

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2019 and 2018

Address: No.1, Huanqu 3rd Rd., Kaohsiung Export Processing Zone, Kaohsiung City
Telephone: 886-7-813-9989

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, 2019, December 31, 2018 and June 30, 2018
(Numbers as of June 30, 2019 and 2018 Are Reviewed, Not Audited)
(In Thousands of New Taiwan Dollars)

Assets	Notes	June 30, 2019	December 31, 2018	June 30, 2018
Current assets				
Cash and cash equivalents	4, 6(1)	\$ 1,817,017	\$ 1,862,586	\$ 1,595,602
Financial assets at fair value through profit or loss - current	4, 6(2)	27,431	36,438	33,556
Notes receivable, net	4, 6(3)	1,078,133	1,218,019	1,650,642
Accounts receivable, net	4, 6(4)	2,712,357	3,678,098	3,274,005
Other receivables		163,510	54,605	48,143
Inventories, net	4, 6(5)	1,765,951	1,464,307	2,013,672
Prepayments		113,779	85,594	182,194
Other current assets	8	28,544	25,412	25,708
Total current assets		<u>7,706,722</u>	<u>8,425,059</u>	<u>8,823,522</u>
Non-current assets				
Financial assets at fair value through other comprehensive income - non-current	4, 6(6)	-	-	-
Investments accounted for under the equity method	4, 6(7)	54,694	51,470	49,154
Property, plant and equipment	4, 6(8)	3,143,620	3,020,888	2,816,927
Right-of-use assets	4, 6(21)	409,262	-	-
Intangible assets	4, 6(9,11)	113,657	114,708	117,545
Deferred income tax assets	4, 6(24)	178,069	157,314	149,112
Other non-current assets	4, 6(10)	27,889	172,451	59,600
Total non-current assets		<u>3,927,191</u>	<u>3,516,831</u>	<u>3,192,338</u>
Total assets		<u>\$ 11,633,913</u>	<u>\$ 11,941,890</u>	<u>\$ 12,015,860</u>

(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, 2019, December 31, 2018 and June 30, 2018
(Numbers as of June 30, 2019 and 2018 Are Reviewed, Not Audited)
(In Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	June 30, 2019	December 31, 2018	June 30, 2018
Current liabilities				
Short-term loans	6(12)	\$ 715,912	\$ 1,362,054	\$ 1,245,277
Financial liabilities at fair value through profit or loss - current	4, 6(13)	561	2,656	1,570
Contract liabilities - current	4, 6(19)	234	2,372	203
Notes payable		378	65,772	65,368
Accounts payable		1,221,424	1,672,749	1,790,745
Other payables		1,121,636	640,267	1,078,760
Current income tax liabilities	4, 6(24)	152,888	194,512	138,049
Lease liabilities - current	4, 6(21)	15,353	-	-
Current portion of long-term loans	6(14)	10,900	12,258	18,667
Lease payable - current	6(15)	-	758	708
Other current liabilities		1,428	6,062	3,809
Total current liabilities		<u>3,240,714</u>	<u>3,959,460</u>	<u>4,343,156</u>
Non-current liabilities				
Long-term loans	6(14)	729,146	329,674	300,151
Deferred income tax liabilities	4, 6(24)	120,181	130,944	185,527
Lease liabilities – non-current	4, 6(21)	254,599	-	-
Lease payable – non-current	6(15)	-	1,685	1,649
Net defined benefit liabilities - non-current	4, 6(16)	141,551	138,423	190,373
Other non-current liabilities	4, 12	255	255	255
Total non-current liabilities		<u>1,245,732</u>	<u>600,981</u>	<u>677,955</u>
Total liabilities		<u>4,486,446</u>	<u>4,560,441</u>	<u>5,021,111</u>
Equity attributable to shareholders of the parent				
Capital	6(17)			
Common stock		2,091,197	2,091,197	2,091,197
Capital surplus	6(17)	1,342,358	1,446,639	1,446,616
Retained earnings				
Legal capital reserve		882,821	815,590	815,590
Special capital reserve		166,117	75,546	102,158
Unappropriated earnings		2,697,378	2,999,383	2,510,684
Total retained earnings		<u>3,746,316</u>	<u>3,890,519</u>	<u>3,428,432</u>
Others	4	(146,368)	(166,117)	(88,185)
Total equity attributable to shareholders of the parent		<u>7,033,503</u>	<u>7,262,238</u>	<u>6,878,060</u>
Non-controlling interests	4, 6(17)	113,964	119,211	116,689
Total equity		<u>7,147,467</u>	<u>7,381,449</u>	<u>6,994,749</u>
Total liabilities and equity		<u>\$ 11,633,913</u>	<u>\$ 11,941,890</u>	<u>\$ 12,015,860</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, 2019 and 2018
(Reviewed, Not Audited)
(In Thousands of New Taiwan Dollars)

	Notes	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
		<u>June 30</u>		<u>June 30</u>	
		2019	2018	2019	2018
Net revenue	4, 6(19)	\$ 2,078,181	\$ 2,385,567	\$ 3,450,882	\$ 4,385,153
Cost of revenue	4, 6(5)	(1,548,305)	(1,855,493)	(2,764,136)	(3,460,880)
Gross profit		<u>529,876</u>	<u>530,074</u>	<u>686,746</u>	<u>924,273</u>
Operating expenses	4, 6(22)				
Sales and marketing expenses		(98,223)	(113,401)	(181,134)	(213,754)
General and administrative expenses		(115,703)	(119,198)	(191,549)	(206,722)
Research and development expenses		(76,191)	(63,343)	(124,903)	(119,361)
Expected credit gain	6(20)	456	9,734	342	38,986
Total operating expenses		<u>(289,661)</u>	<u>(286,208)</u>	<u>(497,244)</u>	<u>(500,851)</u>
Operating income		<u>240,215</u>	<u>243,866</u>	<u>189,502</u>	<u>423,422</u>
Non-operating income and expenses	6(23)				
Other income		143,058	10,117	206,021	19,243
Other gains and losses		(25,334)	(29,076)	(27,250)	(62,101)
Finance costs		(3,346)	(16,164)	(8,226)	(30,599)
Share of profit or loss of associates under the equity method	4, 6(7)	(3,927)	7,257	(7,125)	17,378
Total non-operating income and expenses		<u>110,451</u>	<u>(27,866)</u>	<u>163,420</u>	<u>(56,079)</u>
Income before income tax		350,666	216,000	352,922	367,343
Income tax expense	4, 6(24)	(72,370)	(55,208)	(84,217)	(108,303)
Net income of continuing operations		<u>278,296</u>	<u>160,792</u>	<u>268,705</u>	<u>259,040</u>
Net income		<u>278,296</u>	<u>160,792</u>	<u>268,705</u>	<u>259,040</u>
Other comprehensive income (loss)	6(23)				
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations		(27,412)	(25,531)	24,792	11,607
Income tax related to components of other comprehensive income that may be reclassified subsequently to profit or loss		5,482	5,106	(4,959)	(169)
Total other comprehensive income, net of tax		<u>(21,930)</u>	<u>(20,425)</u>	<u>19,833</u>	<u>11,438</u>
Total comprehensive income		<u>\$ 256,366</u>	<u>\$ 140,367</u>	<u>\$ 288,538</u>	<u>\$ 270,478</u>
Net income attributable to:	4, 6(25)				
Shareholders of the parent		\$ 281,201	\$ 157,675	\$ 274,036	\$ 254,612
Non-controlling interests		(2,905)	3,117	(5,331)	4,428
		<u>\$ 278,296</u>	<u>\$ 160,792</u>	<u>\$ 268,705</u>	<u>\$ 259,040</u>
Total comprehensive income (loss) attributable to:					
Shareholders of the parent		\$ 259,356	\$ 137,345	\$ 293,785	\$ 266,001
Non-controlling interests		(2,990)	3,022	(5,247)	4,477
		<u>\$ 256,366</u>	<u>\$ 140,367</u>	<u>\$ 288,538</u>	<u>\$ 270,478</u>
Earnings per share (NT\$)	4, 6(25)				
Earnings per share - basic		\$ 1.34	\$ 0.76	\$ 1.31	\$ 1.22
Earnings per share - diluted		\$ 1.34	\$ 0.75	\$ 1.31	\$ 1.21

(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, 2019 and 2018

(Reviewed, Not Audited)

(In Thousands of New Taiwan Dollars)

	Equity Attributable to Shareholders of the Parent										
	Retained Earnings						Others				
	Common Stock	Capital Collected in Advance	Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Unrealized Valuation Gain/Loss on Financial Assets at FVTOCI*	Total	Non-Controlling Interests	Total Equity
Balance as of January 1, 2018	\$ 2,087,802	\$ 665	\$ 1,441,339	\$ 742,131	\$ 102,158	\$2,845,730	\$ (92,974)	\$ -	\$ 7,126,851	\$ 112,212	\$ 7,239,063
Effect of retrospective application						6,600		(6,600)	-		-
Appropriation and distribution of 2017 earnings											
Legal capital reserve				73,459		(73,459)			-		-
Cash dividends for common stocks						(522,799)			(522,799)		(522,799)
Changes in other capital surplus											
Changes in associates accounted for under the equity method			(1,576)						(1,576)		(1,576)
Share-based payment	3,395	(665)	6,853						9,583		9,583
Net income for the six months ended June 30, 2018						254,612			254,612	4,428	259,040
Other comprehensive income (loss) for the six months ended June 30, 2018							11,389		11,389	49	11,438
Total comprehensive income	-	-	-	-	-	254,612	11,389	-	266,001	4,477	270,478
Balance as of June 30, 2018	\$ 2,091,197	\$ -	\$ 1,446,616	\$ 815,590	\$ 102,158	\$2,510,684	\$ (81,585)	\$ (6,600)	\$ 6,878,060	\$ 116,689	\$ 6,994,749
Balance as of January 1, 2019	\$ 2,091,197	\$ -	\$ 1,446,639	\$ 815,590	\$ 75,546	\$2,999,383	\$ (159,517)	\$ (6,600)	\$ 7,262,238	\$ 119,211	\$ 7,381,449
Appropriation and distribution of 2018 earnings											
Legal capital reserve				67,231		(67,231)			-		-
Special capital reserve					90,571	(90,571)			-		-
Cash dividends for common stocks						(418,239)			(418,239)		(418,239)
Changes in other capital surplus											
Changes in associates accounted for under the equity method			279						279		279
Cash dividends from capital surplus			(104,560)						(104,560)		(104,560)
Net income for the six months ended June 30, 2019						274,036			274,036	(5,331)	268,705
Other comprehensive income (loss) for the six months ended June 30, 2019							19,749		19,749	84	19,833
Total comprehensive income	-	-	-	-	-	274,036	19,749	-	293,785	(5,247)	288,538
Balance as of June 30, 2019	\$ 2,091,197	\$ -	\$ 1,342,358	\$ 882,821	\$ 166,117	\$2,697,378	\$ (139,768)	\$ (6,600)	\$ 7,033,503	\$ 113,964	\$ 7,147,467

