

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**FLYTECH TECHNOLOGY CO., LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2016 and 2015
(With Independent Auditors' Report Thereon)**

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of Flytech Technology Co., Ltd. as of and for the year ended December 31, 2016 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 "Consolidated Financial Statements" endorsed by the Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Flytech Technology Co., Ltd. and its Subsidiaries do not prepare a separate set of combined financial statements.

Hereby declare

Flytech Technology Co., Ltd.
Tai-Seng, Lam
Chairman
March 29, 2017



安侯建業聯合會計師事務所
KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Auditors' Report

To the Board of Directors
Flytech Technology Co., Ltd:

Opinion

We have audited the consolidated financial statements of Flytech Technology Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretations as well as related guidance endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were significant in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2016 are stated as follows:

1. Valuation of inventories

Please refer to Note 4(h) "Inventories" for the significant accounting policies, Note 5(a) "Critical accounting judgments and key sources of estimation uncertainty" for estimation uncertainty of inventory valuation, and Note 6(d) "Inventories" for the related disclosures.

Description of key audit matter:

Inventories are measured at the lower of cost and net realizable value. Due to the rapid development of technology and innovation of production technology, the stocks for materials may become obsolete and cannot meet the market demand. Furthermore, the product price may fluctuate due to fierce market competition. Accordingly, the management need to determine its net realizable value at the end of the reporting date based on its judgment and estimation to recognize the possible write-down of inventories. Therefore, the valuation of inventories has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, we have performed certain audit procedures including, among others, obtaining the inventory valuation documentation to inspect whether inventories were measured in accordance with the Group's accounting policies; obtaining the inventory aging report, analyzing the fluctuation of inventory aging and selecting samples to verify the accuracy of inventory aging classification; and understanding and testing the net realizable value of inventories to evaluate the reasonableness of inventory provisions.

2. Business Combination

Please refer to Note 4(s) "Business Combination" for the significant accounting policies and Note 6(f) "Business Combination" for the related disclosures.

Description of key audit matter:

The Group acquired 100% ownership of Box Technologies Holdings Limited and its subsidiaries in 2016. To adopt the accounting treatment of business combination, the management needs to determine the purchase price, contingent consideration and the fair value of the identifiable assets and liabilities. The assessment is complex and involves significant assumptions and estimation. Accordingly, the assessment of business combination has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, we have performed certain audit procedures including, among others, reading the share purchase agreement to understand its scope of acquisition, purchase price and contingent consideration; tracing payments to bank statements; obtaining the purchase price allocation report with valuation of intangible assets conducted by an external expert engaged by the management and auditing the acquired assets and liabilities identified by the management including any fair value adjustment at the acquisition date. In doing so, we have consulted internal valuation specialists to assist us in evaluating the reasonableness of the valuation method and key assumptions used. We have also confirmed that correct accounting treatment has been applied and appropriate disclosures with respect to the acquisition has been made.

3. Impairment of Goodwill

Please refer to Note 4(m) "Impairment of non-financial assets" for the significant accounting policy on goodwill impairment, Note 5(b) "Critical accounting judgments and key sources of estimation uncertainty" for estimation uncertainty of impairment of goodwill, and Note 6(i) "Intangible assets" for the related disclosures.

Description of key audit matter:

Goodwill arising from acquisition of subsidiaries are annually subject to impairment test or at the time there are indications that goodwill may have been impaired. The assessment of the recoverable amount of goodwill involves management's judgment and estimation. Accordingly, the assessment of impairment of goodwill has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, we have performed certain audit procedures including, among others, obtaining the assessment of assets impairment provided by the management and inspecting whether all assets subject to impairment test are included in the assessment; assessing the appropriateness of the valuation model and key assumptions, including the discount rate, expected growth rate and future cash flow projections, used by the management in measuring the recoverable amount; performing a sensitivity analysis of the key assumptions and results. In addition to the above audit procedures, we have also inquired from a valuation specialist to evaluate the appropriateness of the weighted-average cost of capital and its underlying assumptions; and assessed the adequacy of the Group's disclosures with respect to the related information.

Other Matter

Flytech Technology Co., Ltd. has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unqualified audit opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting standards, interpretation as well as related guidance endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the Audit Committee, are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercised professional judgment and maintained professional skepticism throughout the audit. We also:

1. Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remained solely responsible for our audit opinion.

We communicated with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Huei-Chen Chang and Wei-Ming Shih.

KPMG

Taipei, Taiwan (Republic of China)

March 29, 2017

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

		<u>December 31, 2016</u>		<u>December 31, 2015</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Assets					
Current assets:					
1100	Cash and cash equivalents (notes 6(a) and (v))	\$ 2,257,734	37	2,413,793	40
1110	Financial assets at fair value through profit or loss— current (notes 6(b) and (v))	-	-	160,121	3
1150-1170	Notes and accounts receivable, net (notes 6(c), (v) and 8)	1,126,040	18	1,076,074	18
1200	Other receivables (notes 6(c) and (v))	4,168	-	7,076	-
130X	Inventories (note 6(d))	816,996	13	671,025	11
1410-1470	Prepayments and other current assets	42,173	1	39,679	1
1476	Other financial assets— current (notes 6(a), (v) and 8)	<u>131,064</u>	<u>2</u>	<u>150,200</u>	<u>3</u>
	Total current assets	<u>4,378,175</u>	<u>71</u>	<u>4,517,968</u>	<u>76</u>
Non-current assets:					
1600	Property, plant and equipment (note 6(h))	1,145,713	18	1,156,416	19
1780	Intangible assets (notes 6(s) and (i))	587,900	10	208,409	3
1840	Deferred income tax assets (note 6(o))	27,575	-	29,379	-
1915	Prepayments for equipment	10,129	-	11,872	1
1980	Other financial assets— non-current (note 6(v))	<u>51,875</u>	<u>1</u>	<u>52,055</u>	<u>1</u>
	Total non-current assets	<u>1,823,192</u>	<u>29</u>	<u>1,458,131</u>	<u>24</u>
	Total assets	<u>\$ 6,201,367</u>	<u>100</u>	<u>5,976,099</u>	<u>100</u>

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2016		December 31, 2015	
		Amount	%	Amount	%
Liabilities and Equity					
Current liabilities:					
2100	Short-term borrowings (notes 6(j), (v) and (w) and 8)	\$ 69,143	1	-	-
2150-2170	Notes and accounts payable (notes 6(v) and (w))	724,920	12	562,827	9
2200	Other payables (notes 6(f), (t), (v) and (w))	258,818	4	267,880	5
2230	Current income tax liabilities	103,072	2	146,752	3
2250	Provisions (note 6(l))	12,823	-	12,341	-
2300	Other current liabilities	44,316	1	29,247	-
	Total current liabilities	1,213,092	20	1,019,047	17
Non-current liabilities:					
2570	Deferred income tax liabilities (note 6(o))	77,505	1	29,357	-
2640	Net defined benefit liabilities (note 6(n))	25,411	-	33,040	1
2670	Other non-current liabilities (notes 6(f), (v) and (w))	31,688	1	-	-
	Total non-current liabilities	134,604	2	62,397	1
	Total liabilities	1,347,696	22	1,081,444	18
Equity (notes 6(g), (p) and (q)):					
3110	Common stock	1,463,683	24	1,463,683	24
3200	Capital surplus	761,822	12	756,228	13
	Retained earnings:				
3310	Legal reserve	753,576	12	651,916	11
3350	Unappropriated earnings	1,572,392	25	1,670,446	28
3400	Other equity	(22,370)	-	15,975	-
	Equity attributable to shareholders of the Company	4,529,103	73	4,558,248	76
36XX	Non-controlling interests	324,568	5	336,407	6
	Total equity	4,853,671	78	4,894,655	82
	Total liabilities and equity	\$ 6,201,367	100	5,976,099	100

