

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017 and 2016

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Notice to readers

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

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TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2017, December 31, 2016 and June 30, 2016
(Numbers as of June 30, 2017 and 2016 are reviewed, not audited)
(In Thousands of New Taiwan Dollars)

Assets	Notes	June 30 2017	December 31 2016	June 30 2016
Current assets				
Cash and cash equivalents	4, 6(1)	\$ 2,727,464	\$ 2,982,208	\$ 3,643,645
Financial assets at fair value through profit or loss, current	4, 6(2)	18,358	36,007	21,592
Notes receivable, net	4, 6(3)	1,583,719	1,542,759	1,159,445
Accounts receivable, net	4, 6(4)	2,912,268	2,797,975	2,763,269
Other receivables		33,088	47,260	95,642
Inventories, net	4, 6(5)	1,255,235	1,132,399	1,171,169
Prepayments		146,747	101,573	100,224
Other current assets	8	25,637	43,676	43,349
Total current assets		8,702,516	8,683,857	8,998,335
Non-current assets				
Financial assets carried at cost, non-current	4, 6(6)	-	-	-
Investments accounted for under the equity method	4, 6(7)	-	-	-
Property, plant and equipment	4, 6(8)	2,794,844	2,789,520	2,768,517
Intangible assets	4, 6(9,11)	110,774	113,598	121,710
Deferred income tax assets	4, 6(21)	134,178	129,825	128,972
Other non-current assets	4, 6(10)	71,834	80,854	79,587
Total non-current assets		3,111,630	3,113,797	3,098,786
Total assets		\$ 11,814,146	\$ 11,797,654	\$ 12,097,121

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

(Continued)

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS-(Continued)
June 30, 2017, December 31, 2016 and June 30, 2016
(Numbers as of June 30, 2017 and 2016 are reviewed, not audited)
(In Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	June 30 2017	December 31 2016	June 30 2016
Current liabilities				
Short-term loans	6(12)	\$ 1,564,873	\$ 939,783	\$ 1,273,134
Financial liabilities at fair value through profit or loss, current	4, 6(13)	7,881	-	-
Notes payable		24,658	177,893	105,055
Accounts payable		1,845,113	2,133,276	1,952,840
Other payables		952,817	560,381	964,736
Current income tax liabilities	4, 6(21)	102,048	84,828	103,916
Current portion of long-term loans	6(14)	27,581	27,372	23,517
Other current liabilities		4,475	15,899	14,776
Total current liabilities		<u>4,529,446</u>	<u>3,939,432</u>	<u>4,437,974</u>
Non-current liabilities				
Long-term loans	6(14)	314,257	743,426	781,634
Deferred income tax liabilities	4, 6(21)	169,556	159,115	173,597
Net defined benefit liabilities, non-current	4, 6(15)	196,492	190,276	114,578
Other non-current liabilities	4, 12	32	46	46
Total non-current liabilities		<u>680,337</u>	<u>1,092,863</u>	<u>1,069,855</u>
Total liabilities		<u>5,209,783</u>	<u>5,032,295</u>	<u>5,507,829</u>
Equity attributable to shareholders of the parent				
Capital	6(16)			
Common stock		2,084,452	2,083,252	2,042,858
Capital collected in advance		55	-	-
Stock dividends to be distributed		-	-	40,394
Total capital		<u>2,084,507</u>	<u>2,083,252</u>	<u>2,083,252</u>
Capital surplus	6(16)	1,410,921	1,407,558	1,407,558
Retained earnings				
Legal capital reserve		742,131	684,163	684,163
Special capital reserve		102,158	102,158	102,158
Unappropriated earnings		2,384,350	2,561,335	2,293,924
Total retained earnings		<u>3,228,639</u>	<u>3,347,656</u>	<u>3,080,245</u>
Others	4	(121,308)	(74,673)	(1,065)
Treasury stock	6(16)	(98,744)	(98,744)	(98,744)
Total equity attributable to shareholders of the parent		<u>6,504,015</u>	<u>6,665,049</u>	<u>6,471,246</u>
Non-controlling interests	4, 6(16)	100,348	100,310	118,046
Total equity		<u>6,604,363</u>	<u>6,765,359</u>	<u>6,589,292</u>
Total liabilities and equity		<u>\$ 11,814,146</u>	<u>\$ 11,797,654</u>	<u>\$ 12,097,121</u>

(Concluded)

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months and Six Months Ended June 30, 2017 and 2016
(Reviewed, Not Audited)
(In Thousands of New Taiwan Dollars)

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2017	2016	2017	2016
Net revenue	4, 6(18)	\$ 2,776,813	\$ 2,622,377	\$ 5,089,470	\$ 4,905,702
Cost of revenue	4, 6(19)	(2,296,729)	(2,132,112)	(4,145,991)	(3,982,217)
Gross profit		480,084	490,265	943,479	923,485
Unrealized sales profit or loss		-	-	(95)	(95)
Gross profit, net		480,084	490,265	943,384	923,390
Operating expenses	4, 6(19)				
Sales and marketing expenses		(104,566)	(113,805)	(206,378)	(196,999)
General and administrative expenses		(85,897)	(81,142)	(165,540)	(166,230)
Research and development expenses		(60,086)	(53,468)	(112,355)	(101,584)
Total operating expenses		(250,549)	(248,415)	(484,273)	(464,813)
Operating income		229,535	241,850	459,111	458,577
Non-operating income and expenses	6(20)				
Other income		6,148	256	13,688	7,662
Other gains and losses		39,274	(59,600)	(38,777)	(100,457)
Finance costs		(15,096)	(22,252)	(34,034)	(53,762)
Share of profit or loss of associates under the equity method	4, 6(7)	-	-	-	-
Total non-operating income and expenses		30,326	(81,596)	(59,123)	(146,557)
Income before income tax		259,861	160,254	399,988	312,020
Income tax expense	4, 6(21)	(65,004)	(34,766)	(106,503)	(75,355)
Net income of continuing operations		194,857	125,488	293,485	236,665
Net income		194,857	125,488	293,485	236,665
Other comprehensive income (loss)	6(20)				
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations		33,533	(57,915)	(56,440)	(75,558)
Income tax benefit (expense) related to components of other comprehensive income that may be reclassified subsequently to profit or loss		(5,700)	9,845	9,595	12,844
Total other comprehensive income, net of tax		27,833	(48,070)	(46,845)	(62,714)
Total comprehensive income		\$ 222,690	\$ 77,418	\$ 246,640	\$ 173,951
Net income (loss) attributable to:	4, 6(22)				
Shareholders of the parent		\$ 193,915	\$ 131,039	\$ 293,237	\$ 252,438
Non-controlling interests		942	(5,551)	248	(15,773)
		\$ 194,857	\$ 125,488	\$ 293,485	\$ 236,665
Total comprehensive income (loss) attributable to:					
Shareholders of the parent		\$ 221,609	\$ 83,169	\$ 246,602	\$ 189,998
Non-controlling interests		1,081	(5,751)	38	(16,047)
		\$ 222,690	\$ 77,418	\$ 246,640	\$ 173,951
Earnings per share (NT\$)	4, 6(22)				
Earnings per share - basic		\$ 0.94	\$ 0.64	\$ 1.42	\$ 1.23
Earnings per share - diluted		\$ 0.94	\$ 0.64	\$ 1.42	\$ 1.22

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Six Months Ended June 30, 2017 and 2016

(Reviewed, Not Audited)

(In Thousands of New Taiwan Dollars)

	Equity Attributable to Shareholders of the Parent												
	Common Stock	Capital Collected in Advance	Stock Dividends to be Distributed	Capital Surplus	Retained Earnings			Others		Treasury Stock	Total	Non- Controlling Interests	Total Equity
					Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations					
Balance as of January 1, 2016	\$ 2,042,858	\$ -	\$ -	\$ 1,447,952	\$ 611,177	\$ 102,158	\$ 2,518,408	\$ 61,375	\$ (98,744)	\$ 6,685,184	\$ 134,093	\$ 6,819,277	
Appropriation and distribution of 2015 earnings													
Legal capital reserve					72,986		(72,986)			-		-	
Cash dividends for common shares							(403,936)			(403,936)		(403,936)	
Changes in other capital surplus													
Stock dividends from capital surplus			40,394	(40,394)						-		-	
Net income for the six months ended June 30, 2016							252,438			252,438	(15,773)	236,665	
Other comprehensive income (loss) for the six months ended June 30, 2016								(62,440)		(62,440)	(274)	(62,714)	
Total comprehensive income	-	-	-	-	-	-	252,438	(62,440)	-	189,998	(16,047)	173,951	
Balance as of June 30, 2016	\$ 2,042,858	\$ -	\$ 40,394	\$ 1,407,558	\$ 684,163	\$ 102,158	\$ 2,293,924	\$ (1,065)	\$ (98,744)	\$ 6,471,246	\$ 118,046	\$ 6,589,292	
Balance as of January 1, 2017	\$ 2,083,252	\$ -	\$ -	\$ 1,407,558	\$ 684,163	\$ 102,158	\$ 2,561,335	\$ (74,673)	\$ (98,744)	\$ 6,665,049	\$ 100,310	\$ 6,765,359	
Appropriation and distribution of 2016 earnings													
Legal capital reserve					57,968		(57,968)			-		-	
Cash dividends for common shares							(412,254)			(412,254)		(412,254)	
Changes in other capital surplus													
Share-based payment	1,200	55		3,363						4,618		4,618	
Net income for the six months ended June 30, 2017							293,237			293,237	248	293,485	
Other comprehensive income (loss) for the six months ended June 30, 2017								(46,635)		(46,635)	(210)	(46,845)	
Total comprehensive income	-	-	-	-	-	-	293,237	(46,635)	-	246,602	38	246,640	
Balance as of June 30, 2017	\$ 2,084,452	\$ 55	\$ -	\$ 1,410,921	\$ 742,131	\$ 102,158	\$ 2,384,350	\$ (121,308)	\$ (98,744)	\$ 6,504,015	\$ 100,348	\$ 6,604,363	

