# FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS AND REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

## JUNE 30, 2018 AND 2017

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Formosa Taffeta Co., Ltd.

## *Introduction*

We have reviewed the accompanying consolidated balance sheets of Formosa Taffeta Co., Ltd. and subsidiaries (the "Group") as at June 30, 2018 and 2017, and the related consolidated statements of comprehensive income for the three months and six months then ended, as well as the consolidated statements of changes in equity and of cash flows for the six months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and International Accounting Standard 34, "Interim Financial Reporting" as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

## *Scope of Review*

Except as explained in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity" in the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## *Basis for Qualified Conclusion*

As explained in Notes 4(3) and 6(6), the financial statements of certain insignificant consolidated subsidiaries and investments accounted for under equity method were not reviewed by independent accountants. Those statements reflect total assets (including investments accounted for using equity method) of NT$22,363,731 thousand and NT$19,957,818 thousand, constituting 22% and 21% of the consolidated total assets, and total liabilities of NT$5,628,749 thousand and NT$4,944,386 thousand, constituting 22% and 20% of the consolidated total liabilities as at June 30, 2018 and 2017, respectively, and total comprehensive income (including share of profit (loss) of associates accounted for using equity method and share of profit (loss) of associates and other comprehensive income of associates) amounted to NT$164,670 thousand, NT$197,804 thousand, NT$198,148 thousand and NT$149,539 thousand, constituting 4%, 8%, 4% and 81% of the total comprehensive income for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, respectively.

## *Qualified Conclusion*

Except for the adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries been reviewed by independent accountants, that we might have become aware of had it not been for the situation described above, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2018 and 2017, and of its consolidated financial performance and its consolidated cash flows for the six-months periods then ended in accordance with "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and International Accounting Standard 34, "Interim Financial Reporting" as endorsed by the Financial Supervisory Commission.

Wu, Han-Chi　　　　　　　　Chou, Chien-Hung

For and on behalf of PricewaterhouseCoopers, Taiwan
August 9, 2018

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)
(The consolidated balance sheets as of June 30, 2018 and 2017 are reviewed, not audited)

| | Assets | Notes | June 30, 2018 AMOUNT | % | December 31, 2017 AMOUNT | % | June 30, 2017 AMOUNT | % |
|---|---|---|---|---|---|---|---|---|
| | **Current assets** | | | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | $ 4,981,785 | 5 | $ 4,942,919 | 5 | $ 5,931,680 | 6 |
| 1110 | Financial assets at fair value through profit or loss - current | 6(2) | 631,854 | 1 | 630,396 | 1 | 629,437 | 1 |
| 1120 | Current financial assets at fair value through other comprehensive income | 6(3) | 4,168,067 | 4 | - | - | - | - |
| 1125 | Available-for-sale financial assets - current | | - | - | 3,649,141 | 4 | 3,078,030 | 3 |
| 1140 | Current contract assets | 6(19) | 659,715 | 1 | - | - | - | - |
| 1150 | Notes receivable, net | 6(4) | 115,796 | - | 164,311 | - | 76,558 | - |
| 1160 | Notes receivable - related parties | 7 | 9,290 | - | 13,007 | - | 3,560 | - |
| 1170 | Accounts receivable, net | 6(4) | 4,617,764 | 5 | 3,567,731 | 4 | 4,523,623 | 5 |
| 1180 | Accounts receivable - related parties | 7 | 1,506,087 | 1 | 1,168,315 | 1 | 1,369,173 | 2 |
| 1200 | Other receivables | 7 | 513,665 | - | 449,044 | - | 2,550,650 | 3 |
| 130X | Inventory | 6(5) and 8 | 8,163,067 | 8 | 8,452,053 | 9 | 7,717,517 | 8 |
| 1410 | Prepayments | | 599,846 | 1 | 519,506 | 1 | 1,006,103 | 1 |
| 1470 | Other current assets | | 558,561 | - | 425,720 | - | 336,926 | - |
| 11XX | **Total current assets** | | 26,525,497 | 26 | 23,982,143 | 25 | 27,223,257 | 29 |
| | **Non-current assets** | | | | | | | |
| 1517 | Non-current financial assets at fair value through other comprehensive income | 6(3) | 52,833,053 | 52 | - | - | - | - |
| 1523 | Available-for-sale financial assets - non-current | | - | - | 43,994,286 | 47 | 40,022,425 | 43 |
| 1543 | Financial assets carried at cost - non-current | | - | - | 5,786,870 | 6 | 5,135,130 | 5 |
| 1550 | Investments accounted for under equity method | 6(6) | 3,140,269 | 3 | 3,123,456 | 3 | 3,326,108 | 4 |
| 1600 | Property, plant and equipment | 6(7) and 8 | 18,032,787 | 18 | 17,022,278 | 18 | 16,344,476 | 18 |
| 1840 | Deferred income tax assets | | 90,524 | - | 140,445 | - | 201,697 | - |
| 1900 | Other non-current assets | | 617,701 | 1 | 653,557 | 1 | 692,830 | 1 |
| 15XX | **Total non-current assets** | | 74,714,334 | 74 | 70,720,892 | 75 | 65,722,666 | 71 |
| 1XXX | **Total assets** | | $ 101,239,831 | 100 | $ 94,703,035 | 100 | $ 92,945,923 | 100 |

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FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)
(The consolidated balance sheets as of June 30, 2018 and 2017 are reviewed, not audited)

| | Liabilities and Equity | Notes | June 30, 2018 AMOUNT | % | December 31, 2017 AMOUNT | % | June 30, 2017 AMOUNT | % |
|---|---|---|---|---|---|---|---|---|
| | **Current liabilities** | | | | | | | |
| 2100 | Short-term borrowings | 6(9) and 8 | $ 3,734,957 | 4 | $ 2,805,690 | 3 | $ 3,015,934 | 3 |
| 2110 | Short-term notes and bills payable | 6(10) | 999,684 | 1 | 1,299,806 | 2 | 1,899,784 | 2 |
| 2120 | Financial liabilities at fair value through profit or loss - current | 6(11) | - | - | - | - | 894 | - |
| 2150 | Notes payable | | 211,244 | - | 199,518 | - | 181,748 | - |
| 2160 | Notes payable - related parties | 7 | 355,836 | 1 | 239,553 | - | 140,514 | - |
| 2170 | Accounts payable | | 1,687,603 | 2 | 1,446,070 | 2 | 2,053,717 | 2 |
| 2180 | Accounts payable - related parties | 7 | 928,568 | 1 | 1,147,976 | 1 | 825,741 | 1 |
| 2200 | Other payables | 6(12) and 7 | 5,264,604 | 5 | 1,811,607 | 2 | 4,387,752 | 5 |
| 2230 | Current income tax liabilities | | 331,223 | - | 198,319 | - | 230,935 | 1 |
| 2300 | Other current liabilities | | 208,698 | - | 265,356 | - | 211,800 | - |
| 21XX | **Total current liabilities** | | 13,722,417 | 14 | 9,413,895 | 10 | 12,948,819 | 14 |
| | **Non-current liabilities** | | | | | | | |
| 2540 | Long-term borrowings | 6(13) | 11,089,898 | 11 | 11,083,572 | 12 | 11,530,574 | 12 |
| 2570 | Deferred income tax liabilities | | 256,409 | - | 170,798 | - | 165,200 | - |
| 2600 | Other non-current liabilities | | 819,435 | 1 | 852,200 | 1 | 661,327 | 1 |
| 25XX | **Total non-current liabilities** | | 12,165,742 | 12 | 12,106,570 | 13 | 12,357,101 | 13 |
| 2XXX | **Total liabilities** | | 25,888,159 | 26 | 21,520,465 | 23 | 25,305,920 | 27 |
| | **Equity attributable to owners of parent** | | | | | | | |
| | **Share capital** | 6(15) | | | | | | |
| 3110 | Share capital - common stock | | 16,846,646 | 17 | 16,846,646 | 18 | 16,846,646 | 18 |
| | **Capital surplus** | 6(16) | | | | | | |
| 3200 | Capital surplus | | 275,418 | - | 274,323 | - | 269,349 | - |
| | **Retained earnings** | 6(17) | | | | | | |
| 3310 | Legal reserve | | 7,567,594 | 8 | 7,139,607 | 7 | 7,139,607 | 8 |
| 3320 | Special reserve | | 2,214,578 | 2 | 2,214,578 | 2 | 2,214,578 | 2 |
| 3350 | Unappropriated retained earnings | | 6,391,740 | 6 | 5,398,225 | 6 | 4,545,115 | 5 |
| | **Other equity interest** | 6(18) | | | | | | |
| 3400 | Other equity interest | | 38,242,483 | 37 | 37,525,951 | 40 | 33,197,251 | 36 |
| 3500 | **Treasury stocks** | 6(15) | ( 19,935) | - | ( 19,935) | - | ( 19,935) | - |
| 31XX | **Equity attributable to owners of the parent** | | 71,518,524 | 70 | 69,379,395 | 73 | 64,192,611 | 69 |
| 36XX | **Non-controlling interest** | | 3,833,148 | 4 | 3,803,175 | 4 | 3,447,392 | 4 |
| 3XXX | **Total equity** | | 75,351,672 | 74 | 73,182,570 | 77 | 67,640,003 | 73 |
| | **Significant contingent liabilities and unrecognized contract commitments** | 9 | | | | | | |
| | **Significant event after the balance sheet date** | 11 | | | | | | |
| 3X2X | **Total liabilities and equity** | | $ 101,239,831 | 100 | $ 94,703,035 | 100 | $ 92,945,923 | 100 |

The accompanying notes are an integral part of these consolidated financial statements.

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)
(REVIEWED, NOT AUDITED)

| | | | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2018 | | 2017 | | 2018 | | 2017 | |
| | Items | Notes | AMOUNT | % | AMOUNT | % | AMOUNT | % | AMOUNT | % |
| 4000 | **Sales revenue** | 6(19) and 7 | $ 11,737,258 | 100 | $ 10,845,893 | 100 | $ 22,467,681 | 100 | $ 21,100,166 | 100 |
| 5000 | **Operating costs** | 6(5)(22)(23) and 7 | ( 10,167,417) | ( 87) | ( 9,588,783) | ( 89) | ( 19,606,601) | ( 88) | ( 18,419,235) | ( 88) |
| 5900 | **Net operating margin** | | 1,569,841 | 13 | 1,257,110 | 11 | 2,861,080 | 12 | 2,680,931 | 12 |
| | **Operating expenses** | 6(22)(23) and 7 | | | | | | | | |
| 6100 | Selling expenses | | ( 457,841) | ( 4) | ( 453,284) | ( 4) | ( 880,100) | ( 4) | ( 859,774) | ( 4) |
| 6200 | General and administrative expenses | | ( 248,432) | ( 2) | ( 202,013) | ( 2) | ( 469,910) | ( 2) | ( 435,444) | ( 2) |
| 6300 | Research and development expenses | | ( 20,235) | - | ( 14,845) | - | ( 37,954) | - | ( 29,013) | - |
| 6000 | **Total operating expenses** | | ( 726,508) | ( 6) | ( 670,142) | ( 6) | ( 1,387,964) | ( 6) | ( 1,324,231) | ( 6) |
| 6900 | **Operating profit** | | 843,333 | 7 | 586,968 | 5 | 1,473,116 | 6 | 1,356,700 | 6 |
| | **Non-operating income and expenses** | | | | | | | | | |
| 7010 | Other income | 6(20) and 7 | 162,599 | 1 | 2,359,830 | 22 | 198,262 | 1 | 2,420,588 | 12 |
| 7020 | Other gains and losses | 6(21) | 929,460 | 8 | 34,755 | - | 880,764 | 4 | ( 134,368) | ( 1) |
| 7050 | Finance costs | 6(24) | ( 50,736) | - | ( 47,075) | - | ( 106,551) | - | ( 93,668) | - |
| 7060 | Share of (loss) profit of associates and joint ventures accounted for under equity method | 6(6) | 73,161 | 1 | 29,562 | - | 65,137 | - | 49,372 | - |
| 7000 | **Total non-operating income and expenses** | | 1,114,484 | 10 | 2,377,072 | 22 | 1,037,612 | 5 | 2,241,924 | 11 |
| 7900 | **Profit before income tax** | | 1,957,817 | 17 | 2,964,040 | 27 | 2,510,728 | 11 | 3,598,624 | 17 |
| 7950 | Income tax expense | 6(25) | ( 549,231) | ( 5) | ( 198,652) | ( 2) | ( 720,225) | ( 3) | ( 323,882) | ( 1) |
| 8200 | **Profit for the period** | | $ 1,408,586 | 12 | $ 2,765,388 | 25 | $ 1,790,503 | 8 | $ 3,274,742 | 16 |

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FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)
(REVIEWED, NOT AUDITED)

| | | | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2018 | | 2017 | | 2018 | | 2017 | |
| | Items | Notes | AMOUNT | % | AMOUNT | % | AMOUNT | % | AMOUNT | % |
| | **Other comprehensive income** | 6(18) | | | | | | | | |
| | **Components of other comprehensive income that will not be reclassified to profit or loss** | 6(3) | | | | | | | | |
| 8316 | Unrealized gain on valuation of financial assets at fair value through other comprehensive income | | $ 2,126,299 | 18 | $ - | - | $ 3,533,909 | 16 | $ - | - |
| 8320 | Share of other comprehensive income of associates and joint ventures accounted for under equity method that will not be reclassified to profit or loss | | 1,227 | - | - | - | 1,862 | - | - | - |
| 8310 | **Components of other comprehensive income that will not be reclassified to profit or loss** | | 2,127,526 | 18 | - | - | 3,535,771 | 16 | - | - |
| | **Components of other comprehensive income that will be reclassified to profit or loss** | | | | | | | | | |
| 8361 | Financial statements translation differences of foreign operations | | 423,099 | 3 | 90,334 | 1 | 221,711 | 1 | (629,566) | (3) |
| 8362 | Unrealized loss on valuation of available-for-sale financial assets | | - | - | (244,339) | (2) | - | - | (2,310,455) | (11) |
| 8370 | Share of other comprehensive income (loss) of associates and joint ventures accounted for under equity method that will be reclassified to profit or loss | | 84,509 | 1 | 9,683 | - | 30,871 | - | (149,475) | (1) |
| 8360 | **Components of other comprehensive income that will be reclassified to profit or loss** | | 507,608 | 4 | (144,322) | (1) | 252,582 | 1 | (3,089,496) | (15) |
| 8300 | **Total other comprehensive income (loss) for the period** | | $ 2,635,134 | 22 | ($ 144,322) | (1) | $ 3,788,353 | 17 | ($ 3,089,496) | (15) |
| 8500 | **Total comprehensive income for the period** | | $ 4,043,720 | 34 | $ 2,621,066 | 24 | $ 5,578,856 | 25 | $ 185,246 | 1 |
| | **Profit attributable to:** | | | | | | | | | |
| 8610 | Owners of the parent | | $ 1,256,048 | 11 | $ 2,666,275 | 24 | $ 1,540,722 | 7 | $ 3,096,177 | 15 |
| 8620 | Non-controlling interest | | 152,538 | 1 | 99,113 | 1 | 249,781 | 1 | 178,565 | 1 |
| | | | $ 1,408,586 | 12 | $ 2,765,388 | 25 | $ 1,790,503 | 8 | $ 3,274,742 | 16 |
| | **Comprehensive income (loss) attributable to:** | | | | | | | | | |
| 8710 | Owners of the parent | | $ 3,841,668 | 32 | $ 2,477,148 | 23 | $ 5,206,700 | 23 | ($ 32,999) | - |
| 8720 | Non-controlling interest | | 202,052 | 2 | 143,918 | 1 | 372,156 | 2 | 218,245 | 1 |
| | | | $ 4,043,720 | 34 | $ 2,621,066 | 24 | $ 5,578,856 | 25 | $ 185,246 | 1 |

| | | Notes | Before Tax | After Tax | Before Tax | After Tax | Before Tax | After Tax | Before Tax | After Tax |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 6(26) | | | | | | | | |
| | **Basic and diluted earnings per share (in dollars)** | | | | | | | | | |
| 9710 | Profit for the period from continuing operations | | $ 1.16 | $ 0.84 | $ 1.76 | $ 1.65 | $ 1.49 | $ 1.06 | $ 2.14 | $ 1.95 |
| 9720 | Non-controlling interest | | (0.20) | (0.09) | (0.12) | (0.07) | (0.33) | (0.15) | (0.22) | (0.11) |
| 9750 | Profit attributable to common shareholders of the parent | | $ 0.96 | $ 0.75 | $ 1.64 | $ 1.58 | $ 1.16 | $ 0.91 | $ 1.92 | $ 1.84 |
| | **Assuming shares held by subsidiaries are not deemed as treasury stock:** | | | | | | | | | |
| | Profit for the period from continuing operations | | $ 1.16 | $ 0.84 | $ 1.76 | $ 1.65 | $ 1.49 | $ 1.06 | $ 2.14 | $ 1.95 |
| | Non-controlling interest | | (0.20) | (0.09) | (0.12) | (0.07) | (0.33) | (0.15) | (0.22) | (0.11) |
| | Profit attributable to common shareholders of the parent | | $ 0.96 | $ 0.75 | $ 1.64 | $ 1.58 | $ 1.16 | $ 0.91 | $ 1.92 | $ 1.84 |

The accompanying notes are an integral part of these consolidated financial statements.