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
4000 Revenue (note 6(s))	\$ 5,633,782	100	5,213,056	100
5000 Cost of revenue (notes 6(d), (h), (i), (l), (m), (n), (q) and (t) and 12)	3,739,993	66	3,419,309	66
Gross profit	<u>1,893,789</u>	<u>34</u>	<u>1,793,747</u>	<u>34</u>
Operating expenses (notes 6(c), (h), (i), (m), (n), (q) and (t), 7 and 12):				
6100 Selling expenses	447,779	8	268,358	5
6200 Administrative expenses	246,982	4	189,530	3
6300 Research and development expenses	216,659	4	207,163	4
Total operating expenses	<u>911,420</u>	<u>16</u>	<u>665,051</u>	<u>12</u>
Operating income	<u>982,369</u>	<u>18</u>	<u>1,128,696</u>	<u>22</u>
Non-operating income and loss (notes 6(e), (k) and (u)):				
7010 Other income	13,444	-	31,917	-
7020 Other gains and losses	9,133	-	46,376	1
7050 Finance costs	(1,466)	-	(1,255)	-
7375 Share of losses of associates	-	-	(1,820)	-
Total non-operating income and loss	<u>21,111</u>	<u>-</u>	<u>75,218</u>	<u>1</u>
Income before income tax	<u>1,003,480</u>	<u>18</u>	<u>1,203,914</u>	<u>23</u>
7950 Income tax expense (note 6(o))	<u>131,633</u>	<u>2</u>	<u>161,182</u>	<u>3</u>
Net income	<u>871,847</u>	<u>16</u>	<u>1,042,732</u>	<u>20</u>
Other comprehensive income:				
8310 Items that will not be reclassified subsequently to profit or loss (notes 6(n), (o) and (p)):				
8311 Remeasurements of defined benefit plans	(2,572)	-	(4,053)	-
8349 Income tax benefit related to items that will not be reclassified subsequently to profit or loss	437	-	689	-
	<u>(2,135)</u>	<u>-</u>	<u>(3,364)</u>	<u>-</u>
8360 Items that may be reclassified subsequently to profit or loss (note 6(p)):				
8361 Exchange differences on translation of foreign operations	(37,116)	(1)	4,024	-
8399 Income tax related to items that may be reclassified subsequently to profit or loss	-	-	-	-
	<u>(37,116)</u>	<u>(1)</u>	<u>4,024</u>	<u>-</u>
Other comprehensive income for the year, net of taxes	<u>(39,251)</u>	<u>(1)</u>	<u>660</u>	<u>-</u>
Total comprehensive income for the year	<u>\$ 832,596</u>	<u>15</u>	<u>1,043,392</u>	<u>20</u>
Net income attributable to:				
8610 Shareholders of the Company	\$ 881,816	16	1,016,596	20
8620 Non-controlling interests	(9,969)	-	26,136	-
	<u>\$ 871,847</u>	<u>16</u>	<u>1,042,732</u>	<u>20</u>
Total comprehensive income attributable to:				
8710 Shareholders of the Company	\$ 843,471	15	1,017,277	20
8720 Non-controlling interests	(10,875)	-	26,115	-
	<u>\$ 832,596</u>	<u>15</u>	<u>1,043,392</u>	<u>20</u>
Earnings per share (in New Taiwan dollars) (note 6(r)) :				
9750 Basic earnings per share	\$ <u>6.02</u>		<u>7.02</u>	
9850 Diluted earnings per share	\$ <u>5.99</u>		<u>6.89</u>	

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to shareholders of the Company							Total equity	
	Common stock	Capital Surplus	Legal reserve	Unappropriated earnings	Foreign currency translation differences	Remeasurements of defined benefit plans	Total		Non-controlling interests
Balance at January 1, 2015	\$ 1,329,472	586,395	555,984	1,595,149	2,151,133	14,471	4,081,471	36,728	4,118,199
Effects of retrospective restatements	-	-	-	(823)	(823)	-	823	-	-
Restated balance at January 1, 2015	1,329,472	586,395	555,984	1,594,326	2,150,310	14,471	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	-	4,045	(21)	660
Total comprehensive income in 2015	-	-	-	1,016,596	1,016,596	4,045	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	4,558,248	336,407	4,894,655
Appropriation approved by the stockholders:									
Legal reserve	-	-	101,660	(101,660)	-	-	-	-	-
Cash dividends	-	-	-	(878,210)	(878,210)	-	(878,210)	-	(878,210)
Changes in ownership interest in subsidiaries	-	5,594	-	-	-	-	5,594	(5,594)	-
Issuance of stock from exercise of employee stock option	-	-	-	-	-	-	-	25,620	25,620
Distribution of cash dividend by subsidiaries to non-controlling interests rests	-	-	-	-	-	-	-	(36,980)	(36,980)
Stock option compensation cost of subsidiary	-	-	-	-	-	-	-	15,990	15,990
Net income in 2016	-	-	-	881,816	881,816	(36,210)	881,816	(9,969)	871,847
Other comprehensive income in 2016	-	-	-	-	(36,210)	(36,210)	(38,345)	(906)	(39,251)
Total comprehensive income in 2016	-	-	-	881,816	881,816	(36,210)	843,471	(10,875)	832,596
Balance at December 31, 2016	\$ 1,463,683	761,822	753,576	1,572,392	2,325,968	(17,694)	4,529,103	324,568	4,853,671

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	2016	2015
Cash flows from operating activities:		
Income before income taxes	\$ 1,003,480	1,203,914
Adjustments for:		
Depreciation	97,105	95,368
Amortization	77,837	49,500
Reversal of impairment loss on accounts receivable	(2,597)	(365)
Valuation gain on financial assets and liabilities at fair value through profit or loss, net	(37,997)	(6,154)
Interest expense	1,466	1,255
Interest income	(9,216)	(23,191)
Share-based compensation cost	15,990	-
Share of losses of associates	-	1,820
Gain on disposal of property, plant and equipment	(43)	-
Impairment loss on investments in associates	-	2,529
Unrealized exchange gain from other liabilities	(6,064)	-
Total non-cash profit and loss	136,481	120,762
Changes in operating assets and liabilities:		
Notes and accounts receivable, net	191,803	60,236
Other receivables	4,684	(3,796)
Inventories	(17,823)	(74,348)
Prepayments and other current assets	6,464	(5,842)
Notes and accounts payable	60,419	21,737
Other current liabilities	15,069	(700)
Other payables	(15,604)	20,396
Provisions	482	(14,991)
Net defined benefit liabilities	(10,201)	990
Total changes in operating assets and liabilities	235,293	3,682
Cash provided by operations	1,375,254	1,328,358
Income taxes paid	(186,862)	(155,157)
Net cash provided by operating activities	1,188,392	1,173,201

See accompanying notes to financial statements.

(English Translation of Financial Report Originally Issued in Chinese)
FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES (Continued)

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	2016	2015
Cash flows from investing activities:		
Acquisition of financial assets at fair value through profit or loss	(1,662)	(260,000)
Proceeds from disposal of financial assets at fair value through profit or loss	161,938	100,104
Acquisition of a subsidiary, net of cash acquired	(458,065)	115,667
Additions to property, plant and equipment (including prepayments for equipment)	(87,654)	(96,816)
Proceeds from disposal of property, plant and equipment	421	1
Additions to intangible assets	(10,578)	(5,138)
Decrease (increase) in other financial assets	19,316	(11,463)
Interest received	7,440	24,450
Net cash used in investing activities	(368,844)	(133,195)
Cash flows from financing activities:		
Repayment of short-term borrowings	(51,445)	-
Cash dividends	(878,210)	(829,900)
Proceeds from exercise of employee share options	25,620	-
Cash dividends paid to non-controlling interests	(36,980)	(45,735)
Payments for acquisition of non-controlling interests in a subsidiary	-	(160,000)
Capital injection from non-controlling interests	-	12,000
Interest paid	(1,325)	-
Net cash used in financing activities	(942,340)	(1,023,635)
Effects of foreign exchange rate changes	(33,267)	2,922
Net increase (decrease) in cash and cash equivalents	(156,059)	19,293
Cash and cash equivalents at beginning of year	2,413,793	2,394,500
Cash and cash equivalents at end of year	\$ 2,257,734	2,413,793

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

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 computers and peripherals.

2. Authorization of the consolidated financial statements

These consolidated financial statements were authorized for issuance by the Board of Directors on March 29, 2017.

3. Application of New and Revised Accounting Standards and Interpretations

- (a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, commencing January 1, 2017, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016 and were endorsed by the FSC in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10, IFRS 12 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
Amendments to IAS 1 <i>Disclosure Initiative</i>	January 1, 2016
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
Annual improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016
IFRIC 21 <i>Levies</i>	January 1, 2014

(Continued)

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

The Group assessed that the initial application of the above IFRSs would not have any material impact on its consolidated financial statements.

(b) Newly released or amended standards and interpretations not yet endorsed by the FSC

Below is a summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Group should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Group's financial statements were issued, the FSC has yet announced the effective dates of the other IFRSs.

New, Revised 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>	Effective date to be determined by IASB
IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2018
IFRS 16 <i>Leases</i>	January 1, 2019
Amendments to IFRS 2 <i>Clarifications of Classification and Measurement of Share-based Payment Transactions</i>	January 1, 2018
Amendments to IFRS 15 <i>Clarifications of IFRS 15</i>	January 1, 2018
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 IFRS 4 <i>Insurance Contracts (Applicable for IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts)</i>	January 1, 2018
Annual Improvements to IFRSs 2014-2016 cycle:	
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2017
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures</i>	January 1, 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	January 1, 2018
Amendments to IAS 40 <i>Investment Property</i>	January 1, 2018

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

The items disclosed below are considered to have significant impact on the Group's accounting policies:

Issuance / Release	Standards or Interpretations	Content of amendment
<u>Dates</u>		
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 <i>Revenue</i> , IAS 11 <i>Construction Contracts</i> , and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property; and (iv) apply transition requirements.
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> , and the main amendments are as follows: <ul style="list-style-type: none"> • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. The amount of change in the fair value of the financial liability designated as at fair value through profit or loss that is attributable to change in the credit risk of that liability is presented in other comprehensive income. • Impairment: IFRS 9 adds a new expected loss impairment model to measure the impairment of financial assets. • Hedge accounting: The change in hedge accounting reflects a broad articulation of a principle-based approach with a focus on the purpose of the entity's risk management activities, which includes the amendments to the achievement, as well as the continuation and discontinuation of hedge accounting. It also enhances various types of transactions eligible for hedge accounting.