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2017 and 2016
(Reviewed, Not Audited)
(In Thousands of New Taiwan Dollars)

	Six Months Ended June 30	
	2017	2016
Cash flows from operating activities:		
Income before income tax	\$ 399,988	\$ 312,020
Adjustments:		
Non-cash income and expense items:		
Depreciation	138,631	131,591
Amortization	15,027	18,199
Gain on reversal of bad debt expense	(1,277)	(38,670)
Net loss of financial assets (liabilities) at fair value through profit or loss	5,780	11,252
Interest expense	34,034	53,762
Interest income	(9,140)	(9,457)
Loss (gain) on disposal of property, plant and equipment	36	(193)
Gain on reversal of impairment loss for non-financial assets	-	(2,595)
Others	2,101	11,359
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss, current	19,750	(13,544)
Increase in notes receivable	(40,960)	(301,075)
(Increase) decrease in accounts receivable	(113,049)	860,744
Decrease in other receivables	13,588	209,696
Increase in inventories	(124,937)	(66,476)
Increase in prepayments	(45,174)	(24,867)
Decrease in other current assets	1,592	11,726
Increase in other non-current assets	(1,470)	(3,713)
(Decrease) increase in notes payable	(153,235)	53,159
(Decrease) increase in accounts payable	(288,163)	51,219
Decrease in other payables	(12,115)	(35,737)
(Decrease) increase in other current liabilities	(11,424)	8,459
Increase in net defined benefit liabilities	6,216	3,569
Decrease in other non-current liabilities	(14)	(1)
Cash generated from operations	<u>(164,215)</u>	<u>1,240,427</u>
Interest received	9,724	11,297
Interest paid	(32,189)	(50,244)
Income tax paid	(73,600)	(79,634)
Net cash generated by (used in) operating activities	<u><u>(260,280)</u></u>	<u><u>1,121,846</u></u>

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

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

For the Six Months Ended June 30, 2017 and 2016

(Reviewed, Not Audited)

(In Thousands of New Taiwan Dollars)

	Six Months Ended June 30	
	2017	2016
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(171,703)	(260,452)
Disposal of property, plant and equipment	-	311
Increase in refundable deposits	-	(2,969)
Decrease in refundable deposits	1,756	-
Acquisition of intangible assets	(5,292)	(12,362)
Decrease in other current assets - other financial assets, current	16,447	113,186
Net cash used in investing activities	(158,792)	(162,286)
 Cash flows from financing activities:		
Increase in short-term loans	625,090	391,956
Repayment of long-term loans	(428,960)	(386,583)
Exercise of employee stock options	4,618	-
Net cash generated by financing activities	200,748	5,373
 Effect of exchange rate changes on cash and cash equivalents	(36,420)	(50,523)
Net (decrease) increase in cash and cash equivalents	(254,744)	914,410
Cash and cash equivalents at beginning of period	2,982,208	2,729,235
Cash and cash equivalents at end of period	\$ 2,727,464	\$ 3,643,645

(Concluded)

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2017 and 2016 and the Year Ended December 31, 2016
(Numbers for the Six Months Ended June 30, 2017 and 2016 are Reviewed, not Audited)
(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

1. HISTORY AND ORGANIZATION

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

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

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiaries (“the Group”) for the six months ended June 30, 2017 and 2016 were approved and authorized for issue in the Board of Directors’ meeting on July 27, 2017.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

(1) The Group has adopted International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC interpretations and SIC interpretations endorsed by the Financial Supervisory Commission (FSC) to take effect for annual periods beginning on January 1, 2017. They do not have any material impact on the Group.

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

No.	Projects of New, Revised and Amended Standards or Interpretations	Effective Date
IFRS 2	Share-based Payment	January 1, 2018
IFRS 4	Application of IFRS 9 “Financial Instruments” under IFRS 4 “Insurance Contracts”	January 1, 2018
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018

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

No.	Projects of New, Revised and Amended Standards or Interpretations	Effective Date
IFRS 16	Leases	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021
IAS 7	Disclosure Initiative	January 1, 2017
IFRS 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
IFRS 23	Uncertainty over Income Tax Treatments	January 1, 2019
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	-
IAS 40	Transfers of Investment Property	January 1, 2018
	Improvements to IFRS (2014-2016 cycle):	
IFRS 1	First-time Adoption of International Financial Reporting Standards	January 1, 2018
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2017
IAS 28	Investment in Associates and Joint Ventures	January 1, 2018

The potential effects of adopting above standards or interpretations, which are issued by IASB but not yet endorsed by FSC, in the preparation of Group's financial statements for future periods are listed below:

(1) IFRS 15 "Revenue from Contracts with Customers" and relevant interpretations

The core principle of the new standard is that the enterprise shall recognize revenue in a way which reflects the pattern of goods and services transferred to customers. The revenue recognized shall reflect the amount of considerations the enterprise is expected to be entitled to due to the transfer of those goods and services. IFRS 15 "Revenue from Contracts with Customers" (hereinafter, IFRS 15) establishes a 5-step accounting model for recognizing revenue generated from contracts with customers regardless of the transaction or industry types. IFRS 15 requires an increased level of disclosure which includes disaggregation of revenue,

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

(Reviewed, not Audited)

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

information about performance obligations, changes in contract asset and liability balances between periods, and significant judgments and assumptions. Relevant amendments released in 2016 focus on clarifying how to identify the performance obligations in a contract, how to determine whether an enterprise is a principal or an agent, and how to determine whether revenue from licensing shall be recognized at a point in time or over time. The amendments are applied prospectively to annual periods starting January 1, 2018. Early adoption is permitted.

(2) IFRS 9 “Financial Instruments”

IASB releases the final version of IFRS 9 which includes classification and measurement, impairment and hedge accounting. This standard will supersede IAS 39 and previous versions of IFRS 9. IFRS 9 states that (1) classification and measurement: financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income based mainly on the business models for managing such assets and their cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Also, there are rules against recognizing changes in “own credit” through profit or loss; (2) impairment: impairment loss is assessed using the expected loss model. 12-month or lifetime expected credit losses are recognized depending on whether the credit risk has increased significantly since initial recognition; and (3) hedge accounting: hedge accounting is adopted based on the objectives of risk management and its effectiveness is measured by the hedge ratio. This standard is effective for annual periods starting January 1, 2018.

(3) Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The plan deals with the inconsistency between IFRS 10 “Consolidated Financial Statements” (hereinafter, IFRS 10) and IAS 28 “Investments in Associates and Joint Ventures” (hereinafter, IAS 28) relating to the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 states that when non-monetary assets are contributed in exchange for an interest in an associate or a joint venture, the share of gains and losses shall be eliminated in accordance with the treatments of a downstream transaction. However, IFRS 10 requires a full recognition of gains or losses arising from the loss of control of a subsidiary. The amendments place restrictions on the above-mentioned rules of IAS 28, where gains or losses are recognized in full for sale or contribution of assets that constitute a business, as defined in IFRS 3. The amendments also change IFRS 10, where gains or losses arising from the sale or contributions of a subsidiary that do not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture are recognized only to the extent of their shares owned by non-investors. The effective date of these amendments has been postponed indefinitely, but early adoption is permitted.

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

(Reviewed, not Audited)

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

(4) IFRS 16 “Leases”

The new standard requires lessees to adopt a single accounting model for all leases except for certain exemptions. Nearly all leases will be capitalized on the balance sheet by recognizing assets and liabilities. Moreover, lessors continue to classify leases as operating or finance leases. This standard is effective for annual periods starting January 1, 2019.

(5) Amendments to IFRS 2 “Share-based Payment”

The amendments include (1) to clarify that if vesting conditions (service or non-market performance conditions) exist for a cash-settled share-based payment transaction, only market conditions shall be taken into account when estimating share appreciation rights on the measurement date. Vesting conditions shall be considered in the measurement of liability via adjustments on the number of share appreciation rights; (2) to clarify that if an enterprise is required by tax laws and regulations to withhold a certain amount of share-based payment for associated tax payable by employees, those transactions will be treated as equity-settled transactions if they would have been classified as such without the said net settlement features; and (3) to clarify that if a cash-settled share-based payment transaction meets the criteria set for an equity-settled share-based payment transaction after its terms and conditions are modified, it shall be accounted for as an equity-settled share-based payment transaction from the modification date. Also, it is recognized in equity at the fair value of equity instruments to the extent of goods or services received on the modification date. The liability of cash-settled share-based payment transaction on the modification date shall be derecognized. The difference between the carrying amount of liability derecognized and the amount recognized in equity on the modification date shall be recognized in profit or loss. This amendment is effective for annual periods starting January 1, 2018.

The Group currently assesses the potential effects of new, revised and amended standards or interpretations in the preceding (1) to (5) on the financial status and performance of the Group, which will be disclosed upon completion of the assessment. Other new, revised and amended standards and interpretations do not have any material impact on the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The consolidated financial statements for the six months ended June 30, 2017 and 2016 have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” endorsed and announced to be effective by FSC.

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

(Reviewed, not Audited)

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

(2) Basis of preparation

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

(3) Basis of consolidation

A. Preparation principle of consolidated financial statements

The Group adopts the same preparation principle as the one used in the preparation of consolidated financial statements for the year ended December 31, 2016. Please refer to the consolidated financial statements for the year ended December 31, 2016 for details.

