, 2014	\$ <u>-</u>	<u>90,855</u>	<u>127,872</u>	<u>186,830</u>	<u>24,219</u>	<u>16,784</u>	<u>446,560</u>
Carrying amount:							
Balance at December 31, 2015	\$ <u>319,238</u>	<u>550,755</u>	<u>145,928</u>	<u>105,293</u>	<u>24,651</u>	<u>10,551</u>	<u>1,156,416</u>
Balance at December 31, 2014	\$ <u>319,238</u>	<u>545,084</u>	<u>161,863</u>	<u>92,775</u>	<u>19,936</u>	<u>9,108</u>	<u>1,148,004</u>
Balance at January 1, 2014	\$ <u>319,238</u>	<u>558,415</u>	<u>185,468</u>	<u>103,936</u>	<u>23,848</u>	<u>8,528</u>	<u>1,199,433</u>

As of December 31, 2015 and 2014, property, plant and equipment were not pledged as collateral.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(9) Intangible assets

(a) The movements of cost and of accumulated amortization of intangible assets were as follows:

	Trademarks	Patents and technology	Customer relationships	Goodwill	Others	Total
Cost:						
Balance at January 1, 2015	\$ -	-	-	-	18,269	18,269
Acquisition through business combination (Note (6))	65,951	102,847	63,185	9,115	1,274	242,372
Additions	-	-	-	-	5,138	5,138
Balance at December 31, 2015	\$ <u>65,951</u>	<u>102,847</u>	<u>63,185</u>	<u>9,115</u>	<u>24,681</u>	<u>265,779</u>
Balance at January 1, 2014	\$ -	-	-	-	12,463	12,463
Additions	-	-	-	-	5,897	5,897
Disposals	-	-	-	-	(91)	(91)
Balance at December 31, 2015	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,269</u>	<u>18,269</u>
Accumulated amortization:						
Balance at January 1, 2015	\$ -	-	-	-	7,870	7,870
Amortization	12,091	18,855	11,584	-	6,970	49,500
Balance at December 31, 2015	\$ <u>12,091</u>	<u>18,855</u>	<u>11,584</u>	<u>-</u>	<u>14,840</u>	<u>57,370</u>
Balance at January 1, 2014	\$ -	-	-	-	2,809	2,809
Amortization	-	-	-	-	5,152	5,152
Disposals	-	-	-	-	(91)	(91)
Balance at December 31, 2014	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,870</u>	<u>7,870</u>
Carrying amount:						
Balance at December 31, 2015	\$ <u>53,860</u>	<u>83,992</u>	<u>51,601</u>	<u>9,115</u>	<u>9,841</u>	<u>208,409</u>
Balance at December 31, 2014	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,399</u>	<u>10,399</u>
Balance at January 1, 2014	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,654</u>	<u>9,654</u>

(b) Amortization

The amortization of intangible assets is included in the following line items of the statement of comprehensive income:

	2015	2014
Cost of revenue	\$ 559	544
Selling expenses	109	17
Administrative expenses	43,891	1,149
Research and development expenses	4,941	3,442
	\$ <u>49,500</u>	<u>5,152</u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Collateral

As of December 31, 2015 and 2014, the intangible assets were not pledged as collateral.

(10) Bonds payable

	December 31, 2015	December 31, 2014
Par value of convertible bonds	\$ 800,000	800,000
Unamortized discount on bonds payable	-	(3,611)
Cumulative amount converted into common stock	<u>(800,000)</u>	<u>(493,600)</u>
	-	302,789
Less: current portion of bonds payable	<u>-</u>	<u>(302,789)</u>
Ending balance	\$ <u>-</u>	<u>-</u>
Equity component—conversion right (included in capital surplus —conversion right) (note 6(15))	\$ <u>-</u>	<u>25,878</u>
	2015	2014
Embedded derivative instruments—evaluation gain (loss) on redemption options at fair value (included in other gains or losses)	\$ <u>-</u>	<u>(221)</u>
Interest expense (effective interest rate of 2.09%)	\$ <u>1,255</u>	<u>6,126</u>

On August 9, 2010, the Company issued \$800,000 of domestic unsecured zero coupon convertible bonds (the "Bonds"). The significant terms and conditions of the convertible bonds were as follows:

(a) Maturity date

Five years, from August 9, 2010, to August 9, 2015.

(b) Conversion period

Bondholders may convert bonds into the Company's common shares at any time starting one month from the issue date until 10 days prior to the maturity date. The Company will issue new common shares for the conversion of the bonds.

(c) Conversion price

The conversion price was initially \$90.9 (dollars) per share and is subject to adjustment by the formula provided in the issue terms if the Company's common shares are increased. As of the conversion date in June 2015 and December 31, 2014, the adjusted conversion price was \$47.1 (dollars) per share.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Redemption at the option of the Company

The Company may redeem all or some of the bonds at the principal amount after one month from the issue date until 40 days before the maturity date when the closing price of the Company's common shares on Taiwan Stock Exchange is at least 130% of the conversion price for 30 consecutive trading days, or the outstanding balance of convertible bonds is less than 10% of the original issuance amount.

(e) Redemption at the option of the bondholders

On August 9, 2012, bondholders shall have right to require the Company to redeem the bonds, in whole or in part, at a redemption price of the principal amount plus a gross yield of 0.5% per annum interest (calculated on a compound interest basis).

(11) Provision for warranties

	2015	2014
Balance at January 1	\$ 27,332	10,506
Provisions made	-	23,563
Amount reversed	(9,778)	-
Amount utilized	<u>(5,213)</u>	<u>(6,737)</u>
Balance at December 31	\$ <u>12,341</u>	<u>27,332</u>

The provision for warranties is estimated based on historical warranty data associated with similar products. The Group expects to settle most of the warranty liability in one to three years from the date of the sale of the product.