*FVTOCI = Fair value through other comprehensive income

(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, 2019 and 2018
(Reviewed, Not Audited)
(In Thousands of New Taiwan Dollars)

	Six Months Ended June 30	
	2019	2018
Cash flows from operating activities:		
Income before income tax	\$ 352,922	\$ 367,343
Adjustments:		
Non-cash income and expense items:		
Depreciation	165,092	142,465
Amortization	13,509	14,935
Expected credit loss (gain)	(342)	(38,986)
Net loss of financial assets (liabilities) at fair value through profit or loss	14,944	14,404
Interest expense	8,226	30,599
Interest income	(7,251)	(8,604)
Share of loss (profit) of associates under the equity method	7,125	(17,378)
Loss on disposal of property, plant and equipment	28,950	379
Impairment loss for non-financial assets	18,352	-
Gain on reversal of impairment loss for non-financial assets	-	(32,332)
Others	5,475	89,702
Changes in operating assets and liabilities:		
Increase in financial assets mandatorily at fair value through profit or loss	(8,032)	(42,278)
Decrease in notes receivable	139,886	377,136
Decrease (increase) in accounts receivable	965,472	(486,873)
(Increase) decrease in other receivables	(110,324)	7,925
Increase in inventories	(307,433)	(394,218)
Increase in prepayments	(31,162)	(86,564)
(Increase) decrease in other current assets	(3,132)	1,038
Decrease in other non-current assets	1,856	-
Decrease in contract liabilities	(2,138)	(2,368)
(Decrease) increase in notes payable	(65,394)	65,044
Decrease in accounts payable	(451,325)	(625,787)
Decrease in other payables	(63,923)	(96,273)
(Decrease) increase in other current liabilities	(4,634)	508
Increase in net defined benefit liabilities	3,128	6,249
Cash generated from (used in) operations	<u>669,847</u>	<u>(713,934)</u>
Interest received	8,670	8,401
Interest paid	(8,286)	(29,585)
Income tax paid	<u>(162,388)</u>	<u>(96,714)</u>
Net cash generated by (used in) operating activities	<u>507,843</u>	<u>(831,832)</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, 2019 and 2018
(Reviewed, Not Audited)
(In Thousands of New Taiwan Dollars)

	Six Months Ended June 30	
	2019	2018
Cash flows from investing activities:		
Acquisition of investments accounted for under the equity method	\$ (10,000)	\$ -
Acquisition of property, plant and equipment	(314,825)	(176,938)
Disposal of property, plant and equipment	18,930	651
Decrease in refundable deposits	766	7,166
Acquisition of intangible assets	(7,597)	(5,553)
Net cash used in investing activities	(312,726)	(174,674)
 Cash flows from financing activities:		
Increase in short-term loans	-	588,681
Decrease in short-term loans	(646,142)	-
Increase in long-term loans	398,114	63,122
Decrease in lease payable	-	(970)
Repayment of lease principal	(8,254)	-
Exercise of employee stock options	-	9,583
Net cash (used in) provided by financing activities	(256,282)	660,416
 Effect of exchange rate changes on cash and cash equivalents	15,596	7,416
Net decrease in cash and cash equivalents	(45,569)	(338,674)
Cash and cash equivalents at beginning of period	1,862,586	1,934,276
Cash and cash equivalents at end of period	\$ 1,817,017	\$ 1,595,602

(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, 2019 and 2018 and the Year Ended December 31, 2018

(Numbers for the Six Months Ended June 30, 2019 and 2018 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 August, 1997. Its main operations consist of manufacturing, research and development, and selling of flexible copper-clad laminate, cover layer and PV module backsheet. The shares of the Company commenced trading on Taipei Exchange 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, 2019 and 2018 were approved and authorized for issue in the Board of Directors’ meeting on July 30, 2019.

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, 2019. The first-time adoption does not have any material impact on the Group except for the following descriptions on the nature and the impact of the newly issued or revised standards and interpretations:

A. IFRS 16 “Leases”

IFRS 16 “Leases” replaces IAS 17 “Leases”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, SIC 15 “Operating Leases – Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

The Group adopts the transitional provisions of IFRS 16 and the initial application date is January 1, 2019. The impact of first-time adoption of IFRS 16 is as follows:

- (a) Please refer to Note 4 for accounting policies adopted by the Group after and prior to January 1, 2019.
- (b) Definition of leases: The Group elects not to reevaluate whether contracts are (or contain) leases on January 1, 2019. Contracts previously identified as leases under IAS 17 and IFRS 4 are now subject to IFRS 16. For contracts previously identified as not containing leases under IAS 17 and IFRS 4, IFRS 16 does not apply. In other words, the Group applies IFRS 16 only to contracts entered into (or amended) after January 1, 2019 to determine whether they are (or contain) leases. Comparing to IAS 17, IFRS 16 stipulates that if a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the contract is defined as (or contains) a lease. The adoption of new definition for leases will not have a significant effect on the Group’s assessment of whether the contracts are (or contain) leases in most circumstance.

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

(Reviewed, not Audited)

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

(c) The Group being a lessee: The Group elects not to restate the comparative information in accordance with the transitional provisions of IFRS 16 and recognizes cumulative effect of initial application as an adjustment to the opening balance of retained earnings (or other component of equity, if appropriate) on January 1, 2019.

i. Leases classified as operating lease previously

The Group measures leases classified as operating leases under IAS 17 by the present value of remaining lease payments (discounted using the incremental borrowing rate of lessee as of January 1, 2019) and recognizes lease liabilities on January 1, 2019. In addition, the right-of-use assets are measured and recognized on a lease-by-lease basis using one of the following amounts:

- (i) the carrying amount of the right-of-use assets as if IFRS 16 has applied since the beginning of leases. However, the amount shall be discounted by the incremental borrowing rate of lessee as of January 1, 2019, or
- (ii) the amount of lease liabilities, adjusted for all prepaid or accrued lease payments associated with the leases (recognized in the balance sheets immediately before January 1, 2019).

The Group's right-of-use assets and lease liabilities increased by NT\$271,336 thousand and NT\$271,336 thousand, respectively, on January 1, 2019.

Also, for operating leases under IAS 17 where rents are paid in full, the long-term prepaid rents of NT\$140,351 thousand were reclassified to right-of-use assets on January 1, 2019.

The Group adopts the transitional provisions of IFRS 16 and applies the following practical expedients to leases previously classified as operating leases on a lease-by-lease basis:

- (i) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- (ii) Use the assessment of whether the leases are onerous immediately before January 1, 2019 as an alternative for impairment assessment
- (iii) Elect to account for leases terminating within 12 months from January 1, 2019 as short-term leases.
- (iv) Initial direct costs are excluded from the measurement of right-of-use assets as of January 1, 2019.
- (v) Use hindsight on matters such as determining the lease term (if the contract contains options to extend or terminate the lease).

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

(Reviewed, not Audited)

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

ii. Leases classified as finance lease previously

For leases classified as finance leases under IAS 17, the Group reclassified lease assets of NT\$2,245 thousand and lease payable of NT\$2,443 thousand recognized previously under IAS 17 to right-of-use assets of NT\$2,245 thousand and lease liabilities of NT\$2,443 thousand, respectively, on January 1, 2019.

iii. Please refer to Notes 4 and 6 for additional disclosures on lessee as required under IFRS 16.

iv. The impact of first-time adoption of IFRS 16 on financial statements as of January 1, 2019 was as follows:

(i) The weighted average incremental borrowing rate of lessee applied to lease liabilities on the balance sheet as of January 1, 2019 was 1.797% ~ 3.500 %.

(ii) Explanations on the difference of NT\$10,065 thousand between operating lease commitments disclosed under IAS 17 as of December 31, 2018, discounted using the incremental borrowing rate as of January 1, 2019 and the lease liabilities recognized on the balance sheet as of January 1, 2019 were as follows:

Operating lease commitments disclosed under IAS 17 as of December 31, 2018	\$84,490
Discounted using the incremental borrowing rate as of January 1, 2019	74,425
Add: Lease payable as of December 31, 2018	2,443
Add: Adjustments as it is reasonably certain that the option to extend and to terminate a lease will be exercised	196,911
Lease liabilities as of January 1, 2019	\$273,779

(d) No adjustments are performed for the Group being a lessor. Please refer to Notes 4 and 6 for additional disclosures on lessor.

(2) The Group has not adopted the following new, revised and amended standards or interpretations issued by International Accounting Standards Board (IASB) and endorsed by FSC:

No.	Projects of New or Amended Standards or Interpretations	Effective Date
IFRS 3	Definition of a Business	January 1, 2020
IAS 1 and IAS 8	Definition of Material	January 1, 2020

A. Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business under IFRS 3 “Business Combinations”, assisting enterprises in identifying whether a transaction shall be accounted for as a business combination or acquisition of assets. IFRS 3 continues to adopt market participants’ perspective in determining whether the activities or assets acquired are considered a business. Actions taken include clarifying the minimum

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

(Reviewed, not Audited)

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

requirements of a business, adding guidance to help enterprises assessing whether the acquisition process is material, and narrowing the definitions of a business and outputs.

B. Definition of Material (Amendments to IAS 1 and IAS 8)

Information is considered material if it can be reasonably expected that the omission, misstatement or obscurity of such information would have effect on decisions made by primary users of general-purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. Enterprises shall determine whether the information, either individually or combined with other information, is material in the financial statements. If information can be reasonably expected to have effect on primary users, the misstatement of such information is considered material.

The abovementioned new, revised and amended standards or interpretations are issued by IASB and endorsed by FSC to take effect from January 1, 2020. The adoption of these new, revised and amended standards and interpretations will not have a significant effect on the Group.

- (3) As of the date of issuance of the financial statements, the Group has not adopted the following new, revised and amended standards or interpretations issued by IASB and but not yet endorsed by FSC:

No.	Projects of New or Amended Standards or Interpretations	Effective Date
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by IASB
IFRS 17	Insurance Contracts	January 1, 2021

Items with potential effects on the Group's financial statements due to the adoption of above standards or interpretations, which are issued by IASB but not yet endorsed by FSC, in the future periods are listed below:

A. 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" and IAS 28 "Investments in Associates and Joint Ventures" in relation to the loss of control over 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 or 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 over a subsidiary. The amendments place restrictions on the above-mentioned rules of IAS 28. The gains or losses from the sale or contribution of assets defined as a business under IFRS 3 shall be recognized in full.

The amendments also change IFRS 10 so that gains or losses arising from the sale or contributions of a subsidiary that does 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.

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The Group currently assesses the potential effects of the new, revised and amended standards or interpretations in the preceding paragraphs on the financial status and performance of the Group. The outcome will be disclosed upon completion of the assessment.

4. Summary of Significant Accounting Policies

(1) Statement of compliance

The consolidated financial statements for the six months ended June 30, 2019 and 2018 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 issued into effect by FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statements

The Group adopts the same preparation principle as the one used in the preparation of consolidated financial statements for the year ended December 31, 2018. Please refer to the consolidated financial statements for the year ended December 31, 2018 for details.