B. The consolidated entities are listed as follows:

Investor	Subsidiary	Main Business	Percentage of Ownership (%)		
			2017.6.30	2016.12.31	2016.6.30
The Company	Taistar Co., Ltd. (Taistar)	Investment holding	100.00%	100.00%	100.00%
The Company	Leadmax Ltd. (Leadmax)	Trading of electronic materials	100.00%	100.00%	100.00%
The Company	Koatech Technology Corporation (Koatech)	Manufacturing and selling of electronic materials and components	53.86%	53.86%	53.86%
The Company	TFS Co., Ltd. (TFS)	Investment holding	100.00%	100.00%	100.00%
The Company	Taiflex Scientific Japan Co., Ltd. (Japan Taiflex)	Trading of electronic materials and technical support	100.00%	100.00%	100.00%
Taistar	TSC International Ltd. (TSC)	Investment holding	100.00%	100.00%	100.00%
TSC	Kunshan Taiflex Electronic Material Co., Ltd. (Kunshan Taiflex)	Trading of coating materials for high polymer film and copper foil	100.00%	100.00%	100.00%
TSC	Taiflex Scientific (Kunshan) Co., Ltd. (Taiflex Kunshan)	Manufacturing and selling of coating materials for high polymer film and copper foil	100.00%	100.00%	100.00%

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

(Reviewed, not Audited)

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Investor	Subsidiary	Main Business	Percentage of Ownership (%)		
			2017.6.30	2016.12.31	2016.6.30
TFS	RICHSTAR Co., Ltd. (RICHSTAR)	Investment holding	100.00%	100.00%	100.00%
RICHSTAR	Shenzhen Taiflex Electronic Co., Ltd. (Shenzhen Taiflex)	Trading of coating materials for high polymer film and copper foil	100.00%	100.00%	100.00%
Koatech	KTC Global Co., Ltd. (KTC Global)	Investment holding	100.00%	100.00%	100.00%
KTC Global	KTC PanAsia Co., Ltd. (KTC PanAsia)	Investment holding	100.00%	100.00%	100.00%
KTC PanAsia	Kunshan Koatech Technology Corporation (Kunshan Koatech)	Wholesale and act as a commission agent of electronic materials and components	100.00%	100.00%	100.00%

(Concluded)

(4) Except for the following accounting policies, the consolidated financial statements for the six months ended June 30, 2017 and 2016 adopt the same accounting policies as the ones used in the consolidated financial statements for the year ended December 31, 2016. Please refer to the consolidated financial statements for the year ended December 31, 2016 for a summary of other significant accounting policies.

- A. Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.
- B. Income tax expense for an interim period is accrued and disclosed by applying the tax rate of forecasted total revenue. In other words, the annual effective tax rate is applied to the income before income tax of the interim period.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The same significant accounting judgments, estimates, and assumptions have been followed in the consolidated financial statements for the six months ended June 30, 2017 and 2016 as were applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2016. For the summary of significant accounting judgments, estimates, and assumptions, please refer to the consolidated financial statements for the year ended December 31, 2016.

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6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	June 30, 2017	December 31, 2016	June 30, 2016
Cash on hand	\$ 634	\$ 606	\$ 691
Bank deposits	2,726,830	2,981,602	3,642,954
Total	<u>\$ 2,727,464</u>	<u>\$ 2,982,208</u>	<u>\$ 3,643,645</u>

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

	June 30, 2017	December 31, 2016	June 30, 2016
Held for trading:			
Non-hedging derivative financial assets			
- Forward foreign exchange contracts	\$ —	\$ 19,762	\$ 6,900
Non-derivative financial assets			
- Stocks	18,358	16,245	14,692
Total	<u>\$ 18,358</u>	<u>\$ 36,007</u>	<u>\$ 21,592</u>

(3) Notes receivable, net

	June 30, 2017	December 31, 2016	June 30, 2016
Notes receivable, net	<u>\$ 1,583,719</u>	<u>\$ 1,542,759</u>	<u>\$ 1,159,445</u>

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

(4) Accounts receivable, net

	June 30, 2017	December 31, 2016	June 30, 2016
Accounts receivable	\$ 3,122,721	\$ 3,009,672	\$ 3,047,527
Less: allowance for doubtful accounts	(210,453)	(211,697)	(284,258)
Net	<u>\$ 2,912,268</u>	<u>\$ 2,797,975</u>	<u>\$ 2,763,269</u>

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
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- A. The credit terms of accounts receivable are generally set on monthly period of 60 to 120 days. The movements in the allowance for impairment of accounts receivable were as follows (please refer to Note 12 for credit risk disclosure):

	June 30, 2017	June 30, 2016
Beginning balance	\$ 211,697	\$ 331,150
(Reversal) charge for the period	(1,277)	25,946
Write off	—	(70,504)
Effect of exchange rate changes	33	(2,334)
Ending balance	\$ 210,453	\$ 284,258

- B. Ageing analysis of net accounts receivables:

	June 30, 2017	December 31, 2016	June 30, 2016
Neither past due nor impaired	\$ 2,495,058	\$ 2,511,606	\$ 2,289,960
Past due but not impaired			
≤ 120 days	416,447	280,415	412,129
121 to 180 days	763	17	27,938
≥ 181 days	—	5,937	33,242
Total	\$ 2,912,268	\$ 2,797,975	\$ 2,763,269

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

June 30, 2017			
Amount of accounts receivable	Amount of factoring	Condition	Unreceived amount (Recorded as other receivables)
US\$25,935 thousand	US\$25,935 thousand	Without recourse	—
December 31, 2016			
Amount of accounts receivable	Amount of factoring	Condition	Unreceived amount (Recorded as other receivables)
US\$32,322 thousand	US\$32,322 thousand	Without recourse	—

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June 30, 2016			
Amount of accounts receivable	Amount of factoring	Condition	Unreceived amount (Recorded as other receivables)
US\$17,851 thousand	US\$17,846 thousand	Without recourse	US\$5 thousand (NT\$155 thousand)

(5) Inventories, net

	June 30, 2017	December 31, 2016	June 30, 2016
Raw materials	\$ 264,727	\$ 415,099	\$ 392,750
Inventories in transit	48,317	86,814	65,247
Supplies	5,272	5,660	2,959
Work in process	108,650	159,755	120,424
Finished goods	598,261	312,030	427,415
Merchandise	230,008	153,041	162,374
Total	\$ 1,255,235	\$ 1,132,399	\$ 1,171,169

Expenses or income recognized were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Cost of inventories sold	\$ 2,301,019	\$ 2,134,888	\$ 4,154,199	\$ 3,977,704
Gain on inventory value recovery	(515)	(8,322)	(5)	(1,829)
Loss on inventory write-off	940	8,594	2,106	13,188
Revenue from sale of scraps	(4,715)	(3,048)	(10,309)	(6,846)
Cost of revenue	\$ 2,296,729	\$ 2,132,112	\$ 4,145,991	\$ 3,982,217

For the three months and six months ended June 30, 2017 and 2016, gain on inventory value recovery due to a decrease in allowance for inventory valuation losses from price recovery of inventories with allowance for inventory valuation losses at beginning of period, inventories sold or inventories used amounted to NT\$515 thousand, NT\$8,322 thousand, NT\$5 thousand and NT\$1,829 thousand, respectively.

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

	June 30, 2017	December 31, 2016	June 30, 2016
Stocks	\$ 6,600	\$ 6,600	\$ 6,600
Less: accumulated impairment	(6,600)	(6,600)	(6,600)
Net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(7) Investments accounted for under the equity method

Investees	June 30, 2017		December 31, 2016		June 30, 2016	
	Amount	Percentage of ownership	Amount	Percentage of ownership	Amount	Percentage of ownership
Investments in associates:						
Innovision FlexTech Corp.	\$ 31,518	16.72%	\$ 31,518	16.72%	\$ 31,518	16.72%
Less: accumulated impairment - Innovision FlexTech Corp.	(31,518)		(31,518)		(31,518)	
Net	<u>\$ —</u>		<u>\$ —</u>		<u>\$ —</u>	

- A. The shares of profit or loss of the associate accounted for under the equity method based on the unaudited financial statements of the investee for the three months and six months ended June 30, 2017 and 2016 were zero.
- B. In 2007, the Group invested in Innovision FlexTech Corp. (Innovision), which mainly engages in the manufacturing and selling of electronic materials, for NT\$110,600 thousand and acquired 92.17% of ownership. The Group's ownership in Innovision reduced to 20.52% in July 2008. As a result, Innovision was no longer consolidated and its profit or loss was accounted for using the equity method. The Group acquired additional shares of Innovision by cash in February 2014. Upon completion of the acquisition, the Group increased its shareholding percentage from 20.52% to 22.83%. In October 2014, the Group did not participate in the capital increase of Innovision. As a result, the shareholding percentage reduced to 19.87%. Since December 2015, the Group did not participate in the capital increase of Innovision. As a result, the shareholding percentage reduced to 16.72%. The Group evaluated and concluded that it still had significant influence over Innovision, thus, this investment of the Group used the equity method for evaluation.