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

Issuance / Release	Dates	Standards or Interpretations	Content of amendment
	January 13, 2016	IFRS 16 "Leases"	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense accrued on the lease liability separately from the depreciation charge on the right-of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

The Group is currently evaluating the impact on its financial position and financial performance of the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

4. Summary of significant accounting policies

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

(a) 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 and issued into effect by the FSC (collectively "Taiwan-IFRSs").

(b) Basis of preparation

(i) 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:

- 1) Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
- 2) Net defined benefit liabilities recognized as the present value of the benefit obligation less the fair value of plan assets; and
- 3) Contingent consideration measured at fair value.

(Continued)

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

(ii) Functional and presentation currency

The functional currency of each Group 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.

(c) Basis of consolidation

(i) 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) in which the Company 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. All significant inter-company balances, transactions, and the resulting unrealized income and loss are eliminated on consolidation. Total comprehensive income (loss) of subsidiaries is attributed to the shareholders of the Company and 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 consideration paid or received is recognized in equity and attributed to the shareholders of the Company.

(ii) List of subsidiaries in the consolidated financial statements

The subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Investee	Principal activities	Percentage of Ownership		Note
			December 31, 2016	December 31, 2015	
The Company	Flytech USA International Co., Ltd. ("Flytech USA BVI, British Virgin Islands)	Investment holding	100.00 %	100.00 %	-
The Company	Flytech JP International Co., Ltd. ("Flytech JP BVI, British Virgin Islands)	Investment holding	100.00 %	100.00 %	-
The Company	Flytech HK International Co., Ltd. ("Flytech HK BVI, British Virgin Islands)	Investment holding	100.00 %	100.00 %	-
The Company	Flytech CN International Co., Ltd. ("Flytech CN BVI, British Virgin Islands)	Investment holding	100.00 %	100.00 %	-
The Company	Flycom Investment Co., Ltd. ("Flycom Investment", Taiwan)	Investment holding	100.00 %	100.00 %	-

(Continued)

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

Name of Investor	Name of Investee	Principal activities	Percentage of Ownership		Note
			December 31, 2016	December 31, 2015	
The Company	Box Technologies (Holdings) Ltd. (Box Holdings, the United Kingdom)	Investment holding	100.00 %	-	Note 4
Flytech USA BVI	Flytech Technology (U.S.A.) Inc. ("Flytech USA", U.S.A.)	Sale of computers and peripherals	100.00 %	100.00 %	-
Flytech HK BVI	Flytech Technology Hong Kong Ltd. ("Flytech HK", Hong Kong)	Sale of computers and peripherals	100.00 %	100.00 %	-
Flytech CN BVI	Flytech Technology (Shanghai) Co., Ltd. ("Flytech CN", China)	Sale of computers and peripherals	100.00 %	100.00 %	-
Flytech CN BVI	Flytech Inc. Beijing ("Flytech BJ", China)	Sale of computers and peripherals	100.00 %	100.00 %	Note 1
Flytech HK	iSappos System co., Ltd. (iSappos, Hong Kong)	Sale of computers and peripherals	100.00 %	-	Note 2
Flycom Investment	Iruggy System Co., Ltd. ("Iruggy System", Taiwan)	Sale of computers and peripherals	80.00 %	80.00 %	Note 1
Flycom Investment	Poindus Systems Corporation ("Poindus Systems", Taiwan)	Sale of computers and peripherals	51.21 %	53.78 %	
Poindus Systems	Poindus America Corp. ("Poindus America", U.S.A.)	Sale of computers and peripherals	51.21 %	53.78 %	Note 3
Poindus Systems	Poindus Investment Co., Ltd. ("Poindus Investment", Taiwan)	Investment holding	51.21 %	53.78 %	Note 3
Poindus Systems	Poindus Systems UK Limited ("Poindus UK", the United Kingdom)	Sale of computers and peripherals	51.21 %	53.78 %	Note 3
Poindus Investment	Poindus Systems GmbH GroBhandel mit EDV. Oberureel ("Poindus GmbH", Germany)	Sale of computers and peripherals	51.21 %	53.78 %	Note 3
Box Holdings	Box Technologies Limited (Box UK, the United Kingdom)	Sale of computers and peripherals	100.00 %	-	Note 4
Box Holdings	BTechnologies AB (Box Sweden, Sweden)	Sale of computers and peripherals	100.00 %	-	Note 4

Note 1: Newly established in 2015.

Note 2: Newly established in 2016.

Note 3: 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.

Note 4: Starting June 1, 2016, Box Holdings and its subsidiaries are included in the consolidated entities of the Company since it obtained 100% ownership over them.

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

(d) Foreign currency

(i) 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.

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

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.

(ii) 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.

(e) 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.

- (i) It is expected to be realized, or sold (or consumed) in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting date; or
- (iv) 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:

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting date; or
- (iv) 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.

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

(f) Cash and cash equivalents

Cash consists of cash on hand, checking deposits, and demand deposits. Cash equivalents consist of short-term and 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.

(g) Financial instruments

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

(i) 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.

1) 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.

2) 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 investments in debt instrument with no active market. 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.

(Continued)

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

3) 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.

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. Except for the write-off of uncollectible receivables against the 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.

4) 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

(Continued)

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

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.

(ii) Financial liabilities and equity instruments

1) 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.

2) Financial liabilities measured at amortized cost

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 expense which is not capitalized as asset is recognized in profit or loss, and included in non-operating income and loss of the consolidated statement of comprehensive income.

3) 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.

(iii) 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.

(Continued)

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

(h) 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.

(i) 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.

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) will be 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.

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 its 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.

When an associate issues new shares and the Group does not subscribe to the new shares in proportion to its original ownership percentage, the Group's interest in the associate's net assets will be changed. The change in the equity interest is adjusted through the capital surplus and investment accounts. If the Group's capital surplus is insufficient to offset the adjustment to investment accounts, the difference is charged as a reduction of retained earnings. If the Group's interest in an associate is reduced due to the additional subscription to the shares of associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate shall be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.

(Continued)

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

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

(j) Property, plant and equipment

(i) 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.

(ii) 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.

(iii) 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 are depreciated over the following useful lives of significant individual components: 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.

(k) 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.

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

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.

(l) Intangible assets

(i) 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.

(ii) 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, such intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Other separately acquired intangible assets are carried at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized in profit or loss on a straight-line basis over the following estimated useful lives: Trademarks - 5 to 7 years; patents and technology - 5 years; customer relationships - 5 years; acquired software - 3 to 5 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.

(m) Impairment of non-financial assets

(i) 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 on goodwill is recognized immediately in profit or loss. A subsequent reversal of the impairment loss on goodwill is prohibited.

(ii) 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.

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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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.

(n) 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.

(o) 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.

(i) 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.

(ii) Services

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

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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(iii) 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.

(p) Employee benefits

(i) Defined contribution plans

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

(ii) 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.

When the defined benefit obligation calculation results in a benefit to the Group, the recognized asset is limited to the amount of 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.

(iii) 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.

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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(q) 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.

(r) 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 for the year, using tax rates enacted or substantively enacted at the reporting date, the tax payables that are calculated based on the part of prior year's earnings not distributed in the current year's shareholders' meeting using the statutory tax rate, and any adjustment to tax payable in respect of previous years.

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:

- (i) 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;
- (ii) 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
- (iii) Temporary differences arising from initial recognition of goodwill.

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.

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.

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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(s) Business combinations

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.

Components of 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 individually at either fair value or the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition-date fair values or other measurement basis in accordance with Taiwan-IFRSs.

Contingent consideration is measured as the acquisition date fair value of consideration transferred. Any fluctuation of the fair value during the measurement period after acquisition date is retrospectively adjusted to the acquisition cost and goodwill. The adjustments are 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. For the fair value adjustments of contingent consideration happened not during the measurement period, the accounting treatment is based on the classification of contingent consideration. Contingent consideration classified as equity can't be re-measured and has to be adjusted under owner's equity. For those contingent consideration classified as assets or liabilities, the fluctuation of the fair value is reported in profit or loss or other comprehensive income.

The organizational restructuring under common control through a share swap between subsidiaries is accounted for 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, only a disclosure of the business combination is required.

(t) 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

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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convertible bonds, stock options, and profit sharing for employees to be settled in the form of common stock.

(u) 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.

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:

(a) Valuation of inventory

Inventories are measured 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 the rapid development of technology and innovation of production technology, the Group estimates the net realizable value of inventory, taking into account of 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.

(b) Impairment of goodwill

The assessment of impairment of goodwill requires the Group to make subjective judgments to identify cash-generating units, allocate the goodwill to relevant cash-generating units, and estimate the recoverable amount of relevant cash-generating units. Any changes in these estimates based on changed economic conditions or business strategies could result in significant adjustments in future years.