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)
(REVIEWED, NOT AUDITED)

| | | Equity attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Retained Earnings | | | Other Equity Interest | | | | | | |
| | Notes | Share capital - common stock | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Financial statements translation differences of foreign operations | Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income | Unrealized gain or loss on available-for-sale financial assets | Treasury stocks | Total | Non-controlling interest | Total equity |
| Six months ended June 30, 2017 | | | | | | | | | | | | | |
| Balance at January 1, 2017 | | $ 16,846,646 | $ 266,458 | $ 6,791,478 | $ 1,708,542 | $ 4,830,100 | $ 13,387 | $ - | $ 36,313,040 | ($ 21,501 ) | $ 66,748,150 | $ 3,531,750 | $ 70,279,900 |
| Profit for the period | | - | - | - | - | 3,096,177 | - | - | - | - | 3,096,177 | 178,565 | 3,274,742 |
| Other comprehensive (loss) income for the period | 6(18) | - | - | - | - | - | ( 778,039 ) | - | ( 2,351,137 ) | - | ( 3,129,176 ) | 39,680 | ( 3,089,496 ) |
| Total comprehensive income | | - | - | - | - | 3,096,177 | ( 778,039 ) | - | ( 2,351,137 ) | - | ( 32,999 ) | 218,245 | 185,246 |
| Appropriations of 2016 earnings: | | | | | | | | | | | | | |
| Legal reserve | | - | - | 348,129 | - | ( 348,129 ) | - | - | - | - | - | - | - |
| Special reserve | | - | - | - | 506,036 | ( 506,036 ) | - | - | - | - | - | - | - |
| Cash dividends | | - | - | - | - | ( 2,526,997 ) | - | - | - | - | ( 2,526,997 ) | - | ( 2,526,997 ) |
| Disposal of treasury stock | 6(15)(16) | - | 2,891 | - | - | - | - | - | - | 1,566 | 4,457 | - | 4,457 |
| Cash dividends paid by consolidated subsidiaries | | - | - | - | - | - | - | - | - | - | - | ( 302,603 ) | ( 302,603 ) |
| Balance at June 30, 2017 | | $ 16,846,646 | $ 269,349 | $ 7,139,607 | $ 2,214,578 | $ 4,545,115 | ($ 764,652 ) | $ - | $ 33,961,903 | ($ 19,935 ) | $ 64,192,611 | $ 3,447,392 | $ 67,640,003 |
| Six months ended June 30, 2018 | | | | | | | | | | | | | |
| Balance at January 1, 2018 | | $ 16,846,646 | $ 274,323 | $ 7,139,607 | $ 2,214,578 | $ 5,398,225 | ($ 914,267 ) | $ - | $ 38,440,218 | ($ 19,935 ) | $ 69,379,395 | $ 3,803,175 | $ 73,182,570 |
| Retrospective adjustments | | - | - | - | - | 4,890,917 | - | 33,680,146 | ( 38,440,218 ) | - | 130,845 | 33,939 | 164,784 |
| Balance at January 1, 2018 after adjustments | | 16,846,646 | 274,323 | 7,139,607 | 2,214,578 | 10,289,142 | ( 914,267 ) | 33,680,146 | - | ( 19,935 ) | 69,510,240 | 3,837,114 | 73,347,354 |
| Profit for the period | | - | - | - | - | 1,540,722 | - | - | - | - | 1,540,722 | 249,781 | 1,790,503 |
| Other comprehensive income (loss) for the period | 6(18) | - | - | - | - | - | 252,367 | 3,413,611 | - | - | 3,665,978 | 122,375 | 3,788,353 |
| Total comprehensive income | | - | - | - | - | 1,540,722 | 252,367 | 3,413,611 | - | - | 5,206,700 | 372,156 | 5,578,856 |
| Appropriations of 2017 earnings: | | | | | | | | | | | | | |
| Legal reserve | | - | - | 427,987 | - | ( 427,987 ) | - | - | - | - | - | - | - |
| Cash dividends | | - | - | - | - | ( 3,200,863 ) | - | - | - | - | ( 3,200,863 ) | - | ( 3,200,863 ) |
| Difference between proceeds on acquisition of or disposal of equity interest in a subsidiary and its carrying amount | 6(16) | - | 1,105 | - | - | - | - | - | - | - | 1,105 | ( 1,105 ) | - |
| Paid expired cash dividends transferred to capital surplus | 6(16) | - | ( 10 ) | - | - | - | - | - | - | - | ( 10 ) | - | ( 10 ) |
| Cash dividends paid by consolidated subsidiaries | | - | - | - | - | - | - | - | - | - | - | ( 377,047 ) | ( 377,047 ) |
| Disposal of financial assets at fair value through other comprehensive income | 6(3) | - | - | - | - | ( 1,809,274 ) | - | 1,810,626 | - | - | 1,352 | 2,030 | 3,382 |
| Balance at June 30, 2018 | | $ 16,846,646 | $ 275,418 | $ 7,567,594 | $ 2,214,578 | $ 6,391,740 | ($ 661,900 ) | $ 38,904,383 | $ - | ($ 19,935 ) | $ 71,518,524 | $ 3,833,148 | $ 75,351,672 |

The accompanying notes are an integral part of these consolidated financial statements.

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)
(REVIEWED, NOT AUDITED)

| | Notes | Six months ended June 30, 2018 | Six months ended June 30, 2017 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | $ 2,510,728 | $ 3,598,624 |
| Adjustments | | | |
| Adjustments to reconcile profit (loss) | | | |
| Bad debts expense transferred to other income | | - | (228) |
| Depreciation | 6(7)(22) | 1,062,090 | 1,136,466 |
| Interest expense | 6(24) | 106,551 | 93,668 |
| Interest income | 6(20) | (12,648) | (12,785) |
| Dividend income | 6(20) | (64,855) | (2,244,253) |
| Gain on valuation of financial assets | 6(2)(21) | (1,458) | (1,816) |
| Gain on valuation of financial liabilities | | - | (487) |
| Share of profit of associates and joint ventures accounted for under equity method | 6(6) | (65,137) | (49,372) |
| Gain on disposal and scrap of property, plant and equipment | 6(21) | (839,913) | (9,163) |
| Changes in operating assets and liabilities | | | |
| Changes in operating assets | | | |
| Current contract assets | | (168,083) | - |
| Notes receivable, net | | 48,515 | 114,536 |
| Notes receivable - related parties | | 3,717 | 8,083 |
| Accounts receivable, net | | (1,050,033) | (960,171) |
| Accounts receivable - related parties | | (337,772) | (176,004) |
| Other receivables | | 68,841 | 144,072 |
| Inventory | | (103,234) | 138,910 |
| Prepayments | | (80,340) | (157,494) |
| Other current assets | | (132,841) | 128,977 |
| Changes in operating liabilities | | | |
| Notes payable | | 11,726 | (15,122) |
| Notes payable - related parties | | 116,283 | 10,808 |
| Accounts payable | | 241,533 | 292,207 |
| Accounts payable - related parties | | (219,408) | (302,025) |
| Other payables | | (117,562) | (3,450) |
| Other current liabilities | | 11,047 | 8,254 |
| Other non-current liabilities | | (32,765) | (199,433) |
| Cash inflow generated from operations | | 954,982 | 1,542,802 |
| Interest received | | 12,771 | 11,795 |
| Cash dividends received | | 11,918 | 4,608 |
| Interest paid | | (106,868) | (101,368) |
| Income tax paid | | (453,422) | (218,757) |
| Net cash flows from operating activities | | 419,381 | 1,239,080 |

(Continued)

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)
(REVIEWED, NOT AUDITED)

| | Notes | Six months ended June 30, 2018 | Six months ended June 30, 2017 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of financial assets at fair value through other comprehensive income | | ($ 594,949 ) | $ - |
| Acquisition of available-for-sale financial assets | | - | ( 684,333 ) |
| Proceeds from disposal of financial assets at fair value through other comprehensive income | 6(3) | 769,608 | - |
| Acquisition of property, plant and equipment | 6(27) | ( 2,387,420 ) | ( 1,081,251 ) |
| Proceeds from disposal of property, plant and equipment | | 1,230,397 | 31,032 |
| Decrease (increase) in other non-current assets | | 26,384 | ( 28,989 ) |
| Net cash flows used in investing activities | | ( 955,980 ) | ( 1,763,541 ) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Increase in short-term borrowings | 6(28) | 929,267 | 26,551 |
| (Decrease) increase in short-term notes and bills payable | 6(28) | ( 300,122 ) | 899,957 |
| Payment of long-term borrowings | | ( 4,300,000 ) | ( 4,886,474 ) |
| Increase in long-term borrowings | | 4,235,348 | 4,883,467 |
| Expired cash dividends paid | | ( 10 ) | - |
| Net cash flows from financing activities | | 564,483 | 923,501 |
| Effect of foreign exchange rate | | 10,982 | ( 121,214 ) |
| Net increase in cash and cash equivalents | | 38,866 | 277,826 |
| Cash and cash equivalents at beginning of period | 6(1) | 4,942,919 | 5,653,854 |
| Cash and cash equivalents at end of period | 6(1) | $ 4,981,785 | $ 5,931,680 |

The accompanying notes are an integral part of these consolidated financial statements.

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(REVIEWED, NOT AUDITED)

1. HISTORY AND ORGANIZATION

(1) Formosa Taffeta Co., Ltd. (the "Company") was incorporated on April 19, 1973 under the provisions of the Company Law of the Republic of China (R.O.C.). Factories were established in Douliou City of Yulin County, R.O.C. On December 24, 1985, the Company's common stock was officially listed on the Taiwan Stock Exchange. The major operations of the Company's various departments are as follows:

| Business departments | Major activities |
|---|---|
| Primary department:<br>Fabrics, dyeing and others | Amine fabrics, polyester fabrics, cotton fabrics, blending fabrics and umbrella ribs |
| Secondary department:<br>Cord fabrics, petroleum | Cord, plastic bags, refineries for gasoline, diesel, crude oil and the related petroleum products, cotton fibers, blending fibers and protection fibers |
| Formosa Advanced Technologies Co., Ltd. | Assembly, testing, model processing and research and development of various integrated circuits |

(2) Formosa Chemicals & Fiber Corp. has significant control over the Company since Formosa Chemicals & Fiber Corp. holds over half of the Board seats after the stockholders' meeting on June 27, 2008. Since June 27, 2008, Formosa Chemicals & Fiber Corp. became the Company's parent company and accordingly, the Company and its subsidiaries are included in its consolidated financial statements.

(3) As of June 30, 2018, the Company and its subsidiaries (collectively referred herein as the "Group") had 10,197 employees.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on August 9, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

New standards, interpretations and amendments as endorsed by the FSC effective from 2018 are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions' | January 1, 2018 |
| Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts' | January 1, 2018 |
| IFRS 9, 'Financial instruments' | January 1, 2018 |
| IFRS 15, 'Revenue from contracts with customers' | January 1, 2018 |
| Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers' | January 1, 2018 |
| Amendments to IAS 7, 'Disclosure initiative' | January 1, 2017 |
| Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses' | January 1, 2017 |
| Amendments to IAS 40, 'Transfers of investment property' | January 1, 2018 |
| IFRIC 22, 'Foreign currency transactions and advance consideration' | January 1, 2018 |
| Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards' | January 1, 2018 |
| Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, 'Disclosure of interests in other entities' | January 1, 2017 |
| Annual improvements to IFRSs 2014-2016 cycle-Amendments to IAS 28, 'Investments in associates and joint ventures' | January 1, 2018 |

Based on the Group's assessment, significant impacts to the Group's financial condition and financial performance of the above standards and interpretations are as follows:

A. IFRS 9, 'Financial instruments'

(a)Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortized cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

(b) The Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Note 12(4).

B. IFRS 15, 'Revenue from contracts with customers' and amendments

(a)IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognized when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer

Step 2: Identify separate performance obligations in the contract(s)

Step 3: Determine the transaction price

Step 4: Allocate the transaction price

Step 5: Recognize revenue when the performance obligation is satisfied

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

(b) The Group has elected not to restate prior period financial statements and recognized the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The significant effects of adopting the modified transition as of January 1, 2018 are summarized below:

Consolidated balance sheet

| Affected items | Book value under previous revenue standard | Adjustment for initial application of IFRS 15 | Adjusted amount after IFRS 15 adoption | Remark |
|---|---|---|---|---|
| January 1, 2018 | | | | |
| Contract assets | $ - | $ 491,632 | $ 491,632 | |
| Inventory | 825,956 | ( 392,220) | 433,736 | |
| Retained earnings | 3,978,237 | 99,412 | 4,077,649 | |

Revenue recognition of customised products

Formosa Advanced Technologies Co., Ltd. provides assembly and testing services of various integrated circuits based on the specifications as required by the customers. The revenue is recognized when the significant risks and rewards are transferred under previous accounting policies, and the timing of recognition usually occurred upon acceptance. Considering that the highly customised products have no alternative use to Formosa Advanced Technologies Co., Ltd. and Formosa Advanced Technologies Co., Ltd. has an enforceable right to payment for performance completed to date in accordance with the contract terms, the revenue will have to be recognized based on the percentage of completion under the new revenue standard. As a result, retained earnings and non-controlling interest will have to be increased by $65,924 and $34,118, respectively, inventory decreased by $392,220 and contract assets increased by $491,632 with the application of the new standard.

C. Amendments to IAS 7, ‘Disclosure initiative’

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group expects to provide additional disclosure to explain the changes in liabilities arising from financing activities.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
| --- | --- |
| Amendments to IFRS 9, 'Prepayment features with negative compensation' | January 1, 2019 |
| IFRS 16, 'Leases' | January 1, 2019 |
| Amendments to IAS 19, 'Plan amendment, curtailment or settlement' | January 1, 2019 |
| Amendments to IAS 28, 'Long-term interests in associates and joint ventures' | January 1, 2019 |
| IFRIC 23, 'Uncertainty over income tax treatments' | January 1, 2019 |
| Annual improvements to IFRSs 2015-2017 cycle | January 1, 2019 |

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

In the first quarter of 2018, the Group reported to the Board of Directors that IFRS 16 has no material impact to the Group.

The Group will adopt the modified retrospective transitional provisions of IFRS 16 'Leases', and classify the effects on the lease contract of lessee to January 1, 2019 in accordance with IFRS 16.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture' | To be determined by International Accounting Standards Board |
| IFRS 17, 'Insurance contracts' | January 1, 2021 |

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are consistent with Note 4 in the consolidated financial statements for the year ended December 31, 2017, except for the compliance statement, basis of preparation, basis of consolidation and additional policies as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

A. The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Accounting Standard 34, 'Interim financial reporting' as endorsed by the FSC.

B. These consolidated financial statements are to be read in conjunction with the consolidated financial statements for the year ended December 31, 2017.

(2) Basis of preparation

A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:

(a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(b) Financial assets at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.