(12) Operating lease (the Group as lessee)

Non-cancellable rentals payable of operating leases were as follows:

	December 31, 2015	December 31, 2014
Not later than 1 year	\$ 13,435	3,091
Later than 1 year but not later than 5 years	<u>23,750</u>	<u>2,969</u>
	\$ <u>37,185</u>	<u>6,060</u>

The Group leases offices, factories and parking spaces under operating leases. The leases typically run for a period of 1 to 3 years, with an option to renew. In 2015 and 2014, the rental expenses of operating leases amounted to \$13,124 and \$5,441, respectively, and were included in operating expenses.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Employee benefits

(a) Defined benefit plans

The present value of defined benefit obligations and the fair value of plan assets were as follows:

	December 31, 2015	December 31, 2014
Present value of benefit obligations	\$ 53,428	47,927
Fair value of plan assets	<u>(20,388)</u>	<u>(19,241)</u>
Net defined benefit liabilities	\$ <u>33,040</u>	<u>28,686</u>

The Group makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pension benefits for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive a payment based on years of service and average salary for the six months prior to the employee's retirement.

i. Composition of plan assets

The pension fund (the "Fund") contributed by the Group is managed and administered by the Bureau of Labor Funds of the Ministry of Labor (the Bureau of Labor Funds). According to the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, with regard to the utilization of the Fund, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

As of December 31, 2015, the Group's labor pension fund account balance at Bank of Taiwan amounted to \$20,388. Refer to the website of the Bureau of Labor Funds for information on the labor pension fund assets including the asset portfolio and yield of the fund.

ii. Movements in present value of defined benefit obligations

The movements in present value of defined benefit obligations of the Group were as follows:

	2015	2014
Defined benefit obligations at January 1	\$ 47,927	46,089
Current service costs and interest expense	1,311	1,368
Remeasurement of net defined benefit liabilities:		
Actuarial loss (gain) arising from changes in financial assumptions	<u>4,190</u>	<u>470</u>
Defined benefit obligations at December 31	\$ <u>53,428</u>	<u>47,927</u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

iii. Movements in fair value of plan assets

The movements in fair value of plan assets of the Group were as follows:

	2015	2014
Fair value of plan assets at January 1	\$ 19,241	17,635
Interest income	371	214
Remeasurement on net defined benefit liabilities		
Return on plan assets (excluding amounts included in net interest expense)	137	202
Contributions by plan participants	<u>639</u>	<u>1,190</u>
Fair value of plan assets at December 31	\$ <u><u>20,388</u></u>	<u><u>19,241</u></u>

iv. Changes in the effect of the asset ceiling

In 2015 and 2014, there was no effect of the asset ceiling.

v. Expenses recognized in profit or loss

The expenses recognized in profit or losses were as follows:

	2015	2014
Current service costs	\$ 496	515
Net interest expense	<u>547</u>	<u>639</u>
	\$ <u><u>1,043</u></u>	<u><u>1,154</u></u>
Operating expenses	\$ <u><u>1,043</u></u>	<u><u>1,154</u></u>
Actual return on plan assets	\$ <u><u>508</u></u>	<u><u>416</u></u>

vi. Remeasurement of net defined benefit liabilities recognized in other comprehensive income

Remeasurement of net defined benefit liabilities recognized in other comprehensive income was as follows:

	2015	2014
Cumulative amount at January 1	\$ 991	1,259
Recognized during the period	<u>(4,053)</u>	<u>(268)</u>
Cumulative amount at December 31	\$ <u><u>(3,062)</u></u>	<u><u>991</u></u>

The actuarial gains and losses (net of taxes) were recognized in other equity.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

vii. Actuarial assumptions

The principal assumptions of the actuarial valuation were as follows:

	December 31, 2015	December 31, 2014
Discount rate	1.70%	1.90%
Future salary increases rate	2.00%	2.00%

The Group expects to contribute \$954 to the defined benefit plans in the year following December 31, 2015. The weighted-average duration of the defined benefit plans is 15 years.

viii. Sensitivity analysis

When calculating the present value of the defined benefit obligations, the Group uses judgments and estimations to determine the actuarial assumptions for each measurement date, including discount rates and future salary changes. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

The following table summarizes the impact of a change in the assumptions on the present value of the defined benefit obligation on December 31, 2015.

	Impact on defined benefit obligation	
	0.25% Increase	0.25% Decrease
Balance at December 31, 2015		
Discount rate	(816)	852
Future salary rate	896	(774)
Balance at December 31, 2014		
Discount rate	(818)	783
Future salary rate	3,457	(2,963)

Each sensitivity analysis considers the change in one assumption at a time, leaving the other assumptions unchanged. This approach shows the isolated effect of changing one individual assumption but does not take into account that some assumptions are related. The method used to carry out the sensitivity analysis is the same as the calculation of the net defined benefit liabilities recognized in the balance sheets. The method used to carry out the sensitivity analysis is the same as in the prior year.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Defined contribution plans

The Company and its domestic subsidiaries OTEK System and Poindus Systems contribute monthly an amount equal to 6% of each employee's monthly wages to the employee's individual pension fund account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Foreign subsidiaries make contributions in compliance with their respective local regulations. Under these defined contribution plans, the Group has no legal or constructive obligation to pay additional amounts after contributing a fixed amount to the Bureau of Labor Insurance.

For the years ended December 31, 2015 and 2014, the Group recognized pension expenses of \$17,622 and \$13,448, respectively, in relation to the defined contribution plans.

(14) Income taxes

(a) In 2015 and 2014, the components of income tax expense were as follows:

	2015	2014
Current income tax expense		
Current period	\$ 169,472	144,420
Adjustments for prior periods	<u>(1,085)</u>	<u>(7,665)</u>
	168,387	136,755
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	<u>(7,205)</u>	<u>3,348</u>
Income tax expense	\$ <u><u>161,182</u></u>	<u><u>140,103</u></u>

In 2015 and 2014, the Group's income tax (expense) benefit recognized in other comprehensive income were as follows.

	2015	2014
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit plans	\$ <u><u>689</u></u>	<u><u>46</u></u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Reconciliation of the expected income tax expense calculated based on the R.O.C. statutory tax rate compared with the actual income tax expense as reported in the consolidated statements of comprehensive income for 2015 and 2014 was as follows:

	2015	2014
Income before income tax	\$ <u>1,203,914</u>	<u>1,105,005</u>
Income tax using the Company's statutory tax rate	\$ 204,665	187,851
Tax-exempt income	(123,256)	(120,084)
Share of income of domestic subsidiaries	(6,034)	(295)
10% surtax on undistributed earnings	4,738	8,249
Alternative minimum tax	65,507	66,348
Prior-year adjustments	(1,085)	(7,665)
Others	<u>16,647</u>	<u>5,699</u>
	\$ <u>161,182</u>	<u>140,103</u>

(b) Deferred income tax assets and liabilities

i. Unrecognized deferred income tax assets

	December 31, 2015	December 31, 2014
Aggregate deductible temporary differences related to investments in associates	\$ <u>739</u>	<u>1,811</u>

ii. Recognized deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities for 2015 and 2014 were as follows:

Deferred income tax assets:

	Defined benefit plans	Allowance for inventory obsolescence	Others	Total
Balance at January 1, 2015	\$ 5,257	5,936	16,353	27,546
Acquisition through business combination	-	476	100	576
Recognized in profit or loss	51	626	(108)	569
Recognized in other comprehensive income	<u>688</u>	-	-	<u>688</u>
Balance at December 31, 2015	\$ <u>5,996</u>	<u>7,038</u>	<u>16,345</u>	<u>29,379</u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Defined benefit plans	Allowance for inventory obsolescence	Others	Total
Balance at January 1, 2014	\$ 5,218	5,766	14,513	25,497
Recognized in profit or loss	(7)	170	1,840	2,003
Recognized in other comprehensive income	<u>46</u>	<u>-</u>	<u>-</u>	<u>46</u>
Balance at December 31, 2014	\$ <u><u>5,257</u></u>	<u><u>5,936</u></u>	<u><u>16,353</u></u>	<u><u>27,546</u></u>

Deferred income tax liabilities:

	Unremitted earnings from subsidiaries	Unrealized foreign exchange gain	Others	Total
Balance at January 1, 2015	\$ 23,714	10,596	1,121	35,431
Acquisition through business combination	-	562	-	562
Recognized in profit or loss	<u>2,516</u>	<u>(8,052)</u>	<u>(1,100)</u>	<u>(6,636)</u>
Balance at December 31, 2015	\$ <u><u>26,230</u></u>	<u><u>3,106</u></u>	<u><u>21</u></u>	<u><u>29,357</u></u>
Balance at January 1, 2014	\$ 21,218	7,775	1,087	30,080
Recognized in profit or loss	<u>2,496</u>	<u>2,821</u>	<u>34</u>	<u>5,351</u>
Balance at December 31, 2014	\$ <u><u>23,714</u></u>	<u><u>10,596</u></u>	<u><u>1,121</u></u>	<u><u>35,431</u></u>

(c) The Company's income tax returns for the years through 2013 except for 2012 have been examined and approved by the R.O.C. income tax authorities.

(d) Information about the integrated income tax system:

	December 31, 2015	December 31, 2014
Unappropriated earnings earned before January 1, 1997	\$ 177	177
Unappropriated earnings earned commencing from January 1, 1998	<u>1,670,269</u>	<u>1,594,149</u>
	\$ <u><u>1,670,446</u></u>	<u><u>1,594,326</u></u>
Balance of imputation credit account	\$ <u><u>91,987</u></u>	<u><u>117,255</u></u>
	2015 (estimated)	2014 (actual)
Creditable ratio for distribution of earnings to R.O.C. residents	<u><u>12.15%</u></u>	<u><u>13.76%</u></u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Effective January 1, 2015, the creditable ratio for distribution of earnings to R.O.C. residents is half of the original creditable ratio mentioned above in accordance with the amended Income Tax Act. Non-resident shareholders are not eligible for the imputation credit. However, the 10% income surtax paid on any unappropriated earnings can be credited against the dividend withholding tax for non-resident stockholders upon distribution of earnings. Starting from January 1, 2015, only half of the surtax paid can be credited against the dividend withholding tax.

(15) Capital and other equity

(a) Common stock

As of December 31, 2015 and 2014, the Company's authorized shares of common stock consisted of 180,000 thousand shares, with par value of \$10 (dollars) per share, of which 146,368 and 132,947 thousand shares, respectively, were issued and outstanding. All issued shares were paid up upon issuance.

The movements in outstanding common shares of stock in 2015 and 2014 were as follows (in thousands of shares):

	2015	2014
Balance at January 1	132,947	119,965
Distribution of stock dividends from capital surplus	6,916	12,008
Exercise of employees stock options	-	685
Convertible bonds converted into common stock	<u>6,505</u>	<u>289</u>
Balance at December 31	<u><u>146,368</u></u>	<u><u>132,947</u></u>

(b) Capital surplus

	December 31, 2015	December 31, 2014
Share premium:		
Paid-in capital in excess of par value	\$ -	60,743
Premium on common stock issued from conversion of convertible bonds	753,780	497,326
Conversion right of convertible bonds (note 6(10))	-	25,878
Forfeited employee stock options	2,433	2,433
Gain on disposal of assets	<u>15</u>	<u>15</u>
	<u><u>\$ 756,228</u></u>	<u><u>586,395</u></u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

Pursuant to the Company Act, any realized capital surplus is initially used to cover an accumulated deficit, and the balance, if any, could be transferred to common stock as stock dividends based on the original shareholding ratio or distributed as cash dividends based on a resolution approved by the stockholders. Realized capital surplus includes the premium derived from the issuance of shares of stock in excess of par value and donations from stockholders received by the Company. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, distribution of stock dividends from capital surplus in any one year shall not exceed 10% of paid-in capital.

(c) Retained earnings and dividend policy

The Company's articles of incorporation stipulate that at least 10% of annual net income after deducting an accumulated deficit, if any, must be retained as a legal reserve until such retention equals the amount of paid-in capital. In addition, a special reserve should be set aside in accordance with applicable laws and regulations. The remaining balance of annual net income, if any, can be distributed as follows:

- 3% to 15% as employee bonuses;
- 3% or less as directors' and supervisors' remuneration; and
- the remaining balance, together with unappropriated earnings from previous years, should be distributed according to the resolution of the shareholders' meeting. Appropriation of earnings should be at least 60% of net income after deducting an accumulated deficit, legal reserve, and special reserve.

According to the Company Act, the Company must retain 10% of its annual income as a legal reserve until such retention equals the amount of paid-in capital. Legal reserve can be used to offset a deficit. If a company has no accumulated deficit, it may, pursuant to a resolution approved by the stockholders, distribute its legal reserve to shareholders by issuing new shares or by distributing cash for the portion in excess of 25% of the paid-in capital.

In accordance with Ruling No. 1010012865 issued by the Financial Supervisory Commission on April 6, 2012, a special reserve equal to the total amount of items that were accounted for as deductions from stockholders' equity was set aside from current and prior-year earnings. This special reserve shall revert to the retained earnings and be made available for distribution when the items that are accounted for as deductions from stockholders' equity are reversed in subsequent periods.

In view of the overall economic environment and the development of the industry, and in order to meet the Company's long-term financial planning and cash requirements of stockholders, the Company has adopted a stable dividend policy in which a cash dividend comprises at least 10% of total distribution of dividends.