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6. Significant account disclosures

(a) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand	\$ 24,528	1,182
Demand deposits and checking accounts	2,210,206	2,120,111
Time deposits with original maturities less than 3 months	23,000	292,500
	<u>\$ 2,257,734</u>	<u>2,413,793</u>

As of December 31, 2016 and 2015, the time deposits with original maturities of more than three months amounted to \$127,824, and \$146,967, respectively, which were classified as other financial assets – current.

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

	December 31, 2016	December 31, 2015
Fund beneficiary certificates	\$ -	<u>160,121</u>

(c) Notes and accounts receivable, and other receivables

	December 31, 2016	December 31, 2015
Notes receivable	\$ 11,821	15,670
Accounts receivable	1,127,144	1,070,191
Less: allowance for doubtful receivables	(12,925)	(9,787)
	1,126,040	1,076,074
Other receivables	4,168	7,076
	<u>\$ 1,130,208</u>	<u>1,083,150</u>

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

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2016	\$ -	9,787	9,787
Acquisition through business combination	-	6,173	6,173
Reversal of impairment loss	-	(2,597)	(2,597)
Effect of exchange rate changes	-	(438)	(438)
Balance at December 31, 2016	<u>\$ -</u>	<u>12,925</u>	<u>12,925</u>

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2015	\$ -	10,152	10,152
Reversal of impairment loss	-	(365)	(365)
Balance at December 31, 2015	<u>\$ -</u>	<u>9,787</u>	<u>9,787</u>

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

	December 31, 2016	December 31, 2015
Past due 0-30 days	\$ 139,904	108,738
Past due 31-60 days	13,697	37,830
Past due 61-90 days	12,255	5,170
Past due 91-120 days	604	787
Past due over 121 days	-	675
	<u>\$ 166,460</u>	<u>153,200</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.

- (iii) Please refer to note 8 for a description of the Group's notes and accounts receivable collateralized for short-term borrowings.

- (d) Inventories

	December 31, 2016	December 31, 2015
Raw materials	\$ 459,266	400,967
Work in process	145,587	162,047
Finished goods	99,061	95,066
Merchandise	113,082	12,945
	<u>\$ 816,996</u>	<u>671,025</u>

For the years ended December 31, 2016 and 2015, the write-downs of inventories to net realizable value and loss on scrap in inventories were as follows:

	2016	2015
Write-downs of inventories	\$ 7,034	10,923
Loss on scrap in inventories	20,731	13,335
	<u>\$ 27,765</u>	<u>24,258</u>

As of December 31, 2016 and 2015, the inventories were not pledged as collateral.

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(e) Investments in associates

In October 2014, the Group invested \$15,000 in NeoVideo and acquired 1,500 shares, owning 27.27% of its common stock. In 2015, the Group determined the investment was impaired and recognized an impairment loss of \$2,529 to write off its investment to zero, in addition to the share of its losses of \$1,820, a losses were reported as non-operating income and loss.

Summarized financial information on Neo Video is as follows (before being adjusted to the Group's ownership percentage):

	December 31, 2016	December 31, 2015
Total assets	\$ 12,630	17,365
Total liabilities	10,552	11,269
	2016	2015
Revenue	\$ 35,020	27,462
Net loss	(4,018)	(9,849)

(f) Acquisition of subsidiaries

(i) Box Technologies Holdings and its subsidiaries (Box)

To enhance the competitiveness of its products and expand its market share, the Company resolved to acquire 100% interest of Box and included it in its consolidated entities starting from the acquisition date (June 1, 2016).

The acquisition of Box enables the Group to increase its revenue through benefiting from Box's brand marketing capability, existing customers, and European channels. In addition, the acquisition expects to integrate the Group's design and manufacturing specialty to exploit synergies of vertical integration of supply chain.

1) Consideration transferred

According to the Share Purchase Agreement, the Company acquired 100% of Box common shares for a total cash consideration of \$471,900 (GBP 10,000). In addition, if Box's EBITDA meets the agreed conditions in fiscals 2017 and 2018, the Group has to make the payments of GBP 2,000 to its original shareholders. Under the agreement of contingent consideration, the undiscounted amount that the Group is likely to pay is between \$0 and \$94,380 (GBP 2,000).

As of December 31, 2016, the Group adopted the income approach to assess the fair value of its contingent consideration amounting to GBP 889 (\$35,217), which was reported in other payables and other non-current liabilities in its accompany balance sheet. As Box failed to meet the earning criteria in fiscal 2016, the Company reassessed the fair value of its contingent consideration and recognized a gain of \$37,842, which was reported in non-operating income and loss.

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- 2) 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:	
Cash	\$ 471,900
The fair value of contingent consideration	79,798
Less: Identifiable assets acquired and liabilities assumed at fair value	
Cash and cash equivalents	13,835
Accounts receivable	239,610
Inventories	128,148
Prepayments and other current assets	8,958
Property, plant and equipment	12,562
Intangible assets — trademarks	33,741
Intangible assets — customer relationships	238,074
Short-term borrowings	(120,588)
Accounts payable	(101,674)
Other payables	(21,590)
Deferred income tax liabilities	(54,736)
The fair value of identifiable net assets acquired	<u>376,340</u>
Goodwill	<u>\$ 175,358</u>

The Company obtained new information about facts and circumstances which existed as of the acquisition date during the measurement period (one year after the acquisition date), and decreased its other current liabilities and goodwill amounting to \$10,622.

- 3) Intangible assets

The above trademark and customer relationships are amortized on a straight-line basis over the estimated future economic useful life of 7 years.

The goodwill is attributable mainly to Box's reputation in the POS market, profitability, and value of assembled workforce. None of the goodwill recognized is expected to be deductible for income tax purposes.

- 4) Pro forma information

From the acquisition date to December 31, 2016, Box and its subsidiaries contributed a revenue of \$511,671 and a net loss of \$(37,274). If the acquisition had occurred on January 1, 2016, the management estimates that the consolidated revenue would have been \$6,412,827, and consolidated net income would have been \$897,670.

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(ii) Poindus systems corporation and its subsidiaries (Poindus systems)

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.

1) Consideration transferred

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

2) 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	(562)
The fair values of identifiable net assets acquired	603,540
Goodwill	\$ 9,115

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3) Intangible assets

The above trademark, patent and technology are amortized on a straight-line basis over the estimated future economic useful life of 5 years.

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

4) 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. 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.

(g) Changes in ownership interest in subsidiaries

(i) The business combination under joint control

On June 16, 2015, Poindus Systems' shareholders in a meeting resolved to merge with the Company's subsidiary OTEK System. The effective date of the merger is August 1, 2015. Poindus Systems issued a total of 4,000 thousand new common 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:

	2016
Capital surplus arising from changes in ownership interests in subsidiaries	\$ <u><u>6,846</u></u>

(ii) Changes in equity of subsidiaries

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

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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:

	<u>2016</u>
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>

Poindus System issued 1,000,000 new common shares as a result of stock options exercised by its employees in 2016, which caused the Group's interest in Poindus Systems to decrease from 53.78% to 51.21%; and subsequently, the capital surplus of \$5,594 was recognized accordingly.

(h) Property, plant and equipment

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

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Mold equipment</u>	<u>Furniture and fixtures</u>	<u>Other equipment</u>	<u>Total</u>
Cost:							
Balance at January 1, 2016	\$ 319,238	655,815	297,649	330,574	53,729	29,742	1,686,747
Acquisition through business combination (note 6(f))	-	-	7,950	-	24,268	6,184	38,402
Additions	20,186	298	5,470	26,127	3,532	7,769	63,382
Reclassification	-	2,681	-	11,818	-	(718)	13,781
Disposals	-	-	(338)	-	(639)	(5,077)	(6,054)
Effect of exchange rate changes	-	(2,281)	(1,441)	-	(3,863)	(1,233)	(8,818)
Balance at December 31, 2016	<u>\$ 339,424</u>	<u>656,513</u>	<u>309,290</u>	<u>368,519</u>	<u>77,027</u>	<u>36,667</u>	<u>1,787,440</u>
Balance at January 1, 2015	\$ 319,238	635,939	289,735	279,605	44,155	25,892	1,594,564
Acquisition through business combination (note 6(f))	-	-	-	20,263	1,440	4,473	26,176
Additions	-	18,824	8,077	24,618	6,609	157	58,285
Reclassification	-	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>340,275</u>	<u>54,640</u>	<u>32,066</u>	<u>1,699,683</u>
Accumulated depreciation:							
Balance at January 1, 2016	\$ -	105,060	151,721	225,281	29,078	19,191	530,331
Acquisition through business combination (note 6(f))	-	-	868	-	20,678	4,294	25,840
Depreciation	-	14,713	22,060	50,207	6,527	3,598	97,105
Reclassification	-	-	-	-	-	(311)	(311)
Disposals	-	-	(338)	-	(639)	(4,699)	(5,676)
Effect of exchange rate changes	-	(1,178)	(232)	-	(3,305)	(847)	(5,562)
Balance at December 31, 2016	<u>\$ -</u>	<u>118,595</u>	<u>174,079</u>	<u>275,488</u>	<u>52,339</u>	<u>21,226</u>	<u>641,727</u>

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	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Mold equipment</u>	<u>Furniture and fixtures</u>	<u>Other equipment</u>	<u>Total</u>
Balance at January 1, 2015	\$ -	90,855	127,872	186,830	24,219	16,784	446,560
Acquisition through business combination (note 6(f))	-	-	-	9,701	911	2,324	12,936
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>234,982</u>	<u>29,989</u>	<u>21,515</u>	<u>543,267</u>
Carrying amount:							
Balance at December 31, 2016	<u>\$ 339,424</u>	<u>537,918</u>	<u>135,211</u>	<u>93,031</u>	<u>24,688</u>	<u>15,441</u>	<u>1,145,713</u>
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 January 1, 2015	<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>

As of December 31, 2016 and 2015, property, plant and equipment were not pledged as collateral.