(c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 and the six months ended June 30, 2017 were not restated. The financial statements for the year ended December 31, 2017 and the six months ended June 30, 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

The basis for preparation of the consolidated financial statements is the same with the consolidated financial statements as of and for the year ended December 31, 2017.

B. Subsidiaries included in the consolidated financial statements:

| | | | Ownership (%) | | | |
|---|---|---|---|---|---|---|
| Name of investor | Name of subsidiary | Main business activities | June 30, 2018 | December 31, 2017 | June 30, 2017 | Description |
| Formosa Taffeta Co., Ltd. | Formosa Advanced Technologies Co., Ltd. | Assembly, testing, model processing and research and development of various integrated circuits | 65.68 | 65.68 | 65.68 | |
| Formosa Taffeta Co., Ltd. | Formosa Taffeta (Zhong Shan) Co, Ltd. | Manufacturing of nylon and polyester filament greige cloth, coloured cloth, printed cloth and textured processing yarn products | 100.00 | 100.00 | 100.00 | Note 1 |
| Formosa Taffeta Co., Ltd. | Formosa Development Co., Ltd. | Urban land consolidation, development and rent and sale of residences and buildings, and development of new community and specialised zones | 100.00 | 100.00 | 100.00 | Note 1 |
| Formosa Taffeta Co., Ltd. | Formosa Taffeta Vietnam Co., Ltd. | Manufacturing, processing, supply and marketing of yarn, knitted fabric, dyeing and finishing, carpets, curtains and cleaning supplies | 100.00 | 100.00 | 100.00 | Note 1 |

| Name of investor | Name of subsidiary | Main business activities | Ownership (%) June 30, 2018 | Ownership (%) December 31, 2017 | Ownership (%) June 30, 2017 | Description |
|---|---|---|---|---|---|---|
| Formosa Taffeta Co., Ltd. | Formosa Taffeta (Hong Kong) Co., Ltd. | Sale of nylon and polyamine goods | 100.00 | 100.00 | 100.00 | Note 1 |
| Formosa Taffeta Co., Ltd. | Schoeller F.T.C. (Hong Kong) Co., Ltd. | Sale of hi-tech performance fabric for 3XDRY, Nanosphere, Keprotec, Dynatec, Spirit and Reflex | 50.00 | 50.00 | 43.00 | Notes 1 and 2 |
| Formosa Taffeta Co., Ltd. | Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd. | Export trading, entrepot trading, displaying goods, processing of exporting goods, warehousing and black and white and colour design and graph | 100.00 | 100.00 | 100.00 | Note 1 |
| Formosa Taffeta Co., Ltd. | Formosa Taffeta Dong Nai Co., Ltd. | Manufacturing of nylon and polyester filament products | 100.00 | 100.00 | 100.00 | Note 1 |
| Formosa Taffeta Co., Ltd. | Formosa Taffeta (Cayman) Limited | Holding company | 100.00 | 100.00 | 100.00 | Note 1 |
| Formosa Taffeta (Hong Kong) Co., Ltd. | Formosa Taffeta (Changshu) Co., Ltd. | Manufacturing and processing fabric of nylon filament knitted cloth, weaving and dyeing as well as post processing of knitted fabric | 100.00 | 100.00 | 100.00 | Note 1 |
| Formosa Development Co., Ltd. | Public More Internation Company Ltd. | Employment service, manpower allocation and agency service etc. | 100.00 | 100.00 | 100.00 | Note 1 |

Note 1: The financial statements of the entity as of and for the six months ended June 30, 2018 and 2017 were not reviewed by independent accountants as the entity did not meet the definition of significant subsidiary.

Note 2: Even though the Company did not directly or indirectly own more than 50% voting rights of Schoeller F.T.C. (Hong Kong) Co., Ltd. on June 30, 2017, the Company owns more than half of the seats in the Board of Directors of Schoeller F.T.C. (Hong Kong) Co., Ltd. and has substantive control over the company. Thus, Schoeller F.T.C. (Hong Kong) Co., Ltd. is included in the consolidated financial statements.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group:

As of June 30, 2018, December 31, 2017 and June 30, 2017, the non-controlling interest amounted to $3,833,148, $3,803,175 and $3,447,392, respectively. The information on non-controlling interest and respective subsidiaries is as follows:

| | | Non-controlling interest | | | |
|---|---|---|---|---|---|
| | | June 30, 2018 | | December 31, 2017 | |
| Name of subsidiary | Principal place of business | Amount | Ownership (%) | Amount | Ownership (%) |
| Formosa Advanced Technologies Co., Ltd. | Taiwan | $ 3,830,832 | 34.32 | $ 3,803,168 | 34.32 |

| | | Non-controlling interest | |
|---|---|---|---|
| | | June 30, 2017 | |
| Name of subsidiary | Principal place of business | Amount | Ownership (%) |
| Formosa Advanced Technologies Co., Ltd. | Taiwan | $ 3,439,940 | 34.32 |

Summarized financial information on the subsidiaries:

Balance sheets

| | Formosa Advanced Technologies Co., Ltd. | | |
|---|---|---|---|
| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
| Current assets | $ 8,676,310 | $ 8,283,373 | $ 8,625,358 |
| Non-current assets | 4,945,963 | 3,891,808 | 3,302,383 |
| Current liabilities | ( 2,378,903) | ( 1,010,778) | ( 1,829,723) |
| Non-current liabilities | ( 81,273) | ( 82,910) | ( 74,882) |
| Total net assets | $ 11,162,097 | $ 11,081,493 | $ 10,023,136 |

Statements of comprehensive income

| | Formosa Advanced Technologies Co., Ltd. | |
|---|---|---|
| | Three months ended June 30, | |
| | 2018 | 2017 |
| Revenue | $ 2,227,335 | $ 2,020,707 |
| Profit before income tax | 563,493 | 341,461 |
| Income tax expense | ( 120,375) | ( 52,498) |
| Profit for the period | 443,118 | 288,963 |
| Other comprehensive income, net of tax | 148,875 | 130,618 |
| Total comprehensive income for the period | $ 591,993 | $ 419,581 |
| Comprehensive income attributable to non-controlling interest | $ 203,172 | $ 144,001 |

| | Formosa Advanced Technologies Co., Ltd. | |
|---|---|---|
| | Six months ended June 30, | |
| | 2018 | 2017 |
| Revenue | $ 4,275,071 | $ 4,110,012 |
| Profit before income tax | 916,354 | 618,623 |
| Income tax expense | ( 190,947) | ( 100,250) |
| Profit for the period | 725,407 | 518,373 |
| Other comprehensive income, net of tax | 361,863 | 118,537 |
| Total comprehensive income for the period | $ 1,087,270 | $ 636,910 |
| Comprehensive income attributable to non-controlling interest | $ 373,151 | $ 218,588 |

Statements of cash flows

| | Formosa Advanced Technologies Co., Ltd. | |
|---|---|---|
| | Six months ended June 30, | |
| | 2018 | 2017 |
| Net cash provided by operating activities | $ 781,149 | $ 1,132,772 |
| Net cash used in investing activities | ( 1,473,566) | ( 1,051,859) |
| (Decrease) increase in cash and cash equivalents | ( 692,417) | 80,913 |
| Cash and cash equivalents, beginning of period | 3,479,352 | 3,954,890 |
| Cash and cash equivalents, end of period | $ 2,786,935 | $ 4,035,803 |

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

Effective 2018

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using settlement date accounting.

C. At initial recognition, the Group measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.

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

Effective 2018

A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognize changes in fair value in other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognized and derecognized using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:

The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(6) Accounts and notes receivable

A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(7) Impairment of financial assets

For financial assets at amortized cost including accounts receivable or contract assets that have a significant financing component, at each reporting date, the Group recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognizes the impairment provision for lifetime ECLs.

(8) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(9) Notes and accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.

B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.

B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognized in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognized in profit or loss.

(11) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. At initial recognition, the Group measures financial guarantee contracts at fair value and subsequently at the higher of the amount of provisions determined by the expected credit losses and the cumulative gains that were previously recognized.

(12) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) instead.

ii. Remeaurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and recoreded as retained earnings.

iii. Past service costs are recognized immediately in profit or loss.

iv. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. The related information is disclosed accordingly.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(13) <u>Income tax</u>

A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

F. A deferred tax asset shall be recognized for the carry forward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

G. The interim period income tax expense is recognized based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

H. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognizes the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognized outside profit or loss is recognized in other comprehensive income or equity while the effect of the change on items recognized in profit or loss is recognized in profit or loss.

(14) Revenue recognition

The Group manufactures and sells various fabrics and renders services as an oil distributor. Fabrics and oil revenue is measured at the fair value of the consideration received or receivable taking into account business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group’s activities. Revenue arising from the sales of goods is recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

Formosa Advanced Technologies Co., Ltd. renders IC packaging and testing services. Considering that the highly customised products have no alternative use to the entity and the entity has an enforceable right to payment for performance completed to date in accordance with the contract terms, the revenue will have to be recognized in the reporting period in which the services are delivered to the customers. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the costs incurred relative to the total expected costs. The customer pays at the time specified in the payment schedule. If the services rendered exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized.

## 5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

There was no significant change during this period. Please refer to Note 5 to the consolidated financial statements as of and for the year ended December 31, 2017 for related information.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
|---|---|---|---|
| Cash on hand and petty cash | $ 120,385 | $ 131,912 | $ 75,660 |
| Checking accounts and demand deposits | 1,813,776 | 1,524,572 | 1,829,634 |
| Time deposits | 157,317 | 318,588 | 492,201 |
| Commercial paper | 2,890,307 | 2,967,847 | 3,534,185 |
| | $ 4,981,785 | $ 4,942,919 | $ 5,931,680 |

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The rate range of time deposit on June 30, 2018, December 31, 2017 and June 30, 2017 are 1.72%~7.78%, 1.55%~7.40% and 0.45%~6.63%, respectively.

C. The Group has no cash and cash equivalents pledged to others.

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

| Items | June 30, 2018 | December 31, 2017 | June 30, 2017 |
|---|---|---|---|
| Current items: | | | |
| Beneficiary certificates | $ 619,504 | $ 619,504 | $ 619,504 |
| Forward foreign exchange contracts | 478 | 398 | 775 |
| | 619,982 | 619,902 | 620,279 |
| Valuation adjustment | 11,872 | 10,494 | 9,158 |
| | $ 631,854 | $ 630,396 | $ 629,437 |

A. Amounts recognized in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

| | Three months |
|---|---|
| | 2018 |
| Beneficiary certificates | $ 676 |
| Forward foreign exchange contracts | 248 |
| | $ 924 |

| | Six months e |
|---|---|
| | 2018 |
| Beneficiary certificates | $ 1,378 |
| Forward foreign exchange contracts | 80 |
| | $ 1,458 |

B. The Group entered into contracts relating to derivative financial assets which were not accounted for under hedge accounting. The information is listed below:

| Derivative Instruments | June 30, 2018 Contract Amount (Notional Principal) | June 30, 2018 Contract Period | December 31, 2017 Contract Amount (Notional Principal) | December 31, 2017 Contract Period |
|---|---|---|---|---|
| Current items: | | | | |
| Forward foreign exchange contracts | | | | |
| Taipei Fubon Bank | JPY 157,280 | 2018.5~2018.8 | JPY 192,020 | 2017.11~2018.2 |

| | June 30, 2017 Contract Amount (Notional Principal) | June 30, 2017 Contract Period |
|---|---|---|
| Current items: | | |
| Forward foreign exchange contracts | | |
| Taipei Fubon Bank | JPY 226,470 | 2017.4~2017.9 |

The forward exchange contracts are buy and sell to hedge the change of exchange rate due to import and export transactions, but not adopting hedge accounting.

C. Information relating to credit risk of financial assets at fair value through profit or loss is provided in Note 12(2).

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

Effective 2018

| Items | June 30, 2018 |
| --- | --- |
| Current items: | |
| Equity instruments | |
| Listed stocks | $ 2,311,395 |
| Unlisted stocks | 100,000 |
| | 2,411,395 |
| Valuation adjustment | 1,756,672 |
| | $ 4,168,067 |
| Non-current items: | |
| Equity instruments | |
| Listed stocks | $ 8,739,607 |
| Unlisted stocks | 6,700,481 |
| | 15,440,088 |
| Valuation adjustment | 37,392,965 |
| | $ 52,833,053 |

A. The Group has elected to classify equity investments that are considered to be steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to $57,001,120 as at June 30, 2018.

B. Aiming to satisfy the operating capital needs, the Group sold its equity investment in Nanya Technology Corp. at fair value of $377,894 and $772,686 which resulted in loss on disposal (including the portion attributable to non-controlling interests) of ($885,419) and ($1,804,708) during the three months ended June 30, 2018 and six months ended June 30, 2018 which was reclassified to retained earnings, respectively.

C. Amounts recognized in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

| | Three months ended June 30, 2018 | Six months ended June 30, 2018 |
| --- | --- | --- |
| Equity instruments at fair value through other comprehensive income | | |
| Fair value change recognised in other comprehensive income | $ 2,127,526 | $ 3,535,771 |
| Cumulative losses reclassified to retained earnings due to derecognition (including the portion attributable to | ($ 885,419) | ($ 1,804,708) |

D. As at June 30, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Group was $57,001,120.

E. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).

F. Information on available-for-sale financial assets and financial assets at cost as of December 31, 2017 and June 30, 2017 is provided in Note 12(4).

(4) Notes and accounts receivable

| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
|---|---|---|---|
| Notes receivable | $ 115,796 | $ 164,311 | $ 76,558 |
| Accounts receivable | $ 4,694,606 | $ 3,644,252 | $ 4,615,365 |
| Less: Allowance for uncollectible accounts | ( 76,842) | ( 76,521) | ( 91,742) |
| | $ 4,617,764 | $ 3,567,731 | $ 4,523,623 |

A. The ageing analysis of notes and accounts receivable are as follows:

| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
|---|---|---|---|
| Not past due | $ 4,487,386 | $ 3,618,474 | $ 4,394,910 |
| Up to 30 days | 168,759 | 146,964 | 183,302 |
| 31 to 90 days | 106,675 | 32,878 | 89,083 |
| Over 90 days | 47,583 | 10,247 | 24,628 |
| | $ 4,810,403 | $ 3,808,563 | $ 4,691,923 |

The above ageing analysis was based on past due date.

B. As at June 30, 2018, December 31, 2017 and June 30, 2017, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes and accounts receivable were $4,810,403, $3,808,563 and $4,691,923, respectively.

C. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(5) Inventories

| | June 30, 2018 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Raw materials | $ 1,744,330 | ($ 43,528) | $ 1,700,802 |
| Supplies | 285,102 | ( 3,995) | 281,107 |
| Work in process | 2,541,749 | ( 7,415) | 2,534,334 |
| Finished goods | 3,266,806 | ( 497,210) | 2,769,596 |
| Merchandise inventory | 228,362 | - | 228,362 |
| Materials in transit | 385,856 | - | 385,856 |
| Outsourced processed materials | 214,560 | ( 123) | 214,437 |
| Construction in progress | 26,349 | - | 26,349 |
| Land for construction | 22,224 | - | 22,224 |
| | $ 8,715,338 | ($ 552,271) | $ 8,163,067 |

| | December 31, 2017 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Raw materials | $ 1,595,346 | ($ 92,680) | $ 1,502,666 |
| Supplies | 230,935 | ( 8,023) | 222,912 |
| Work in process | 2,581,319 | ( 6,731) | 2,574,588 |
| Finished goods | 3,629,029 | ( 413,191) | 3,215,838 |
| Merchandise inventory | 286,276 | - | 286,276 |
| Materials in transit | 414,289 | - | 414,289 |
| Outsourced processed materials | 190,085 | ( 109) | 189,976 |
| Construction in progress | 23,284 | - | 23,284 |
| Land for construction | 22,224 | - | 22,224 |
| | $ 8,972,787 | ($ 520,734) | $ 8,452,053 |

| | June 30, 2017 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Raw materials | $ 1,652,505 | ($ 86,310) | $ 1,566,195 |
| Supplies | 218,719 | ( 7,165) | 211,554 |
| Work in process | 2,331,481 | ( 7,133) | 2,324,348 |
| Finished goods | 3,137,330 | ( 335,521) | 2,801,809 |
| Merchandise inventory | 195,094 | - | 195,094 |
| Materials in transit | 370,939 | - | 370,939 |
| Outsourced processed materials | 203,098 | ( 148) | 202,950 |
| Construction in progress | 22,404 | - | 22,404 |
| Land for construction | 22,224 | - | 22,224 |
| | $ 8,153,794 | ($ 436,277) | $ 7,717,517 |

Information about the inventories that were pledged to others as collateral is provided in Note 8.