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

	June 30, 2017	December 31, 2016	June 30, 2016
Total assets	\$ 324,679	\$ 267,136	\$ 216,166
Total liabilities	\$ 114,615	\$ 57,282	\$ 36,414

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Revenue	\$ 49,714	\$ 19,059	\$ 76,439	\$ 34,724
Net income (loss)	\$ 6,236	\$ (1,925)	\$ 211	\$ (7,236)

(8) Property, plant and equipment

	June 30, 2017	December 31, 2016	June 30, 2016
Land	\$ 100,843	\$ 100,843	\$ 100,843
Buildings	971,501	1,005,451	994,279
Machinery and equipment	923,057	969,050	805,624
Hydropower equipment	123,271	108,501	96,137
Testing equipment	118,134	115,422	95,047
Miscellaneous equipment	84,155	67,427	42,048
Construction in progress and equipment awaiting inspection	473,883	422,826	634,539
Net	\$ 2,794,844	\$ 2,789,520	\$ 2,768,517

	As of January 1, 2017	Additions	Disposals	Reclassification	Impairment loss	Effect of exchange rate changes	As of June 30, 2017
<u>Cost</u>							
Land	\$ 100,843	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 100,843
Buildings	1,415,480	1,128	—	6,878	—	(14,328)	1,409,158
Machinery and equipment	2,488,501	11,637	(13,599)	26,917	—	(11,851)	2,501,605
Hydropower equipment	370,939	6,823	—	18,900	—	(3,839)	392,823
Testing equipment	223,526	7,198	(101)	4,101	—	(684)	234,040
Miscellaneous equipment	334,840	3,786	(3,801)	23,624	—	(2,172)	356,277
Total	\$ 4,934,129	\$ 30,572	\$ (17,501)	\$ 80,420	\$ —	\$ (32,874)	\$ 4,994,746

(Continued)

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	As of January 1, 2017	Additions	Disposals	Reclassification	Impairment loss	Effect of exchange rate changes	As of June 30, 2017
<u>Accumulated depreciation and impairment</u>							
Buildings	\$ 410,029	\$ 31,280	\$ —	\$ —	\$ —	\$ (3,652)	\$ 437,657
Machinery and equipment	1,519,451	79,818	(13,599)	—	—	(7,122)	1,578,548
Hydropower equipment	262,438	9,203	—	—	—	(2,089)	269,552
Testing equipment	108,104	8,341	(91)	—	—	(488)	115,906
Miscellaneous equipment	267,413	9,989	(3,775)	—	—	(1,505)	272,122
Total	<u>\$ 2,567,435</u>	<u>\$ 138,631</u>	<u>\$ (17,465)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (14,816)</u>	<u>\$ 2,673,785</u>
Construction in progress and equipment awaiting inspection	422,826	131,625	—	(80,463)	—	(105)	473,883
Net	<u>\$ 2,789,520</u>						<u>\$ 2,794,844</u>

(Concluded)

	As of January 1, 2016	Additions	Disposals	Reclassification	Impairment loss	Effect of exchange rate changes	As of June 30, 2016
<u>Cost</u>							
Land	\$ 100,843	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 100,843
Buildings	1,396,219	847	—	—	—	(19,497)	1,377,569
Machinery and equipment	2,261,959	2,478	—	60,066	—	(15,747)	2,308,756
Hydropower equipment	359,000	—	—	—	—	(4,901)	354,099
Testing equipment	179,198	4,068	(470)	14,721	—	(868)	196,649
Miscellaneous equipment	254,072	3,042	(2,471)	351	—	(2,986)	252,008
Total	<u>\$ 4,551,291</u>	<u>\$ 10,435</u>	<u>\$ (2,941)</u>	<u>\$ 75,138</u>	<u>\$ —</u>	<u>\$ (43,999)</u>	<u>\$ 4,589,924</u>

	As of January 1, 2016	Additions	Disposals	Reclassification	Impairment loss	Effect of exchange rate changes	As of June 30, 2016
<u>Accumulated depreciation and impairment</u>							
Buildings	\$ 354,164	\$ 33,662	\$ —	\$ —	\$ —	\$ (4,536)	\$ 383,290
Machinery and equipment	1,441,361	71,035	—	(280)	—	(8,984)	1,503,132
Hydropower equipment	252,420	8,225	—	—	—	(2,683)	257,962
Testing equipment	95,788	6,579	(470)	280	—	(575)	101,602
Miscellaneous equipment	204,828	12,090	(2,210)	—	(2,594)	(2,154)	209,960
Total	<u>\$ 2,348,561</u>	<u>\$ 131,591</u>	<u>\$ (2,680)</u>	<u>\$ —</u>	<u>\$ (2,594)</u>	<u>\$ (18,932)</u>	<u>\$ 2,455,946</u>
Construction in progress and equipment awaiting inspection	491,705	218,381	—	(75,492)	—	(55)	634,539
Net	<u>\$ 2,694,435</u>						<u>\$ 2,768,517</u>

(9) Intangible assets

	June 30, 2017	December 31, 2016	June 30, 2016
Trademarks	\$ 414	\$ 385	\$ 362
Patents	6,457	7,347	14,442
Software cost	34,122	36,085	37,125
Goodwill	69,781	69,781	69,781
Total	<u>\$ 110,774</u>	<u>\$ 113,598</u>	<u>\$ 121,710</u>

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	As of January 1, 2017	Additions	Reclassification	Effect of exchange rate changes	As of June 30, 2017
<u>Cost</u>					
Trademarks	\$ 583	\$ 89	\$ —	\$ —	\$ 672
Patents	42,202	692	—	—	42,894
Software cost	108,294	4,511	—	(414)	112,391
Goodwill	69,781	—	—	—	69,781
Total	<u>\$ 220,860</u>	<u>\$ 5,292</u>	<u>\$ —</u>	<u>\$ (414)</u>	<u>\$ 225,738</u>
	As of January 1, 2017	Additions	Reclassification	Effect of exchange rate changes	As of June 30, 2017
<u>Accumulated</u>					
<u>Amortization and</u>					
<u>impairment</u>					
Trademarks	\$ 198	\$ 60	\$ —	\$ —	\$ 258
Patents	34,855	1,582	—	—	36,437
Software cost	72,209	6,287	—	(227)	78,269
Total	<u>107,262</u>	<u>\$ 7,929</u>	<u>\$ —</u>	<u>\$ (227)</u>	<u>114,964</u>
Net	<u>\$ 113,598</u>				<u>\$ 110,774</u>
	As of January 1, 2016	Additions	Reclassification	Effect of exchange rate changes	As of June 30, 2016
<u>Cost</u>					
Trademarks	\$ 372	\$ 185	\$ —	\$ —	\$ 557
Patents	39,233	1,467	—	—	40,700
Software cost	93,511	10,710	(175)	(465)	103,581
Goodwill	69,781	—	—	—	69,781
Total	<u>\$ 202,897</u>	<u>\$ 12,362</u>	<u>\$ (175)</u>	<u>\$ (465)</u>	<u>\$ 214,619</u>
<u>Accumulated</u>					
<u>Amortization and</u>					
<u>impairment:</u>					
Trademarks	\$ 151	\$ 44	\$ —	\$ —	\$ 195
Patents	22,330	3,928	—	—	26,258
Software cost	60,936	5,808	—	(288)	66,456
Total	<u>83,417</u>	<u>\$ 9,780</u>	<u>\$ —</u>	<u>\$ (288)</u>	<u>92,909</u>
Net	<u>\$ 119,480</u>				<u>\$ 121,710</u>

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(10) Other non-current assets

	June 30, 2017	December 31, 2016	June 30, 2016
Long-term prepaid rent (Land use rights)	\$ 20,115	\$ 20,997	\$ 22,320
Refundable deposits	21,955	23,711	20,085
Other non-current assets - other	29,764	36,146	37,182
Total	<u>\$ 71,834</u>	<u>\$ 80,854</u>	<u>\$ 79,587</u>

(11) Impairment testing of goodwill

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

(12) Short-term loans

	June 30, 2017	December 31, 2016	June 30, 2016
Unsecured bank loans	\$ 1,564,873	\$ 939,783	\$ 1,105,425
Secured bank loans	—	—	167,709
Total	<u>\$ 1,564,873</u>	<u>\$ 939,783</u>	<u>\$ 1,273,134</u>

The interest rates of loans were 1.48% to 4.79%, 0.85% to 4.57% and 0.80% to 5.00% as of June 30, 2017, December 31, 2016 and June 30, 2016, respectively.

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

	June 30, 2017	December 31, 2016	June 30, 2016
Held for trading:			
Non-hedging derivative financial liabilities			
- Forward foreign exchange contracts	\$ 7,180	\$ —	\$ —
- Foreign exchange swap contracts	701	—	—
	<u>\$ 7,881</u>	<u>\$ —</u>	<u>\$ —</u>

(14) Long-term loans

	June 30, 2017	December 31, 2016	June 30, 2016
Secured loans	\$ 69,482	\$ 76,916	\$ 82,853
Revolving loans	272,356	504,207	210,502
Syndicated loans	—	193,675	516,576
Total	341,838	774,798	809,931
Less: current portion	(27,581)	(27,372)	(23,517)
Less: unamortized syndicated loan fee	—	(4,000)	(4,780)
Net	<u>\$ 314,257</u>	<u>\$ 743,426</u>	<u>\$ 781,634</u>
	2017.1.1~ 2017.6.30	2016.1.1~ 2016.12.31	2016.1.1~ 2016.6.30
Interest rate range	0.99%~2.11%	0.98%~1.97%	1.50%~2.09%

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

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

- (a) The contract term is three years from the initial draw-down date, i.e. March 21, 2012 to March 21, 2015. The Group may apply for a 2-year extension six months before the maturity date. In August 2014, the Group entered into the first addendum to the syndicated loan agreement with eight lending institutions (the crediting banks), including the Bank of Taiwan. The contract stated that the crediting banks agreed to the 2-year extension and the contract term was extended to March 21, 2017.

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(b) During the loan term, the Group is required to calculate and maintain the following financial ratios at an agreed level based on the consolidated financial statements audited by CPAs every six months: current ratio, liability ratio, interest coverage ratio and tangible net value. The Group has abided by those terms.

C. In January 2016, the Group entered into a syndicated loan agreement with ten lending institutions, including the Bank of Taiwan (bookrunner), for a loan facility of NT\$2.5 billion or the equivalent in U.S. dollars. The credit term of the agreement was mid-term loans - current. During the loan term, the Group is required to calculate and maintain the following financial ratios at an agreed level based on the consolidated financial statements audited by CPAs every six months: current ratio, liability ratio, interest coverage ratio and tangible net value. The Group has abided by those terms.