(i) Intangible assets

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

	<u>Trademarks</u>	<u>Patents and technology</u>	<u>Customer relationships</u>	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Cost:						
Balance at January 1, 2016	\$ 65,951	102,847	63,185	9,115	24,681	265,779
Acquisition through business combination (Note 6(f))	33,741	-	238,074	175,358	-	447,173
Additions	-	-	-	-	10,578	10,578
Reclassification	-	-	-	-	768	768
Effect of exchange rate changes	-	-	-	-	(722)	(722)
Balance at December 31, 2016	<u>\$ 99,692</u>	<u>102,847</u>	<u>301,259</u>	<u>184,473</u>	<u>35,305</u>	<u>723,576</u>
Balance at January 1, 2015	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,269</u>	<u>18,269</u>
Acquisition through business combination (Note 6(f))	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>
Accumulated amortization:						
Balance at January 1, 2016	\$ 12,091	18,855	11,584	-	14,840	57,370
Amortization	16,002	20,569	32,476	-	8,790	77,837
Reclassification	-	-	-	-	311	311
Effect of exchange rate changes	-	-	-	-	158	158
Balance at December 31, 2016	<u>\$ 28,093</u>	<u>39,424</u>	<u>44,060</u>	<u>-</u>	<u>24,099</u>	<u>135,676</u>
Balance at January 1, 2015	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,870</u>	<u>7,870</u>
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>

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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	<u>Trademarks</u>	<u>Patents and technology</u>	<u>Customer relationships</u>	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Carrying amount:						
Balance at December 31, 2016	\$ 71,599	63,423	257,199	184,473	11,206	587,900
Balance at December 31, 2015	\$ 53,860	83,992	51,601	9,115	9,841	208,409
Balance at January 1, 2015	\$ -	-	-	-	10,399	10,399

(ii) Amortization

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

	<u>2016</u>	<u>2015</u>
Cost of revenue	\$ 831	559
Selling expenses	183	109
Administrative expenses	71,413	43,891
Research and development expenses	5,410	4,941
	<u>\$ 77,837</u>	<u>49,500</u>

(iii) Impairment test on goodwill

The carrying amounts of goodwill resulted from business acquisition were allocated to the respective CGUs identified as the following subsidiaries as of December 31, 2016 and 2015:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Box	\$ 175,358	-
Poindus system	9,115	9,115
	<u>\$ 184,473</u>	<u>9,115</u>

Each CGU to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. On December 31, 2016, based on the results of the impairment tests conducted by the Group, the recoverable amount exceeded its carrying amount; therefore, no impairment loss was recognized.

The recoverable amount of a CGU was determined based on the value in use, and the related key assumptions were as follows:

	<u>December 31, 2016</u>
Revenue growth rate	5%
Discount rate	14.79%

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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- 1) The cash flow projections were based on historical operating performance and future financial budgets, covering a period of 5 years, approved by management and estimated terminal values at the end of the 5-year period. Cash flows beyond that 5-year period have been extrapolated using 1% growth rate.
- 2) The discount rate used to determine value in use is based on the weighted average cost of capital.

(j) Short-term borrowings

The information of short-term borrowings was as follows:

	December 31, 2016	December 31, 2015
Secured bank loans	\$ <u>69,143</u>	<u>-</u>
Unused credit facilities	\$ <u>790,211</u>	<u>684,125</u>
Interest rate	<u>2.5%</u>	<u>-</u>

Refer to Note 8 for details on related assets pledged as collateral for secured loans.

(k) Bonds payable

	December 31, 2016	December 31, 2015
Par value of convertible bonds	\$ -	800,000
Cumulative amount converted into common stock	<u>-</u>	<u>(800,000)</u>
Ending balance	<u>\$ -</u>	<u>-</u>
	2016	2015
Interest expense (effective interest rate of 2.09%)	<u>\$ -</u>	<u>1,255</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:

(i) Bond duration

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

(ii) 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.

(iii) 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 last conversion date in June 2015, the adjusted conversion price was \$47.1 (dollars) per share.

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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(iv) 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.

(v) 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).

(l) Provision for warranties

	<u>2016</u>	<u>2015</u>
Balance at January 1	\$ 12,341	27,332
Provisions made	6,254	-
Amount reversed	-	(9,778)
Amount utilized	<u>(5,772)</u>	<u>(5,213)</u>
Balance at December 31	<u>\$ 12,823</u>	<u>12,341</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.

(m) Operating lease (the Group as lessee)

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Not later than 1 year	\$ 21,066	13,435
Later than 1 year but not later than 5 years	<u>43,371</u>	<u>23,750</u>
	<u>\$ 64,437</u>	<u>37,185</u>

The Group leases offices, factories and parking spaces under operating leases. The leases typically run for a period of 1 to 5 years. In 2016 and 2015, the rental expenses of operating leases amounted to \$20,070 and \$13,124, respectively.

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

(n) Employee benefits

(i) Defined benefit plans

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

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Present value of benefit obligations	\$ 50,293	53,428
Fair value of plan assets	<u>(24,882)</u>	<u>(20,388)</u>
Net defined benefit liabilities	<u>\$ 25,411</u>	<u>33,040</u>

The Company 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.

1) Composition of plan assets

The pension fund (the "Fund") contributed by the Company 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, 2016 and 2015, the Company's labor pension fund account balance at Bank of Taiwan amounted to \$24,882 and \$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.

2) Movements in present value of defined benefit obligations

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

	<u>2016</u>	<u>2015</u>
Defined benefit obligations at January 1	\$ 53,428	47,927
Current service costs and interest expense	1,350	1,311
Remeasurement of net defined benefit liabilities:		
–Actuarial loss arising from changes in financial assumptions	2,345	4,190
Benefits paid by plan	<u>(6,830)</u>	<u>-</u>
Defined benefit obligations at December 31	<u>\$ 50,293</u>	<u>53,428</u>

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

3) Movements of fair value of plan assets

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

	<u>2016</u>	<u>2015</u>
Fair value of plan assets at January 1	\$ 20,388	19,241
Interest income	396	371
Remeasurement on net defined benefit liabilities		
–Return on plan assets (excluding amounts included in net interest expense)	(228)	137
Contributions by plan participants	11,156	639
Benefits paid by the plan	(6,830)	-
Fair value of plan assets at December 31	<u>\$ 24,882</u>	<u>20,388</u>

4) Changes in the effect of the asset ceiling

In 2016 and 2015, there was no effect of the asset ceiling.

5) Expenses recognized in profit or loss

The expenses recognized in profit or losses were as follows:

	<u>2016</u>	<u>2015</u>
Current service costs	\$ 480	496
Net interest expense	474	547
	<u>\$ 954</u>	<u>1,043</u>
Operating expenses	<u>\$ 954</u>	<u>1,043</u>
Actual return on plan assets	<u>\$ 168</u>	<u>508</u>

6) 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:

	<u>2016</u>	<u>2015</u>
Cumulative amount at January 1	(3,062)	991
Recognized during the period	(2,572)	(4,053)
Cumulative amount at December 31	<u>\$ (5,634)</u>	<u>(3,062)</u>

The remeasurement of net defined benefit liabilities (net of taxes) were recognized in other equity.

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

7) Actuarial assumptions

The principal assumptions of the actuarial valuation were as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Discount rate	1.60 %	1.70 %
Future salary increases rate	2.00 %	2.00 %

The weighted-average duration of the defined benefit plans is 15 years. The Group expects to make contribution of \$803 to the defined benefit plans in the year following December 31, 2016.

8) 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, 2016 and 2015.

	Impact on defined benefit obligation	
	<u>0.25% Increase</u>	<u>0.25% Decrease</u>
Balance at December 31, 2016		
Discount rate	(1,304)	1,358
Future salary rate	1,425	(1,236)
Balance at December 31, 2015		
Discount rate	(818)	852
Future salary rate	896	(774)

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 ITS SUBSIDIARIES
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(ii) Defined contribution plans

The Company and its domestic subsidiaries Poindus Systems and iRUGGY 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.