In accordance with the amendments to the Company Act in May 2015, employee bonuses and the remuneration for directors and supervisors are no longer subject to earnings distribution. Accordingly, the Company will make amendments to its articles of incorporation before the deadline specified by the Authority.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the year ended December 31, 2014, the Company accrued employee bonuses of \$73,000 and directors' and supervisors' remuneration of \$2,100. These amounts were calculated based on the Company's net income for 2014 and earnings distribution policies stipulated in the Company's articles of incorporation and were expensed under cost of sales and operating expenses in 2014.

The distribution of earnings for 2014 and 2013 had been approved in the meetings of shareholders held on June 12, 2015, and June 11, 2014, respectively. The relevant dividend distributions to shareholders, employee bonuses, and directors' and supervisors' remuneration were as follows:

	2014		2013	
	Dividends per share	Total amount	Dividends per share	Total amount
Dividends distributed to shareholders				
Cash	\$ 6.00	<u>829,900</u>	6.00	<u>720,482</u>
Employee bonuses - cash		\$ 73,000		70,000
Directors' and supervisors' remuneration		<u>2,100</u>		<u>2,400</u>
		<u>\$ 75,100</u>		<u>72,400</u>

Additionally, the shareholders also approved a distribution of a 2014 and 2013 stock dividend by transferring capital surplus of \$69,158 and \$120,080, respectively, to common stock and issuing 6,916 and 12,008 thousand shares of common stock, respectively. There was no difference between the aforementioned distribution amounts and the amounts charged against earnings for 2014 and 2013. Related information on the distribution of employee bonuses and directors' and supervisors' remuneration is available on the Market Observation Post System website of the Taiwan Stock Exchange. The distribution of earnings for 2015 is yet to be proposed by the board of directors and approved by the meeting of shareholders.

(d) Other equity items (net of tax)

	Foreign currency translation differences	Remeasurement of defined benefit plans (Restated)	Total
Balance at January 1, 2015	\$ 14,471	823	15,294
Foreign currency translation differences (net of tax)	4,045	-	4,045
Remeasurement of defined benefit plans (net of tax)	-	<u>(3,364)</u>	<u>(3,364)</u>
Balance at December 31, 2015	<u>\$ 18,516</u>	<u>(2,541)</u>	<u>15,975</u>
Balance at January 1, 2014	\$ 700	1,045	1,745
Foreign currency translation differences (net of tax)	13,771	-	13,771
Remeasurement of defined benefit plans (net of tax)	-	<u>(222)</u>	<u>(222)</u>
Balance at December 31, 2014	<u>\$ 14,471</u>	<u>823</u>	<u>15,294</u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(16) Share-based payment

The Company had a share-based payment arrangement which expired in 2014 as follows:

Equity-settled employee stock options

Grant date	2007/12/27
Granted units	3,000 units, each unit eligible to subscribe for 1,000 common shares
Contract term	7 years
Qualified employees	Eligible employees of the Company
Vesting conditions	2~4 years of service subsequent to grant date

In 2014, the weighted-average share price of the Company amounted to \$116.38.

(17) Earnings per share ("EPS")

(a) Basic EPS

	2015	2014
Profit attributable to shareholders of the Company	\$ <u>1,016,596</u>	<u>959,324</u>
Weighted-average number of ordinary shares outstanding	<u>144,852</u>	<u>139,224</u>
Basic EPS (dollars)	\$ <u><u>7.02</u></u>	<u><u>6.89</u></u>

(b) Diluted EPS

	2015	2014
Profit attributable to shareholders of the Company (basic)	\$ 1,016,596	959,324
Interest expense from convertible bonds, net of tax	<u>1,255</u>	<u>6,126</u>
Profit attributable to shareholders of the Company (diluted)	<u>1,017,851</u>	<u>965,450</u>
Weighted-average number of ordinary shares outstanding (basic)	144,852	139,224
Effect of convertible bonds	1,592	7,018
Effect of employee stock options	-	324
Effect of employee bonuses	<u>1,226</u>	<u>1,093</u>
Weighted-average number of ordinary shares outstanding (diluted)	<u>147,670</u>	<u>147,659</u>
Diluted EPS (dollars)	\$ <u><u>6.89</u></u>	<u><u>6.54</u></u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(18) Revenue

	2015	2014
Revenue from sale of goods	\$ 5,181,736	4,721,996
Revenue from services rendered	21,607	18,465
Others	<u>9,713</u>	<u>8,017</u>
	\$ <u>5,213,056</u>	<u>4,748,478</u>

(19) Compensation of employees and directors and supervisors

Pursuant to the Company's articles of incorporation approved by the Board of Directors but not yet approved by the shareholders, the Company shall distribute 3% to 15% of its profits in the current period as compensation to its employees and no more than 3% to its directors and supervisors. Nevertheless, the profits in the current period should be reserved for offsetting the accumulated deficit, if any, prior to distributing the compensation to the employees and directors and supervisors. The aforementioned compensation of employees could be distributed in the form of cash or stock to the employees of the Company's subsidiaries conforming to certain requirements. If the compensation of employees is resolved to be distributed in stock, the number of shares is determined by reference to the closing price of the Company's common stock on the day preceding the Board of Directors' meeting.

For the year ended December 31, 2015, the Company accrued compensation of employees and directors and supervisors of \$80,000 and \$3,200, respectively, which were calculated based on a certain percentage of the income before income tax in the current period (before changing the compensation of employees and directors and supervisors) and recognized as cost of revenue and operating expense. The aforementioned accrued compensation of employees and directors and supervisors is the same as the amount approved by the Board of Directors on March 15, 2016. Related information is available on the Market Observation Post System website of the Taiwan Stock Exchange.