(15) Post-employment benefits

A. Defined contribution plan

Expenses under the defined contribution plan were NT\$6,076 thousand and NT\$5,370 thousand for the three months ended June 30, 2017 and 2016, respectively; and NT\$11,811 thousand and NT\$10,840 thousand for the six months ended June 30, 2017 and 2016, respectively.

B. Defined benefits plan

Expenses under the defined benefits plan were NT\$5,125 thousand and NT\$2,531 thousand for the three months ended June 30, 2017 and 2016, respectively; and NT\$7,650 thousand and NT\$5,064 thousand for the six months ended June 30, 2017 and 2016, respectively.

(16) Equity

A. Capital

(a) The Company's authorized capital was NT\$3,000,000 thousand, each at a par value of NT\$10, divided into 300,000 thousand shares (including 15,000 thousand shares reserved for the exercise of employee stock options, preferred stock with warrants and bond with warrants) as of June 30, 2017, December 31, 2016 and June 30 2016.

(b) The Company's issued capital was NT\$2,084,452 thousand, NT\$2,083,252 thousand and NT\$2,042,858 thousand, each at a par value of NT\$10, divided into 208,445 thousand shares, 208,325 thousand shares and 204,286 thousand shares as of June 30, 2017, December 31, 2016 and June 30 2016, respectively.

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- (c) The shareholders' meeting on May 27, 2016 resolved to capitalize capital surplus of NT\$40,394 thousand. The said capital increase was approved by the competent authority and the registration of change was completed.

B. Capital Surplus

	June 30, 2017	December 31, 2016	June 30, 2016
Additional paid-in capital	\$ 1,025,966	\$ 1,022,603	\$ 1,022,603
Premium from merger	262,500	262,500	262,500
Donated assets	1,970	1,970	1,970
Treasury stock transactions	6,937	6,937	6,937
Others	113,548	113,548	113,548
Total	<u>\$ 1,410,921</u>	<u>\$ 1,407,558</u>	<u>\$ 1,407,558</u>

According to laws and regulations, capital surplus shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital surplus related to the income derived from the issuance of new shares at a premium or income from endowments received by the company up to a certain percentage of paid-in capital. The distribution could be made in the form of cash dividends to its shareholders in proportion to the number of shares being held by each of them.

C. Treasury Stock

In accordance with Article 28-2 of the Securities and Exchange Act, the Company repurchased 2,318 thousand treasury stocks from the open market in the fourth quarter of 2014 for transferring to employees. The repurchase amounted to NT\$98,744 thousand. The Company has not transferred those stocks to employees as of June 30, 2017.

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

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D. Appropriation of profits and dividend policies

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

- (a) Taxes and dues.
- (b) Deficit compensation.
- (c) 10% of net profit as legal capital reserves. However, this shall not apply when the accumulated legal capital reserve has equaled the total capital.
- (d) Special capital reserve appropriated or reversed as stipulated by relevant laws and regulations or competent securities authority.
- (e) For the remaining profits, if any, the Board of Directors shall draft a proposal for the distribution of bonus to shareholders and submit it to the shareholders' meeting for resolution.

After taking into account the environment and development stage of the Company, the needs of capital in the future, long-term financial planning and shareholders' demand for cash, the Board of Directors shall draw up an earnings distribution proposal according to the distributable earnings and submit it to the shareholders' meeting for approval. At least forty percent of the distributable earnings shall be appropriated as shareholders' dividends. The cash dividend shall not be lower than 10 percent of the total dividends and shall be capped at 100 percent.

Following the adoption of IFRS, the FSC issued Order No. Jin-Guan-Zheng-Fa-1010012865 on April 6, 2012, which sets out the following provisions for compliance: On a public company's first-time adoption of the IFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special capital reserve. Following a company's adoption of the IFRS for the preparation of its financial reports, when distributing distributable earnings, if the company has already set aside special capital reserve according to the requirements in the preceding point, it shall set aside supplemental special capital reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

As of January 1, 2017 and 2016, special capital reserve set aside for the first-time adoption of IFRS amounted to NT\$102,158 thousand. Furthermore, the Company did not reverse special reserve to undistributed earnings during the six months ended June 30, 2017 and 2016 as a result of the use, disposal or reclassification of related assets.

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The information about the appropriations of 2016 and 2015 earnings resolved in the shareholders' meetings on May 26, 2017 and May 27, 2016, respectively, was as follows:

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

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

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

E. Non-controlling interests (NCI)

	Six Months Ended June 30	
	2017	2016
Beginning balance	\$ 100,310	\$ 134,093
Net income (loss) attributable to NCI	248	(15,773)
Other comprehensive income attributable to NCI:		
Exchange differences arising on translation of foreign operations	(210)	(274)
Ending balance	<u>\$ 100,348</u>	<u>\$ 118,046</u>

(17) Share-based payment plans

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

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There have been no cancellations or modifications to any of the employee stock option plans by June 30, 2017.

	Six Months Ended June 30			
	2017		2016	
	Options	Weighted average exercise price per share (NT\$)	Options	Weighted average exercise price per share (NT\$)
Stock options Outstanding at beginning of period	952	\$ 36.80	1,022	\$ 39.70
Granted	—	—	—	—
Forfeited	—	—	—	—
Exercised	(125)	36.80	—	—
Expired	—	—	(30)	—
Outstanding at end of period	<u>827</u>	36.80	<u>972</u>	39.70
Exercisable at end of period	<u>827</u>	36.80	<u>972</u>	39.70

The information on the aforementioned employee stock options outstanding as of June 30, 2017 and 2016 was as follows:

Date of grant	Weighted average remaining contractual years	
	June 30, 2017	June 30, 2016
2010.4.30	0.83	1.83

(18) Revenue

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Sale of goods	<u>\$ 2,776,813</u>	<u>\$ 2,622,377</u>	<u>\$ 5,089,470</u>	<u>\$ 4,905,702</u>

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

Function Nature	Three Months Ended June 30					
	2017			2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	103,255	92,679	195,934	96,711	90,710	187,421
Labor and health insurance	9,989	6,717	16,706	9,300	6,402	15,702
Pension	6,168	5,033	11,201	4,251	3,650	7,901
Other employee benefits expense	12,339	6,980	19,319	10,098	6,623	16,721
Depreciation	65,903	4,153	70,056	60,659	4,701	65,630
Amortization	3,468	3,115	6,583	4,368	3,984	8,352

Function Nature	Six Months Ended June 30					
	2017			2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	204,583	177,930	382,513	190,257	185,215	375,472
Labor and health insurance	20,197	13,968	34,165	19,707	13,777	33,484
Pension	10,843	8,618	19,461	8,536	7,368	15,904
Other employee benefits expense	23,780	13,189	36,969	19,560	11,952	31,512
Depreciation	130,205	8,426	138,631	122,053	9,538	131,591
Amortization	7,210	7,817	15,027	8,871	9,328	18,199

According to the Company's Articles of Incorporation, when the Company makes a profit for the year, the compensation to employees shall not be lower than five percent of the balance and the remuneration to directors and supervisors shall not be higher than four percent of the balance. However, if the Company has an accumulated deficit, the profit shall cover the deficit before it can be used for compensation to employees and remuneration to directors and supervisors. The above-mentioned compensation to employees can be made in the form of stock or cash by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors. A report of such distribution shall be submitted to the shareholders' meeting. The information about the compensation to employees and remuneration to directors and supervisors resolved or submitted to the meetings of Board of Directors and shareholders is available at the Market Observation Post System website.

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Based on profitability, the compensation to employees and remuneration to directors and supervisors accrued for the six months ended June 30, 2017 and 2016 were as follows:

	Six Months ended June 30	
	2017	2016
Compensation to employees	\$ 22,973	\$ 21,541
Remuneration to directors and supervisors	6,892	6,462

If the Board of Directors resolved to distribute compensation to employees in the form of stock, the closing price of stocks on the date preceding the resolution shall be the basis in calculating the number of stocks to be distributed. If the amount accrued differed from the amount resolved in the Board of Directors' meeting, the difference would be recognized in the profit or loss of the following year.

The Board of Directors' meetings held by the Company on January 19, 2017 and January 28, 2016 resolved to distribute 2016 and 2015 compensation to employees and remuneration to directors and supervisors, respectively, in the form of cash. Details were as follows:

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

There was no significant difference between the above-mentioned 2016 and 2015 compensation to employees and remuneration to directors and supervisors resolved in the Board of Directors' meetings and the amounts recognized as expenses in the financial statements for the year ended December 31, 2016 and 2015, respectively.