For the year ended December 31, 2016 and 2015, the group recognized expense of the defined contribution plans were as follow:

	<u>2016</u>	<u>2015</u>
Cost of revenue	\$ 6,177	6,281
Operating expenses	<u>16,785</u>	<u>11,341</u>
	<u>\$ 22,962</u>	<u>17,622</u>

(o) Income taxes

(i) In 2016 and 2015, the components of income tax expense were as follows:

	<u>2016</u>	<u>2015</u>
Current income tax expense		
Current period	\$ 143,842	169,472
Adjustments for prior periods	<u>(7,862)</u>	<u>(1,085)</u>
	<u>135,980</u>	<u>168,387</u>
Deferred tax benefit		
Origination and reversal of temporary differences	<u>(4,347)</u>	<u>(7,205)</u>
Income tax expense	<u>\$ 131,633</u>	<u>161,182</u>

In 2016 and 2015, the Group's income tax benefit recognized in other comprehensive income was as follows:

	<u>2016</u>	<u>2015</u>
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit plans	<u>\$ 437</u>	<u>689</u>

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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Reconciliation of the expected income tax expense calculated based on the R.O.C. statutory tax rate and the actual income tax expense reported in the consolidated statements of comprehensive income for 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Income before income tax	\$ <u>1,003,480</u>	<u>1,203,914</u>
Income tax using the Company's statutory tax rate	\$ 170,592	204,665
Tax-exempt income	(107,060)	(123,256)
Changes in unrecognized temporary differences	11,504	830
Share of income or loss of domestic subsidiaries	3,796	(6,034)
10% surtax on undistributed earnings	5,346	4,738
Alternative minimum tax	54,789	65,507
Prior-year adjustments	(7,862)	(1,085)
Others	528	15,817
	<u>\$ 131,633</u>	<u>161,182</u>

(ii) Deferred income tax assets and liabilities

As the Company is able to control the timing of the reversal of temporary differences associated with the loss on its investments in its subsidiaries, and concludes that the temporary differences will not reverse in the foreseeable future, such temporary differences were not recognized as deferred income tax assets.

1) Unrecognized deferred income tax assets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Loss related to investments in subsidiaries	\$ <u>13,745</u>	<u>2,241</u>

2) Recognized deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities for 2016 and 2015 were as follows:

Deferred income tax assets:

	<u>Defined benefit plans</u>	<u>Inventory provisions</u>	<u>Others</u>	<u>Total</u>
Balance at January 1, 2016	\$ 5,996	7,038	16,345	29,379
Recognized in profit or loss	(1,733)	770	(1,278)	(2,241)
Recognized in other comprehensive income	437	-	-	437
Balance at December 31, 2016	<u>\$ 4,700</u>	<u>7,808</u>	<u>15,067</u>	<u>27,575</u>
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	688	-	-	688
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 ITS SUBSIDIARIES
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Deferred income tax liabilities:

	Unremitted earnings from subsidiaries	Unrealized foreign exchange gain	Intangible assets acquired through business combination	Others	Total
Balance at January 1, 2016	\$ 26,230	3,106	-	21	29,357
Acquisition through business combination	-	-	54,736	-	54,736
Recognized in profit or loss	(2,215)	173	(4,525)	(21)	(6,588)
Balance at December 31, 2016	<u>\$ 24,015</u>	<u>3,279</u>	<u>50,211</u>	<u>-</u>	<u>77,505</u>
Balance at January 1, 2015	\$ 23,714	10,596	-	1,121	35,431
Acquisition through business combination	-	562	-	-	562
Recognized in profit or loss	2,516	(8,052)	-	(1,100)	(6,636)
Balance at December 31, 2015	<u>\$ 26,230</u>	<u>3,106</u>	<u>-</u>	<u>21</u>	<u>29,357</u>

- (iii) 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.
- (iv) Information about the integrated income tax system:

	December 31, 2016	December 31, 2015
Unappropriated earnings earned before January 1, 1997	\$ -	177
Unappropriated earnings earned commencing from January 1, 1998	1,572,392	1,670,269
	<u>\$ 1,572,392</u>	<u>1,670,446</u>
Balance of imputation credit account	<u>\$ 146,898</u>	<u>91,987</u>
	2016	2015
	(estimated)	(actual)
Creditable ratio for distribution of earnings to R.O.C. residents	14.30 %	13.81 %

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.

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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(p) Capital and other equity

(i) Common stock

As of December 31, 2016 and 2015, 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 thousand shares were issued and outstanding. All issued shares were paid up upon issuance.

The movements in outstanding common shares of stock in 2016 and 2015 were as follows (in thousands of shares):

	<u>2016</u>	<u>2015</u>
Balance at January 1	146,368	132,947
Distribution of stock dividends from capital surplus	-	6,916
Convertible bonds converted to common stock	-	6,505
Balance at December 31	<u><u>146,368</u></u>	<u><u>146,368</u></u>

(ii) Capital surplus

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Share premium:		
Premium on common stock issued for conversion of convertible bonds	\$ 753,780	753,780
Changes in ownership interest in subsidiaries	5,594	-
Forfeited employee stock options	2,433	2,433
Gain on disposal of assets	15	15
	<u><u>\$ 761,822</u></u>	<u><u>756,228</u></u>

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 or distributed as cash dividends based on the original shareholding ratio. 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.

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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(iii) 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, together with the unappropriated earnings from the previous years, should be distributed according to the proposal by the board of directors to be approved in the shareholders' meeting. Appropriation of earnings should not be less than 60% of the 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.

The distribution of earnings for 2015 and 2014 had been approved in the meetings of shareholders held on June 8, 2016, and June 12, 2015, respectively. The relevant dividend distributions to shareholders were as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Dividends per share</u>	<u>Total amount</u>	<u>Dividends per share</u>	<u>Total amount</u>
Dividends distributed to shareholders:				
Cash	\$ 6.00	<u>878,210</u>	6.00	<u>829,900</u>

Additionally, the shareholders also approved a distribution of a 2014 stock dividend by transferring capital surplus of \$69,158 to common stock and issuing 6,916 thousand shares of common stock.

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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(iv) Other equity items (net after tax)

	Foreign currency translation differences	Remeasurement of defined benefit plans	Total
Balance at January 1, 2016	\$ 18,516	(2,541)	15,975
Foreign currency translation differences (net of tax)	(36,210)	-	(36,210)
Remeasurement of defined benefit plans (net of tax)	-	(2,135)	(2,135)
Balance at December 31, 2016	<u>\$ (17,694)</u>	<u>(4,676)</u>	<u>(22,370)</u>
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)	-	(3,364)	(3,364)
Balance at December 31, 2015	<u>\$ 18,516</u>	<u>(2,541)</u>	<u>15,975</u>

(q) Share-based payment

As of December 31, 2016, Poindus system had the following employee stock option plans:

	<u>Equity-settled employee stock options</u>
Grant date	June 16, 2016
Granted units	1,000 units, each unit its eligible for subscription of 1,000 common shares of Poindus System
Contract term	1 years
Qualified employees	Eligible employees of Poindus System
Vesting conditions	100% vested on the next day of grant day

(i) Assumptions at the granted date

Poindus system adopted the Black-scholes model to estimate the fair value of its stock options at the grant date, and the assumptions were as follows:

Exercise price per share (in New Taiwan Dollars)	25.62 (Dollars)
Expected contractual life (Days)	4 (Days)
Market price for underlying common stock at grant date (in New Taiwan Dollars)	41.61 (Dollars)
Expected volatility	31.33%
Fair value of stock option at the grant date	15.99 (Dollars)

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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- (ii) The information related to the unit and weighted average exercise price of employee stock option were as follows:

	2016	
Units	Weighted average exercise price	
Beginning of the year	-	\$ -
Granted	1,000	25.62
Forfeited	(1,000)	25.62
End of the year	-	-

- (iii) Compensation cost

For the year ended December 31, 2016, Poindus system recognized the compensation cost for its employee stock options amounting to \$15,990 as operating expenses.

- (r) Earnings per share (“EPS”)

- (i) Basic EPS

	2016	2015
Profit attributable to shareholders of the Company	\$ 881,816	1,016,596
Weighted-average number of ordinary shares outstanding (in thousand shares)	146,368	144,852
Basic EPS (dollars)	\$ 6.02	7.02

- (ii) Diluted EPS

	2016	2015
Profit attributable to shareholders of the Company (basic)	\$ 881,816	1,016,596
Interest expense from convertible bonds, net of tax	-	1,255
Profit attributable to shareholders of the Company (diluted)	881,816	1,017,851
Weighted-average number of ordinary shares outstanding (in thousand shares)	146,368	144,852
Effect of convertible bonds	-	1,592
Effect of employee bonuses	943	1,226
Weighted-average number of ordinary shares outstanding (in thousand shares) (including effect of dilutive potential common stock)	147,311	147,670
Diluted EPS (dollars)	\$ 5.99	6.89

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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(s) Revenue

	<u>2016</u>	<u>2015</u>
Revenue from sale of goods	\$ 5,547,914	5,181,736
Revenue from services rendered	46,752	21,607
Others	<u>39,116</u>	<u>9,713</u>
	<u>\$ 5,633,782</u>	<u>5,213,056</u>

(t) Compensation of employees and directors and supervisors

Pursuant to the Company's articles of incorporation, 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, 2016 and 2015, the Company accrued compensation of employees of \$75,000 and \$80,000, respectively, and directors and supervisors of \$3,200, which were calculated based on a certain percentage of the income before income tax in the current period (before charging 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 29, 2017 and March 15, 2016, respectively, and will be paid in cash. Related information is available on the Market Observation Post System website of the Taiwan Stock Exchange.