The cost of inventories recognized as expense for the year:

| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
|---|---|---|
| Cost of goods sold | $ 10,185,850 | $ 9,606,263 |
| Inventory valuation loss | 7,979 | 25,839 |
| Others (Note 2) | ( 26,412) | ( 43,319) |
| | $ 10,167,417 | $ 9,588,783 |

| | Six months ended June 30, 2018 | Six months ended June 30, 2017 |
|---|---|---|
| Cost of goods sold | $ 19,604,373 | $ 18,498,245 |
| Inventory valuation loss (gain) (Note 1) | 31,537 | ( 67,645) |
| Others (Note 2) | ( 29,309) | ( 11,365) |
| | $ 19,606,601 | $ 18,419,235 |

Note 1: Gain on inventory for the six months ended June 30, 2017 arose from inventories which were previously provided with allowance but were subsequently sold.

Note 2: Others consist of inventory overage/shortage and disposal of scrap and defective materials.

(6) Investments accounted for using equity method

| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
|---|---|---|---|
| Formosa Industries Co., Ltd. | $ 1,975,484 | $ 1,938,483 | $ 2,127,069 |
| Quang Viet Enterprise Co., Ltd. | 1,147,168 | 1,149,965 | 1,139,580 |
| Changshu Yu Yuan Development Co., Ltd. | 17,617 | 35,008 | 59,459 |
| | $ 3,140,269 | $ 3,123,456 | $ 3,326,108 |

A. Associates

(a) The basic information of the associates that are material to the Group is as follows:

| | | Shareholding ratio | | | |
|---|---|---|---|---|---|
| Company name | Principal place of business | June 30, 2018 | December 31, 2017 | Nature of relationship | Method of measurement |
| Formosa Industries Co., Ltd. | Vietnam | 10.00% | 10.00% | Associate | Equity method |
| Quang Viet Enterprise Co., Ltd. | Taiwan | 17.92% | 17.92% | Associate | Equity method |
| Changshu Yu Yuan Development Co., Ltd. | China | 40.78% | 40.78% | Associate | Equity method |

| Company name | Principal place of business | Shareholding ratio June 30, 2017 | Nature of relationship | Method of measurement |
|---|---|---|---|---|
| Formosa Industries Co., Ltd. | Vietnam | 10.00% | Associate | Equity method |
| Quang Viet Enterprise Co., Ltd. | Taiwan | 17.92% | Associate | Equity method |
| Changshu Yu Yuan Development Co., Ltd. | China | 40.78% | Associate | Equity method |

(b) The summarized financial information of the associates that are material to the Group is shown below:

Balance sheets

| | Formosa Industries Co., Ltd. | | |
|---|---|---|---|
| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
| Current assets | $ 20,614,804 | $ 9,291,100 | $ 19,668,444 |
| Non-current assets | 22,004,940 | 20,614,037 | 21,513,389 |
| Current liabilities | ( 16,616,538) | ( 5,965,869) | ( 14,427,314) |
| Non-current liabilities | ( 7,059,634) | ( 5,439,066) | ( 8,211,517) |
| Total net assets | $ 18,943,572 | $ 18,500,202 | $ 18,543,002 |
| | | | |
| Share in associate's net assets | $ 1,894,357 | $ 1,850,020 | $ 1,854,300 |
| Dividends receivable | 63,210 | - | 182,633 |
| Difference | 17,917 | 88,463 | 90,136 |
| Carrying amount of the associate | $ 1,975,484 | $ 1,938,483 | $ 2,127,069 |

| | Quang Viet Enterprise Co., Ltd. | | |
|---|---|---|---|
| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
| Current assets | $ 9,822,796 | $ 5,987,697 | $ 7,667,408 |
| Non-current assets | 3,097,411 | 2,705,609 | 2,606,162 |
| Current liabilities | ( 5,992,994) | ( 2,064,121) | ( 4,258,416) |
| Non-current liabilities | ( 85,383) | ( 52,152) | ( 30,802) |
| Total net assets | $ 6,841,830 | $ 6,577,033 | $ 5,984,352 |
| | | | |
| Share in associate's net assets | $ 1,226,056 | $ 1,178,604 | $ 1,072,396 |
| Dividends receivable | - | - | 115,291 |
| Difference | ( 78,888) | ( 28,639) | ( 48,107) |
| Carrying amount of the associate | $ 1,147,168 | $ 1,149,965 | $ 1,139,580 |

| | Changshu Yu Yuan Development Co., Ltd. | | |
|---|---|---|---|
| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
| Current assets | $ 133,334 | $ 157,599 | $ 236,906 |
| Non-current assets | 210 | 280 | 374 |
| Current liabilities | ( 60,025) | ( 54,986) | ( 91,476) |
| Total net assets | $ 73,519 | $ 102,893 | $ 145,804 |
| | | | |
| Share in associate's net assets | $ 29,981 | $ 41,960 | $ 59,459 |
| Dividends receivable | 17,439 | - | - |
| Difference | ( 29,803) | ( 6,952) | - |
| Carrying amount of the associate | $ 17,617 | $ 35,008 | $ 59,459 |

Statements of comprehensive income

| | Formosa Industries Co., Ltd. | |
|---|---|---|
| | Three months ended June 30, | |
| | 2018 | 2017 |
| Revenue | $ 8,280,106 | $ 5,775,136 |
| Profit for the period from continuing operations (Total comprehensive income) | $ 442,986 | $ 36,096 |

| | Formosa Industries Co., Ltd. | |
|---|---|---|
| | Six months ended June 30, | |
| | 2018 | 2017 |
| Revenue | $ 15,887,965 | $ 12,272,174 |
| Profit for the period from continuing operations (Total comprehensive income) | $ 772,801 | $ 501,738 |

| | Quang Viet Enterprise Co., Ltd. | |
|---|---|---|
| | Three months ended June 30, | |
| | 2018 | 2017 |
| Revenue | $ 2,937,773 | $ 1,924,160 |
| Profit for the period from continuing operations | $ 301,470 | $ 128,289 |
| Other comprehensive income, net of tax | - | 74,705 |
| Total comprehensive income | $ 301,470 | $ 202,994 |

| | Quang Viet Enterprise Co., Ltd. | |
|---|---|---|
| | Six months ended June 30, | |
| | 2018 | 2017 |
| Revenue | $ 4,102,405 | $ 2,711,009 |
| Profit (loss) for the period from continuing operations | $ 166,233 | ($ 52,509) |
| Other comprehensive income (loss), net of tax | 9 | ( 102,261) |
| Total comprehensive loss | $ 166,242 | ($ 154,770) |

| | Changshu Yu Yuan Development Co., Ltd. | |
|---|---|---|
| | Three months ended June 30, | |
| | 2018 | 2017 |
| Revenue | $ - | $ 2,279 |
| Profit (loss) for the period from continuing operations (Total comprehensive income (loss)) | $ 1,747 | ($ 3,850) |

| | Changshu Yu Yuan Development Co., Ltd. | |
|---|---|---|
| | Six months ended June 30, | |
| | 2018 | 2017 |
| Revenue | $ - | $ 34,430 |
| Profit for the period from continuing operations (Total comprehensive income) | $ 1,434 | $ 5,248 |

B. The investment income of $73,161, $29,562, $65,137 and $49,372 for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, respectively. were accounted for under the equity method based on the unreviewed financial statements of the investee companies.

C. The Group is the director of Formosa Industries Co., Ltd. and Quang Viet Enterprise Co., Ltd. and has significant impact to its operations, thus, Formosa Industries Co., Ltd. and Quang Viet Enterprise Co., Ltd. are accounted for under the equity method.

D. The Group's material associate, Quang Viet Enterprise Co., Ltd., has quoted market prices. As of June 30, 2018, December 31, 2017 and June 30, 2017, the fair value was $2,417,396, $2,426,693 and $3,282,080, respectively.

(7) Property, plant and equipment

| At January 1, 2018 | Land and land improvements | Buildings | Machinery | Transportation equipment and other equipment | Construction in progress and equipment to be inspected | Total |
|---|---|---|---|---|---|---|
| Cost | $ 2,545,786 | $ 11,047,542 | $ 41,347,517 | $ 9,003,970 | $ 1,976,014 | $ 65,920,829 |
| Accumulated depreciation | ( 14,598) | ( 5,864,637) | ( 34,546,863) | ( 8,316,598) | - | ( 48,742,696) |
| Accumulated impairment | ( 155,738) | - | ( 117) | - | - | ( 155,855) |
| | $ 2,375,450 | $ 5,182,905 | $ 6,800,537 | $ 687,372 | $ 1,976,014 | $ 17,022,278 |
| **Six months ended June 30, 2018** | | | | | | |
| Opening net book amount | $ 2,375,450 | $ 5,182,905 | $ 6,800,537 | $ 687,372 | $ 1,976,014 | $ 17,022,278 |
| Additions | - | - | - | 5 | 2,380,381 | 2,380,386 |
| Disposals | ( 342,670) | - | ( 32,497) | ( 436) | ( 14,881) | ( 390,484) |
| Transfers (Note) | - | 129,801 | 2,248,235 | 45,881 | ( 2,414,446) | 9,471 |
| Depreciation charge | ( 149) | ( 181,834) | ( 778,885) | ( 101,222) | - | ( 1,062,090) |
| Net exchange differences | 18 | 26,090 | 31,304 | 2,444 | 13,370 | 73,226 |
| Closing net book amount | $ 2,032,649 | $ 5,156,962 | $ 8,268,694 | $ 634,044 | $ 1,940,438 | $ 18,032,787 |
| **At June 30, 2018** | | | | | | |
| Cost | $ 2,203,258 | $ 11,218,315 | $ 42,734,035 | $ 8,972,243 | $ 1,940,438 | $ 67,068,289 |
| Accumulated depreciation | ( 14,871) | ( 6,061,353) | ( 34,465,224) | ( 8,338,199) | - | ( 48,879,647) |
| Accumulated impairment | ( 155,738) | - | ( 117) | - | - | ( 155,855) |
| | $ 2,032,649 | $ 5,156,962 | $ 8,268,694 | $ 634,044 | $ 1,940,438 | $ 18,032,787 |

Note: Transferred from prepayments.

| | Land and land improvements | Buildings | Machinery | Transportation equipment and other equipment | Construction in progress and equipment to be inspected | Total |
|---|---|---|---|---|---|---|
| At January 1, 2017 | | | | | | |
| Cost | $ 2,545,968 | $ 10,676,232 | $ 41,715,725 | $ 9,183,608 | $ 1,475,773 | $ 65,597,306 |
| Accumulated depreciation | ( 14,554) | ( 5,528,770) | ( 34,857,645) | ( 8,396,115) | - | ( 48,797,084) |
| Accumulated impairment | ( 155,738) | - | ( 271) | - | - | ( 156,009) |
| | $ 2,375,676 | $ 5,147,462 | $ 6,857,809 | $ 787,493 | $ 1,475,773 | $ 16,644,213 |
| Six months ended June 30, 2017 | | | | | | |
| Opening net book amount | $ 2,375,676 | $ 5,147,462 | $ 6,857,809 | $ 787,493 | $ 1,475,773 | $ 16,644,213 |
| Additions | - | - | - | - | 1,092,159 | 1,092,159 |
| Disposals | - | - | ( 19,266) | ( 2,603) | - | ( 21,869) |
| Transfers (Note) | 108 | 503,768 | 876,784 | 49,154 | ( 1,365,071) | 64,743 |
| Depreciation charge | ( 144) | ( 190,999) | ( 841,538) | ( 103,785) | - | ( 1,136,466) |
| Net exchange differences | ( 75) | ( 100,362) | ( 122,112) | ( 12,343) | ( 63,412) | ( 298,304) |
| Closing net book amount | $ 2,375,565 | $ 5,359,869 | $ 6,751,677 | $ 717,916 | $ 1,139,449 | $ 16,344,476 |
| At June 30, 2017 | | | | | | |
| Cost | $ 2,545,530 | $ 11,025,072 | $ 41,660,472 | $ 9,104,722 | $ 1,139,449 | $ 65,475,245 |
| Accumulated depreciation | ( 14,227) | ( 5,665,203) | ( 34,908,524) | ( 8,386,806) | - | ( 48,974,760) |
| Accumulated impairment | ( 155,738) | - | ( 271) | - | - | ( 156,009) |
| | $ 2,375,565 | $ 5,359,869 | $ 6,751,677 | $ 717,916 | $ 1,139,449 | $ 16,344,476 |

Note: Transferred from non-current assets held for sale and discontinued operations.

A. Amount of borrowing costs capitalised as part of property, plant and equipment and the range of the interest rates for such capitalisation are as follows:

| | Three months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Amount capitalised | $ 2,423 | $ 6,236 |

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Amount capitalised | $ 4,011 | $ 8,118 |
| Range of the interest rates for capitalisation | 0.94%~4.3% | 0.98%~3.03% |

B. The significant components and useful lives of property, plant and equipment are as follows:

| Items | Significant components | Estimated useful lives |
|---|---|---|
| Land improvements | Pipelines | 3 ~ 15 years |
| Buildings | Factory and gasoline stations | 10 ~ 60 years |
| Machinery and equipment | Impregnating machine, dyeing machine and other machinery equipment | 2 ~ 20 years |
| Transportation equipment | Pallet trucks and fork lift trucks | 3 ~ 15 years |
| Other equipment | Cogeneration power generation equipment | 2 ~ 17 years |

C. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

D. Certain regulations restrict ownership of land to individuals. Accordingly, the titles of land which the Company has acquired for future plant expansion is under the name of third parties. Such land titles were transferred and mortgaged to the Company. As of June 30, 2018, December 31, 2017 and June 30, 2017, the land mortgaged to the Company was $808,300.

(8) Long-term prepaid rent (shown as 'Other non-current assets')

| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
|---|---|---|---|
| Land use right - Formosa Taffeta Co., Ltd. | $ 188 | $ 269 | $ 349 |
| Land use right - Formosa Taffeta (Zhong Shan) Co., Ltd. | 29,942 | 30,278 | 30,377 |
| Land use right - Formosa Taffeta Dong Nai Co., Ltd. | 125,485 | 125,868 | 130,097 |
| Land use right - Formosa Taffeta (Changshu) Co., Ltd. | 113,779 | 114,212 | 113,770 |
| | $ 269,394 | $ 270,627 | $ 274,593 |

A. Land use right of Formosa Taffeta Co., Ltd. pertains to the payment for the right to establish a petrol station and title transfer of land leasing right and is amortized over the land lease period under the contract. The Group recognized rental expense for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, amounting to $40, $40, $80 and $90, respectively.

B. Formosa Taffeta (Zhong Shan) Co., Ltd. has leased land of Xijiangbian Dingxi Village, Shenwan Town, Zhengshan, Guangdong amounting to 508 acres from Shenwan Town People's Government of Zhongshan City in Guangdong Province, Mainland China and paid land use right of HK 12,599 thousand. The effective period is 50 years from the date of issuance of certificate of land use right, and the lease period is from November 20, 1991 to November 20, 2041. The Group recognized rental expense for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, amounting to RMB 67 thousand, RMB 67 thousand, RMB 133 thousand and RMB 133 thousand, respectively.

C. Formosa Taffeta Dong Nai Co., Ltd. has paid land use right of VND75,655,550 thousand and VND48,134,338 thousand for the leased land of 273,661.1 square meters and 65,086 square meters in Nhon Trach 3 Industrial Zone in Nhon Trach District, Dong Nai Province, Vietnam from Formosa Industries Corporation in September 2004 and December 2013, respectively. The lease period started from September 1, 2004 and December 1, 2012, respectively, and the effective periods both end on April 1, 2051. The Group recognized rental expense of VND 684,733 thousand, VND 684,733 thousand, VND 1,369,466 thousand and VND 1,369,466 thousand for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, respectively.