(20) Non-operating income and expenses

A. Other income

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Interest income	\$ 5,339	\$ 5,029	\$ 9,140	\$ 9,457
Other income (expense)	809	(4,773)	4,548	(1,795)
Total	\$ 6,148	\$ 256	\$ 13,688	\$ 7,662

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B. Other gains and losses

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Gain (loss) on disposal of property, plant and equipment	\$ -	\$ (2)	\$ (36)	\$ 193
Foreign exchange gain (loss), net	54,806	(80,982)	(32,026)	(88,991)
Gain from recovery of impairment	-	1,298	-	2,595
Gain (loss) of financial assets (liabilities) at fair value through profit or loss	(15,054)	19,798	(5,780)	(11,252)
Other gains (losses)	(478)	288	(935)	(3,002)
Total	<u>\$ 39,274</u>	<u>\$ (59,600)</u>	<u>\$ (38,777)</u>	<u>\$ (100,457)</u>

C. Finance costs

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Interest on borrowings from bank	<u>\$ (15,096)</u>	<u>\$ (22,252)</u>	<u>\$ (34,034)</u>	<u>\$ (53,762)</u>

D. Components of other comprehensive income

For the three months ended June 30, 2017:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	\$ 33,533	\$ —	\$ 33,533	\$ (5,700)	\$ 27,833

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For the three months ended June 30, 2016:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	\$ (57,915)	\$ —	\$ (57,915)	\$ 9,845	\$ (48,070)

For the six months ended June 30, 2017:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	\$ (56,440)	\$ —	\$ (56,440)	\$ 9,595	\$ (46,845)

For the six months ended June 30, 2016:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	\$ (75,558)	\$ —	\$ (75,558)	\$ 12,844	\$ (62,714)

(21) Income tax

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

	<u>Income tax expense (benefit) recognized in profit or loss</u>			
	<u>Three Months Ended June 30</u>	<u>Six Months Ended June 30</u>	<u>2017</u>	<u>2016</u>
Current income tax expense:				
Current income tax expense	\$ 37,162	\$ 46,964	\$ 69,107	\$ 88,003
Income tax adjustments on prior years	21,702	(1,531)	21,855	(1,531)
Effect of exchange rate changes	(514)	202	(99)	329

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	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Deferred income tax expense (benefit):				
Income tax expense (benefit) relating to origination and reversal of temporary differences	6,654	(10,869)	(15,640)	(11,446)
Total income tax expense	\$ 65,004	\$ 34,766	\$ 106,503	\$ 75,355

(Concluded)

Income tax recognized in other comprehensive income

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Deferred income tax expense (benefit):				
Exchange differences arising on translation of foreign operations	\$ 5,700	\$ (9,845)	\$ (9,595)	\$ (12,844)
Income tax relating to components of other comprehensive income	\$ 5,700	\$ (9,845)	\$ (9,595)	\$ (12,844)

B. Imputation credit information:

	June 30, 2017	December 31, 2016	June 30, 2016
Balance of imputation credit account	\$ 578,444	\$ 528,054	\$ 544,129

The expected creditable ratio for 2016 and the actual creditable ratio for 2015 were 22.58% and 21.74%, respectively.

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

D. The assessment of income tax returns:

As of June 30, 2017, the assessment of income tax returns of the Group in ROC was as follows:

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

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(22) Earnings per share

	Three Months Ended June 30, 2017		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT\$)
<u>Basic earnings per share</u>			
Net income available to common shareholders of the Company	\$ 193,915	206,129	\$ 0.94
<u>Diluted earnings per share</u>			
Effect of dilutive potential common shares			
Employee compensation – stock	—	363	
Employee stock options	—	24	
Net income available to common shareholders of the Company and effect of potential common shares	\$ 193,915	206,516	\$ 0.94
	Three Months Ended June 30, 2016		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT\$)
<u>Basic earnings per share</u>			
Net income available to common shareholders of the Company	\$ 131,039	206,007	\$ 0.64
<u>Diluted earnings per share</u>			
Effect of dilutive potential common shares			
Employee compensation – stock	—	333	
Net income available to common shareholders of the Company and effect of potential common shares	\$ 131,039	206,340	\$ 0.64

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	Six Months Ended June 30, 2017		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT\$)
<u>Basic earnings per share</u>			
Net income available to common shareholders of the Company	\$ 293,237	206,104	<u>\$ 1.42</u>
<u>Diluted earnings per share</u>			
Effect of dilutive potential common shares			
Employee compensation – stock	—	591	
Employee stock options	—	25	
Net income available to common shareholders of the Company and effect of potential common shares	<u>\$ 293,237</u>	<u>206,720</u>	<u>\$ 1.42</u>
	Six Months Ended June 30, 2016		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT\$)
<u>Basic earnings per share</u>			
Net income available to common shareholders of the Company	\$ 252,438	206,007	<u>\$ 1.23</u>
<u>Diluted earnings per share</u>			
Effect of dilutive potential common shares			
Employee compensation – stock	—	603	
Net income available to common shareholders of the Company and effect of potential common shares	<u>\$ 252,438</u>	<u>206,610</u>	<u>\$ 1.22</u>

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7. RELATED PARTY TRANSACTIONS

(1) Names and relationships

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

(2) Significant transactions with related parties

A. Acquisition of property, plant, and equipment

	Acquisition price		
	June 30, 2017	December 31, 2016	June 30, 2016
Other related parties	\$ —	\$ 3,200	\$ —

B. Compensation to key management

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Short-term employee benefits	\$ 13,826	\$ 10,702	\$ 33,595	\$ 30,972
Post-employment benefits	271	237	523	881
Total	\$ 14,097	\$ 10,939	\$ 34,118	\$ 31,853

8. PLEDGED ASSETS

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

	Carrying amount			Purpose of pledge
	June 30, 2017	December 31, 2016	June 30, 2016	
Demand deposits (Note)	\$ —	\$ 16,447	\$ 13,091	Collateral for short-term loans
Time deposits (Note)	20,295	20,295	20,264	Customs guarantee
Notes receivable	—	—	167,709	Collateral for short-term loans
Land	100,843	100,843	100,843	Collateral for long-term loans

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	Carrying amount			Purpose of pledge
	June 30, 2017	December 31, 2016	June 30, 2016	
Buildings	104,107	106,496	108,067	Collateral for long-term loans
Machinery and equipment	14,988	15,813	—	Collateral for long-term loans
Prepaid equipment	—	—	14,850	Collateral for long-term loans
Total	<u>\$ 240,233</u>	<u>\$ 259,894</u>	<u>\$ 424,824</u>	

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

(Concluded)

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

Details of the Group's unused letters of credit as of June 30, 2017 were as follows:

	L/C Amount	
NTD	NT\$	6,668 thousand
USD	US\$	4,252 thousand

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

12. OTHERS

(1) Categories of financial instruments

Financial assets

	June 30, 2017	December 31, 2016	June 30, 2016
Financial assets at fair value through profit or loss:			
Non-hedging derivative financial assets – Forward foreign exchange contracts	\$ —	\$ 19,762	\$ 6,900

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	June 30, 2017	December 31, 2016	June 30, 2016
Non-derivative financial assets –			
Stocks	18,358	16,245	14,692
Loans and receivables:			
Cash and cash equivalents (exclude cash on hand)	2,726,830	2,981,602	3,642,954
Receivables	4,529,075	4,387,994	4,018,356
Other financial assets, current	20,295	36,742	33,355
<u>Financial liabilities</u>			
Financial liabilities at fair value through profit or loss:			
Non-hedging derivative financial liabilities –			
Forward foreign exchange contracts	\$ 7,180	\$ —	\$ —
Foreign exchange swap contracts	701	—	—
Financial liabilities at amortized cost:			
Short-term loans	1,564,873	939,783	1,273,134
Payables	2,822,588	2,871,550	3,022,631
Long-term loans (current portion included)	341,838	770,798	805,151
			(Concluded)

(2) Objectives of financial risk management

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

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

(3) Market risk

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

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

A. Foreign currency risk

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

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

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

B. Interest rate risk

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

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

C. Equity price risk

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

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management on a regular basis. The Board of Directors shall review all equity investment decisions and approve where appropriate.

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

For the six months ended June 30, 2017		
Key risk	Variation	Sensitivity of profit or loss
Foreign currency risk	NTD/USD Foreign exchange +/- 1%	+/- NT\$ 1,594 thousand
	NTD/CNY Foreign exchange +/- 1%	+/- NT\$ 5,700 thousand
Interest rate risk	Market rate +/- 10 basis points	+/- NT\$ 821 thousand
For the six months ended June 30, 2016		
Key risk	Variation	Sensitivity of profit or loss
Foreign currency risk	NTD/USD Foreign exchange +/- 1%	+/- NT\$ 3,319 thousand
	NTD/CNY Foreign exchange +/- 1%	+/- NT\$ 495 thousand
Interest rate risk	Market rate +/- 10 basis points	+/- NT\$1,565 thousand

(4) Credit risk management

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

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

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

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(5) Liquidity risk management

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

<u>Non-derivative financial instruments</u>					
	<u>Less than 1 year</u>	<u>2 to 3 years</u>	<u>4 to 5 years</u>	<u>> 5 years</u>	<u>Total</u>
<u>June 30, 2017</u>					
Borrowings	\$ 1,595,669	\$ 263,314	\$ —	\$ 50,943	\$ 1,909,926
Payables	2,822,588	—	—	—	2,822,588
<u>December 31, 2016</u>					
Borrowings	\$ 969,558	\$ 687,142	\$ —	\$ 56,284	\$ 1,712,984
Payables	2,871,550	—	—	—	2,871,550
<u>June 30, 2016</u>					
Borrowings	\$ 1,302,360	\$ 720,050	\$ —	\$ 61,584	\$ 2,083,994
Payables	3,022,631	—	—	—	3,022,631
<u>Derivative financial instruments</u>					
	<u>Less than 1 year</u>	<u>2 to 3 years</u>	<u>4 to 5 years</u>	<u>> 5 years</u>	<u>Total</u>
<u>June 30, 2017</u>					
Inflows	\$ 607,678	\$ —	\$ —	\$ —	\$ 607,678
Outflows	620,552	—	—	—	620,552
Net	<u>\$ (12,874)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (12,874)</u>
<u>December 31, 2016</u>					
Inflows	\$ 727,398	\$ —	\$ —	\$ —	\$ 727,398
Outflows	735,070	—	—	—	735,070
Net	<u>\$ (7,672)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (7,672)</u>
<u>June 30, 2016</u>					
Inflows	\$ 484,290	\$ —	\$ —	\$ —	\$ 484,290
Outflows	485,304	—	—	—	485,304
Net	<u>\$ (1,014)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (1,014)</u>

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

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(6) Fair values of financial instruments

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

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

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

B. Fair value of financial instruments measured at amortized cost

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

C. Information on the fair value hierarchy of financial instruments

Please refer to Note 12(8) for details.