(u) Non-operating income and loss

(i) Other income

	<u>2016</u>	<u>2015</u>
Interest income from bank deposits	\$ 9,216	23,191
Others	<u>4,228</u>	<u>8,726</u>
	<u>\$ 13,444</u>	<u>31,917</u>

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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(ii) Other gains and losses

	<u>2016</u>	<u>2015</u>
Gain on change in fair value of contingent consideration (note 6(f))	\$ 37,842	-
Gain on financial assets and liabilities at fair value through profit or loss	155	6,154
Foreign currency exchange gain (loss), net	(28,474)	42,751
Impairment loss on investment in associates (note 6(e))	-	(2,529)
Others	(390)	-
	<u>\$ 9,133</u>	<u>46,376</u>

(iii) Finance costs

	<u>2016</u>	<u>2016</u>
Interest expense from bank loans	\$ 1,466	-
Interest expense from convertible bonds (note 6(k))	-	1,255
	<u>\$ 1,466</u>	<u>1,255</u>

(v) Financial instruments

(i) Categories of financial instruments

1) Financial assets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Financial assets at fair value through profit or loss	\$ -	160,121
Loans and receivables measured at amortized cost:		
Cash and cash equivalents	2,257,734	2,413,793
Notes and accounts receivable	1,126,040	1,076,074
Other receivables	4,168	7,076
Other financial assets – current	131,064	150,200
Other financial assets – non-current	51,875	52,055
	<u>\$ 3,570,881</u>	<u>3,859,319</u>

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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2) Financial liabilities

	December 31, 2016	December 31, 2015
Other payables and other long-term liabilities (Contingent consideration arising from business combination)	\$ 35,217	-
Financial liabilities measured at amortized cost:		
Short term borrowings	69,143	-
Notes and accounts payable	724,920	562,827
Other payables	63,771	70,588
	\$ 893,051	633,415

(ii) Fair value valuation-financial instruments not measured at fair value

The Group considers that the carrying amounts of financial assets and financial liabilities measured at amortized cost approximate their fair values.

(iii) 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:

- 1) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- 2) 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).
- 3) Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	December 31, 2016				
	Carrying Amount	Fair Value			Total
	Level 1	Level 2	Level 3	Total	
Contingent consideration arising from business combination	\$ 35,217	-	-	35,217	35,217
	December 31, 2015				
	Carrying Amount	Fair Value			Total
	Level 1	Level 2	Level 3	Total	
Financial assets at fair value through profit or loss:					
Fund beneficiary certificates	\$ 160,121	160,121	-	-	160,121

(Continued)

FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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There were no transfers between fair value levels for the years ended December 31, 2016 and 2015.

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

A financial instrument is regarded as being quoted in an active market if quoted prices are readily available. Fund beneficiary certificates are financial assets with standard terms and conditions and traded on active markets which fair values are determined with reference to quoted market prices.

Discounted cash flow model is used to estimate the fair value of contingent consideration arising from business combination. The main assumption takes into consideration the possibility of occurrence to estimate the present value of the consideration to pay.

(w) 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.

(i) 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; Fund beneficiary certificates are issued by high credit rating company. Therefore, the exposure related to potential default by those counter-parties is not considered significant.

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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As of December 31, 2016 and 2015, three clients accounted to a total of 47% and 50%, 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.

(ii) 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, 2016 and 2015, the Group had unused credit facilities of \$790,211 and \$684,125, respectively.

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

	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>
December 31, 2016					
Non-derivative financial liabilities:					
Short-term borrowings	\$ 69,143	69,143	-	-	-
Notes and accounts payable	724,920	724,920	-	-	-
Other payables	63,771	63,269	56	111	335
Contingent consideration	<u>35,217</u>	<u>-</u>	<u>3,529</u>	<u>31,688</u>	<u>-</u>
	<u>\$ 893,051</u>	<u>857,332</u>	<u>3,585</u>	<u>31,799</u>	<u>335</u>
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>-</u>	<u>609</u>
	<u>\$ 633,415</u>	<u>629,611</u>	<u>3,195</u>	<u>-</u>	<u>609</u>

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

(iii) 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.

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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1) Foreign currency risk

The Group's exposure to foreign currency risk arises from cash and cash equivalents, notes and accounts receivable(payables), other receivables (payables) and other long-term liabilities. At the reporting date, the carrying amounts of the Group's significant monetary assets and liabilities denominated in a currency other than the respective functional currencies of Group entities were as follows (including the monetary items that have been eliminated in the accompanying consolidated financial statements):

(Amount in Thousands of New Taiwan Dollars)

December 31, 2016					
	Foreign currency	Exchange rate	NTD	Change in magnitude	Pre-tax effect on profit or loss
<u>Financial assets</u>					
USD	\$ 54,832	32.250	1,768,332	1 %	17,683
EUR	1,658	33.900	56,206	1 %	562
GBP	1,091	39.610	43,215	1 %	432
<u>Financial liabilities</u>					
USD	12,863	32.250	414,832	1 %	4,148
GBP	889	39.610	35,213	1 %	352
December 31, 2015					
	Foreign currency	Exchange rate	NTD	Change in magnitude	Pre-tax effect on profit or loss
<u>Financial assets</u>					
USD	\$ 53,983	32.825	1,771,992	1 %	17,720
EUR	472	35.880	16,936	1 %	169
<u>Financial liabilities</u>					
USD	9,664	32.825	317,221	1 %	3,172

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, 2016 and 2015, the aggregate of realized and unrealized foreign exchange gain (loss) amounted to \$(28,474) and \$42,751, respectively.

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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2) Interest rate risk

The Group's short-term borrowings carried floating interest rates, and the Group has not entered into interest rate swap contracts to convert floating interest rates to fixed interest rates. To manage the interest rate risk, the Group periodically assesses the interest rates of bank loans and maintains good relationships with financial institutions to obtain lower financing costs. The Group also strengthens the management of working capital to reduce the dependence on bank loans as well as the risk arising from fluctuation of interest rates.

The following sensitivity analysis is based on the risk exposure to floating-interest-rate liabilities on the reporting date. The sensitivity analysis assumes the liabilities recorded at the reporting date had been outstanding for the entire period. The change in interest rate reported to the key management in the Group is based on 100 basis points (1%), which is consistent with the assessment made by the key management in respect of the possible change in interest rate.

If the interest rate had been 100 basis points (1%) higher/lower with all other variables held constant, pre-tax income for the years ended December 31, 2016 and 2015, would have been \$691 and \$0, respectively, lower/higher, which mainly resulted from the borrowings with floating interest rates.

(x) 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, 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, 2016	December 31, 2015
Total liabilities	\$ 1,347,696	1,081,444
Less: cash and equivalents	<u>(2,257,734)</u>	<u>(2,413,793)</u>
Net liabilities (assets)	\$ (910,038)	(1,332,349)
Total equity	\$ 4,853,671	4,894,655
Liability-to-equity ratio	(18.75)%	(27.22)%

As of December 31, 2016 and 2015, there were no changes in the Group's approach to capital management.

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FLYTECH TECHNOLOGY CO., LTD. AND ITS SUBSIDIARIES
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(y) Non-cash financing activities

For the years ended December 31, 2015, the non-cash financing activities consisted of the conversion of convertible bonds to common stock of \$304,044. Please refer to note 6(k).

7. Related-party transactions

(a) Parent company and ultimate controlling part

The Company is the ultimate controlling party of the Group.

(b) Significant related-party transactions: None.

(c) Compensation of key management personnel

	<u>2016</u>	<u>2015</u>
Short-term employee benefits	\$ 58,228	42,469
Post-employment benefits	909	648
Share-based payments	4,637	-
	<u>\$ 63,774</u>	<u>43,117</u>

8. Pledged assets

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

<u>Pledged assets</u>	<u>Pledged to secure</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Time deposits	Credit lines of short-term borrowings	\$ 3,023	3,019
Time deposits	Guarantee deposit for custom duties	217	214
Accounts receivable	Secured bank loans	99,685	-
		<u>\$ 102,925</u>	<u>3,233</u>

9. Significant commitments and contingencies

(a) As of December 31, 2016 and 2015, the Group had issued promissory notes amounting to \$500,000 for short-term borrowings.

(b) Please refer to note 6(m) for non-cancellable rentals payable of operating leases.

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10. Significant loss from casualty:None

11. Significant subsequent events

On March 16, 2017, the Board of Directors of Poindus resolved to acquire 100% equity ownership of Adasys GmbH Elektronische Komponenter (“Adasys”) for a total purchase consideration of EU €1,130. To strengthen Adasys’s working capital, Poindus will make a capital injection of EU €150 and provide financing of EU €200 to Adasys as well.

12. Others

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

	2016			2015		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits:						
Salaries	176,563	432,229	608,792	172,141	326,473	498,614
Insurance	14,470	25,462	39,932	14,267	21,379	35,646
Pension	6,177	17,739	23,916	6,281	12,384	18,665
Others	6,783	15,365	22,148	6,277	6,348	12,625
Depreciation	81,138	15,967	97,105	80,062	15,306	95,368
Amortization	831	77,006	77,837	559	48,941	49,500

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13. Additional disclosures

(a) Information on significant transactions:

(i) 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 Limits (Note 3)
													Item	Value		
1	Poindus Systems	Company A	Long-term receivables	No	16,151 (EUR 450)	15,255 (EUR 450)	15,255 (EUR 450)	2%	1	34,798	-	-	-	-	25,222	201,779

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.