(20) Non-operating income and loss

(a) Other income

	2015	2014
Interest income from bank deposits	\$ 23,191	32,544
Others	<u>8,726</u>	<u>5,276</u>
	\$ <u>31,917</u>	<u>37,820</u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Other gains and losses

	2015	2014
Foreign currency exchange gain, net	\$ 42,751	65,955
Gain (loss) on financial assets and liabilities at fair value through profit or loss	6,154	(4,179)
Gain on disposal of property, plant and equipment, net	-	496
Impairment loss on investment in associates (note 6(5))	<u>(2,529)</u>	<u>(10,047)</u>
	\$ <u><u>46,376</u></u>	\$ <u><u>52,225</u></u>

(c) Finance costs

	2015	2014
Interest expense from bank loans	\$ -	1
Interest expense from convertible bonds (note 6(10))	<u>1,255</u>	<u>6,126</u>
	\$ <u><u>1,255</u></u>	\$ <u><u>6,127</u></u>

(21) Financial instruments

(a) Categories of financial instruments

i. Financial assets

	December 31, 2015	December 31, 2014
Financial assets at fair value through profit or loss	\$ 160,121	-
Loans and receivables measured at amortized cost:		
Cash and cash equivalents	2,413,793	2,394,500
Notes and accounts receivable	1,076,074	1,040,820
Other receivables	7,076	4,539
Other financial assets – current	150,200	149,488
Other financial assets – non-current	<u>52,055</u>	<u>32,684</u>
	\$ <u><u>3,859,319</u></u>	\$ <u><u>3,622,031</u></u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

ii. Financial liabilities

	December 31, 2015	December 31, 2014
Financial liabilities at fair value through profit or loss	\$ -	5,929
Financial liabilities measured at amortized cost:		
Notes and accounts payable	562,827	428,529
Other payables	70,588	50,547
Bonds payable (including current portion)	<u>-</u>	<u>302,789</u>
	<u>\$ 633,415</u>	<u>787,794</u>

(b) Fair value

Except for those described in the table below, the Group considers that the carrying amounts of financial assets and financial liabilities measured at amortized cost approximate their fair values.

	Carrying Amount	December 31, 2014			Total
		Level 1	Fair Value Level 2	Level 3	
Bonds payable (including current portion)	\$ <u>302,789</u>	<u>-</u>	<u>304,807</u>	<u>-</u>	<u>304,807</u>

The fair value of bonds payable is determined using the Binomial Tree Convertible Bond Model, which considers the expected volatility and risk-free interest rate.

(c) Financial instruments that are measured at fair value

The table below analyzes financial instruments that are measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The different levels have been defined as follows:

- i. Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- ii. Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- iii. Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	Carrying Amount	Level 1	Fair Value Level 2	Level 3	Total
December 31, 2015					
Financial assets at fair value through profit or loss					
Fund beneficiary certificates	\$ <u>160,121</u>	<u>160,121</u>	<u>-</u>	<u>-</u>	<u>160,121</u>
December 31, 2014					
Financial liabilities at fair value through profit or loss					
Foreign currency forward contracts	\$ <u>5,929</u>	<u>-</u>	<u>5,929</u>	<u>-</u>	<u>5,929</u>

There were no transfers between fair value levels for the years ended December 31, 2015 and 2014.

(d) Valuation techniques and assumptions used in fair value measurement

i. Non-derivative financial instruments

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bid-ask spreads are very wide. Determining whether a market is active involves judgment.

Measurements of fair value of financial instruments without an active market are based on a valuation technique or quoted price from a competitor. Fair value measured by a valuation technique can be extrapolated from similar financial instruments, the discounted cash flow method, or other valuation technique including a model using observable market data at the consolidated balance sheet date.

ii. Derivative financial instruments

The fair value of derivative financial instruments is determined using a valuation model that is used by market participants. Foreign currency forward contracts are usually based on the current forward rate.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(22) Financial risk management**

The Group is exposed to credit risk, liquidity risk, and market risk (including currency risk, interest rate risk, and other market price risk). The Group has disclosed the information on exposure to the aforementioned risks, the Group's policies and procedures to measure and manage those risks, and the quantitative information below.

The Company's Board of Directors is responsible for developing and monitoring the Group's risk management policies. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor adherence to the controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's operations.

The Group's management monitors and reviews the financial activities in accordance with procedures required by relevant regulations and internal controls. Internal auditors undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Company's Board of Directors.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty of a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, derivative instruments, receivables from customers, and other receivables. The maximum exposure to credit risk is equal to the carrying amount of the Group's financial assets.

The Group maintains cash and enters into derivative transactions with reputable financial institutions; therefore, the exposure related to potential default by those counter-parties is not considered significant.

As of December 31, 2015 and 2014, three clients accounted to a total of 50% and 45%, respectively, of the Company's notes and accounts receivable. In order to reduce credit risk, the Group has established a credit policy under which each customer is analyzed individually for creditworthiness for the purpose of setting the credit limit. Additionally, the Group continuously evaluates the credit quality of customers and utilizes insurance to minimize the credit risk.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in settling its financial liabilities by delivering cash or other financial assets. The Group manages liquidity risk by monitoring regularly the current and mid- to long-term cash demand, and maintaining adequate cash and banking facilities. As of December 31, 2015 and 2014, the Group had unused credit facilities of \$684,125 and \$688,250, respectively.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including principal and interest.

	Contractual cash flows				
	Within 6 months	6-12 months	1-2 years	2-5 years	
December 31, 2015					
Non-derivative financial liabilities:					
Notes and accounts payable	\$ 562,827	562,827	-	-	-
Other payables	<u>70,588</u>	<u>66,784</u>	<u>3,195</u>	-	<u>609</u>
	<u>\$ 633,415</u>	<u>629,611</u>	<u>3,195</u>	-	<u>609</u>
December 31, 2014					
Non-derivative financial liabilities:					
Notes and accounts payable	\$ 428,529	428,529	-	-	-
Other payables	50,547	48,283	1,498	471	295
Convertible bonds payable	<u>306,400</u>	-	<u>306,400</u>	-	-
	<u>\$ 785,476</u>	<u>476,812</u>	<u>307,898</u>	<u>471</u>	<u>295</u>
Derivative financial instruments:					
Foreign currency forward contracts:					
Outflow	\$ (284,969)	(284,969)	-	-	-
Inflow	<u>279,040</u>	<u>279,040</u>	-	-	-
	<u>\$ (5,929)</u>	<u>(5,929)</u>	-	-	-

The Group does not expect that the cash flows included in the maturity analysis would occur significantly earlier or at significantly different amounts.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Group's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group utilizes derivative financial instruments to manage market risk and the volatility of profit or loss. All such transactions are carried out within the guidelines set by the Company's Board of Directors.

i. Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, and deposits in banks that are denominated in a currency other than the respective functional currencies of the Group's entities. The foreign currencies used in these transactions are mainly the USD and RMB.