D. Formosa Taffeta (Changshu) Co., Ltd. has leased 3 parcels of land amounting to 277,172 square meters in the Economic Development Zone from Changshu City Land and Resources Bureau in Jiangsu Province, Mainland China. The effective period of land use right started from the date of issuance of certificate of land use right and the lease period ends in December 2056 to December 2076. Furthermore, partial land was not used until November 18, 2011, so the government has taken back the land. Proceeds of land amounted to RMB 12,738 thousand in February 2012 and impairment loss in 2011 was RMB 4,726 thousand. Otherwise, the Economic Development Zone refunded a part of money and reissued the land use right for resumption of 794 square meters of land in December, 2012. In March 2015, Formosa Taffeta (Changshu) Co., Ltd. divided some part of housing land and established a new company, Changshu Fushun Enterprise Management Co., Ltd. (details are provided in Note 6(8)E). As of June 30, 2018, the area of the Company's 2 leased parcels of land was 166,509 square meters, and the effective period of land use right ends in December 2056. The Group recognized rental expense for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, amounting to RMB 160 thousand, RMB 160 thousand, RMB 320 thousand and RMB 320 thousand, respectively.

E. In order to effectively utilise Formosa Taffeta (Changshu) Co., Ltd.'s partial residential land, the Company has reduced capital and split land of 9,206 square meters in development zone to Changshu Fushun Enterprise Management Co., Ltd. The acquisition cost is RMB 6,400 thousand and the effective period starts from the approval of certificate of land use right and ends in December 2076. However, Changshu Fushun Enterprise Management Co., Ltd. merged with

Changshu Yu Yuan Development Co., Ltd. and was deconsolidated in July 2015.

(9) Short-term borrowings

| Type of borrowings | June 30, 2018 | Interest rate range | Collateral |
|---|---|---|---|
| Bank borrowings | | | |
| Secured borrowings | $ 3,732,425 | 1.64%~4.48% | Property, plant and equipment and inventories |
| Purchase loans | 2,532 | 0.36% | － |
| | $ 3,734,957 | | |

| Type of borrowings | December 31, 2017 | Interest rate range | Collateral |
|---|---|---|---|
| Bank borrowings | | | |
| Secured borrowings | $ 2,798,304 | 1.40%~4.79% | Property, plant and equipment and inventories |
| Purchase loans | 7,386 | 0.32%~0.36% | － |
| | $ 2,805,690 | | |

| Type of borrowings | June 30, 2017 | Interest rate range | Collateral |
|---|---|---|---|
| Bank borrowings | | | |
| Secured borrowings | $ 3,006,986 | 1.40%~2.50% | Property, plant and equipment and inventories |
| Purchase loans | 8,948 | 0.34%~2.09% | － |
| | $ 3,015,934 | | |

(10) Short-term notes and bills payable

| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
|---|---|---|---|
| Commercial paper payable | $ 1,000,000 | $ 1,300,000 | $ 1,900,000 |
| Less: Commercial paper payable discount | ( 316) | ( 194) | ( 216) |
| | $ 999,684 | $ 1,299,806 | $ 1,899,784 |
| Interest rate | 0.76% | 0.56% | 0.61% |

The abovementioned commercial paper payable is issued by International Bills Finance Corp. etc.

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

| Items | June 30, 2018 | December 31, 2017 | June 30, 2017 |
|---|---|---|---|
| Current items: | | | |
| Financial liabilities held for trading | | | |
| Forward foreign exchange contracts | $ - | $ - | $ 894 |

A. The Group recognized net gain (loss) of ($661) and $487 on financial liabilities held for trading for the three months ended June 30, 2017 and six months ended June 30, 2017, respectively.

B. Explanations of the transactions and contract information in respect of derivative financial liabilities that the Group does not adopt hedge accounting are as follows:

| Derivative Financial Liabilities | June 30, 2017 Contract Amount (Notional Principal) | | Contract Period |
|---|---|---|---|
| Current items: | | | |
| Forward foreign exchange contracts | | | |
| Chang Hwa Bank | JPY | 3,000 | 2017.5~2017.8 |
| Taipei Fubon Bank | USD | 1,741 | 2017.3~2017.8 |
| Taipei Fubon Bank | JPY | 40,460 | 2017.3~2017.9 |

The Group had no financial liabilities held for trading on June 30, 2018 and December 31, 2017. The Group entered into forward foreign exchange contracts to hedge exchange rate risk of assets and liabilities denominated in foreign currencies. However, these forward foreign exchange contracts do not meet all conditions of hedge accounting and are not accounted for under hedge accounting.

(12) Other payables

| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
|---|---|---|---|
| Dividends payable | $ 3,588,124 | $ 9,092 | $ 2,840,166 |
| Salaries and year-end bonus payable | 574,950 | 791,135 | 594,756 |
| Accrued utilities expenses | 163,669 | 139,213 | 151,322 |
| Commission payable | 59,774 | 56,485 | 69,692 |
| Others | 878,087 | 815,682 | 731,816 |
| | $ 5,264,604 | $ 1,811,607 | $ 4,387,752 |

(13) Long-term borrowings

| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
|---|---|---|---|
| Credit borrowings | $ 11,160,692 | $ 11,222,071 | $ 11,601,218 |
| Less: Current portion | ( 70,794) | ( 138,499) | ( 70,644) |
| | $ 11,089,898 | $ 11,083,572 | $ 11,530,574 |
| Interest rate | 1.00%~4.36% | 1.00%~3.36% | 0.99%~3.08% |

(14) Pensions

A. (a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2%~15% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned employees pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contributions for the deficit by next March.

(b) For the aforementioned pension plan, the Group recognized pension costs of $9,869, $10,458, $19,738 and $20,916 for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, respectively.

(c) Expected contributions to the defined benefit pension plans of the Company and its domestic subsidiaries for the year ending December 31, 2019 amount to $99,943.

B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established defined contribution pension plans (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The Company's mainland China subsidiaries, Formosa Taffeta (Zhong Shan) Co., Ltd., Formosa Taffeta (Changshu) Co., Ltd., and Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd., have defined contribution plans. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on a certain percentage of the employees' monthly salaries and wages. The contribution percentage was between 10% and 20%. Other than the monthly contributions, the Group has no further obligations.

(c) The Company's subsidiaries, Formosa Taffeta Vietnam Co., Ltd. and Formosa Taffeta (Dong Nai) Co., Ltd., have defined contribution plans. Contributions of social security to an independent fund administered by the government in accordance with the pension regulations of local governments are based on certain percentage of employees' salaries and wages. Other than the monthly contributions, the Group has no further obligations.

(d) Formosa Taffeta (Hong Kong) Co., Ltd. and Schoeller FTC (Hong Kong) Co., Ltd. have defined contribution plans whereby contributions are made to the mandatory provident fund based on a percentage of the employees' salaries and wages as full-time employees' pension benefit.

(e) Formosa Taffeta (Cayman) Co., Ltd. does not have a pension plan, and is not required to have one under local regulation.

(f) The pension costs under the defined contribution pension plans of the Group for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017 were $36707, $36,045, $72,939 and $71,693, respectively.

(15) Share capital

A. As of June 30, 2018, the Company's authorized and issued capital was $16,846,646, consisting of 1,684,665,000 shares of common stock, with a par value of $10 per share.

B. For the six months ended June 30, 2018 and 2017, changes in the number of treasury stocks are as follows (in thousands of shares):

| | Six months ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| Reason for reacquisition | Investee company | Beginning shares | Additions | Disposal | Ending shares |
| Long-term equity investment transferred to treasury stock for parent company's shares held by subsidiaries | Formosa Development Co., Ltd. | 2,293 | - | - | 2,293 |

| | Six months ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| Reason for reacquisition | Investee company | Beginning shares | Additions | Disposal (Note) | Ending shares |
| Long-term equity investment transferred to treasury stock for parent company's shares held by subsidiaries | Formosa Development Co., Ltd. | 2,473 | - | ( 180) | 2,293 |

Note: The capital surplus amounting to $2,891 resulted from the subsidiary, Formosa Development Co., Ltd.'s disposal of 180,000 shares of the parent company during the six months ended June 30, 2017.

C. The abovementioned treasury stocks were acquired by the subsidiary, Formosa Development Co., Ltd., for investment purposes.

(16) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

| | Six months ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Treasury share transactions | Difference between consideration and carrying amount of subsidiaries acquired or disposed | Donated assets received | Changes in net equity of associates and joint ventures accounted for under equity method | Other |
| At January 1, 2018 | $ 19,899 | $ 545 | $ 2,032 | $ 250,345 | $ 1,502 |
| Difference between consideration and carrying amount of subsidiaries acquired | - | 1,105 | - | - | - |
| Paid expired cash dividends transferred to capital surplus | - | - | - | - | ( 10) |
| At June 30, 2018 | $ 19,899 | $ 1,650 | $ 2,032 | $ 250,345 | $ 1,492 |

| | Six months ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Treasury share transactions | Difference between consideration and carrying amount of subsidiaries acquired or disposed | Donated assets received | Changes in net equity of associates and joint ventures accounted for under equity method | Other |
| At January 1, 2017 | $ 13,569 | $ 545 | $ 2,032 | $ 250,312 | $ - |
| Disposal of treasury shares | 2,891 | - | - | - | - |
| At June 30, 2017 | $ 16,460 | $ 545 | $ 2,032 | $ 250,312 | $ - |

(17) Retained earnings

A. According to the R.O.C. Securities and Exchange Act No. 41, a company should reserve the amount equal to any valuation or contra-account in the stockholders' equity in the fiscal year from the net income and prior unappropriated earnings as special reserve. If the valuation or contra-account in stockholders’ equity belongs to prior periods, the same amount from prior period earnings should be considered as special reserve and cannot be distributed. The special reserve includes: i) reserve for special purposes, ii) investment income recognized under the equity method, iii) net proceeds from the recognition of financial asset transactions; only when the accumulated value decreases should the special reserve be adjusted by the same amount, subject to the provisions in this section; and iv) other special reserves set out by legal provisions.

B. The Company’s dividend policy is summarized below:

As the Company operates in a volatile business environment and is in the stable growth stage, the dividend policy includes cash dividends, stock dividends and capital increase by earnings recapitalization. At least 50% of the Company’s distributable earnings shall be appropriated as dividends after deducting the legal reserve and special reserves. The Company would prefer distributing cash dividends. However, if significant investment measures are taken or the Company’s financial structure needs to be improved, part of the dividends would be in the form of stock dividends but not to exceed 50% of the total dividends.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose.

The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. The appropriations of 2017 and 2016 earnings had been resolved at the stockholders' meeting on June 22, 2018 and June 23, 2017, respectively. Details are summarized below:

| | 2017 earnings | | 2016 earnings | |
|---|---|---|---|---|
| | Amount (in thousands) | Dividends per share (in dollars) | Amount (in thousands) | Dividends per share (in dollars) |
| Legal reserve | $ 427,987 | | $ 348,129 | |
| Special reserve | - | | 506,036 | |
| Cash dividends | 3,200,863 | $ 1.90 | 2,526,997 | $ 1.50 |
| | $ 3,628,850 | | $ 3,381,162 | |

The estimated appropriations of 2017 and 2016 earnings proposed by the Board of Directors were the same as the actual appropriations approved by the shareholders. Information on the appropriation of the Company's earnings as resolved by the Board of Directors and approved by stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange Corporation.

E. As of June 30, 2018, December 31, 2017 and June 30, 2017, unpaid stock dividends amounted to $3,588,124, $9,092 and $9,506, respectively.

F. For information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(23).

(18) Other equity items

| | Unrealized gains (losses) on valuation | Currency translation | Non-controlling interest |
|---|---|---|---|
| January 1, 2018 | $ 38,440,218 | ($ 914,267) | $ 3,803,175 |
| Retrospective adjustments | ( 4,760,072) | - | 33,939 |
| January 1, 2018 after adjustments | 33,680,146 | ( 914,267) | 3,837,114 |
| Revaluation | | | |
| －Group | 3,411,749 | - | - |
| －Associates | 1,862 | - | - |
| －Non-controlling interest | - | - | 122,160 |
| Revaluation transferred to retained earnings | | | |
| －Group | 1,810,626 | - | - |
| －Non-controlling interest | - | - | 2,030 |
| Difference of currency translation | | | |
| －Group | - | 221,496 | - |
| －Associates | - | 30,871 | - |
| －Non-controlling interest | - | - | 215 |
| Net income of non-controlling interest | - | - | 249,781 |
| Difference between consideration and carrying amount of subsidiaries disposed | - | - | ( 1,105) |
| Cash dividends paid by consolidated subsidiaries | - | - | ( 377,047) |
| June 30, 2018 | $ 38,904,383 | ($ 661,900) | $ 3,833,148 |

| | Available-for-sale investments | Currency translation | Non-controlling interest |
|---|---|---|---|
| January 1, 2017 | $ 36,313,040 | $ 13,387 | $ 3,531,750 |
| Change in unrealised gain or loss on available-for-sale financial assets | | | |
| — Group | ( 2,351,137) | - | - |
| — Non-controlling interest | - | - | 40,682 |
| Difference of long-term equity investment from cumulative translation differences of foreign operations | | | |
| — Group | - | ( 628,564) | - |
| — Associates | - | ( 149,475) | - |
| — Non-controlling interest | - | - | ( 1,002) |
| Net income of non-controlling interest | - | - | 178,565 |
| Cash dividends paid by consolidated subsidiaries | - | - | ( 302,603) |
| June 30, 2017 | $ 33,961,903 | ($ 764,652) | $ 3,447,392 |

(19) Operating revenue

| | Three months ended June 30, 2018 | Six months ended June 30, 2018 |
|---|---|---|
| Sales revenue | $ 11,653,466 | $ 22,326,157 |
| Service revenue | 83,792 | 141,524 |
| | $ 11,737,258 | $ 22,467,681 |

A. Contract assets

Formosa Advanced Technologies Co., Ltd. has recognized the following IC revenue-related contract assets:

| | June 30, 2018 |
|---|---|
| Contract assets: | |
| Contract assets relating to IC revenue | $ 659,715 |

B. All Formosa Advanced Technologies Co., Ltd. assembly and testing services contracts of various integrated circuits are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

C. Related disclosures for 2017 operating revenue are provided in Note 12(5) B.

(20) Other income

| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
|---|---|---|
| Interest income from bank deposits | $ 3,387 | $ 5,554 |
| Dividend income | 64,855 | 2,244,253 |
| Other income | 94,357 | 110,023 |
| | $ 162,599 | $ 2,359,830 |

| | Six months ended June 30, 2018 | Six months ended June 30, 2017 |
|---|---|---|
| Interest income from bank deposits | $ 12,648 | $ 12,785 |
| Dividend income | 64,855 | 2,244,253 |
| Other income | 120,759 | 163,550 |
| | $ 198,262 | $ 2,420,588 |

(21) Other gains and losses

| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
|---|---|---|
| Gains on disposals of property, plant and equipment | $ 838,970 | $ 2,722 |
| Foreign exchange gains | 122,753 | 42,534 |
| Gains on financial (liabilities) assets at fair value through profit or loss | 2,256 | 10 |
| Bank charges | ( 9,253) | ( 8,038) |
| Other gains and losses | ( 25,266) | ( 2,473) |
| | $ 929,460 | $ 34,755 |

| | Six months ended June 30, 2018 | Six months ended June 30, 2017 |
|---|---|---|
| Gains on disposals of property, plant and equipment | $ 839,913 | $ 9,163 |
| Foreign exchange gains (losses) | 79,962 | ( 113,335) |
| Gains on financial (liabilities) assets at fair value through profit or loss | 1,458 | 2,303 |
| Bank charges | ( 18,275) | ( 16,773) |
| Other gains and losses | ( 22,294) | ( 15,726) |
| | $ 880,764 | ($ 134,368) |

(22) Expenses by nature

| | Three months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Employee benefit expense | $ 1,272,954 | $ 1,183,632 |
| Depreciation charges on property, plant and equipment | 553,087 | 551,385 |
| | $ 1,826,041 | $ 1,735,017 |

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Employee benefit expense | $ 2,543,135 | $ 2,497,506 |
| Depreciation charges on property, plant and equipment | 1,062,090 | 1,136,466 |
| | $ 3,605,225 | $ 3,633,972 |

(23) Employee benefit expense

| | Three months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Wages and salaries | $ 1,070,292 | $ 1,004,533 |
| Labor and health insurance fees | 114,541 | 98,637 |
| Pension costs | 46,576 | 46,504 |
| Other personnel expenses | 41,545 | 33,958 |
| | $ 1,272,954 | $ 1,183,632 |

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Wages and salaries | $ 2,138,534 | $ 2,121,007 |
| Labor and health insurance fees | 228,624 | 211,655 |
| Pension costs | 92,677 | 92,610 |
| Other personnel expenses | 83,300 | 72,234 |
| | $ 2,543,135 | $ 2,497,506 |

A. In accordance with the Company’s Articles of Incorporation, a ratio of distributable profit of the current year after covering accumulated losses, shall be distributed as employees’ compensation and directors’ and supervisors’ remuneration. The ratio shall be between 0.05%-0.5% for employees’ compensation and shall not be higher than 0.5% for directors’ and supervisors’ remuneration.