(7) Derivative financial instruments

As of June 30, 2017, December 31, 2016 and June 30, 2016, the Group's derivative financial instruments that were not eligible for hedge accounting and were outstanding (including forward foreign exchange contracts, foreign exchange swap contracts and embedded derivatives) were listed as follows:

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

Currency	Contract period	Contract amount (in thousands)
<u>June 30, 2017</u>		
CNY to USD	2017.02~2018.04	CNY 60,238/US\$ 8,684
CNY to NTD	2017.04~2017.09	CNY 78,000/NT\$ 343,363
<u>December 31, 2016</u>		
CNY to USD	2016.08~2017.06	CNY 99,394/US\$ 14,602
CNY to NTD	2016.08~2017.06	CNY 159,020/NT\$ 727,398

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Currency	Contract period	Contract amount (in thousands)
<u>June 30, 2016</u>		
CNY to USD	2016.01~2016.12	CNY 182,094/US\$ 27,380
CNY to NTD	2016.05~2016.10	CNY 32,000/NT\$ 157,756

B. Foreign exchange swap contracts that were not eligible for hedge accounting and were outstanding as of the balance sheet date were listed as follows:

Currency	Contract period	Contract amount (in thousands)
<u>June 30, 2017</u>		
CNY to NTD	2017.04~2017.09	CNY 4,200/NT\$ 17,963

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

(8) Fair value hierarchy

A. Definition of fair value hierarchy

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

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

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

Level 3 inputs are unobservable inputs for the asset or liability

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

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B. Hierarchy of fair value measurement

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

	Level 1	Level 2	Level 3	Total
<u>June 30, 2017</u>				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	\$ —	\$ —	\$ —	\$ —
Stocks	18,358	—	—	18,358
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	7,180	—	7,180
Foreign exchange swap contracts	—	701	—	701
<u>December 31, 2016</u>				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	\$ —	\$ 19,762	\$ —	\$ 19,762
Stocks	16,245	—	—	16,245
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	—	—	—
<u>June 30, 2016</u>				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	\$ —	\$ 6,900	\$ —	\$ 6,900
Stocks	14,692	—	—	14,692
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	—	—	—

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For the six months ended June 30, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value hierarchy.

(9) Significant financial assets and liabilities denominated in foreign currencies

Information regarding the significant financial assets and liabilities denominated in foreign currencies was listed below:

	June 30, 2017			December 31, 2016		
	Foreign currencies (in thousands)	Exchange rate	NTD	Foreign currencies (in thousands)	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 72,002	30.4360	\$ 2,191,453	\$ 80,970	32.2790	\$ 2,613,631
CNY	18,329	4.4890	82,278	22,363	4.6225	103,373
HKD	31,145	3.8990	121,433	30,233	4.1620	125,830
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$ 66,759	30.4360	\$ 2,031,877	\$ 52,438	32.2790	\$ 1,692,646
CNY	1,099	4.4890	4,933	299	4.6225	1,382
JPY	147,931	0.2716	40,178	159,796	0.2757	44,056
<u>June 30, 2016</u>						
	Foreign currencies (in thousands)	Exchange rate	NTD			
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 94,655	32.2860	\$ 3,056,031			
CNY	2,208	4.8485	10,705			
HKD	31,308	4.1610	130,273			
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$ 84,379	32.2860	\$ 2,724,260			
CNY	12,412	4.8485	60,180			
JPY	136,808	0.3143	42,999			

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

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As entities within the Group transact in various currencies, the exchange gain (loss) of monetary financial assets and liabilities cannot be disclosed by currencies of significant influence. For the three months and six months ended June 30, 2017 and 2016, the Group's foreign exchange gain (loss) amounted to NT\$54,806 thousand, NT\$(80,982) thousand, NT\$(32,026) thousand and NT\$(88,991) thousand, respectively.

(10) Capital management

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

13. ADDITIONAL DISCLOSURES

(1) Information on significant transactions and investees

A. Financing provided to others: Please refer to Table 1.

B. Endorsement/Guarantee provided to others: Please refer to Table 2.

C. Marketable securities held as of June 30, 2017 (excluding investments in subsidiaries, associates and joint ventures): Please refer to Table 3.

D. Individual securities acquired or disposed of with accumulated amount of at least NT\$300 million or 20 percent of the paid-in capital for the six months ended June 30, 2017: None.

E. Acquisition of individual real estate with amount of at least NT\$300 million or 20 percent of the paid-in capital for the six months ended June 30, 2017: None.

F. Disposal of individual real estate with amount of at least NT\$300 million or 20 percent of the paid-in capital for the six months ended June 30, 2017: None.

G. Related party transactions with purchase or sales amount of at least NT\$100 million or 20 percent of the paid-in capital for the six months ended June 30, 2017: Please refer to Table 4.

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H. Receivables from related parties of at least NT\$100 million or 20 percent of the paid-in capital as of June 30, 2017: Please refer to Table 5.

I. Direct or indirect significant influence or control over the investees for the six months ended June 30, 2017 (excluding investments in China): Please refer to Table 6.

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

K. Others: intercompany relationships and significant intercompany transactions for the six months ended June 30, 2017: Please refer to Table 8.

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

14. OPERATING SEGMENT INFORMATION

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

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

The overseas segment owns manufacturing and sales functions.

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

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

(1) Segment income (loss)

For the three months ended June 30, 2017

	General management	Overseas	Adjustment and elimination (Note)	Consolidated
Revenue				
External customer	\$ 1,097,972	\$ 1,678,841	\$ —	\$ 2,776,813
Inter-segment	526,518	75,865	(602,383)	—
Total revenue	<u>\$ 1,624,490</u>	<u>\$ 1,754,706</u>	<u>\$ (602,383)</u>	<u>\$ 2,776,813</u>

(Continued)

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

(Reviewed, not Audited)

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

	<u>General management</u>	<u>Overseas</u>	<u>Adjustment and elimination (Note)</u>	<u>Consolidated</u>
Segment income (loss) (Income before income tax)	\$ 242,712	\$ 100,663	\$ (83,514)	\$ 259,861

Note: Inter-segment revenues were eliminated on consolidation.

(Concluded)

For the three months ended June 30, 2016

	<u>General management</u>	<u>Overseas</u>	<u>Adjustment and elimination (Note)</u>	<u>Consolidated</u>
Revenue				
External customer	\$ 1,042,293	\$ 1,580,084	\$ —	\$ 2,622,377
Inter-segment	597,399	84,354	(681,753)	—
Total revenue	<u>\$ 1,639,692</u>	<u>\$ 1,664,438</u>	<u>\$ (681,753)</u>	<u>\$ 2,622,377</u>
Segment income (loss) (Income before income tax)	<u>\$ 150,948</u>	<u>\$ 20,124</u>	<u>\$ (10,818)</u>	<u>\$ 160,254</u>

Note: Inter-segment revenues were eliminated on consolidation.

For the six months ended June 30, 2017

	<u>General management</u>	<u>Overseas</u>	<u>Adjustment and elimination (Note)</u>	<u>Consolidated</u>
Revenue				
External customer	\$ 2,099,076	\$ 2,990,394	\$ —	\$ 5,089,470
Inter-segment	1,069,519	135,426	(1,204,945)	—
Total revenue	<u>\$ 3,168,595</u>	<u>\$ 3,125,820</u>	<u>\$ (1,204,945)</u>	<u>\$ 5,089,470</u>
Segment income (loss) (Income before income tax)	<u>\$ 367,932</u>	<u>\$ 152,645</u>	<u>\$ (120,589)</u>	<u>\$ 399,988</u>

Note: Inter-segment revenues were eliminated on consolidation.

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
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For the six months ended June 30, 2016

	General management	Overseas	Adjustment and elimination (Note)	Consolidated
Revenue				
External customer	\$ 1,983,756	\$ 2,921,946	\$ —	\$ 4,905,702
Inter-segment	1,183,281	234,589	(1,417,870)	—
Total revenue	<u>\$ 3,167,037</u>	<u>\$ 3,156,535</u>	<u>\$ (1,417,870)</u>	<u>\$ 4,905,702</u>
Segment income (loss) (Income before income tax)	<u>\$ 283,933</u>	<u>\$ 55,628</u>	<u>\$ (27,541)</u>	<u>\$ 312,020</u>

Note: Inter-segment revenues were eliminated on consolidation.

TABLE 1: FINANCING PROVIDED TO OTHERS

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Financing Company	Counterparty	Financial Statement Account (Note 2)	Whether a related party	Maximum Balance for the Period (Note 3)	Ending Balance (Note 10)	Amount Actually Drawn (Note 11)	Interest Rate Range	Nature of Financing (Note 4)	Transaction Amounts (Note 5)	Reason for Financing (Note 6)	Allowance for Doubtful Accounts	Collateral		Financing Limits for Each Borrower	Financing Company's Total Financing Amount Limits	Note
													Item	Value			
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	\$ 439,040	\$ 426,104	\$ 30,525	1.20%~7.00%	2	—	Operating capital	—	—	—	\$ 1,300,803	\$ 2,601,606	(Note 7)
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Other receivables - related parties	Y	564,480	547,848	313,243	1.20%~7.00%	2	—	Operating capital	—	—	—	1,300,803	2,601,606	(Note 7)
1	Taistar Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	125,440	121,744	121,744	1.20%~2.50%	2	—	Operating capital	—	—	—	348,686	697,372	(Note 9)

Note 1: Companies are coded as follows:

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

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

Note 3: The maximum balance of financing provided to others for the six months ended June 30, 2017.

Note 4: Nature of Financing are coded as follows:

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

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

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

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

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

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

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

Note 11: This is the ending balance after evaluation.