The consolidated entities are listed as follows:

Investor	Subsidiary	Main Business	Percentage of Ownership		
			2019.6.30	2018.12.31	2018.6.30
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 and technical support of electronic materials	100.00%	100.00%	100.00%
The Company	Taiflex USA Corporation (USA Taiflex)	Technical support and marketing of electronic materials	100.00%	100.00%	100.00%
The Company	Richstar Co., Ltd. (Richstar)	Investment holding	56.93%	53.01%	31.10%
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	- (Note)	- (Note)	100.00%

(Continued)

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Investor	Subsidiary	Main Business	Percentage of Ownership		
			2019.6.30	2018.12.31	2018.6.30
TSC	Taiflex Scientific (Kunshan) Co., Ltd. (Taiflex Kunshan)	Manufacturing and selling of coating materials for high polymer film and copper foil	100.00%	100.00%	100.00%
TFS	Richstar Co., Ltd. (Richstar)	Investment holding	43.07%	46.99%	68.90%
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%
Richstar	Rudong Fuzhan Scientific Co., Ltd. (Rudong Fuzhan)	Manufacturing and selling of electronic materials	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)	A wholesaler and a commission agent of electronic materials and components	100.00%	100.00%	100.00%

(Concluded)

Note: The liquidation of Kunshan Taiflex Electronic Material Co., Ltd. was completed by August, 2018.

The financial statements of some immaterial subsidiaries in the consolidated entities above were not reviewed by auditors. The total assets of those subsidiaries amounted to NT\$437,863 thousand and NT\$617,321 thousand, and the total liabilities were NT\$160,707 thousand and NT\$128,230 thousand as of June 30, 2019 and 2018, respectively. The total comprehensive income (loss) amounted to NT\$(5,532) thousand and NT\$1,818 thousand for the three months ended June 30, 2019 and 2018, respectively; and NT\$(10,479) thousand and NT\$3,693 thousand for the six months ended June 30, 2019 and 2018, respectively.

- (4) Except for the following accounting policies, the consolidated financial statements for the six months ended June 30, 2019 and 2018 adopt the same accounting policies as the ones used in the consolidated financial statements for the year ended December 31, 2018. Please refer to the consolidated financial statements for the year ended December 31, 2018 for a summary of other significant accounting policies.

A. Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of property, plant and equipment with a cost that is significant in relation to the total cost is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts separately as individual assets with specific useful lives

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and depreciation methods. The carrying amount of those parts is derecognized in accordance with the provisions of IAS 16 “Property, Plant and Equipment.” When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement cost if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

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

Buildings	20 to 50 years
Machinery and equipment	10 years
Hydropower equipment	5 to 20 years
Testing equipment	10 years
Right-of-use assets/Lease assets (Note)	2 to 50 years
Miscellaneous equipment	5 to 10 years

Note: The Group adopts IFRS 16 on January 1, 2019 and reclassifies lease assets to right-of-use assets.

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

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

B. Leases

(a) The accounting treatment from January 1, 2019 is as follows:

For contracts established after January 1, 2019, the Group assesses whether the contracts are (or contain) leases. If a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the contract is defined as a lease or contains a lease. To assess if a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether the following two conditions are met during the period of use:

- i. Having the right to obtain substantially all of the economic benefits from the use of identified asset; and
- ii. Having the right to direct the use of identified asset.

The Group elects not to reevaluate whether contracts are (or contain) leases on January 1, 2019. Contracts previously identified as leases under IAS 17 and IFRS 4 are now subject to IFRS 16. For contracts previously identified as not containing leases under IAS 17 and IFRS 4, IFRS 16 does not apply.

For contracts that are (or contain) leases, the Group accounts for each lease component as a lease and handles separately from the non-lease components within the contracts. For contracts that contain one lease component and one or more

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additional lease or non-lease components, the Group allocates the consideration in the contracts to the lease component on the basis of the relative stand-alone price of each lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone prices of lease and non-lease components are determined based on the prices that the lessor (or a similar supplier) would charge for those components (or similar components) separately. If an observable stand-alone price is not readily available, the Group would maximize the use of observable information to estimate the stand-alone price.

The Group being a lessee

Except for short-term leases or leases of low value assets, when the Group is a lessee to lease contracts, it recognizes right-of-use assets and lease liabilities for all leases.

On the commencement date, the Group measures lease liabilities by the present value of outstanding lease payments. If the interest rate implicit in the lease can be readily determined, lease payments would be discounted using this rate. If the rate cannot be readily determined, the Group would use the incremental borrowing rate of lessee. On the commencement date, lease payments for lease liabilities include the following outstanding payments which are related to the right to use the underlying asset during the lease term:

- i. Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- ii. Variable lease payments that are determined by an index or a rate (adopting the initial measurement of the index or rate on the commencement date);
- iii. Amounts expected to be paid by the lessee under residual value guarantees;
- iv. The exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- v. Penalties to be paid for terminating the lease, if the lease term reflects that the lessee will exercise the option to terminate the lease.

After the commencement date, the Group measures lease liabilities on amortized cost basis. It increases the carrying amount of lease liabilities via the effective interest method to reflect the interest of lease liabilities. The carrying amount of lease liabilities is reduced when lease payments are made.

The Group measures right-of-use assets at cost on the commencement date. The costs of right-of-use assets include:

- i. The initial measurement amount of lease liabilities;
- ii. All lease payments made on or before the commencement date, less any lease incentives received;
- iii. Any initial direct costs incurred by the lessee; and
- iv. The estimated costs for the lessee to dismantle and remove the underlying asset and restore its original location or to restore the underlying asset to the conditions required by the lease terms and conditions.

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The right-of-use assets are subsequently measured at cost less accumulated depreciation and accumulated impairment losses, i.e. the cost model is adopted to measure the right-of-use assets.

If the underlying assets' ownership is transferred to the Group at the end of lease term, or the cost of right-of-use assets reflects the fact that the Group will exercise the purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of underlying assets' useful life. Otherwise, the Group depreciates the right-of-use assets from the commencement date to the end of underlying assets' useful life or the end of lease term, whichever is earlier.

The Group applies IAS 36 "Impairment of Assets" to determine whether the right-of-use assets are impaired and account for any impairment loss identified.

Except for short-term leases or leases of low value assets, the Group recognizes right-of-use assets and lease liabilities on the balance sheets and lease-related depreciation and interest expenses on the statements of comprehensive income.

For short-term leases or leases of low value assets, the Group elects to adopt the straight-line basis or another systematic basis to recognize the lease payments associated with the leases as expenses during the lease terms.

The Group being a lessor

On the date the contract is established, the Group classifies each lease as an operating or finance lease. If the lease transfers substantially all of the risks and rewards incidental to the underlying asset's ownership, it is classified as a finance lease; otherwise, it is classified as an operating lease. On the commencement date, the Group recognizes its assets under finance leases at net investment amounts on the balance sheet as finance lease receivable.

For contracts that contain lease and non-lease components, the Group adopts IFRS 15 to allocate the considerations of contracts.

The Group adopts the straight-line basis or another systematic basis to recognize lease payments from operating leases as rent income. Variable lease payments under operating leases that are not determined by an index or a rate are recognized as rent income as incurred.

- (b) The accounting treatment prior to January 1, 2019 is as follows:

The Group being a lessee

A finance lease transfers substantially all of the risks and rewards associated with the underlying asset's ownership to the Group and on the commencement date, the lower of the fair value of lease assets or the present value of minimum lease payments is capitalized. Rent payments are allocated to financing expense and decreases in lease liabilities. The financing expense is determined by the balance of residual liabilities at a fixed interest rate and recognized in profit or loss.

Lease assets are depreciated over the assets' useful lives. However, if it cannot be reasonably certain that the Group will obtain the ownership of the assets at the end of lease term, depreciation is recognized over the shorter of the assets' useful lives

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or lease term.

Lease payments under operating leases are recognized as expenses using the straight-line method during the lease term.

The Group being a lessor

Leases where the Group does not transfer substantively all of the risks and rewards of the underlying assets' ownership are classified as operating leases. Initial direct costs arising from setting up the operating leases are recognized as an addition to the carrying amount of lease assets and on the same basis as rent income during the lease term. Rent income from operating leases are accounted for using the straight-line method over the lease term. Contingent rents are recognized as income as earned.

5. Significant Accounting Judgments and Major Sources of Estimation Uncertainty

The same significant accounting judgments, estimates, and assumptions have been followed in the consolidated financial statements for the six months ended June 30, 2019 and 2018 as were applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2018. For the summary of significant accounting judgments, estimates, and assumptions, please refer to the consolidated financial statements for the year ended December 31, 2018.

6. Details of Significant Accounts

(1) Cash and cash equivalents

	June 30, 2019	December 31, 2018	June 30, 2018
Cash on hand and petty cash	\$ 823	\$ 688	\$ 657
Bank deposits	1,816,194	1,861,898	1,594,945
Total	<u>\$ 1,817,017</u>	<u>\$ 1,862,586</u>	<u>\$ 1,595,602</u>

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

	June 30, 2019	December 31, 2018	June 30, 2018
Mandatorily at fair value through profit or loss:			
Derivative instruments not designated in a hedging relationship			
- Forward foreign exchange contracts	\$ 1,950	\$ 13,659	\$ 12,933
- Foreign exchange swap contracts	171	-	162
- Cross-currency swap contracts	-	2,358	3,299
Stocks	25,310	20,421	17,162
Total	<u>\$ 27,431</u>	<u>\$ 36,438</u>	<u>\$ 33,556</u>

The Group's financial assets at fair value through profit or loss were not pledged.

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(3) Notes receivable

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Notes receivable, net	\$ 1,078,133	\$ 1,218,019	\$ 1,650,642

The Group's notes receivables were not pledged.

The Group adopted IFRS 9 for impairment assessment. Please refer to Note 6(20) for details on loss allowance and Note 12 for credit risk.

(4) Accounts receivable

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Accounts receivable	\$ 2,790,255	\$ 3,755,856	\$ 3,451,250
Less: loss allowance	(77,898)	(77,758)	(177,245)
Net	<u>\$ 2,712,357</u>	<u>\$ 3,678,098</u>	<u>\$ 3,274,005</u>

A. The Group's accounts receivables were not pledged.

B. The credit terms of accounts receivable are generally set at 60 to 150 days from the end of month. The gross carrying amounts were NT\$2,790,255 thousand, NT\$3,755,856 thousand and NT\$3,451,250 thousand as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively. Please refer to Note 6(20) for loss allowance for the six months ended June 30, 2019 and 2018 and Note 12 for credit risk.

C. The Group entered into factoring agreements without recourse with banks. The banks would engage in factoring with respect to accounts receivable selected. The Group had no factoring agreements as of June 30, 2019 and December 31, 2018. Factoring details as of June 30, 2018 were as follows:

June 30, 2018			
Amount of Accounts Receivable	Amount of Factoring	Condition	Unreceived Amount (Recorded as Other Receivables)
US\$2,134 thousand	US\$2,134 thousand	Without recourse	-

(5) Inventories

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Raw materials	\$ 646,934	\$ 572,527	\$ 683,882
Inventories in transit	41,421	81,199	90,976
Supplies	6,924	8,568	10,235
Work in process	53,515	52,921	150,287
Finished goods	675,915	426,139	688,050
Merchandise	341,242	322,953	390,242
Total	<u>\$ 1,765,951</u>	<u>\$ 1,464,307</u>	<u>\$ 2,013,672</u>

For the three months and six months ended June 30, 2019 and 2018, 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\$111,775 thousand, NT\$2,979 thousand, NT\$8,847 thousand and NT\$23,571 thousand, respectively.