B. For the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, employees’ compensation was accrued at $500, $4,056, $833 and $5,000, respectively; while directors’ and supervisors’ remuneration was accrued at $250, $2,028, $417 and $2,500, respectively. The aforementioned amounts were recognized in salary expenses.

The employees’ compensation and directors’ and supervisors’ remuneration were estimated and accrued based on the Company's Articles of Incorporation of profit of current year distributable for the six months ended June 30, 2018.

The employees' bonus and directors' and supervisors' remuneration for 2017 approved by shareholders were the same as the amounts shown in the 2017 financial statements. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were both $8,994 in the form of cash.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(24) Finance costs

| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
|---|---|---|
| Interest expense: | | |
| Bank borrowings | $ 53,159 | $ 53,311 |
| Less: Capitalisation of qualifying assets | ( 2,423) | ( 6,236) |
| | $ 50,736 | $ 47,075 |

| | Six months ended June 30, 2018 | Six months ended June 30, 2017 |
|---|---|---|
| Interest expense: | | |
| Bank borrowings | $ 110,562 | $ 101,786 |
| Less: Capitalisation of qualifying assets | ( 4,011) | ( 8,118) |
| | $ 106,551 | $ 93,668 |

(25) Income tax

A. Components of income tax expense

| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
|---|---|---|
| Current tax: | | |
| Current tax on profits for the period | $ 180,015 | $ 118,157 |
| Land value increment tax | 129,638 | - |
| Tax on undistributed surplus earnings | 46,659 | 78,983 |
| Prior year income tax underestimation (overstatement) | 105,397 | ( 16,942) |
| Prepayment of taxes | 508 | 421 |
| Effect of foreign exchange rate | ( 830) | ( 228) |
| Total current tax | 461,387 | 180,391 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | 87,844 | 18,261 |
| Total deferred tax | 87,844 | 18,261 |
| Income tax expense | $ 549,231 | $ 198,652 |

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Current tax: | | |
| Current tax on profits for the period | $ 274,757 | $ 198,081 |
| Land value increment tax | 129,638 | - |
| Tax on undistributed surplus earnings | 46,659 | 78,983 |
| Prior year income tax underestimation (overstatement) | 135,014 | ( 16,942) |
| Prepayment of taxes | 951 | 829 |
| Effect of foreign exchange rate | ( 694) | 258 |
| Total current tax | 586,325 | 261,209 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | 141,631 | 62,673 |
| Impact of change in tax rate | ( 7,731) | - |
| Total deferred tax | 133,900 | 62,673 |
| Income tax expense | $ 720,225 | $ 323,882 |

B. The income tax returns of the Company, Formosa Advanced Technologies Co., Ltd. and Formosa Development Co., Ltd. through 2015, 2016 and 2016 have been assessed and approved by the Tax Authority, respectively.

C. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

D. Starting from January 1, 2007, the enterprise income tax of Formosa Taffeta (Zhong Shan) Co., Ltd., Formosa Taffeta (Changshu) Co., Ltd. and Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd. is based on 25% of income generated within and outside Mainland China.

E. The income tax rate of Formosa Taffeta Vietnam Co., Ltd. was approved by Vietnam government to be 10% for 15 years from the year of official establishment (December 1993). The Company was granted income tax exemption for 4 years from the first profit-making year and 20% income tax exemption for the next 4 years.

F. The income tax rate of Formosa Taffeta Dong Nai Co., Ltd. was approved by Vietnam government to be 15% for 12 years from the year of official establishment (October 2006); 20% after 12 years. The Company was granted income tax exemption for 3 years from the first profit-making year and income tax reduction of 15% or 20% for the next 4 to 10 years.

G. In accordance with local tax regulations, the applicable income tax rate of Schoeller F.T.C. (Hong Kong) Co., Ltd. and indirectly owned subsidiary, Formosa Taffeta (Hong Kong) Co., Ltd., was 16.5%.

(26) <u>Earnings per share</u>

A. Basic earnings per share

The calculation of basic earnings per share is profit or loss attributable to the common stockholders of the Company's parent company divided by the weighted average number of outstanding common stocks for the period.

| | Three months ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Amount | | Weighted-average common shares outstanding (in thousands) | Earnings per share (in dollars) | |
| | Before tax | After tax | | Before tax | After tax |
| Net income | $ 1,957,817 | $ 1,408,586 | 1,682,372 | $ 1.16 | $ 0.84 |
| Profit attributable to the non-controlling interest | ( 333,570) | ( 152,538) | | ( 0.20) | ( 0.09) |
| Profit attributable to the parent | $ 1,624,247 | $ 1,256,048 | | $ 0.96 | $ 0.75 |

| | Three months ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Amount | | Weighted-average common shares outstanding (in thousands) | Earnings per share (in dollars) | |
| | Before tax | After tax | | Before tax | After tax |
| Net income | $ 2,964,040 | $ 2,765,388 | 1,682,307 | $ 1.76 | $ 1.65 |
| Profit attributable to the non-controlling interest | ( 203,027) | ( 99,113) | | ( 0.12) | ( 0.07) |
| Profit attributable to the parent | $ 2,761,013 | $ 2,666,275 | | $ 1.64 | $ 1.58 |

| | Six months ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Amount | | Weighted-average common shares outstanding (in thousands) | Earnings per share (in dollars) | |
| | Before tax | After tax | | Before tax | After tax |
| Net income | $ 2,510,728 | $ 1,790,503 | 1,682,372 | $ 1.49 | $ 1.06 |
| Profit attributable to the non-controlling interest | ( 552,985) | ( 249,781) | | ( 0.33) | ( 0.15) |
| Profit attributable to the parent | $ 1,957,743 | $ 1,540,722 | | $ 1.16 | $ 0.91 |

| | Six months ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Amount | | Weighted-average common shares outstanding (in thousands) | Earnings per share (in dollars) | |
| | Before tax | After tax | | Before tax | After tax |
| Net income | $ 3,598,624 | $ 3,274,742 | 1,682,307 | $ 2.14 | $ 1.95 |
| Profit attributable to the non-controlling interest | ( 366,967) | ( 178,565) | | ( 0.22) | ( 0.11) |
| Profit attributable to the parent | $ 3,231,657 | $ 3,096,177 | | $ 1.92 | $ 1.84 |

The following is earnings per share assuming the shares of the Company held by its subsidiary, Formosa Development Co., Ltd., are not deemed as treasury stock:

| | Three months ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Amount | | Common shares outstanding (in thousands) | Earnings per share (in dollars) | |
| | Before tax | After tax | | Before tax | After tax |
| Net income | $ 1,957,817 | $ 1,408,586 | 1,684,665 | $ 1.16 | $ 0.84 |
| Profit attributable to the non-controlling interest | ( 333,570) | ( 152,538) | | ( 0.20) | ( 0.09) |
| Profit attributable to the parent | $ 1,624,247 | $ 1,256,048 | | $ 0.96 | $ 0.75 |

| | Three months ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Amount | | Common shares outstanding | Earnings per share (in dollars) | |
| | Before tax | After tax | (in thousands) | Before tax | After tax |
| Net income | $2,964,040 | $2,765,388 | 1,684,665 | $ 1.76 | $ 1.65 |
| Profit attributable to the non-controlling interest | ( 203,027) | ( 99,113) | | ( 0.12) | ( 0.07) |
| Profit attributable to the parent | $2,761,013 | $2,666,275 | | $ 1.64 | $ 1.58 |

| | Six months ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Amount | | Common shares outstanding | Earnings per share (in dollars) | |
| | Before tax | After tax | (in thousands) | Before tax | After tax |
| Net income | $2,510,728 | $1,790,503 | 1,684,665 | $ 1.49 | $ 1.06 |
| Profit attributable to the non-controlling interest | ( 552,985) | ( 249,781) | | ( 0.33) | ( 0.15) |
| Profit attributable to the parent | $1,957,743 | $1,540,722 | | $ 1.16 | $ 0.91 |

| | Six months ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Amount | | Common shares outstanding | Earnings per share (in dollars) | |
| | Before tax | After tax | (in thousands) | Before tax | After tax |
| Net income | $3,598,624 | $3,274,742 | 1,684,665 | $ 2.14 | $ 1.95 |
| Profit attributable to the non-controlling interest | ( 366,967) | ( 178,565) | | ( 0.22) | ( 0.11) |
| Profit attributable to the parent | $3,231,657 | $3,096,177 | | $ 1.92 | $ 1.84 |

B. Employees' bonuses could be distributed in the form of stock. It does not have significant effect on the financial statements and diluted earnings per share for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017.

(27) Supplemental cash flow information

A. Investing activities with partial cash payments:

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Purchase of property, plant and equipment | $ 2,380,386 | $ 1,092,159 |
| Add: Opening balance of payable on equipment | 86,955 | 43,229 |
| Less: Ending balance of payable on equipment | ( 79,921) | ( 54,137) |
| Cash paid during the period | $ 2,387,420 | $ 1,081,251 |

B. Financing activities with no cash flow effects:

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cash dividends paid | $ 3,200,863 | $ 2,526,997 |

(28) Changes in liabilities from financing activities

For the six months ended June 30, 2018, the change of short-term borrowings, short-term notes and bills payable, long-term borrowings and effect of foreign exchange rate are $929,267, ($300,122), ($64,652) and $3,273, respectively.

## 7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

The Company is controlled by FORMOSA CHEMICALS & FIBRE CORPORATION (incorporated in R.O.C), which owns 37.4% of the Company's shares, and is also the ultimate controlling party.

(2) Names of related parties and relationship

| Names of related parties | Relationship with the Group |
|---|---|
| Formosa Chemicals & Fibre Corp. | Parent company |
| Kuang Yueh Co. Corp. | Associate |
| Formosa Industries Corp. | Associate |
| Formosa Biomedical Technology Corp. | Other related party |
| Toa Resin Corp. | Other related party |
| Formosa Petrochemical Corp. | Other related party |
| Formosa Heavy Industries Corp. | Other related party |
| Formosa Network Technology Corp. | Other related party |
| Formosa Plastics Corp. | Other related party |
| Formosa Plastics Transport Corp. | Other related party |
| Formosa Asahi Spandex Corp. | Other related party |
| Nan Ya Technology Corp. | Other related party |
| Nan Ya Plastics Corp. | Other related party |
| Nan Ya PCB Corp. | Other related party |
| Nan Ya Photonics Inc. | Other related party |
| Yumaowu Enterprise Co., Ltd. | Other related party |
| Great King Garment Co., Ltd. | Other related party |
| Bellmart Industrial Co., Ltd. | Other related party |
| Yugen Yueh Co.,Ltd. | Other related party |
| Chang Gung Biotechnology Co., Ltd. | Other related party |
| Nan Ya Polyester Fiber (Kunshan) Corp. | Other related party |
| Nanya Plastic (Guangzhou) Co.,Ltd. | Other related party |
| Nan Ya (Kunshan) Corp. | Other related party |
| Kwang Viet Garment Co., Ltd. | Other related party |
| Yu Yuang Textile Co., Ltd. | Other related party |
| Yu Maowu Complex Co., Ltd. | Other related party |
| Piecemakers Technology, Inc. (Note) | Other related party |
| Kong You Industrial Co., Ltd. | Other related party |
| Jiaxing Quang Viet Garment Co., Ltd. | Other related party |

Note: Since Nan Ya Technology Corp. sold all owned shares of Piecemakers Technology Inc. in February 2018, Piecemakers Technology Inc. is no longer the related party of the Group.

(3) Significant related party transactions and balances

A. Operating revenue

| | Three months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Sales of goods: | | |
| —Ultimate parent | $ 139 | ($ 1,271) |
| —Associates | 145,362 | - |
| —Other related party | | |
| Nan Ya Technology Corp. | 1,572,072 | 1,365,440 |
| Others | 287,915 | 430,925 |
| | $ 2,005,488 | $ 1,795,094 |

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Sales of goods: | | |
| —Ultimate parent | $ 296 | $ 17,309 |
| —Associates | 280,995 | - |
| —Other related party | | |
| Nan Ya Technology Corp. | 2,973,110 | 2,754,159 |
| Others | 561,178 | 753,495 |
| | $ 3,815,579 | $ 3,524,963 |

Goods are sold based on the price lists in force and terms that would be available to third parties.

B. Purchases of goods

| | Three months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Purchases of goods: | | |
| —Ultimate parent | $ 569,833 | $ 469,065 |
| —Associates | 174,314 | - |
| —Other related party | | |
| Formosa Petrochemical Corp. | 2,723,826 | 2,333,973 |
| Others | 454,448 | 620,119 |
| | $ 3,922,421 | $ 3,423,157 |

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Purchases of goods: | | |
| —Ultimate parent | $ 1,098,459 | $ 956,019 |
| —Associates | 407,966 | - |
| —Other related party | | |
| Formosa Petrochemical Corp. | 5,252,449 | 4,649,729 |
| Others | 950,493 | 1,296,479 |
| | $ 7,709,367 | $ 6,902,227 |

Goods and services are purchased from ultimate parent and other related parties on normal commercial terms and conditions.

C. Receivables from related parties

| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
|---|---|---|---|
| Notes and accounts receivable: | | | |
| －Ultimate parent | $ 87 | $ 75 | $ 65 |
| －Associates | 130,858 | 50,477 | - |
| －Other related party | | | |
| Nan Ya Technology Corp. | 1,069,564 | 953,005 | 972,597 |
| Others | 314,868 | 177,765 | 400,071 |
| | 1,515,377 | 1,181,322 | 1,372,733 |
| Other receivables - dividends | | | |
| －Associates | | | |
| Formosa Industries Corp. | 153,557 | 90,347 | - |
| | $ 1,668,934 | $ 1,271,669 | $ 1,372,733 |

The receivables from related parties arise mainly from sale transactions. The receivables are due 45~120 days after the date of sale. There are no provisions held against receivables from related parties.

D. Notes and accounts payable

| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
|---|---|---|---|
| Notes and accounts payable: | | | |
| －Ultimate parent | $ 587,276 | $ 573,447 | $ 388,786 |
| －Associates | 86,051 | 118,943 | - |
| －Other related party | | | |
| Formosa Petrochemical Corp. | 464,047 | 542,953 | 385,724 |
| Others | 147,030 | 152,186 | 191,745 |
| | $ 1,284,404 | $ 1,387,529 | $ 966,255 |

The payables to related parties arise mainly from purchase transactions and are due 15~60 days after the date of purchase. The payables bear no interest.