TABLE 2: ENDORSEMENT/GUARANTEE PROVIDED TO OTHERS

(In Thousands of New Taiwan Dollars)

No (Note 1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 3)	Maximum Balance for the Period (Note 4)	Ending Balance (Note 5)	Amount Actually Drawn (Note 6)	Amount of Endorsement/ Guarantee Secured by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Worth per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowed (Note 3)	Endorsement Provided by Parent Company to Subsidiaries	Endorsement Provided by Subsidiaries to Parent Company	Endorsement Provided to Subsidiaries in China
		Name	Nature of Relationship (Note 2)										
0	Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	2	\$ 3,252,008	\$ 125,440	\$ 121,744	\$ 106,526	—	1.87%	\$ 3,252,008	Y	N	N
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	3	3,252,008	933,804	909,068	413,718	—	13.98%		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	3	3,252,008	1,864,640	1,767,813	529,424	—	27.18%		Y	N	Y

Note 1: Companies are coded as follows:

(1) Taiflex Scientific Co., Ltd. is coded "0".

(2) The investees are coded from "1" in the order presented in the table above.

Note 2: The relationships between endorsement/guarantee providers and guaranteed parties are categorized into the following six types. Please specify the type.

(1) A company that has a business relationship with Taiflex.

(2) A subsidiary in which Taiflex holds directly over 50% of common equity interest.

(3) An investee in which Taiflex and its subsidiaries jointly hold over 50% of common equity interest.

(4) A parent company that holds directly over 50%, or indirectly over 50% through a subsidiary, of the company's common equity interest.

(5) A company that has provided guarantees to Taiflex, and vice versa, due to contractual requirements.

(6) A company in which Taiflex jointly invests with other shareholders, and for which Taiflex has provided endorsement/guarantee in proportion to its shareholding percentage.

Note 3: The overall amount of guarantees/endorsements shall not exceed 50% of the Company's net worth in the most recent financial statements. The amount of guarantees/endorsements provided to any single entity shall not exceed 20% of the net worth in the most recent financial statements. However, the restriction does not apply to guarantees and endorsements to companies, whose voting shares are 100% held, directly or indirectly, by the Company.

Note 4: The maximum endorsement/guarantee balance for the six months ended June 30, 2017.

Note 5: As of June 30, 2017, the Company assumed endorsement or guarantee liabilities for endorsement/guarantee contracts signed or bill facilities approved. All other related endorsement or guarantee shall be included in the balance of guarantee/endorsement.

Note 6: This is the ending balance after evaluation.

TABLE 3: MARKETABLE SECURITIES HELD AS OF JUNE 30, 2017 (EXCLUDING INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES)

(In Thousands of New Taiwan Dollars)

Name of Held Company	Type of Marketable Securities (Note 1)	Name of Marketable Securities (Note 1)	Relationship with the Company (Note 2)	Financial Statement Account	June 30, 2017				Note
					Shares (In Thousands)	Carrying Amount (Note 3)	Percentage of Ownership	Fair Value	
Taiflex Scientific Co., Ltd.	Not listed (OTC) stocks	Exploit Technology Co., Ltd.	—	Financial assets measured at cost, non-current	25	—	0.30%	—	—
	Not listed (OTC) stocks	Kyoritsu Optronics Co., Ltd.	—	Financial assets measured at cost, non-current	741	—	18.10%	—	—
	Listed stocks	Zhen Ding Technology Holding Limited	—	Financial assets at fair value through profit or loss, current	255	\$ 18,358	0.03%	\$ 18,358	—

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

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

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

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

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction (Note 1)		Notes/Accounts Receivable (Payable)		Note
			Purchases/Sales	Amount	Percentage to Total	Credit / Payment Terms	Unit Price	Credit / Payment Terms	Ending Balance	Percentage to Total	
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	Purchases	\$ 128,035	5.89%	Payment within 120 days from the end of delivery month by TT	—	—	\$ (102,954)	(8.34%)	—
	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	Sales	78,641	2.57%	Collection within 120 days from the end of delivery month by TT	—	—	80,883	4.15%	—
	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	Sales	953,555	31.16%	Collection within 120 days from the end of delivery month by TT	—	—	1,266,367	65.03%	—
Taiflex Scientific (Kunshan) Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Sales	128,035	6.18%	Collection within 120 days from the end of delivery month by TT	—	—	102,954	3.91%	—
	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Purchases	78,641	4.57%	Payment within 120 days from the end of delivery month by TT	—	—	(80,883)	(9.49%)	—
Shenzhen Taiflex Electronic Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent	Purchases	953,555	83.54%	Payment within 120 days from the end of delivery month by TT	—	—	(1,266,367)	(98.02%)	—

Note 1: The sales prices and collection terms to related parties are not significantly different from those of sales to non-related parties.

TABLE 5: RECEIVABLES FROM RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Ratio (times)	Overdue		Amounts Received in Subsequent Periods	Allowance for Doubtful Accounts	Note
					Amount	Action Taken			
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	\$ 60,707	(Note 1)	—	—	\$ 8,357	—	—
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	80,883	3.11	—	—	—	—	—
Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	1,266,367	1.62	—	—	96,607	—	—

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

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

Investor	Investee	Business Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2017			Net Income (Losses) of Investee	Share of Profits/Losses	Note
				June 30, 2017	December 31, 2016	Shares (In Thousands)	Shareholding Percentage	Carrying Value			
Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	Belize	Investment holding	\$ 822,194	\$ 822,194	25,665	100.00%	\$ 1,731,335	\$ 101,961	\$ 101,747	(Note 1)
Taiflex Scientific Co., Ltd.	Leadmax Limited	Samoa	Trading of electronic materials	337	337	10	100.00%	16,148	998	998	—
Taiflex Scientific Co., Ltd.	Koatech Technology Corporation	Taiwan	Manufacturing and selling of electronic materials and components	294,102	294,102	27,400	53.86%	219,962	1,372	(2,558)	(Note 2)
Taiflex Scientific Co., Ltd.	Innovision FlexTech Corp.	Taiwan	Manufacturing and selling of electronic materials	102,894	102,894	4,513	16.72%	31,518	211	—	(Note 3)
Taiflex Scientific Co., Ltd.	TFS Co., Ltd.	Belize	Investment holding	192,657	192,657	6,020	100.00%	156,528	18,123	18,123	—
Taiflex Scientific Co., Ltd.	Taiflex Scientific Japan Co., Ltd.	Japan	Trading of electronic materials and technical support	16,260	16,260	6	100.00%	16,708	(693)	(693)	—
TFS Co., Ltd.	RICHSTAR Co., Ltd.	Samoa	Investment holding	192,423	192,423	6,010	100.00%	169,323	18,123	18,123	—
Taistar Co., Ltd.	TSC International Ltd.	Cayman Islands	Investment holding	801,604	801,604	25,010	100.00%	1,688,487	107,228	107,228	—
Koatech Technology Corporation	KTC Global Co., Ltd.	Samoa	Investment holding	28,649	28,649	960	100.00%	15,877	(658)	(658)	—
KTC Global Co., Ltd	KTC PanAsia Co., Ltd.	Samoa	Investment holding	28,500	28,500	955	100.00%	17,499	(70)	(70)	—

Note 1: Including unrealized gain/loss between affiliates.

Note 2: Including amortization of fixed assets.

Note 3: The net amount of investments accounted for under the equity method was NTS0 thousand.

TABLE 7: INFORMATION ON INVESTMENTS IN MAINLAND CHINA

(In Thousands of New Taiwan Dollars)

Investee	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2017	Profits/Losses of Investee	Percentage of Ownership (Direct or Indirect Investment)	Share of Profits/Losses	Carrying Amount as of June 30, 2017	Accumulated Inward Remittance of Earnings as of June 30, 2017
					Outflow	Inflow						
Kunshan Taiflex Electronic Material Co., Ltd.	Trading of coating materials for high polymer film and copper foil	\$184,126 (US\$5,603,350)	Through reinvestment of a company established in the third area	\$ 32,536	—	—	\$ 32,536	(\$220)	100.00%	(\$220)	\$ 239,875	\$ 128,532
Taiflex Scientific (Kunshan) Co., Ltd.	Manufacturing and selling of coating materials for high polymer film and copper foil	\$767,141 (US\$24,000,000)	Through reinvestment of a company established in the third area	767,141	—	—	767,141	107,448	100.00%	107,448	1,448,263	—
Kunshan Koatech Technology Corporation	Wholesale and act as a commission agent of electronic materials and components	\$28,351 (US\$950,000)	Through reinvestment of a company established in the third area	28,351	—	—	28,351	(34)	53.86%	(18)	9,414	—
Shenzhen Taiflex Electronic Co., Ltd.	Trading of coating materials for high polymer film and copper foil	\$193,020 (US\$6,000,000)	Through reinvestment of a company established in the third area	193,020	—	—	193,020	18,142	100.00%	18,142	168,993	—
Accumulated Outflow of Investment from Taiwan to Mainland China as of June 30, 2017				Investment Amounts Authorized by Investment Commission, MOEA				Upper Limit on Investment				
\$1,021,048				\$1,054,876				\$3,902,409				

Note 1: The methods for investment in Mainland China are divided into the following three types. Please specify the type.

- (1) Direct investment in Mainland China.
- (2) Investment in Mainland China through companies in the third area.
- (3) Others.

Note 2: Significant transactions with the investees in China directly or indirectly through the third area and the relevant prices, payment terms and unrealized gains and losses:

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

TABLE 8: INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS FOR THE SIX MONTHS ENDED JUNE 30, 2017
(In Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counterparty	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Account	Amount (Note 4)	Terms	Percentage to Consolidated Net Revenue or Total Assets (Note 3)
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Sales revenue	\$ 78,641	General trading terms	1.55%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Accounts receivable	80,883	General trading terms	0.68%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Other receivables	60,707	—	0.51%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Other receivables	313,243	Financing	2.65%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Cost of revenue	128,035	General trading terms	2.52%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Accounts payable	102,954	General trading terms	0.87%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Purchase on behalf of others	57,951	—	1.14%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Sales revenue	953,555	General trading terms	18.74%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Accounts receivable	1,266,367	General trading terms	10.72%

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

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

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

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

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

Note 4: This is the ending balance after evaluation.