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The aforementioned inventories were not pledged.

(6) Financial assets at fair value through other comprehensive income

	June 30, 2019	December 31, 2018	June 30, 2018
Equity instrument investments at fair value through other comprehensive income – non-current:			
Non-publicly traded stocks	\$ —	\$ —	\$ —

The said financial assets at fair value through other comprehensive income were not pledged.

(7) Investments accounted for under the equity method

Investee	June 30, 2019		December 31, 2018		June 30, 2018	
	Amount	Percentage of Ownership	Amount	Percentage of Ownership	Amount	Percentage of Ownership
Investments in associates:						
Innovision FlexTech Corp.	\$ 45,691	15.07%	\$ 51,470	15.07%	\$ 49,154	15.07%
Geckos Technology Corp.	9,003	33.22%	—		—	
Total	\$ 54,694		\$ 51,470		\$ 49,154	

The aforementioned investments accounted for under the equity method were not pledged.

A. The shares of profit or loss of associates accounted for under the equity method based on the investees' unaudited financial statements of the same periods for the three months and six months ended June 30, 2019 and 2018 were as follows:

Investee	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Innovision FlexTech Corp.	\$ (2,698)	\$ (2,864)	\$ (5,796)	\$ 7,257
Geckos Technology Corp.	(1,229)	—	(1,329)	—
Total	\$ (3,927)	\$ (2,864)	\$ (7,125)	\$ 7,257

B. The Group accounted for Innovision FlexTech Corp. (Innovision) using the equity method as it had significant influence over the investee through ownership and representation on Innovision's board of directors.

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

	June 30, 2019	December 31, 2018	June 30, 2018
Total assets	\$ 558,429	\$ 471,150	\$ 436,198
Total liabilities	\$ 241,647	\$ 129,608	\$ 110,026

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Revenue	\$ 37,448	\$ 97,683	\$ 57,883	\$ 167,695
Net income	\$ (22,220)	\$ 26,998	\$ (43,876)	\$ 56,917

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(8) Property, plant and equipment

	June 30, 2019	December 31, 2018 (Note)	June 30, 2018 (Note)
Owner-occupied property, plant and equipment	\$3,143,620		

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

A. Owner-occupied property, plant and equipment (subject to IFRS 16)

	As of January 1, 2019	Additions	Disposals	Reclassification	Impairment Loss	Effect of Exchange Rate Changes	As of June 30, 2019
<u>Cost</u>							
Land	\$ 100,843	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 100,843
Buildings	1,692,479	3,847	—	16,213	—	5,270	1,717,809
Machinery and equipment	2,711,297	88,743	(66,727)	87,200	—	4,426	2,824,939
Hydropower equipment	485,254	1,395	(73,239)	8,384	—	1,528	423,322
Testing equipment	296,469	11,345	(5,355)	39,063	—	273	341,795
Miscellaneous equipment	380,600	2,524	(45,699)	1,065	—	845	339,335
Total	\$ 5,666,942	\$ 107,854	\$(191,020)	\$ 151,925	\$ —	\$ 12,342	\$ 5,748,043
<u>Accumulated depreciation and impairment</u>							
Buildings	\$ 538,473	\$ 36,147	\$ —	\$ —	\$ —	\$ 1,766	\$ 576,386
Machinery and equipment	1,787,283	84,085	(39,631)	—	18,352	2,991	1,853,080
Hydropower equipment	298,923	10,355	(55,670)	—	—	947	254,555
Testing equipment	145,408	14,021	(4,770)	—	—	180	154,839
Miscellaneous equipment	289,430	9,371	(43,069)	—	—	655	256,387
Total	\$3,059,517	\$ 153,979	\$(143,140)	\$ —	\$ 18,352	\$ 6,539	\$3,095,247
Construction in progress and equipment awaiting inspection	411,218	229,524	—	(151,925)	—	2,007	490,824
Net	\$3,018,643						\$3,143,620

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B. Property, plant and equipment (prior to the adoption of IFRS 16)

	As of January 1, 2018	Additions	Disposals	Reclassification	Impairment Loss	Effect of Exchange Rate Changes	As of June 30, 2018
<u>Cost</u>							
Land	\$ 100,843	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 100,843
Buildings	1,438,659	1,450	(213)	241,394	—	2,632	1,683,922
Machinery and equipment	2,552,155	23,071	(13,961)	49,126	—	2,198	2,612,589
Hydropower equipment	398,778	4,717	—	58,919	—	746	463,160
Testing equipment	251,175	6,423	—	27,874	—	120	285,592
Miscellaneous equipment	363,839	5,645	(4,276)	14,188	—	429	379,825
Total	<u>\$ 5,105,449</u>	<u>\$ 41,306</u>	<u>\$(18,450)</u>	<u>\$ 391,501</u>	<u>\$ —</u>	<u>\$ 6,125</u>	<u>\$5,525,931</u>
<u>Accumulated depreciation and impairment</u>							
Buildings	\$ 472,442	\$ 35,139	\$ (213)	\$ —	\$ 37,376	\$ 337	\$ 545,081
Machinery and equipment	1,656,133	74,434	(13,961)	—	45,494	927	1,763,027
Hydropower equipment	280,635	10,194	—	—	—	403	291,232
Testing equipment	123,002	12,350	—	—	—	72	135,424
Miscellaneous equipment	281,807	10,348	(3,246)	—	(814)	277	288,372
Total	<u>\$ 2,814,019</u>	<u>\$ 142,465</u>	<u>\$(17,420)</u>	<u>\$ —</u>	<u>\$ 82,056</u>	<u>\$ 2,016</u>	<u>\$3,023,136</u>
Construction in progress and equipment awaiting inspection	585,028	120,368	—	(391,501)	—	237	314,132
Net	<u>\$ 2,876,458</u>						<u>\$ 2,816,927</u>

Please refer to Note 8 for property, plant and equipment pledged.

(9) Intangible assets

	June 30, 2019	December 31, 2018	June 30, 2018
Trademarks	\$ 342	\$ 354	\$ 355
Patents	8,208	6,848	6,847
Software cost	35,326	37,725	40,562
Goodwill	69,781	69,781	69,781
Total	<u>\$ 113,657</u>	<u>\$ 114,708</u>	<u>\$ 117,545</u>

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	As of January 1, 2019	Additions	Reclassification	Effect of Exchange Rate Changes	As of June 30, 2019
<u>Cost</u>					
Trademarks	\$ 672	\$ 19	\$ —	\$ —	\$ 691
Patents	45,022	1,844	—	—	46,866
Software cost	138,319	5,734	—	245	144,298
Goodwill	69,781	—	—	—	69,781
Total	<u>\$ 253,794</u>	<u>\$ 7,597</u>	<u>\$ —</u>	<u>\$ 245</u>	<u>\$ 261,636</u>
<u>Accumulated amortization and impairment</u>					
Trademarks	\$ 318	\$ 31	\$ —	\$ —	\$ 349
Patents	38,174	484	—	—	38,658
Software cost	100,594	8,203	—	175	108,972
Total	<u>139,086</u>	<u>\$ 8,718</u>	<u>\$ —</u>	<u>\$ 175</u>	<u>147,979</u>
Net	<u>\$ 114,708</u>				<u>\$ 113,657</u>
	As of January 1, 2018	Additions	Reclassification	Effect of Exchange Rate Changes	As of June 30, 2018
<u>Cost</u>					
Trademarks	\$ 672	\$ —	\$ —	\$ —	\$ 672
Patents	44,247	775	—	—	45,022
Software cost	128,557	4,778	(43)	75	133,367
Goodwill	69,781	—	—	—	69,781
Total	<u>\$ 243,257</u>	<u>\$ 5,553</u>	<u>\$ (43)</u>	<u>\$ 75</u>	<u>\$ 248,842</u>
<u>Accumulated amortization and impairment:</u>					
Trademarks	\$ 258	\$ 59	\$ —	\$ —	\$ 317
Patents	36,467	1,708	—	—	38,175
Software cost	85,154	7,611	—	40	92,805
Total	<u>121,879</u>	<u>\$ 9,378</u>	<u>\$ —</u>	<u>\$ 40</u>	<u>131,297</u>
Net	<u>\$ 121,378</u>				<u>\$ 117,545</u>

(10) Other non-current assets

	June 30, 2019	December 31, 2018	June 30, 2018
Long-term prepaid rents (Land use rights)	— (Note)	\$ 137,374	\$ 20,045
Refundable deposits	\$ 16,113	16,879	16,934
Other non-current assets - other	11,776	18,198	22,621
Total	<u>\$ 27,889</u>	<u>\$ 172,451</u>	<u>\$ 59,600</u>

Note: The Group adopted IFRS 16 on January 1, 2019 and reclassified prepaid rents to right-of-use assets. It also chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

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(11) Impairment testing of goodwill

The Company did not have intangible assets with indefinite useful lives. Goodwill acquired through business combinations was allocated to each of the 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 had been updated to reflect the change in demand of relevant products. Based on the impairment evaluation of recoverable amount of goodwill on December 31, 2018, the Company did not identify any impairment for goodwill.

(12) Short-term loans

	June 30, 2019	December 31, 2018	June 30, 2018
Unsecured bank loans	\$ 715,912	\$ 1,362,054	\$ 1,245,277

The interest rate ranges of loans were 0.74% to 1.89%, 0.74% to 3.50% and 0.76% to 4.79% as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively.

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

	June 30, 2019	December 31, 2018	June 30, 2018
Held for trading:			
Derivative financial instruments not designated in a hedging relationship			
- Forward foreign exchange contracts	\$ 561	\$ 2,471	\$ 1,570
- Foreign exchange swap contracts	-	185	-
Total	\$ 561	\$ 2,656	\$ 1,570

(14) Long-term loans

	June 30, 2019	December 31, 2018	June 30, 2018
Secured loans	\$ 40,046	\$ 46,932	\$ 54,495
Revolving loans	700,000	295,000	264,323
Syndicated loans	-	-	-
Total	740,046	341,932	318,818
Less: current portion	(10,900)	(12,258)	(18,667)
Less: unamortized syndicated loan fee	-	-	-
Net	\$ 729,146	\$ 329,674	\$ 300,151

A. The interest rate ranges of loans were 0.83% to 1.79%, 0.88% to 1.97% and 0.78% to 1.97% as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively.