E. Property transactions

(a) Disposal of property, plant and equipment:

| | Six months ended June 30, 2018 | | Six months ende |
|---|---|---|---|
| | Disposal proceeds | Gain (loss) on disposal | Disposal proceeds |
| Other related party | $ 14,881 | $ - | $ - |

(b) Acquisition of financial assets:

| | Accounts | No. of shares | Objects | Six months ended June 30, Consideration |
|---|---|---|---|---|
| Other related party | Non-current financial assets at fair value through other comprehensive income | 19,000,970 | Formose Ha Tinh (Cayman) Linited | $ 566,417 |

F. Others

Formosa Taffeta Dong Nai Co., Ltd. was engaged by the related party, Formosa Industry, to provide management services to Nhon Trach 3 Industrial Zone. In accordance with the yearly service consignment contract signed by Formosa Taffeta Dong Nai Co., Ltd. and Nhon Trach 3 Industrial Zone, Formosa Taffeta Dong Nai Co., Ltd. is responsible for managing land that is available for rent, meter reading and payment collection of water, electricity, steam and other utilities sold to lessees in investment district, repairing and performing services on various public facilities of power plant. Under the contract, Formosa Taffeta Dong Nai Co., Ltd. shall collect a service fee as follows:

i. Land lease fee: 3% of Formosa Industry's land rent revenue

ii. Utilities service fee: 3% of Formosa Industry's monthly sale of electricity to lessees in investment district

iii. Management fee: the full amount of management fee collected from lessees in investment district to Formosa Industry shall be paid to the Company and its subsidiaries.

For the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, Formosa Taffeta Dong Nai Co., Ltd. has recognized lease service fee income in investment district of $8,412, $7,579, $16,228 and $15,061, respectively, for rendering the abovementioned consigned services. As of June 30, 2018, December 31, 2017 and June 30, 2017, the uncollected amount of $3,052, $2,877 and $2,731, respectively, was recognized under 'other receivables'.

For the above land leasing, as of June 30, 2018, December 31, 2017 and June 30, 2017, the total management expenses and utility expenses which Formosa Taffeta Dong Nai Co., Ltd. is due to collect from the related party, Formosa Industry, were $31,185, $23,285 and $20,772, respectively, and was recognized under 'other payables'.

(4) Key management compensation

| | Three months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Salaries and other short-term employee benefits | $ 3,857 | $ 3,638 |
| Post-employment benefits | 25 | - |
| | $ 3,882 | $ 3,638 |

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Salaries and other short-term employee benefits | $ 29,686 | $ 30,838 |
| Post-employment benefits | 51 | - |
| | $ 29,737 | $ 30,838 |

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

| | Book Value | | | |
|---|---|---|---|---|
| Item | June 30, 2018 | December 31, 2017 | June 30, 2017 | Purpose |
| Property, plant and equipment | $ 138,312 | $ 138,662 | $ 139,012 | Security for short-term borrowings |
| Inventories (Held-to-maturity land) | 21,264 | 21,264 | 21,264 | Security for short-term borrowings |
| | $ 159,576 | $ 159,926 | $ 160,276 | |

## 9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Formosa Advanced Technologies Co., Ltd. is engaged in the processing of various integrated circuits packaging test and is responsible for custody for which the subsidiary needs to be compensated if lost. As of June 30, 2018, the items in custody are as follows:

| | June 30, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| A.Work in process | Quantity (Unit：PC) | Market value (per PC) | Quantity (Unit：piece) | Market value (per piece) | Quantity (Unit：bar) | Market value (per bar) | Quantity (Unit：stick) | Market value (stick) |
| LED | 20,646,571 | NTD 0.019~1.005 | - | - | - | - | - | - |
| FBGA | 68,322,270 | USD 1.5~13 | - | - | - | - | - | - |
| TSOP | 5,235,486 | USD 0.3~2.081 | - | - | - | - | - | - |
| LED assembly | 2,813,512 | NTD 0.43~13.23 | - | - | - | - | 439 | NTD 30.4~632.1 |
| Module | 2,662,626 | USD 0.3~13 | - | - | 57,590 | USD 16.9~295.47 | - | - |
| MICRO-SD | 10 | USD 2.58~10.758 | - | - | - | - | - | - |
| Other | 5,614 | USD 2.6~8.7 | 2,669 | USD 1,600 | - | - | - | - |
| | 99,686,089 | | 2,669 | | 57,590 | | 439 | |

| B. Finished goods | Quantity (Unit：PC) | Market value (per PC) | Quantity (Unit：piece) | Market value (per piece) | Quantity (Unit：bar) | Market value (per bar) | Quantity (Unit：stick) | Market value (stick) |
|---|---|---|---|---|---|---|---|---|
| LED | 3,321,488 | NTD 0.019~1.005 | - | - | - | - | - | - |
| FBGA | 92,651,354 | USD 1.5~13 | - | - | - | - | - | - |
| TSOP | 7,336,756 | USD 0.3~2.081 | - | - | - | - | - | - |
| LED assembly | 7,263,965 | NTD 0.43~13.23 | - | - | - | - | 584 | NTD 30.4~632.1 |
| Module | 21,520 | USD 0.3~13 | - | - | 26,742 | USD 16.9~295.47 | - | - |
| MICRO-SD | 2 | USD 2.58~10.758 | - | - | - | - | - | - |
| Other | 4,139 | USD 2.6~8.7 | - | - | - | - | - | - |
| | 110,599,224 | | - | | 26,742 | | 584 | |

(2) As of June 30, 2018, the significant commitments and contingent liabilities are the outstanding letters of credit for materials and equipment purchases with various companies listed as follows:

| Currency | Amount |
|---|---|
| USD | $ 1,512 |
| JPY | 162,736 |
| EUR | 336 |

(3) Endorsements and guarantees

As of June 30, 2018, in order to assist the subsidiaries is obtaining credit line, the Company has guaranteed the following amounts for subsidiaries:

| Name of company | June 30, 2018 |
|---|---|
| Formosa Taffeta (Zhong Shan) Co., Ltd. | $ 1,005,180 |
| Formosa Taffeta Vietnam Co., Ltd. | 1,523,000 |
| Formosa Taffeta (Changshu) Co., Ltd. | 1,675,300 |
| Formosa Taffeta Dong Nai Co., Ltd. | 4,629,920 |
| Formosa Ha Tinh (Cayman) Limited | 5,308,237 |
| Public More Internation Company Ltd. | 3,000 |

## 10. SIGNIFICANT DISASTER LOSS

None.

## 11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The Company sold 84,022 thousand shares of its equity investment in Formosa Advanced Technologies Company at fair value of $3,049,999 on July 23, 2018. The Company's ownership decreased to 46.68% after the disposition.

## 12. OTHERS

### (1) Capital management

There was no significant change during this period. Please refer to Note 12 to the consolidated financial statements as of and for the year ended December 31, 2017 for related information.

(2) Financial instruments

A. Financial instruments by category

| | June 30, 2018 | December 31, 2017 | June 30, 2017 |
|---|---|---|---|
| Financial assets | | | |
| Financial assets measured at fair value through profit or loss | $ 631,854 | $ 630,396 | $ 629,437 |
| Financial assets measured at fair value through other comprehensive profit or loss | 57,001,120 | - | - |
| Available-for-sale financial assets | - | 47,643,427 | 43,100,455 |
| Financial assets at cost | - | 5,786,870 | 5,135,130 |
| Financial assets at amortized cost | 11,681,178 | 10,305,327 | 14,455,244 |
| | $ 69,314,152 | $ 64,366,020 | $ 63,320,266 |
| Financial liabilities | | | |
| Financial liabilities measured at fair value through profit or loss | $ - | $ - | $ 894 |
| Financial liabilities at amortized cost | 24,343,188 | 20,172,291 | 24,106,408 |
| | $ 24,343,188 | $ 20,172,291 | $ 24,107,302 |

Note: Financial assets at amortized cost includes cash, notes and accounts receivable and other receivables; financial liabilities at amortized cost includes short-term borrowings, notes and accounts payables, other payables and long-term borrowings.

B. Financial risk management policies

There was no significant change during this period. Please refer to Note 12 to the consolidated financial statements as of and for the year ended December 31, 2017 for related information.

C. Significant financial risks and degrees of financial risks

Except for the following items, there was no significant change during this period. Please refer to Note 12 to the consolidated financial statements as of and for the year ended December 31, 2017 for related information.

(a) Market risk

i. Foreign exchange risk

Some of the Group’s transactions are conducted in foreign currencies, which are subject to exchange rate fluctuation. The information on foreign currency denominated assets and liabilities are as follows:

| | June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Foreign Currency Amount (In Thousands) | | Exchange Rate | Book Value (NTD) | |
| Financial assets | | | | | |
| Monetary items | | | | | |
| USD:NTD | $ | 112,401 | 30.50 | $ | 3,428,231 |
| USD:RMB | | 10,694 | 6.62 | | 326,167 |
| JPY:NTD | | 431,491 | 0.28 | | 120,817 |
| EUR:NTD | | 2,849 | 35.40 | | 100,855 |
| Non-monetary items | | | | | |
| VND:NTD | | 4,670,201,665 | 0.0013 | | 6,071,262 |
| HKD:NTD | | 298,790 | 3.89 | | 1,162,293 |
| RMB:NTD | | 587,304 | 4.61 | | 2,707,471 |
| USD:NTD | | 1,248,532 | 30.50 | | 38,080,226 |
| Financial liabilities | | | | | |
| Monetary items | | | | | |
| USD:NTD | | 6,030 | 30.50 | | 183,915 |
| USD:RMB | | 18,307 | 6.62 | | 558,364 |

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Foreign Currency Amount (In Thousands) | | Exchange Rate | Book Value (NTD) | |
| Financial assets | | | | | |
| Monetary items | | | | | |
| USD:NTD | $ | 105,965 | 29.85 | $ | 3,163,055 |
| USD:RMB | | 5,856 | 6.53 | | 174,802 |
| JPY:NTD | | 443,701 | 0.26 | | 115,362 |
| Non-monetary items | | | | | |
| VND:NTD | | 4,545,840,640 | 0.0013 | | 5,909,593 |
| HKD:NTD | | 287,387 | 3.82 | | 1,097,818 |
| RMB:NTD | | 406,178 | 4.57 | | 1,856,233 |
| USD:NTD | | 190,780 | 29.85 | | 5,694,783 |
| Financial liabilities | | | | | |
| Monetary items | | | | | |
| USD:NTD | | 3,819 | 29.85 | | 113,997 |
| USD:RMB | | 21,882 | 6.53 | | 653,178 |

| | June 30, 2017 | | |
|---|---|---|---|
| | Foreign Currency Amount (In Thousands) | Exchange Rate | Book Value (NTD) |
| Financial assets | | | |
| Monetary items | | | |
| USD:NTD | $ 128,728 | 30.44 | $ 3,918,480 |
| USD:RMB | 7,881 | 6.78 | 239,898 |
| Non-monetary items | | | |
| VND:NTD | 4,584,350,261 | 0.0013 | 5,959,655 |
| HKD:NTD | 275,184 | 3.89 | 1,070,466 |
| RMB:NTD | 408,486 | 4.49 | 1,834,102 |
| USD:NTD | 168,161 | 30.44 | 5,118,821 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD:NTD | 4,082 | 30.44 | 124,256 |
| USD:RMB | 11,456 | 6.78 | 348,721 |

The total exchange income (loss), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, amounted to $122,753, $42,534, $79,962 and ($113,335), respectively.

Analysis of foreign currency market risk arising from significant foreign exchange variation:

| | Six months ended June 30, 2018 | | |
|---|---|---|---|
| | Sensitivity analysis | | |
| | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| Financial assets | | | |
| Monetary items | | | |
| USD:NTD | 1% | $ 34,282 | $ - |
| USD:RMB | 1% | 3,262 | - |
| JPY:NTD | 1% | 1,208 | - |
| EUR:NTD | 1% | 1,009 | - |
| Non-monetary items | | | |
| VND:NTD | 1% | - | 60,713 |
| HKD:NTD | 1% | - | 11,623 |
| RMB:NTD | 1% | - | 27,075 |
| USD:NTD | 1% | - | 380,802 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD:NTD | 1% | 1,839 | - |
| USD:RMB | 1% | 5,584 | - |

| | Six months ended June 30, 2017 | | |
|---|---|---|---|
| | Sensitivity analysis | | |
| Financial assets | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| Monetary items | | | |
| USD:NTD | 1% | $ 39,185 | $ - |
| USD:RMB | 1% | 2,399 | - |
| Non-monetary items | | | |
| VND:NTD | 1% | - | 59,597 |
| HKD:NTD | 1% | - | 10,705 |
| RMB:NTD | 1% | - | 18,341 |
| USD:NTD | 1% | - | 51,188 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD:NTD | 1% | 1,243 | - |
| USD:RMB | 1% | 3,487 | - |

ii. Price risk

(i) The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

(ii)The Group's investments in equity securities comprise shares, open-end funds and beneficiary certificates issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the six months ended June 30, 2018 and 2017 would have increased/decreased by $5,055 and $5,224, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by $570,011 and $431,005, respectively, as a result of other comprehensive income classified as equity investment at fair value through other comprehensive income and available-for sale equity investment.

iii. Cash flow and fair value interest rate risk

(i) The Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. During the six months ended June 30, 2018 and 2017, the Group's borrowings at variable rate were denominated in the NTD and USD.

(ii)The Group's borrowings are measured at amortized cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.

(iii) At June 30, 2018 and 2017, if interest rates on NTD-denominated borrowings had been 1% higher with all other variables held constant, post-tax profit for the six months ended June 30, 2018 and 2017 would have been $86,400 and $92,130 lower, respectively, mainly as a result of higher interest expense on floating rate borrowings.

(iv) At June 30, 2018 and 2017, if interest rates on USD-denominated borrowings had been 1% higher with all other variables held constant, post-tax profit for the six months ended June 30, 2018 and 2017 would have been $2,319 and $3,445 lower, respectively, mainly as a result of higher interest expense on floating rate borrowings.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.

ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with good rating are accepted. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.

iii. The Group adopts the following assumption under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:
If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

iv. The Group adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 90 days.

v. The Group classifies customer's accounts receivable and contract assets in accordance with product types and customer types. The Group applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis.

vi. The Group wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights.

vii. The Group uses the forecastability of National Development Council Business Cycle Indicator to adjust historical and timely information to assess the default possibility of notes receivable, accounts receivable and contract assets. On June 30, 2018, the provision matrix is as follows:

| | Not past due | Up to 30 days | 31 to 90 days | Over 90 days | Total |
|---|---|---|---|---|---|
| At June 30, 2018 | | | | | |
| Expected loss rate | 0% | 17% | 21% | 32% | |
| Total book value | $4,487,386 | $ 168,759 | $ 106,675 | $ 47,583 | $4,810,403 |
| Loss allowance | 11,070 | 27,916 | 22,862 | 14,994 | 76,842 |

viii. Movements in relation to the Group applying the simplified approach to provide loss allowance for notes receivable, accounts receivable and contract assets are as follows:

| | Six months ended June 30, 2018 | | |
|---|---|---|---|
| | Notes receivable | Accounts receivable | Contract assets |
| At January 1 | $ - | ($ 76,521) | $ - |
| Effect of foreign exchange | - | ( 321) | - |
| At June 30 | $ - | ($ 76,842) | $ - |

(c) Liquidity risk

i. The Group's investments in equity financial instruments which have active markets are expected to be sold easily and quickly in the market at the price close to fair value. The Group's investments in equity financial instruments without active markets are exposed to liquidity risk.

ii. Due to well-managed operations, the Group has an excellent credit in financial institutions and the money market, and has adequate working capital to meet commitments associated with receivables and payables. Therefore, no liquidity risk is expected to arise.

iii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts of contracted cash flow disclosed below are without discount.