The Group utilizes spot exchange transactions and forward exchange contracts to hedge its foreign currency exposure. These financial instruments help to reduce, but do not eliminate, the impact of foreign currency exchange rate movements.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

i) Exposure to foreign currency risk

At the reporting date, the carrying amount of the Group's monetary assets and liabilities denominated in a currency other than the respective functional currencies of Group entities was as follows (including the monetary items that have been eliminated in the accompanying consolidated financial statements):

	December 31, 2015		
	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>			
USD	53,983	32.825	1,771,992
EUR	472	35.880	16,936
RMB	1,088	4.995	5,435
<u>Financial liabilities</u>			
USD	9,664	32.825	317,221

	December 31, 2014		
	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>			
USD	35,971	31.650	1,138,482
EUR	49	39.180	1,920
RMB	114,043	5.092	580,707
<u>Financial liabilities</u>			
USD	7,604	31.650	240,667

ii) Sensitivity analysis

The Group's exposure to foreign currency risk arises from cash and cash equivalents, notes and accounts receivable, notes and accounts payable, and other financial assets that are denominated in a currency other than the respective functional currencies of the Group entities. As of December 31, 2015 and 2014, 1% depreciation (appreciation) of the NTD against the USD, EUR and RMB would have increased (decreased) pre-tax income by \$14,771 and \$14,804 in 2015 and 2014, respectively. The analysis is performed on the same basis for 2015 and 2014.

Due to the varieties of functional currency within the Group, the Group disclosed foreign exchange gain (loss) on monetary items in aggregate. For the years ended December 31, 2015 and 2014, the aggregate of realized and unrealized foreign exchange gain amounted to \$42,751 and \$65,955, respectively.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

ii. Interest rate risk

The Group primarily used its own funds for operations. On the reporting date, there was no debt that carried floating interest rates outstanding, and financial assets' exposure to changes in interest rates was not significant. As a result, the interest rate risk is not considered significant.

(23) Capital management

In consideration of industry dynamics and future development, as well as external environment factors, the Group maintains an optimal capital structure to enhance long-term shareholder value by managing its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, research and development activities, dividend payments, and other business requirements for continuing operations and to reward shareholders and take into consideration the interests of other stakeholders. The Group monitors the capital through reviewing the liability-to-equity ratio periodically.

The Group's liability-to-equity ratio at the end of each reporting period was as follows:

	December 31, 2015	December 31, 2014 (Restated)
Total liabilities	\$ 1,081,444	1,195,595
Less: cash and equivalents	<u>(2,413,793)</u>	<u>(2,394,500)</u>
Net liabilities (assets)	<u>\$ (1,332,349)</u>	<u>(1,198,905)</u>
Total equity	<u>\$ 4,894,655</u>	<u>4,118,199</u>
Liability-to-equity ratio	(27.22)%	(29.11)%

As of December 31, 2015, there were no changes in the Group's approach to capital management.

(24) Non-cash financing activities

For the years ended December 31, 2015 and 2014, the non-cash financing activities consisted of the conversion of convertible bonds to common stock. Please refer to note 6(10).

7. Related-party transactions

(1) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(2) Significant related-party transactions: None.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Compensation of key management personnel

	2015	2014
Short-term employee benefits	\$ 42,469	39,505
Post-employment benefits	<u>648</u>	<u>648</u>
	<u>\$ 43,117</u>	<u>40,153</u>

8. Pledged assets

The carrying amounts of assets pledged as collateral are detailed below:

Pledge assets		Pledged to secure	December 31, 2015	December 31, 2014
Time deposits	Credit lines of short-term borrowings		\$ 3,019	3,035
Time deposits	Guarantee deposit for custom duties		<u>214</u>	<u>112</u>
			<u>\$ 3,233</u>	<u>3,147</u>

9. Significant commitments and contingencies

As of December 31, 2015 and 2014, the Group had issued promissory notes amounting to \$500,000 for short-term borrowings.

10. Significant loss from casualty: None.

11. Significant subsequent events: None.

12. Others

Employee benefits, depreciation, and amortization expenses, categorized by function, were as follows:

	2015			2014		
	Cost of revenue	Operating expenses	Total	Cost of revenue	Operating expenses	Total
Employee benefits:						
Salaries	\$ 172,141	326,473	498,614	136,826	263,420	400,246
Insurance	14,267	21,379	35,646	11,190	17,656	28,846
Pension	6,281	12,384	18,665	4,774	9,828	14,602
Other	6,277	6,348	12,625	4,595	4,383	8,978
Depreciation	80,062	15,306	95,368	73,507	12,998	86,505
Amortization	559	48,941	49,500	544	4,608	5,152

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

13. Additional disclosures

(1) Information on significant transactions:

(a) Financing provided to other parties:

(Amounts in Thousands of New Taiwan Dollars)

No. (Note 1)	Financing Company	Counter- party	Financial Statement Account	Related Parties	Maximum Balance for the Period	Ending Balance	Actual Drawdown Amounts	Interest Rate	Nature of Financing (Note 2)	Transaction Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Financing Limits for Each Borrowing Company (Note 3)	Financing Company's Total Financing Amount Limits (Note 3)
													Item	Value		
I	Poindus Systems	Company A	Long-term receivables	No	16,146	16,146	16,146	2%	1	19,219	-	-	None	-	24,584	196,670

Note 1. Parties to intercompany transactions are identified and numbered as follows:

1. "0" represents the Company
2. Subsidiaries are numbered from "1".

Note 2. Nature of financing

1. Business transaction purpose
2. Short-term financing

Note 3. The individual financing amounts shall not exceed the lower amounts of transaction amounts of the most recent year and 5% of the most recent audited or reviewed net worth of Poindus Systems. The aggregate financing amount shall not exceed 40% of the most recent audited or reviewed net worth of Poindus Systems.

(b) Guarantees and endorsements provided to other parties: None.

(c) Marketable securities held at the reporting date (excluding investments in subsidiaries, associates, and jointly controlled entities):

(Amounts in Thousands of New Taiwan Dollars and shares)

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	Ending Balance				Maximum Percentage of Ownership during 2014		Note
				Number of Shares	Carrying Value	Percentage of Ownership	Fair value	Shares	Percentage of Ownership	
Poindus Systems	HuaNan Phoenix Money Market Fund	-	Financial assets at fair value through profit or loss – current	2,492	40,063	-	40,063	3,738	-	-
Poindus Systems	HuaNan Kirin Money Market Fund	-	Financial assets at fair value through profit or loss – current	3,385	40,058	-	40,058	5,078	-	-
Poindus Systems	Taishin Lucky Money Market Fund	-	Financial assets at fair value through profit or loss – current	1,819	20,000	-	20,002	1,819	-	-
Poindus Systems	CTBC Hua Win Money Market Fund	-	Financial assets at fair value through profit or loss – current	1,838	20,000	-	20,002	1,838	-	-
Poindus Systems	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss – current	277	40,000	-	40,003	227	-	-