B. Please refer to Note 8 for collateral of the long-term loans.

C. In January 2016, the Group entered into a syndicated loan agreement with ten financial institutions, including the Bank of Taiwan (bookrunner), for a loan facility of NT\$2.5 billion or the equivalent in U.S. dollars. (The Group applied to lower the loan to NT\$1.5 billion or the equivalent in U.S. dollars in July 2017.) The credit limit was reduced for the

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first time 36 months from the initial drawdown date with subsequent reductions in every 6 months. There was a total of 5 reductions. The contract term was five years from the initial drawdown date, i.e. June 2016 to June 2021, and the credit term of the agreement was mid-term loans - current. During the loan term, the Group was 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, debt ratio, interest coverage ratio and tangible net value. The Group has abided by those terms.

(15) Lease payable

Some equipment of the Group was held under finance leases where the lessee had the option to purchase the equipment. The reconciliation of total future minimum lease payments and their present value was as follows:

	June 30, 2019 (Note)	December 31, 2018	June 30, 2018
<u>Total minimum lease payments</u>			
Less than 1 year		\$ 959	\$ 986
1 to 5 years (excluding)		1,730	1,779
		2,689	2,765
Less: Future financial expense		(246)	(408)
Present value of minimum lease payments		\$ 2,443	\$ 2,357
 <u>Present value of minimum lease payments</u>			
Less than 1 year		\$ 758	\$ 708
1 to 5 years (excluding)		1,685	1,649
Total		\$ 2,443	\$ 2,357

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

(16) Post-employment benefit plans

A. Defined contribution plan

Expenses under the defined contribution plan were NT\$6,431 thousand and NT\$6,457 thousand for the three months ended June 30, 2019 and 2018, respectively; and NT\$13,182 thousand and NT\$12,842 thousand for the six months ended June 30, 2019 and 2018, respectively.

B. Defined benefit plan

Expenses under the defined benefit plan were NT\$2,264 thousand and NT\$2,490 thousand for the three months ended June 30, 2019 and 2018, respectively; and NT\$4,528 thousand and NT\$7,697 thousand for the six months ended June 30, 2019 and 2018, respectively.

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(17) Equity

A. Capital

- (a) The Company's authorized capital was NT\$3,000,000 thousand, divided into 300,000 thousand shares (including 15,000 thousand shares with the amount of NT\$150,000 thousand reserved for the exercise of employee stock options, preferred stock with warrants or bond with warrants), each at a par value of NT\$10 as of June 30, 2019, December 31, 2018 and June 30 2018.
- (b) The Company's issued capital was NT\$2,091,197 thousand, divided into 209,120 thousand shares, each at a par value of NT\$10 as of June 30, 2019, December 31, 2018 and June 30 2018, respectively.

B. Capital surplus

	June 30, 2019	December 31, 2018	June 30, 2018
Additional paid-in capital	\$ 938,334	\$ 1,042,894	\$ 1,042,894
Premium from merger	262,500	262,500	262,500
Donated assets	1,970	1,970	1,970
Treasury stock transactions	27,280	27,280	27,280
Others	112,274	111,995	111,972
Total	\$ 1,342,358	\$ 1,446,639	\$ 1,446,616

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 as stock dividends up to a certain percentage of paid-in capital. The said capital surplus could also be distributed in the form of cash dividends to its shareholders in proportion to the number of shares being held by each of them.

C. 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 total paid-in capital.
- (d) Special capital reserve appropriated or reversed as stipulated by relevant laws and regulations or the competent securities authorities.
- (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.

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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 based on 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 Company complies with Order No. Jin-Guan-Zheng-Fa-1010012865 issued by the FSC on April 6, 2012, which sets out the following provisions: 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 June 30, 2019 and 2018, special capital reserve set aside for the first-time adoption of IFRS amounted to NT\$75,546 thousand and NT\$102,158 thousand, respectively.

Information about the appropriation of 2018 and 2017 earnings approved in the shareholders' meeting on May 29, 2019 and 2018, respectively, was as follows:

	Appropriation of Earnings		Dividend per Share (NT\$)	
	2018	2017	2018	2017
Legal capital reserve	\$ 67,231	\$ 73,459	-	-
Special capital reserve	90,571	-	-	-
Cash dividends - common stocks	418,239	522,799	\$ 2.00	\$ 2.50

The Company's shareholders' meeting on May 29, 2019 approved to distribute NT\$104,560 thousand from capital surplus to shareholders in the form of cash. Shareholders are entitled to receive NT\$0.5 per share.

Please refer to Note 6(22) for information on the accrual basis and the amounts recognized for compensation to employees and remuneration to directors.

D. Non-controlling interests (NCI)

	Six Months Ended June 30	
	2019	2018
Beginning balance	\$ 119,211	\$ 112,212
Net (loss) income attributable to NCI	(5,331)	4,428
Other comprehensive income attributable to NCI:		
Exchange differences arising on translation of foreign operations	84	49
Ending balance	\$ 113,964	\$ 116,689

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(18) 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 1,000 shares 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. Expense of the employee stock option plan for the six months ended June 30, 2019 was NT\$ 0 thousand.

There have been no cancellations or modifications to any of the employee stock option plans by June 30, 2019.

	Six Months Ended June 30			
	2019		2018	
	Options	Weighted Average Exercise Price per Share (NT\$)	Options	Weighted Average Exercise Price per Share (NT\$)
Stock options				
Outstanding at beginning of period	—	\$ —	273	\$ 35.10
Granted	—	—	—	—
Forfeited	—	—	—	—
Exercised	—	—	(273)	35.10
Expired	—	—	—	—
Outstanding at end of period	—	—	—	—
Exercisable at end of period	—	—	—	—

(19) Revenue

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Sale of goods	\$ 2,078,181	\$ 2,385,567	\$ 3,450,882	\$ 4,385,153

A. Contract balances:

	June 30, 2019	December 31, 2018	June 30, 2018
Contract liabilities - current			
Sale of goods	\$ 234	\$ 2,372	\$ 203

The decrease in the balance of contract liabilities as of June 30, 2019 was mostly due to the satisfaction of performance obligations, of which NT\$2,352 thousand was beginning balance recognized as revenue during this period.

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(20) Expected credit loss (gain)

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Operating expenses – Expected credit gain Receivables	\$ (456)	\$ (9,734)	\$ (342)	\$ (38,986)

Please refer to Note 12 for information concerning credit risk.

For receivables (including notes and accounts receivables), the Group measured the loss allowance at an amount equal to lifetime expected credit losses. The assessment on the loss allowance as of June 30, 2019, December 31, 2018 and June 30, 2018 was as follows:

Receivables were grouped by considering the credit ratings of counterparties, geographical regions and industry sectors, and the loss allowance was measured by adopting a provision matrix. Details were as follows:

June 30, 2019

	Not Past Due (Note)	Past Due			Total
		Within 90 Days	91-180 Days	Over 181 Days	
Gross carrying amount	\$ 3,549,708	\$ 100,698	\$ 165,713	\$ 52,269	\$ 3,868,388
Loss ratio	0%~1%	3%~20%	20%~50%	50%~100%	
Lifetime expected credit losses	11,681	4,171	33,156	28,890	77,898
Subtotal	\$ 3,538,027	\$ 96,527	\$ 132,557	\$ 23,379	\$ 3,790,490

December 31, 2018

	Not Past Due (Note)	Past Due			Total
		Within 90 Days	91-180 Days	Over 181 Days	
Gross carrying amount	\$ 4,597,619	\$ 250,235	\$ 66,095	\$ 59,926	\$ 4,973,875
Loss ratio	0%~1%	3%~20%	20%~50%	50%~100%	
Lifetime expected credit losses	17,586	13,086	16,040	31,046	77,758
Subtotal	\$ 4,580,033	\$ 237,149	\$ 50,055	\$ 28,880	\$ 4,896,117

June 30, 2018

	Not Past Due (Note)	Past Due			Total
		Within 90 Days	91-180 Days	Over 181 Days	
Gross carrying amount	\$ 4,300,879	\$ 356,229	\$ 417,732	\$ 27,052	\$ 5,101,892
Loss ratio	0%~1%	3%~20%	20%~50%	50%~100%	
Lifetime expected credit losses	16,235	43,878	101,824	15,308	177,245
Subtotal	\$ 4,284,644	\$ 312,351	\$ 315,908	\$ 11,744	\$ 4,924,647

Note: None of the Group's notes receivables was overdue.

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The movements in the loss allowance for receivables in the six months ended June 30, 2019 and 2018 were as follows:

	<u>Receivables</u>
Balance as of January 1, 2019	\$ 77,758
Reversal in the current period	(342)
Write off	(130)
Effect of exchange rate changes	612
Balance as of June 30, 2019	<u>\$ 77,898</u>

	<u>Receivables</u>
Balance as of January 1, 2018 (according to IFRS 9)	\$ 216,495
Reversal in the current period	(38,986)
Write off	(750)
Effect of exchange rate changes	486
Balance as of June 30, 2018	<u>\$ 177,245</u>

(21) Leases

A. The Group being a lessee (subject to disclosures associated with IFRS 16)

The Group leased various assets, including property (land and buildings) and transportation equipment. The lease terms of those contracts ranged between 2 to 50 years.

The effects of leases on the financial status, financial performance and cash flows of the Group are as follows:

(a) Amounts recognized in the balance sheets

(i) Right-of-use assets

The carrying amount of right-of-use assets

	<u>June 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018 (Note)</u>	<u>June 30,</u> <u>2018 (Note)</u>
Land	\$ 385,349		
Buildings	9,021		
Transportation equipment	14,892		
Total	<u>\$ 409,262</u>		

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

The Group's right-of-use assets increased by NT\$6,815 thousand for the six months ended June 30, 2019.

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(ii) Lease liabilities

	June 30, 2019	December 31, 2018 (Note)	June 30, 2018 (Note)
Current	\$ 15,353		
Non-current	254,599		
Lease liabilities	<u>\$ 269,952</u>		

Please refer to Note 6(23)C Finance costs for details on interest expenses of lease liabilities for the six months ended June 30, 2019 and Note 12(5) Liquidity risk management for a maturity analysis on lease liabilities as of June 30, 2019.

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

(b) Amounts recognized in the statements of comprehensive income

Depreciation of right-of-use assets

	Six Months Ended June 30	
	2019	2018 (Note)
Land	\$ 4,551	
Buildings	2,747	
Transportation equipment	3,815	
Total	<u>\$ 11,113</u>	

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

(c) Lessee's income and expenses associated with leasing activities

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018 (Note)	2019	2018 (Note)
Expense of short-term leases	\$ 5,166		\$ 9,524	
Expense of leases of low value assets (excluding short-term leases of low value assets)	253		501	

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

(d) Lessee's cash outflows associated with leasing activities

The Group's cash outflows from leases amounted to NT\$8,254 thousand for the six months ended June 30, 2019.

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(e) Other information associated with leasing activities

Options to extend or terminate the lease

Some of the Group's property leases contain options to extend or terminate the leases. When determining the lease term, it shall be the non-cancellable period where the lessee has the right to use the underlying asset, together with periods covered by an option to extend the lease where the Group is reasonably certain to exercise that option and periods covered by an option to terminate the lease where the Group is reasonably certain not to exercise that option. The use of those options can maximize the flexibility in managing the contracts. The majority of options to extend or terminate the leases can only be exercised by the Group. The Group would reassess the lease periods when a significant event or a significant change in circumstances occurs (that is within the control of the lessee and affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term) after the commencement date.