(ii) Guarantees and endorsements provided to other parties:None

(iii) Marketable securities held at the reporting date (excluding investments in subsidiaries, associates, and jointly controlled entities):None

(iv) 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 (Note 2)	Shares (in thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares	Amount (Note 3)		
The Company	Box Holdings	Investment accounted for using equity method	(Note 1)	Subsidiary	-	-	4	471,900	-	-	-	-	-	-	4	470,517

Note 1: The company acquired 100% of Box Holdings shares on June 1, 2016 from original individual shareholders.

Note 2: The amount doesn't include contingent consideration, \$471,900, please refer to note 6(f) for the related disclosures.

Note 3: The amount includes contingent consideration, investment loss on investments in associates, exchange differences on translation of foreign operations, and unrealized gross profit.

(v) Acquisition of real estate which exceeds \$300 million or 20% of the paid-in capital:None

(vi) Disposal of real estate which exceeds \$300 million or 20% of the paid-in capital:None

(vii) 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	Poindus Systems	Subsidiary	(Sales)	325,381	(6) %	EM 60	(Note 1)	(Note 2)	73,935	7%	-

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 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.

(viii) Receivables from related parties which exceed \$100 million or 20% of the paid-in capital:None

(ix) Transactions in derivative instruments: None.

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(i) Business 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 CN	Subsidiary	Sales	61,216	EM 90	1.09%
0	The Company	Poindus System	Subsidiary	Sales	325,381	EM 60	5.78%
0	The Company	Poindus System	Subsidiary	Accounts receivable	73,935	EM 60	1.19%

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.

(b) Information on investees:

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

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2016			Maximum Percentage of Ownership during 2016		Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2016	December 31, 2015	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	100.00 %	23,919	100	100.00 %	(7,035)	(7,035)	
The Company	Flytech Japan BVI	British Virgin Islands	Investment and holding activity	3,446	3,446	50	100.00 %	3,138	50	100.00 %	3	3	
The Company	Flytech HK BVI	British Virgin Islands	Investment and holding activity	10,392	10,392	50	100.00 %	142,823	50	100.00 %	(1,518)	(1,518)	
The Company	Flytech CN BVI	British Virgin Islands	Investment and holding activity	84,343	84,343	150	100.00 %	107,790	150	100.00 %	(4,482)	(4,482)	
The Company	Flycom Investment	Taiwan	Investment and holding activity	428,000	428,000	19,000	100.00 %	424,548	19,000	100.00 %	(22,332)	(22,332)	
The Company	Box Holdings	United Kingdom	Investment and holding activity	471,900	-	4	100.00 %	470,517	4	100.00 %	(55,325)	(55,325)	
Flytech USA BVI	Flytech USA	USA	Sale of computers and peripherals	36,358 (USD1,072)	36,358 (USD1,072)	700	100.00 %	22,816 (USD707)	700	100.00 %	(7,035) (USD218)	-	
Flytech HK BVI	Flytech HK	Hong Kong	Sale of computers and peripherals	10,433 (USD298)	10,433 (USD298)	1,000	100.00 %	142,800 (USD4,428)	1,000	100.00 %	(1,518) (USD477)	-	
Flytech HK	iSAPPOS	Hong Kong	Sale of computers and peripherals	31,690 (USD7,500)	-	(Note 2)	100.00 %	20,573 (USD4,948)	(Note 2)	100.00 %	(10,607) (USD2,552)	-	Note 3
Flycom Investment	NeoVideo	Taiwan	Sale of computers and peripherals	15,000	15,000	1,500	27.27 %	-	1,500	27.27 %	(4,018)	-	
Flycom Investment	IRUGGY System	Taiwan	Sale of computers and peripherals	48,000	48,000	4,800	80.00 %	34,567	4,800	80.00 %	(16,606)	-	
Flycom Investment	Poindus Systems	Taiwan	Sale of computers and peripherals	320,000	320,000	10,755	51.21 %	324,559	10,755	53.78 %	32,289	-	
Poindus Systems	Poindus Investment	Taiwan	Investment and holding activity	4,100	4,100	(Note 2)	100.00 %	1,047	(Note 2)	100.00 %	(213)	-	
Poindus Systems	Poindus America	USA	Sale of computers and peripherals	32,195 (USD 1,000)	2,995 (USD 100)	1,000	100.00 %	13,440	100	100.00 %	(12,310)	-	
Poindus Systems	Poindus UK	United Kingdom	Sale of computers and peripherals	14,297 (GBP 300)	5,004 (GBP 100)	300	100.00 %	2,402	300	100.00 %	(4,170)	-	
Poindus Investment	Poindus GmbH	Germany	Sale of computers and peripherals	1,195 (EUR 25)	1,195 (EUR 25)	(Note 2)	100.00 %	(597)	(Note 2)	100.00 %	(137)	-	
Box Holdings	Box UK	United Kingdom	Sale of computers and peripherals	472 (GBP 10)	-	10	100.00 %	125,345 (GBP 3,164)	10	100.00 %	(42,401) (GBP 1,025)	-	
Box Holdings	Box Sweden	Sweden	Sale of computers and peripherals	2,330 (GBP 49)	-	5	100.00 %	9,127 (GBP 230)	5	100.00 %	5,175 (GBP 125)	-	

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

Note 2: There were no shares as the company is a limited liability company.

Note 3: Newly established during 2016.

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(c) Information on investments in Mainland China:

(i) 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, 2016	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, 2016	Accumulated Inward Remittance of Earnings as of December 31, 2016
					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)	(4,021) (USD (125))	100.00 %	(Note 3)	100.00 %	(4,021) (USD (125))	91,825 (USD 2,847)	-
Flytech BJ	Sale of computers and peripherals	15,420 (USD 500)	Note 1	15,420 (USD 500)	-	-	15,420 (USD 500)	(462) (USD (14))	100.00 %	(Note 3)	100.00 %	(462) (USD (14))	13,926 (USD 432)	-

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.

(ii) Limits on investment in Mainland China

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

Accumulated investment in Mainland China as of December 31, 2016	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)	2,717,462

(iii) 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".

(Continued)

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14. Segment information

(a) General information

The Group has three reportable segments: Point of Sales systems (POS) and Original Design Manufacturer (ODM) and Computer and Peripherals. 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 Computer and Peripherals segment mainly engaged in the design, manufacture, and sale of computer peripherals and related products.

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.

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.

(b) 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.

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

	2016					Total
	POS	ODM	Computer and Peripherals	Others	Adjustments and eliminations	
Revenues from external customers	\$ 4,024,795	290,321	861,682	456,984	-	5,633,782
Intra-group revenue	106,600	334,245	38,300	79,203	(558,348)	-
Total segment revenue	<u>\$ 4,131,395</u>	<u>624,566</u>	<u>899,982</u>	<u>536,187</u>	<u>(558,348)</u>	<u>5,633,782</u>
Segment income before income tax	<u>\$ 827,283</u>	<u>90,217</u>	<u>24,488</u>	<u>61,492</u>	<u>-</u>	<u>1,003,480</u>
	2015					
	POS	ODM	Computer and Peripherals	Others	Adjustments and eliminations	Total
Revenues from external customers	\$ 3,605,398	259,614	927,670	420,374	-	5,213,056
Intra-group revenue	223,771	232,055	41,616	39,494	(536,936)	-
Total segment revenue	<u>\$ 3,829,169</u>	<u>491,669</u>	<u>969,286</u>	<u>459,868</u>	<u>(536,936)</u>	<u>5,213,056</u>
Segment income before income tax	<u>\$ 882,560</u>	<u>86,085</u>	<u>94,598</u>	<u>140,671</u>	<u>-</u>	<u>1,203,914</u>

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(c) Product information

Revenues from external customers are detailed below:

<u>Products</u>	<u>2016</u>	<u>2015</u>
Industrial computers	\$ 4,631,035	4,364,892
Peripherals and others	1,002,747	848,164
	<u>\$ 5,633,782</u>	<u>5,213,056</u>

(d) 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:

<u>Region</u>	<u>2016</u>	<u>2015</u>
Europe and Africa	\$ 2,614,372	2,108,162
Americas	1,948,554	2,061,457
Asia	914,643	860,879
Taiwan	156,213	182,558
	<u>\$ 5,633,782</u>	<u>5,213,056</u>

Non-current assets:

<u>Region</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Taiwan	\$ 1,248,328	1,343,553
Asia	30,799	33,088
Americas	37	56
Europe	464,578	-
	<u>\$ 1,743,742</u>	<u>1,376,697</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.

(e) Major customer information

	<u>2016</u>	<u>2015</u>
Total consolidated revenue from POS segment - Customer A	\$ 1,076,144	1,060,277
Total consolidated revenue from POS segment - Customer B	931,163	954,237