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (d) Marketable securities for which the accumulated purchase or sale amounts for the year exceed \$300 million or 20% of the paid-in capital:

(Amounts in Thousands of New Taiwan Dollars and shares)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Name of Relationship	Beginning Balance		Acquisitions		Disposal				Ending Balance	
					Shares	Amount	Shares	Amount	Shares (in thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares	Amount
The Company	Stock: Flycom Investment	Investment accounted for using equity method	Flycom Investment	Subsidiary	12,000	12,000	7,000	308,000	-	-	-	-	19,000	428,000
Flycom Investment	Stock: Poindus Systems	Investment accounted for using equity method	Poindus Systems and Hong Guang Investment	-	-	-	8,000	320,000	-	-	-	-	10,755 (Note 1)	320,000

Note 1: The ending balance of shares of Poindus Systems increased by 2,755 shares due to Poindus Systems merging with OTEK System on August 1, 2015.

- (e) Acquisition of real estate which exceeds \$300 million or 20% of the paid-in capital: None.
- (f) Disposal of real estate which exceeds \$300 million or 20% of the paid-in capital: None.
- (g) Total purchases from and sales to related parties which exceed \$100 million or 20% of the paid-in capital:

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Receivable (Payable)		Note
			Purchases/(Sales)	Amount (Note 3)	% of Total Purchases/(Sales)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total Notes/Accounts Receivable (Payable)	
The Company	FTCN	Subsidiary	(Sales)	126,716	(3)%	EM 90	(Note 1)	(Note 2)	27,778	3%	-
The Company	Poindus Systems	Subsidiary	(Sales)	224,978	(5)%	EM 60	(Note 1)	(Note 2)	48,044	5%	-

Note 1: The selling prices with related parties are not significantly different from those with third-party customers except for certain products where the specifications of the product are different.

Note 2: The trade terms of sales with related parties are EOM 60~90 days, and the trade terms with third parties are OA 30~75 days.

Note 3: The intercompany transactions are disclosed only for the amounts of sales; the corresponding purchases are not disclosed.

- (h) Receivables from related parties which exceed \$100 million or 20% of the paid-in capital: None.
- (i) Transactions in derivative instruments: Refer to note 6(2).

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(j) Intercompany relationships and significant intercompany transactions:

(Amounts in Thousands of New Taiwan Dollars)

Number (Note 1)	Company Name	Counter-party	Relationship	Transaction Details			Percentage of Consolidated Total Revenues or Total Assets (Note 3)
				Account (Note 2)	Amount	Transaction Terms	
0	The Company	Flytech HK	Subsidiary	Sales	53,176	EM 60	1.02%
0	The Company	Flytech CN	Subsidiary	Sales	126,716	EM 90	2.43%
0	The Company	O TEK System	Subsidiary	Sales	65,049	EM 60	1.25%
0	The Company	Poindus System	Subsidiary	Sales	224,978	EM 60	4.32%

Note 1: Parties to intercompany transactions are identified and numbered as follows:

1. "0" represents the Company.
2. Subsidiaries are numbered from "1"

Note 2: Intercompany relationships and significant intercompany transactions are disclosed only for the amounts that exceed 1% of consolidated revenue or total assets. The corresponding purchases and accounts payables are not disclosed.

Note 3: Based on the transaction amount divided by consolidated revenue or total assets.

Note 4: OTEK System was merged into Poindus Systems on August, 1, 2015. The transactions are disclosed only for the sales amounts from January 1 to August 1, 2015.

(2) Information on investees:

(Amounts in Thousands of New Taiwan Dollars and United States Dollars)

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balances as of December 31, 2015			Maximum Percentage of Ownership during 2015		Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2015	December 31, 2014	Shares (in thousands)	Percentage of Ownership	Carrying value	Shares (in thousands)	Percentage of Ownership			
The Company	Flytech USA BVI	British Virgin Islands	Investment and holding activity	38,652	38,652	100	100	31,537	100	100	(2,886)	(2,886)	
The Company	Flytech Japan BVI	British Virgin Islands	Investment and holding activity	3,446	3,446	50	100	3,191	50	100	2	2	
The Company	Flytech HK BVI	British Virgin Islands	Investment and holding activity	10,392	10,392	50	100	147,404	50	100	14,638	14,638	
The Company	Flytech CN BVI	British Virgin Islands	Investment and holding activity	84,343	84,343	150	100	121,132	150	100	3,048	3,048	
The Company	Flycom Investment	Taiwan	Investment and holding activity	428,000	120,000	19,000	100	440,838	19,000	100	17,732	17,732	
Flytech USA BVI	Flytech USA	USA	Sale of computers and peripherals	36,358 (USD1,072)	36,358 (USD1,072)	700	100	30,415 (USD926)	700	100	(2,886) (USD91)	-	
Flytech HK BVI	Flytech HK	Hong Kong	Sale of computers and peripherals	10,433 (USD298)	10,433 (USD298)	1,000	100	147,380 (USD4,490)	1,000	100	147,639 (USD4,490)	-	
Flycom Investment	NeoVideo	Taiwan	Sale of computers and peripherals	15,000	15,000	1,500	27.27	-	1,500	27.27	(9,849)	-	
Flycom Investment	O TEK System	Taiwan	Sale of computers and peripherals	-	48,946	-	-	-	5,510	68.88	4,244	-	Note 2
Flycom Investment	IRUGGY System	Taiwan	Sale of computers and peripherals	48,000	-	4,800	80.00	47,890	4,800	80.00	(110)	-	Note 5
Flycom Investment	Poindus Systems	Taiwan	Sale of computers and peripherals	320,000	-	10,755	53.78	368,958	10,755	53.78	34,203	-	

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balances as of December 31, 2015			Maximum Percentage of Ownership during 2015		Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2015	December 31, 2014	Shares (in thousands)	Percentage of Ownership	Carrying value	Shares (in thousands)	Percentage of Ownership			
Poindus Systems	Kennmex Electronic	Taiwan	Sale of computers and peripherals investment and holding activity	4,100	-	(Note 3)	53.78	1,226	Note 3	53.78	367	-	
Poindus Systems	Poindus Investment	Taiwan	Sale of computers and peripherals	-	-	-	-	-	100	53.78	(13)	-	Note 4
Poindus Systems	Poindus America	USA	Sale of computers and peripherals	2,995 (USD100)	-	100	53.78	(3,876)	100	53.78	(4,409)	-	
Poindus Systems	Poindus UK	United Kingdom	Sale of computers and peripherals	5,004 (GBP100)	-	100	53.78	2,479	100	53.78	(493)	-	Note 5
Poindus Investment	Poindus GmbH	Germany	Sale of computers and peripherals	1,195 (EUR25)	-	(Note 3)	53.78	(494)	(Note 3)	53.78	1,516	-	

Note 1: The intercompany transactions have been eliminated except for NeoVideo when preparing the consolidated financial statements.