B. The Group being a lessee – operating leases (subject to disclosures associated with IAS 17)

The Group entered into commercial property lease agreements with average duration between 1 to 10 years. Some lease agreements had renewal options.

Based on the non-cancellable operating lease agreements, total future minimum lease payments as of December 31, 2018 and June 30, 2018 were as follows:

	December 31, 2018	June 30, 2018
Less than 1 year	\$ 23,793	\$ 22,644
More than 1 year but less than 5 years	42,216	41,481
More than 5 years	14,481	21,542
Total	<u>\$ 84,490</u>	<u>\$ 85,667</u>

Expenses recognized under operating leases were as follows:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Minimum lease payments	<u>\$ 10,266</u>	<u>\$ 19,111</u>

The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

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

Function Nature	Three Months Ended June 30					
	2019			2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	98,035	108,181	206,216	119,705	125,984	245,689
Labor and health insurance	8,914	6,738	15,652	10,846	6,524	17,370
Pension	5,052	3,643	8,695	5,183	3,764	8,947
Remuneration to directors	-	7,456	7,456	-	5,142	5,142
Other employee benefits expense	10,641	6,997	17,638	12,500	7,388	19,888
Depreciation	75,181	6,816	81,997	68,379	3,480	71,859
Amortization	2,584	4,600	7,184	2,923	3,685	6,608

Function Nature	Six Months Ended June 30					
	2019			2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	168,207	180,360	348,567	223,595	209,727	433,322
Labor and health insurance	19,663	14,310	33,973	23,107	13,645	36,752
Pension	10,279	7,431	17,710	11,532	9,007	20,539
Remuneration to directors	-	7,456	7,456	-	7,200	7,200
Other employee benefits expense	20,459	12,240	32,699	23,801	15,103	38,904
Depreciation	151,213	13,879	165,092	134,835	7,630	142,465
Amortization	4,980	8,529	13,509	6,016	8,919	14,935

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 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. 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 Board of Directors' meeting attended by two-thirds of the total number of directors. A report of such distribution shall be submitted to the shareholders' meeting. Information on the compensation to employees and remuneration to directors resolved or reported at 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 accrued for the six months ended June 30, 2019 and 2018 were as follows:

	Six Months Ended June 30	
	2019	2018
Compensation to employees	\$ 28,504	\$ 26,885
Remuneration to directors	7,792	7,025

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.

Information on 2018 and 2017 compensation to employees and remuneration to directors reported in the shareholders' meetings on May 29, 2019 and 2018, respectively, was as follows:

	Years Ended December 31	
	2018	2017
Compensation to employees	\$ 72,535	\$ 74,579
Remuneration to directors	19,834	20,393

The above-mentioned 2018 and 2017 compensation to employees and remuneration to directors reported in the shareholders' meetings were consistent with the amounts resolved in the Board of Directors' meetings held on January 18, 2019 and January 17, 2018, respectively, and the amounts recognized as expenses in the financial statements.

(23) Non-operating income and expenses

A. Other income

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Interest income	\$ 3,752	\$ 5,073	\$ 7,251	\$ 8,604
Insurance claim income (Note)	134,553	-	134,553	-
Other income	4,753	5,044	64,217	10,639
Total	\$ 143,058	\$ 10,117	\$ 206,021	\$ 19,243

(Note): A fire broke out in the Group's subsidiary, Taiflex Scientific (Kunshan) Co., Ltd., in January 2018 and parts of the plants, equipment and inventories were damaged. The insurance claim of RMB 29,500 thousand was recognized under other income. This amount was recognized under other receivables as of June 30, 2019 and fully received in July 2019.

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B. Other gains and losses

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Loss on disposal of property, plant and equipment	\$ (28,533)	\$ (51)	\$ (28,950)	\$ (379)
Foreign exchange gain (loss), net	(25,818)	(40,252)	36,590	42,996
Gain/(loss) on reversal of impairment for non-financial assets	27,296	—	(18,352)	32,332
Gain/(loss) of financial assets (liabilities) at fair value through profit or loss, net	2,674	20,986	(14,944)	(14,404)
Disaster loss	—	(9,266)	—	(120,745)
Other losses	(953)	(493)	(1,594)	(1,901)
Total	\$ (25,334)	\$ (29,076)	\$ (27,250)	\$ (62,101)

C. Finance costs

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Interest on borrowings from banks	\$ (2,054)	\$ (16,073)	\$ (5,623)	\$ (30,410)
Interest on lease liabilities	(1,292)	(Note)	(2,603)	(Note)
Interest on finance leases	(Note)	(91)	(Note)	(189)
Total	\$ (3,346)	\$ (16,164)	\$ (8,226)	\$ (30,599)

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

D. Components of other comprehensive income

For the three months ended June 30, 2019:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	\$ (27,412)	\$ —	\$ (27,412)	\$ 5,482	\$ (21,930)

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For the three months ended June 30, 2018:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	\$ (25,531)	\$ —	\$ (25,531)	\$ 5,106	\$ (20,425)

For the six months ended June 30, 2019:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	\$ 24,792	\$ —	\$ 24,792	\$ (4,959)	\$ 19,833

For the six months ended June 30, 2018:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	\$ 11,607	\$ —	\$ 11,607	\$ (169)	\$ 11,438

(24) Income tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company's corporate income tax rate was adjusted from 17% to 20% starting from 2018. The tax rate applicable to undistributed earnings was reduced from 10% to 5%.

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

Income tax recognized in profit or loss

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	2019	2018	2019	2018
Current income tax expense:				
Current income tax expense	\$ 62,809	\$ 61,496	\$ 108,311	\$ 110,946
Income tax adjustments on prior years	(5,620)	4,606	(5,272)	4,765
Effect of exchange rate changes	148	151	103	48
Deferred income tax expense (benefit):				
Income tax expense (benefit) relating to origination and reversal of temporary differences	15,033	(11,045)	(18,925)	(22,021)
Deferred income tax relating to changes in tax rates	—	—	—	14,565
Total income tax expense	<u>\$ 72,370</u>	<u>\$ 55,208</u>	<u>\$ 84,217</u>	<u>\$ 108,303</u>

Income tax recognized in other comprehensive income

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	2019	2018	2019	2018
Deferred income tax expense (benefit):				
Exchange differences arising on translation of foreign operations	\$ (5,482)	\$ (5,106)	\$ 4,959	\$ 2,309
Deferred income tax relating to changes in tax rates	—	—	—	(2,140)
Income tax relating to components of other comprehensive income	<u>\$ (5,482)</u>	<u>\$ (5,106)</u>	<u>\$ 4,959</u>	<u>\$ 169</u>

B. The assessment of income tax returns:

As of June 30, 2019, assessment of the Group's income tax returns in ROC was as follows:

	<u>Assessment of Income Tax Returns</u>
The Company	Assessed and approved up to 2017
Subsidiary – Koatech Technology Corporation	Assessed and approved up to 2017

(25) Earnings per share

	<u>Three Months Ended June 30, 2019</u>		
	<u>Amount after-tax</u>	<u>Weighted average number of outstanding shares (in thousands)</u>	<u>EPS (NT\$)</u>
<u>Basic earnings per share</u>			
Net income available to common shareholders of the Company	\$ 281,201	209,120	<u>\$ 1.34</u>
<u>Diluted earnings per share</u>			
Effect of dilutive potential common stocks			
Employee compensation – stock	—	660	

(Continued)

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	Three Months Ended June 30, 2019		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT\$)
Net income available to common shareholders of the Company and effect of potential common stocks	\$ 281,201	209,780	\$ 1.34 (Concluded)
	Three Months Ended June 30, 2018		
	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	\$ 157,675	209,120	\$ 0.76
<u>Diluted earnings per share</u>			
Effect of dilutive potential common stocks			
Employee compensation – stock	—	468	
Net income available to common shareholders of the Company and effect of potential common stocks	\$ 157,675	209,588	\$ 0.75
	Six Months Ended June 30, 2019		
	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	\$ 274,036	209,120	\$ 1.31
<u>Diluted earnings per share</u>			
Effect of dilutive potential common stocks			
Employee compensation – stock	—	660	
Net income available to common shareholders of the Company and effect of potential common stocks	\$ 274,036	209,780	\$ 1.31
	Six Months Ended June 30, 2018		
	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	\$ 254,612	209,047	\$ 1.22
<u>Diluted earnings per share</u>			
Effect of dilutive potential common stocks			
Employee compensation – stock	—	662	
Net income available to common shareholders of the Company and effect of potential common stocks	\$ 254,612	209,709	\$ 1.21

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7. Related Party Transactions

(1) Compensation to key management of the Group

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Short-term employee benefits	\$ 14,492	\$ 11,982	\$ 35,161	\$ 33,373
Post-employment benefits	151	177	300	331
Termination benefits	—	783	—	783
Total	\$ 14,643	\$ 12,942	\$ 35,461	\$ 34,487

8. Pledged Assets

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

	Carrying Amount			Purpose of Pledge
	June 30, 2019	December 31, 2018	June 30, 2018	
Time deposits (Note)	\$ 20,413	\$ 20,413	\$ 20,354	Customs guarantee
Land	100,843	100,843	100,843	Long-term loans
Buildings	99,103	100,749	101,668	Letter of credit, short-term credit facilities and long-term loans
Machinery and equipment	—	12,513	13,338	Long-term loans
Total	\$ 220,359	\$ 234,518	\$ 236,203	

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

9. Significant Contingencies and Unrecognized Contract Commitments

Details of the Group's unused letters of credit as of June 30, 2019 were as follows:

	L/C Balance	
NTD	NT\$	5,863 thousand
JPY	JPY	340,000 thousand
USD	US\$	1,085 thousand
EUR	EUR	4,485 thousand

10. Significant Disaster Loss

None.

11. Significant Subsequent Events

None.

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12. Others

(1) Categories of financial instruments

Financial assets

	June 30, 2019	December 31, 2018	June 30, 2018
Financial assets at fair value through profit or loss:			
Mandatorily at fair value through profit or loss	\$ 27,431	\$ 36,438	\$ 33,556
Financial assets at amortized cost:			
Cash and cash equivalents (excluding cash on hand)	1,816,194	1,861,898	1,594,945
Receivables	3,954,000	4,950,722	4,972,790
Other financial assets - current	20,413	20,413	20,354

Financial liabilities

	June 30, 2019	December 31, 2018	June 30, 2018
Financial liabilities at fair value through profit or loss:			
Held for trading	\$ 561	\$ 2,656	\$ 1,570
Financial liabilities at amortized cost:			
Short-term loans	715,912	1,362,054	1,245,277
Payables	2,343,438	2,378,788	2,934,873
Long-term loans (including current portion)	740,046	341,932	318,818
Lease payable (current and non-current)	—	2,443	2,357
Lease liabilities (current and non-current)	269,952	(Note)	(Note)

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

(2) Objectives and policies 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 risks.

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

A 5% increase/decrease in the prices of listed companies' stocks classified as at fair value through profit or loss could cause the profit or loss for the six months ended June 30, 2019 and 2018 to increase/decrease by NT\$1,265 thousand and NT\$858 thousand, respectively.

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D. Pre-tax sensitivity analysis was as follows:

For the six months ended June 30, 2019

Key Risk	Variation	Sensitivity of Profit or Loss
Foreign currency risk	NTD/USD appreciate/depreciate by 1%	-/+ 13,091 thousand
	NTD/CNY appreciate/depreciate by 1%	-/+ 2,594 thousand
Interest rate risk	Market interest rate increase/decrease by 10 basis points	+/- 361 thousand

For the six months ended June 30, 2018

Key Risk	Variation	Sensitivity of Profit or Loss
Foreign currency risk	NTD/USD appreciate/depreciate by 1%	-/+ 2,181 thousand
	NTD/CNY appreciate/depreciate by 1%	-/+ 1,719 thousand
Interest rate risk	Market interest rate increase/decrease by 10 basis points	+/- 32 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).

Credit risk is managed by each business unit subject to the Group's credit risk policies, procedures and controls. Credit risk of all counterparties is assessed by considering their financial position, rating from credit rating agencies, past experience, current economic environment and the Group's internal rating criteria, etc. Certain customer's credit risk is also managed by using credit enhancement tools, such as prepayments or insurances, to reduce their credit risk.

Credit risk from balances with banks and other financial instruments is managed by the Group in accordance with the Group's policies. The counterparties that the Group transacts with are reputable financial institutions both at home and abroad, thus, no significant credit risk is expected.

(5) Liquidity risk management

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

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Non-derivative financial liabilities

	<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, 2019</u>					
Borrowings	\$ 728,334	\$ 629,146	\$ 100,000	\$ —	\$ 1,457,480
Payables	2,343,438	—	—	—	2,343,438
Lease liabilities	15,353	19,433	10,865	224,301	269,952
<u>December 31, 2018</u>					
Borrowings	\$ 1,375,895	\$ 295,000	\$ 34,674	\$ —	\$ 1,705,569
Payables	2,378,788	—	—	—	2,378,788
<u>June 30, 2018</u>					
Borrowings	\$ 1,267,256	\$ 260,000	\$ 40,151	\$ —	\$ 1,567,407
Payables	2,934,873	—	—	—	2,934,873

Derivative financial liabilities

	<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, 2019</u>					
Inflows	\$ 406,068	\$ —	\$ —	\$ —	\$ 406,068
Outflows	406,980	—	—	—	406,980
Net	<u>\$ (912)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (912)</u>
<u>December 31, 2018</u>					
Inflows	\$ 526,637	\$ —	\$ —	\$ —	\$ 526,637
Outflows	605,689	—	—	—	605,689
Net	<u>\$ (79,052)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (79,052)</u>
<u>June 30, 2018</u>					
Inflows	\$ —	\$ —	\$ —	\$ —	\$ —
Outflows	—	—	—	—	—
Net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the six months ended June 30, 2019:

	<u>Short-term Loan</u>	<u>Long-term Loan</u>	<u>Lease Liability</u>	<u>Total Liabilities from Financing Activities</u>
As of January 1, 2019	\$ 1,362,054	\$ 341,932	\$ 273,779	\$ 1,977,765
Cash flows	(646,142)	398,114	(8,254)	(256,282)
Non-cash movement	—	—	4,427	4,427
As of June 30, 2019	<u>\$ 715,912</u>	<u>\$ 740,046</u>	<u>\$ 269,952</u>	<u>\$ 1,725,910</u>

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Reconciliation of liabilities for the six months ended June 30, 2018:

	Short-term Loan	Long-term Loan	Lease Liability	Total Liabilities from Financing Activities
As of January 1, 2018	\$ 656,596	\$ 255,696	\$ 3,138	\$ 915,430
Cash flows	588,681	63,122	(970)	650,833
Non-cash movement	—	—	189	189
As of June 30, 2018	<u>\$ 1,245,277</u>	<u>\$ 318,818</u>	<u>\$ 2,357</u>	<u>\$ 1,566,452</u>

(7) 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. Information on the fair value hierarchy of financial instruments

Please refer to Note 12(9) for details.

(8) Derivative instruments

As of June 30, 2019, December 31, 2018 and June 30, 2018, the Group's derivative instruments that were not eligible for hedge accounting and were outstanding were listed as follows:

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

Currency	Contract Period	Contract Amount (in thousands)
<u>June 30, 2019</u>		
Sell CNY/Buy NTD	2019.03~2019.10	CNY 90,000/NT\$ 406,068
<u>December 31, 2018</u>		
Sell CNY/Buy USD	2018.03~2019.07	CNY 60,939/US\$ 9,300
Sell CNY/Buy NTD	2018.11~2019.05	CNY 90,000/NT\$ 396,597
Sell USD/Buy NTD	2018.12~2019.03	US\$ 6,000/NT\$ 183,577
<u>June 30, 2018</u>		
Sell CNY/Buy USD	2017.07~2018.12	CNY 61,193/US\$ 9,500
Sell CNY/Buy NTD	2018.04~2018.10	CNY 90,000/NT\$ 414,340

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

Currency	Contract Period	Contract Amount (in thousands)	
<u>June 30, 2019</u>			
Sell CNY/Buy NTD	2019.04~2019.09	CNY	6,200/NT\$ 28,087
<u>December 31, 2018</u>			
Sell CNY/Buy NTD	2018.08~2019.04	CNY	4,200/NT\$ 18,463
<u>June 30, 2018</u>			
Sell CNY/Buy NTD	2018.04~2018.09	CNY	4,200/NT\$ 19,348

- C. Cross-currency 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)	Range of Interest Rate Paid	Range of Interest Rate Received
<u>June 30, 2018</u>				
Sell CNY/ Buy USD	2017.09~2019.01	CNY 48,901/ US\$ 7,500	2.82%~4.10%	1.70%~2.81%

For forward foreign exchange, foreign exchange swap and cross-currency 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.

(9) 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 a recurring basis was disclosed as follows:

	Level 1	Level 2	Level 3	Total
<u>June 30, 2019</u>				
Assets measured at fair value:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	\$ —	\$ 1,950	\$ —	\$ 1,950
Foreign exchange swap contracts	—	171	—	171
Stocks	25,310	—	—	25,310
Liabilities measured at fair value:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	561	—	561
<u>December 31, 2018</u>				
Assets measured at fair value:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	\$ —	\$ 13,659	\$ —	\$ 13,659
Cross-currency swap contracts	—	2,358	—	2,358
Stocks	20,421	—	—	20,421
Liabilities measured at fair value:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	2,471	—	2,471
Foreign exchange swap contracts	—	185	—	185
<u>June 30, 2018</u>				
Assets measured at fair value:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	\$ —	\$ 12,933	\$ —	\$ 12,933
Foreign exchange swap contracts	—	162	—	162
Cross-currency swap contracts	—	3,299	—	3,299
Stocks	17,162	—	—	17,162
Liabilities measured at fair value:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	1,570	—	1,570

For the six months ended June 30, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value hierarchy.

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

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

	June 30, 2019			December 31, 2018		
	Foreign Currencies (in thousands)	Exchange Rate	NTD	Foreign Currencies (in thousands)	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 68,882	31.0630	\$ 2,139,682	\$ 115,349	30.7220	\$ 3,543,738
CNY	57,773	4.5220	261,250	4,640	4.4730	20,754
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$ 26,740	31.0630	\$ 830,625	\$ 45,429	30.7220	\$ 1,395,662
JPY	212,263	0.2886	61,259	192,735	0.2781	53,600
<u>June 30, 2018</u>						
	Foreign Currencies (in thousands)	Exchange Rate	NTD			
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 72,286	30.4950	\$ 2,204,362			
CNY	41,474	4.5990	190,739			
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$ 65,133	30.4950	\$ 1,986,231			
JPY	149,669	0.2755	41,234			

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

As entities within the Group transact in various currencies, the exchange gain (loss) of monetary financial assets and liabilities cannot be disclosed by currencies of significant influence. The Group's foreign exchange gain (loss) amounted to NT\$(25,818) thousand, NT\$(40,252) thousand, NT\$36,590 thousand and NT\$42,996 thousand for the three months and six months ended June 30, 2019 and 2018, respectively.

(11) 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.

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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, 2019 (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, 2019: 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, 2019: 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, 2019: 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, 2019: Please refer to Table 4.
- H. Receivables from related parties of at least NT\$100 million or 20 percent of the paid-in capital as of June 30, 2019: Please refer to Table 5.
- I. Direct or indirect significant influence or control over the investees for the six months ended June 30, 2019 (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, 2019: 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. The two reportable operating segments are 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.

Operating segments have not 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.

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(1) Segment income (loss)

For the three months ended June 30, 2019

	General Management	Overseas	Adjustment and Elimination (Note)	Consolidated
Revenue				
External customer	\$ 1,453,698	\$ 624,483	\$ —	\$ 2,078,181
Inter-segment	550,746	9,337	(560,083)	—
Total revenue	<u>\$ 2,004,444</u>	<u>\$ 633,820</u>	<u>\$ (560,083)</u>	<u>\$ 2,078,181</u>
Segment income (loss) (before income tax)	<u>\$ 371,857</u>	<u>\$ 103,425</u>	<u>\$ (124,616)</u>	<u>\$ 350,666</u>

Note: Inter-segment revenues were eliminated upon consolidation.

For the three months ended June 30, 2018

	General Management	Overseas	Adjustment and Elimination (Note)	Consolidated
Revenue				
External customer	\$ 1,257,254	\$ 1,128,313	\$ —	\$ 2,385,567
Inter-segment	716,537	33,660	(750,197)	—
Total revenue	<u>\$ 1,973,791</u>	<u>\$ 1,161,973</u>	<u>\$ (750,197)</u>	<u>\$ 2,385,567</u>
Segment income (loss) (before income tax)	<u>\$ 225,441</u>	<u>\$ (101,687)</u>	<u>\$ 92,246</u>	<u>\$ 216,000</u>

Note: Inter-segment revenues were eliminated upon consolidation.

For the six months ended June 30, 2019

	General Management	Overseas	Adjustment and Elimination (Note)	Consolidated
Revenue				
External customer	\$ 2,278,931	\$ 1,171,951	\$ —	\$ 3,450,882
Inter-segment	1,026,625	39,356	(1,065,981)	—
Total revenue	<u>\$ 3,305,556</u>	<u>\$ 1,211,307</u>	<u>\$ (1,065,981)</u>	<u>\$ 3,450,882</u>
Segment income (loss) (before income tax)	<u>\$ 356,781</u>	<u>\$ (63,153)</u>	<u>\$ 59,294</u>	<u>\$ 352,922</u>

Note: Inter-segment revenues were eliminated upon consolidation.