Note 2: OTEK System was merged into Poindus Systems on August 1, 2015.

Note 3: There were no shares as the company is a limited liability company.

Note 4: The board of directors resolved the liquidation of Kennmex Electronic on April 16, 2015. The related liquidation process has been completed.

Note 5: Newly established during 2015.

(3) Information on investment in Mainland China:

(a) Information on investment in Mainland China

(Amounts in Thousands of New Taiwan Dollars and United States Dollars)

Investee	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2015	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2015	Net Income (Loss) of Investee	% of Ownership of Direct and Indirect Investment	Maximum Percentage of Ownership during 2015		Investment Income (Loss) (Note 2)	Carrying Value as of December 31, 2015	Accumulated Inward Remittance of Earnings as of December 31, 2015
					Outflow	Inflow				Shares (in thousands)	Percentage of Ownership			
Flytech CN	Sale of computers and peripherals	69,089 (USD 2,000)	Note 1	69,089 (USD 2,000)	-	-	69,089 (USD 2,000)	2,769 (USD 87)	100	(Note 3)	100	2,769 (USD 87)	103,516 (USD 3,154)	-
Flytech BJ	Sale of computers and peripherals	15,420 (USD 500)	Note 1	-	15,420 (USD 500)	-	15,420 (USD 500)	276 (USD 9)	100	(Note 3)	100	276 (USD 9)	15,543 (USD 474)	-

Note 1: Indirect investment in Mainland China through a holding company established in a third country

Note 2: Investment income or loss was recognized based on financial statements audited by the auditors of the parent company.

Note 3: There were no shares as the company is a limited liability company.

Note 4: The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Limits on investment in Mainland China

(Amounts in Thousands of New Taiwan Dollars and United States Dollars)

Accumulated investment in Mainland China as of December 31, 2015	Investment amount authorized by Ministry of Economic Affairs Investment Commission	Upper limit on investment authorized by Ministry of Economic Affairs Investment Commission
84,509 (USD 2,500)	84,509 (USD 2,500)	2,734,949

(c) Significant transactions with the investee in Mainland China:

The transactions with the investee company in Mainland China have been eliminated when preparing the consolidated financial statements. Refer to Section (I) "Information on significant transactions".

14. Segment information

(1) General information

The Group has two reportable segments: Point of Sales systems (POS) and Original Design Manufacturer (ODM). The POS segment engages mainly in the design, manufacture, and sale of POS systems and related peripheral products. The ODM segment engages mainly in the design, manufacture, and sale of POS systems and related products for world-class companies.

The Group's operating activities are separated by reportable segments. Each segment needs to manage and cater for the needs of customers with different scale and nature and needs different marketing strategies, and thus should be managed separately.

Except as described below, the accounting policies of the operating segments are the same as those described in Note 4. Operating expenses and non-operating income and losses that are not directly attributable to the segments are allocated by 50% of the proportion of segmental revenue and 50% of the proportion of segmental expenses. The Group evaluates the performance of its operating segments based on the segment profit or loss before taxes. Sales and transfers among reportable segments are recorded in line with sales to third-party customers.

(2) Reportable segments' profit or loss, segment assets, segment liabilities, basis of measurement, and reconciliation

The Group uses income (loss) before income tax as the measurement for segment profit and the basis of resource allocation and performance assessment. The reporting amount is consistent with the report used by chief operating decision maker.

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Notes to Consolidated Financial Statements

The Group's operating segment information and reconciliation are as follows:

	2015				Total
	POS	ODM	Others	Adjustments and eliminations	
Revenues from external customers	\$ 4,141,589	474,893	596,574	-	5,213,056
Intra-group revenue	<u>223,771</u>	<u>16,776</u>	<u>296,389</u>	<u>(536,936)</u>	-
Total segment revenue	\$ <u>4,365,360</u>	<u>491,669</u>	<u>892,963</u>	<u>(536,936)</u>	<u>5,213,056</u>
Segment income before income tax	\$ <u>952,294</u>	<u>86,085</u>	<u>165,535</u>	<u>-</u>	<u>1,203,914</u>

	2014				Total
	POS	ODM	Others	Adjustments and eliminations	
Revenues from external customers	\$ 3,630,892	440,828	676,758	-	4,748,478
Intra-group revenue	<u>220,797</u>	<u>21,587</u>	<u>55,414</u>	<u>(297,798)</u>	-
Total segment revenue	\$ <u>3,851,689</u>	<u>462,415</u>	<u>732,172</u>	<u>(297,798)</u>	<u>4,748,478</u>
Segment income before income tax	\$ <u>886,335</u>	<u>85,297</u>	<u>133,373</u>	<u>-</u>	<u>1,105,005</u>

(3) Product information

Revenues from external customers are detailed below:

Products	2015	2014
Industrial computers	\$ 4,364,892	4,036,343
Peripherals and others	<u>848,164</u>	<u>712,135</u>
	\$ <u>5,213,056</u>	<u>4,748,478</u>

(4) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, and segment assets are based on the geographical location of the assets.

Revenues from external customers are detailed below:

Region	2015	2014
Europe	\$ 2,108,162	1,979,650
Americas	2,061,457	1,603,941
Asia	845,573	850,251
Taiwan	182,558	314,636
Middle East	<u>15,306</u>	<u>-</u>
	\$ <u>5,213,056</u>	<u>4,748,478</u>

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FLYTECH TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Non-current assets:

Region	December 31, 2015	December 31, 2014
Taiwan	\$ 1,343,553	1,145,994
Asia	33,088	17,341
Americas	<u>56</u>	<u>85</u>
	\$ <u>1,376,697</u>	<u>1,163,420</u>

Non-current assets include property, plant and equipment, intangible assets, and other assets—non-current, but do not include financial instruments and deferred income tax assets.

(5) Major customer information

	2015	2014
Total consolidated revenue from POS segment - Customer A	\$ 1,060,277	783,431
Total consolidated revenue from POS segment - Customer B	954,237	1,122,044