For the six months ended June 30, 2018

	General Management	Overseas	Adjustment and Elimination (Note)	Consolidated
Revenue				
External customer	\$ 2,285,603	\$ 2,099,550	\$ —	\$ 4,385,153
Inter-segment	1,295,551	54,404	(1,349,955)	—
Total revenue	<u>\$ 3,581,154</u>	<u>\$ 2,153,954</u>	<u>\$ (1,349,955)</u>	<u>\$ 4,385,153</u>
Segment income (loss) (before income tax)	<u>\$ 366,374</u>	<u>\$ (140,956)</u>	<u>\$ 141,925</u>	<u>\$ 367,343</u>

Note: Inter-segment revenues were eliminated upon 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 Short-term Financing (Note 6)	Loss Allowance	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	\$ 442,498	\$ 434,882	\$ 279,567	1.70%~4.00%	2	—	Operating capital	—	—	—	\$ 1,406,701	\$ 2,813,401	(Note 7)
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Other receivables - related parties	Y	948,210	931,890	—	1.70%~4.00%	2	—	Operating capital	—	—	—	1,406,701	2,813,401	(Note 7)

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, 2019.

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 the nature of financing is business transaction, the amount of transaction shall be disclosed. The amount of transaction refers to the business transaction amount 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 purchasing or sales 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 rights are 100% held, either directly or indirectly, by the Company, shall not exceed 20% of the Company's net worth.

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

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 each individual lending at the board meetings, 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 A Single Entity (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 (Note 7)	Endorsement Provided by Subsidiaries to Parent Company (Note 7)	Endorsement Provided to Subsidiaries in China (Note 7)
		Name	Relationship (Note 2)										
0	Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	2	\$ 3,516,752	\$ 126,428	\$ 124,252	\$ —	—	1.77%	\$ 3,516,752	Y	N	N
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	2	3,516,752	290,930	—	—	—	—		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Rudong Fuzhan Scientific Co., Ltd.	2	3,516,752	300,267	295,099	136,089	—	4.20%		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	2	3,516,752	1,232,554	1,109,692	—	—	15.78%		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 seven types. Please specify the type.

(1) A company that has business relationships with Taiflex.

(2) A company in which Taiflex directly or indirectly holds over 50% of the voting rights.

(3) A company that directly or indirectly holds over 50% of Taiflex's voting rights.

(4) Endorsements/guarantees between companies in which Taiflex directly or indirectly holds over 90% of the voting rights.

(5) Mutual endorsements/guarantees between companies in the same industry or between joint builders which are provided in accordance with contractual terms for construction projects.

(6) Endorsements/guarantees provided by each shareholder for their jointly invested company in proportion to their shareholding percentages.

(7) Joint and several securities between companies in the same industry for performance guarantees of pre-construction homes under the Consumer Protection Act.

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 a single entity shall not exceed 20% of the net worth in the most recent financial statements. However, the restriction does not apply to guarantees/endorsements to companies whose voting rights are 100% held, either directly or indirectly, by the Company.

Note 4: The maximum endorsement/guarantee balance for the six months ended June 30, 2019.

Note 5: This refers amounts approved by the board of directors. However, for matters delegated by the board to the chairperson in accordance with Subparagraph 8, Article 12 of the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies, this would be the amounts approved by the chairperson.

Note 6: This is the ending balance after evaluation.

Note 7: Fill in "Y" for endorsements/guarantees provided by listed parent companies to subsidiaries and vice versa, and for ones provided to subsidiaries in Mainland China.

TABLE 3: MARKETABLE SECURITIES HELD AS OF JUNE 30, 2019 (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, 2019				Note
					Shares (In Thousands)	Carrying Amount (Note 3)	Percentage of Ownership	Fair Value	
Taiflex Scientific Co., Ltd.	Non-listed (OTC) stocks	Exploit Technology Co., Ltd.	—	Financial assets at fair value through other comprehensive income - non-current	25	—	0.30%	—	—
	Non-listed (OTC) stocks	Kyoritsu Optronics Co., Ltd.	—	Financial assets at fair value through other comprehensive income - non-current	741	—	18.10%	—	—
	Listed stocks	Zhen Ding Technology Holding Limited	—	Financial assets at fair value through profit or loss - current	255	\$ 25,310	0.03%	\$ 25,310	—

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 IFRS 9 "Financial Instruments".

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	Relationships	Transaction Details				Abnormal Transaction (Note 1)		Notes/Accounts Receivable (Payable)		Note
			Sales (Purchases)	Amount	Percentage to Total Sales (Purchases)	Credit/ Payment Terms	Unit Price	Credit/ Payment Terms	Ending Balance	Percentage to Total Notes/ Accounts Receivable (Payable)	
Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	Sales	\$ 1,020,472	32.10%	150 days from end of month	—	—	\$ 1,390,361	45.83%	—
Shenzhen Taiflex Electronic Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent company	Purchases	1,020,472	89.67%	150 days from end of month	—	—	(1,390,361)	(92.43%)	—

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	Relationships	Ending Balance	Turnover Ratio (times)	Overdue		Amounts Received in Subsequent Periods	Lost Allowance	Note
					Amount	Action Taken			
Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	\$ 1,390,361	3.01	—	—	\$ 109,739	—	—
Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	109,825	(Note 1)	—	—	—	—	—

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

TABLE 6: INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE OR CONTROL 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, 2019			Net Income (Loss) of Investee	Share of Profit/Loss	Note
				June 30, 2019	December 31, 2018	Shares (In Thousands)	Shareholding Percentage	Carrying Value			
Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	Belize	Investment holding	\$ 704,536	\$ 704,536	21,825	100.00%	\$ 1,032,828	\$ (112,825)	\$ (113,548)	—
Taiflex Scientific Co., Ltd.	Leadmax Limited	Samoa	Trading of electronic materials	337	337	10	100.00%	11,066	(46)	(46)	—
Taiflex Scientific Co., Ltd.	Koatech Technology Corporation	Taiwan	Manufacturing and selling of electronic materials and components	294,102	294,102	13,700	53.86%	224,467	(11,674)	(9,071)	(Note 2)
Taiflex Scientific Co., Ltd.	Innovision FlexTech Corp.	Taiwan	Manufacturing and selling of electronic materials	102,894	102,894	3,611	15.07%	45,691	(38,744)	(5,796)	—
Taiflex Scientific Co., Ltd.	TFS Co., Ltd.	Belize	Investment holding	478,797	478,797	15,520	100.00%	456,216	17,395	17,395	(Note 1)
Taiflex Scientific Co., Ltd.	Richstar Co., Ltd.	Samoa	Investment holding	620,305	525,733	20,500	56.93%	686,439	36,176	18,782	—
Taiflex Scientific Co., Ltd.	Taiflex Scientific Japan Co., Ltd.	Japan	Trading and technical support of electronic materials	16,260	16,260	6	100.00%	18,356	(8)	(8)	—
Taiflex Scientific Co., Ltd.	Taiflex USA Corporation	U.S.A.	Technical support and marketing of electronic materials	8,820	8,820	1	100.00%	9,354	393	393	—
Taiflex Scientific Co., Ltd.	Geekos Technology Corp.	Taiwan	Manufacturing and selling of electronic materials	10,000	—	1,000	33.22%	9,003	(5,132)	(1,329)	—
TFS Co., Ltd.	Richstar Co., Ltd.	Samoa	Investment holding	478,563	478,563	15,510	43.07%	519,350	36,176	17,394	—
Taistar Co., Ltd.	TSC International Ltd.	Cayman Islands	Investment holding	683,946	683,946	21,170	100.00%	1,015,932	(108,947)	(108,947)	—
Koatech Technology Corporation	KTC Global Co., Ltd.	Samoa	Investment holding	28,649	28,649	960	100.00%	13,279	(1,671)	(1,671)	—
KTC Global Co., Ltd	KTC PanAsia Co., Ltd.	Samoa	Investment holding	28,500	28,500	955	100.00%	13,881	(1,671)	(1,671)	—

Note 1: Including unrealized gain/loss between affiliates.

Note 2: Including amortization of property, plant and equipment.

TABLE 7: INFORMATION ON INVESTMENTS IN MAINLAND CHINA

(In Thousands of New Taiwan Dollars)

Investor	Investee	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflows of Investment from Taiwan as of January 1, 2019	Investment Flows		Accumulated Outflows of Investment from Taiwan as of June 30, 2019	Profit/Loss of Investee	Percentage of Ownership (Direct or Indirect Investment)	Share of Profit/Loss	Carrying Amount as of June 30, 2019	Accumulated Inward Remittances of Earnings as of June 30, 2019
						Outflow	Inflow						
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Manufacturing and selling of coating materials for high polymer film and copper foil	\$767,141 (US\$24,000,000)	2	\$ 767,141	—	—	\$ 767,141	\$ (108,937)	100.00%	\$ (108,937)	\$1,015,838	—
	Shenzhen Taiflex Electronic Co., Ltd.	Trading of coating materials for high polymer film and copper foil	\$479,160 (US\$15,500,000)	2	479,160	—	—	479,160	4,927	100.00%	4,927	552,950	—
	Rudong Fuzhan Scientific Co., Ltd.	Manufacturing and selling of electronic materials	\$620,305 (US\$20,500,000)	2	525,733	94,572	—	620,305	31,250	100.00%	31,250	652,705	—
Koatech Technology Corporation	Kunshan Koatech Technology Corporation	A wholesaler and a commission agent of electronic materials and components	\$28,351 (US\$950,000)	2	28,351	—	—	28,351	(1,671)	53.86%	(900)	7,469	—
Accumulated Outflows of Investment from Taiwan to Mainland China as of June 30, 2019					Investment Amounts Authorized by the Investment Commission, MOEA					Upper Limit on Investment			
Taiflex Scientific Co., Ltd.			\$1,866,606	\$2,326,872					(Note 3)				
Koatech Technology Corporation			\$28,351	\$40,318					(note 4) \$148,198				

Note 1: The methods for investment in Mainland China are categorized 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 and ending balance of related payables and their weightings: see Table 4.
- (2) Sales and 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: see Table 1.
- (6) Transactions that have significant impact on profit or loss of the current period or the financial position, such as services rendered or received: N/A.

Note 3: The Company received official documents issued by the Industrial Development Bureau, Ministry of Economic Affairs certifying the Company being qualified for operating headquarters in May 2019. Thus, the limit stipulated in the "Regulations Governing the Examination of Investment or Technical Cooperation in Mainland China" does not apply.

Note 4: The upper limit on investment is calculated as follows:

Koatech Technology Corporation: NT\$ 246,996 thousand × 60% = NT\$ 148,198 thousand

TABLE 8: INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS FOR THE SIX MONTHS ENDED JUNE 30, 2019
(In Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counterparty	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	Cost of revenue	\$ 29,830	General trading terms	0.86%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Sales revenue	1,020,472	General trading terms	29.57%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Accounts receivable	1,390,361	General trading terms	11.95%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Other receivables	109,825	General trading terms	0.94%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Other receivables	279,567	Financing	2.40%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Purchase on behalf of others	31,924	—	0.27%

Note 1: Transaction information between the parent company and its subsidiaries shall 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 categorized 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 the consolidated total assets for balance sheet items; and based on the interim accumulated amount to the consolidated net revenue for profit or loss items.

Note 4: This is the ending balance after evaluation.