Non-derivative financial liabilities:

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|
| Long-term borrowings (including current portion) | | | |
| June 30, 2018 | $ 70,794 | $ 7,568,563 | $ 3,521,336 |
| December 31, 2017 | 143,153 | 7,680,107 | 3,557,061 |
| June 30, 2017 | 72,820 | 11,364,411 | 294,465 |

(d) The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks and beneficiary certificates with quoted market prices is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in some unlisted stocks and most derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

B. Financial instruments not measured at fair value

The carrying amounts of cash and cash equivalents, notes receivable (including related parties), accounts receivable (including related parties), other receivables, short-term borrowings, short-term bills payable, notes payable (including related parties), accounts payable (including related parties), other payables and long-term borrowings (including current portion) are approximate to their fair values.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities are as follows:

(a) The related information of nature of the assets and liabilities is as follows:

| June 30, 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Recurring fair value measurements | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Forward exchange contracts | $ - | $ 478 | $ - | $ 478 |
| Beneficiary certificates | 631,376 | - | - | 631,376 |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity securities | 49,585,102 | 583,500 | 6,832,518 | 57,001,120 |
| | $ 50,216,478 | $ 583,978 | $6,832,518 | $ 57,632,974 |

| December 31, 2017 | Level 1 | Level 2 | Level 3 | Total |
| --- | --- | --- | --- | --- |
| Financial assets: | | | | |
| Recurring fair value measurements | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Forward exchange contracts | $ - | $ 398 | $ - | $ 398 |
| Beneficiary certificates | 629,998 | - | - | 629,998 |
| Available-for-sale financial assets | | | | |
| Equity securities | 47,023,027 | 620,400 | - | 47,643,427 |
| | $ 47,653,025 | $ 620,798 | $ - | $ 48,273,823 |

| June 30, 2017 | Level 1 | Level 2 | Level 3 | Total |
| --- | --- | --- | --- | --- |
| Financial assets: | | | | |
| Recurring fair value measurements | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Forward exchange contracts | $ - | $ 775 | $ - | $ 775 |
| Beneficiary certificates | 628,662 | - | - | 628,662 |
| Available-for-sale financial assets | | | | |
| Equity securities | 42,573,755 | 526,700 | - | 43,100,455 |
| | $ 43,202,417 | $ 527,475 | $ - | $ 43,729,892 |
| Financial liabilities: | | | | |
| Recurring fair value measurements | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Forward exchange contracts | $ - | $ 894 | $ - | $ 894 |

(b)The methods and assumptions the Group used to measure fair value are as follows:

i. The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

| | Listed shares | Open-end fund |
| --- | --- | --- |
| Market quoted price | Closing price | Net asset value |

ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques such as current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including applying a model using market information available at the consolidated balance sheet date.

iii. The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate.

iv. The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

D. For the six months ended June 30, 2018 and 2017, there was no transfer between Level 1 and Level 2.

E. The following chart is the movement of Level 3 for the six months ended June 30, 2018:

| | Six months ended June 30, 2018 | |
|---|---|---|
| | Non-derivative equity instruments | |
| At January 1 | $ | 5,786,870 |
| Retrospective adjustments | | 65,372 |
| At January 1 after adjustments | | 5,852,242 |
| Acquired in the period | | 566,417 |
| Gains and losses recognized in other comprehensive income | | |
| Recorded as unrealized losses on valuation of investments in equity instruments measured at fair value through other comprehensive income | | 258,290 |
| Effect of exchange rate changes | | 155,569 |
| At June 30 | $ | 6,832,518 |

For the six months ended June 30, 2017, there was no movement of Level 3.

F. For the six months ended June 30, 2018 and 2017, there was no transfer into or out from Level 3.

G. The accounting segment is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

The accounting segment set up valuation policies, valuation processes and rules for measuring fair value of financial instruments and ensure compliance with the related requirements in IFRS. The related valuation results are reported to the supervisor of accounting segment monthly. The supervisor is responsible for managing and reviewing valuation processes.

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

| | Fair value at June 30, 2018 | Valuation technique | Significant unobservable input | Relationship of inputs to fair value |
|---|---|---|---|---|
| Non-derivative equity instrument: | | | | |
| Unlisted shares | $ 379,652 | Market comparable companies | Price to earnings ratio multiple, price to book ratio multiple, enterprise value to EBITA multiple, discount for lack of marketability | The higher the multiple, the higher the fair value the higher the discount for lack of marketability, the lower the fair value |
| | 6,452,866 | Net asset value | Not applicable | Not applicable |

I. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of other comprehensive income from financial assets and liabilities categorized within Level 3 if the inputs used to valuation models have changed:

| | | | June 30, 2018 | |
|---|---|---|---|---|
| | | | Recognized in other comprehensive income | |
| | Input | Change | Favourable change | Unfavourable change |
| Financial assets | | | | |
| Equity instrument | Price to earnings ratio multiple, price to book ratio multiple, enterprise value to EBITA multiple, discount for lack of marketability | ±1% | $ 3,797 | $ 3,797 |

There is no effect of other comprehensive income from financial assets and liabilities categorized within Level 3 for the six months ended June 30, 2017.

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of significant accounting policies adopted for the six months ended June 30, 2017:

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

i. They are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.

ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using settlement date accounting.

iii. They are initially recognized at fair value. Related transaction costs are expensed in profit or loss. They are subsequently remeasured and stated at fair value, and any changes in the fair value are recognized in profit or loss.

(b) Available for sale financial assets

i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.

ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.

iii. They are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(c) Loans and receivables

Loans and receivables receivable are originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(d) Impairment of financial assets

i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

(i) Significant financial difficulty of the issuer or debtor;

(ii) A breach of contract, such as a default or delinquency in interest or principal payments;

(iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) The disappearance of an active market for that financial asset because of financial difficulties;

(vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;

(viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(i) Financial assets at amortized cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii) Financial assets at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognized in profit or loss. Impairment loss recognized for this category shall not be reversed subsequently. Impairment loss is recognized by adjusting the carrying amount of the asset directly.

(iii) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(f) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract is initially recognized at its fair value adjusted for transaction costs on the trade date. After initial recognition, the financial guarantee is measured at the higher of the initial fair value less cumulative amortization and the best estimate of the amount required to settle the present obligation on each balance sheet date.

B. The reconciliations of carrying amount of financial assets transfered from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

| | Available-for-sale-current | Available-for-sale-non-current | | | Effects | | |
|---|---|---|---|---|---|---|---|
| | Measured at fair value through other comprehensive income-current | Measured at fair value through other comprehensive income-non-current | Measured at cost | Total | Retained earnings | Other equity | Non-controlling interest |
| **IAS 39** | $ 3,649,141 | $ 43,994,286 | $ 5,786,870 | $ 53,430,297 | $ - | $ - | $ - |
| Transferred into and measured at fair value through other comprehensive income-non-current | - | 5,786,870 | ( 5,786,870) | - | - | - | - |
| Fair value adjustment | - | 65,372 | - | 65,372 | 4,825,623 | ( 4,760,072) | ( 179) |
| **IFRS 9** | $ 3,649,141 | $ 49,846,528 | $ - | $ 53,495,669 | $ 4,825,623 | ($ 4,760,072) | ($ 179) |

Under IAS 39, because the equity instruments, which were classified as available-for-sale financial assets and financial assets at cost, amounting to $47,643,427 and $5,786,870, respectively, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)" amounting to $53,495,669, which resulted to an increase in retained earnings in the amount of $4,825,623, decrease in other equity interest and non-controlling interest in the amounts of $4,760,072 and $179, respectively, on initial application of IFRS 9.

C. The significant accounts as of December 31, 2017, June 30, 2017, and for the six months ended June 30, 2017 are as follows:

(a)Available-for-sale financial assets

| Items | December 31, 2017 | June 30, 2017 |
| --- | --- | --- |
| Current items: | | |
| Listed stocks | $ 2,282,862 | $ 2,032,768 |
| Unlisted stocks | 100,000 | 100,000 |
| Valuation adjustment | 1,266,279 | 945,262 |
| | $ 3,649,141 | $ 3,078,030 |
| | | |
| Non-current items: | | |
| Listed stocks | $ 11,317,003 | $ 9,418,266 |
| Valuation adjustment | 37,437,306 | 33,217,244 |
| | 48,754,309 | 42,635,510 |
| Accumulated impairment | ( 4,760,023) | ( 2,613,085) |
| | $ 43,994,286 | $ 40,022,425 |

i. The Group recognized ($244,411) and $2,310,527 in other comprehensive income for fair value change for the three months ended June 30, 2017, and six months ended June 30, 2017, respectively.

ii. As of December 31, 2017 and June 30, 2017, no available-for-sale financial assets held by the Group were pledged as collateral.

(b) Financial assets at cost

| Items | December 31, 2017 | June 30, 2017 |
| --- | --- | --- |
| Unlisted stocks | $ 5,786,870 | $ 5,135,130 |

i. According to the Group’s intention, its investment should be classified as ‘available-for-sale financial assets’. However, as the stocks are not traded in active market, and no sufficient industry information of companies similar to the corporations or the corporation’s financial information cannot be obtained, the fair value of the investment in the stocks cannot be measured reliably. Accordingly, the Group classified those stocks as ‘financial assets measured at cost’.

ii. As of December 31, 2017 and June 30, 2017, no financial assets measured at cost held by the Group were pledged to others.

D. Credit risk information for the six months ended June 30, 2017 is as follows:

(a) The equity financial instruments have active markets and are transacted through a stock exchange market or over-the counter market, or with financial institutions which are all in good credit standing. Therefore, the credit risk is low. Besides, the Group’s policy requires that transactions for financial assets carried at cost be conducted with counterparties that meet the specified credit rating reqirement; thus, the possibility that credit risk will arise is remote.

(b) The Group’s policy requires that wholesale sales of products are made to clients with an appropriate credit review procedures. Therefore, the possibility of credit risk is low, and the maximum loss arising from credit risk is equal to the book value of accounts receivable.

(c) Loan guarantees provided by the Company are in compliance with the Company's "Procedures for Provision of Endorsements and Guarantees" and are only provided to affiliated companies of which the Company owns directly or indirectly more than 50% ownership. As the Company is fully aware of the credit conditions of these related parties, it has not asked for collateral for the loan guarantees provided. In the event that these related parties fail to comply with loan agreements with banks, the maximum loss to the Company is the total amount of loan guarantees.

(d) No credit limits were exceeded during the six months ended June 30, 2017, and management does not expect any significant losses from non-performance by these counterparties.

(e) The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

| | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Group 1 | $ 3,023,454 | $ 3,889,120 |
| Group 2 | 289,231 | 274,913 |
| Group 3 | 141,478 | 154,319 |
| | $ 3,454,163 | $ 4,318,352 |

Note:

Group 1: Transnational customers, brand customers or credit customers that have applied for collateralised mortgage.

Group 2: Non-transnational customers, non-brand customers or credit customers that have not applied for collateralised mortgage with 2 or more years of transaction history with the Group.

Group 3: Non-transnational customers, non-brand customers or credit customers that have not applied for collateralised mortgage with less than 2 years of transaction history with the Group.

(f) The ageing analysis of accounts receivable that were past due but not impaired is as follows:

| | December 31, 2017 | June 30, 2017 |
|---|---|---|
| Up to 30 days | $ 146,964 | $ 183,302 |
| 31 to 90 days | 32,878 | 89,083 |
| 91 to 180 days | 3,172 | 3,980 |
| Over 180 days | 7,075 | 7,205 |
| | $ 190,089 | $ 283,570 |

(g) Movement analysis of financial assets that were impaired - allowance for bad debts is as follows:

i. As of December 31, 2017 and June 30, 2017, the Group's accounts receivable that were impaired amounted to $0 and $13,443, respectively.

ii. Movements on the Group's provision for impairment of accounts receivable are as follows:

| | Six months ended June 30, 2017 | | |
|---|---|---|---|
| | Individual provision | Group provision | Total |
| At January 1 | $ 13,443 | $ 79,909 | $ 93,352 |
| Transferred to other income | - | ( 228) | ( 228) |
| Effect of exchange rate | - | ( 1,382) | ( 1,382) |
| At June 30 | $ 13,443 | $ 78,299 | $ 91,742 |

(5)Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the six months ended June 30, 2017 are set out below.

The Group manufactures and sells various fabrics and renders services as an oil distributor. Revenue is measured at the fair value of the consideration received or receivable taking into account business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

B. The revenue recognized by using above accounting policies for the six months ended June 30, 2017 are as follows:

| | Three months ended June 30, 2017 | Six months ended June 30, 2017 |
|---|---|---|
| Sales revenue | $ 10,771,396 | $ 20,931,538 |
| Service revenue | 74,497 | 168,628 |
| | $ 10,845,893 | $ 21,100,166 |

C. The effects and description of current balance sheets and comprehensive income statements if the Group continues adopting above accounting policies are as follows:

| | | June 30, 2018 | | |
|---|---|---|---|---|
| Balance sheet items | Description | Balance by using IFRS 15 | Balance by using previous accounting policies | Effects from chages in accounting policy |
| Contract assets | | $ 659,715 | $ - | $ 659,715 |
| Inventory | | 8,163,067 | 8,787,223 | ( 624,156) |
| Retained earnings | | 6,391,740 | 6,427,299 | ( 35,559) |

| Comprehensive income statement items | Description | Six months ended June 30, 2018 Balance by using IFRS 15 | Balance by using previous accounting policies | Effects from chages in accounting policy |
|---|---|---|---|---|
| Sales revenue | | $ 22,467,681 | $ 22,297,603 | $ 170,078 |
| Operating costs | | ( 19,606,601) | ( 19,372,670) | ( 233,931) |
| Net operating margin | | 2,861,080 | 2,924,933 | ( 63,853) |

Explanation:

Formosa Advanced Technologies Co., Ltd. provides assembly and testing services of various integrated circuits based on the specifications as required by the customers. The revenue is recognized when the significant risks and rewards are transferred under previous accounting policies, and the timing of recognition usually occurred upon acceptance. Considering that the highly customised products have no alternative use to Formosa Advanced Technologies Co., Ltd. and Formosa Advanced Technologies Co., Ltd. has an enforceable right to payment for performance completed to date in accordance with the contract terms, the revenue will have to be recognized based on the percentage of completion under the new revenue standard.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

In accordance with "Rules Governing the Preparation of Financial Statements by Securities Issuers", significant transactions for the six months ended June 30, 2018 are stated as follows. Furthermore, the inter-company transactions were eliminated based on the financial statements of investees which were not reviewed by other independent accountants, except for the reviewed financial statements of Formosa Advanced Technologies Co., Ltd.. The following disclosures are for reference only.

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: Please refer to table 1.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 2.

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company's paid-in capital: Please refer to table 3.

E. Acquisition of real estate reaching $300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching $300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 4.

H. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 5.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2), 6(12) and 12(2).

J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 7.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 9.

14. SEGMENT INFORMATION

(1) General information

A. The Group operates and sets policies from product and service perspective; thus, management also identifies reportable segments using the same method.

B. The Group has four reportable segments: First business group, Second business group consisting of Cord fabric department, Gasoline department and FORMOSA ADVANCED TECHNOLOGIES CO., LTD. (FATC) department. Details are as follows:

(a) First business group: Mainly produces and sells woven, dyeing and finishing products and manages plants of overseas subsidiaries–FORMOSA TAFFETA (ZHONG SHAN) CO., LTD., FORMOSA TAFFETA VIETNAM CO., LTD. and FORMOSA TAFFETA (HONG KONG) CO., LTD, etc.

(b) Cord fabric department: Mainly produces and provides tire cords.

(c) Gasoline department: Mainly operates gasoline stations, sells gasoline and provides car washing.

(d) FATC department: The subsidiary – FORMOSA ADVANCED TECHNOLOGIES CO., LTD. mainly provides installation and testing of various integrated circuit and engages in processing and research and development of modules.

(2) Measurement of segment information

The measurement based on each operating segment's profit before tax excludes the effects of non-recurring expenditure, i.e. from the unrealized gain or loss on financial instruments. Furthermore, interest income and expense are not allocated to operating segments.

(3) Information about segment profit or loss and assets

| | Six months ended June 30, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Second business group | | | | | |
| | First business group | Cord fabric department | Gasoline department | Other segment | FATC department | Adjustment and write-off | Total |
| Segment revenue | | | | | | | |
| Revenue from external customers | $ 7,722,775 | $ 3,659,007 | $ 5,872,819 | $ 938,009 | $ 4,275,071 | $ - | $ 22,467,681 |
| Inter-segment revenue | 629,354 | 113,887 | - | 71,280 | - | ( 814,521) | - |
| Total segment revenue | $ 8,352,129 | $ 3,772,894 | $ 5,872,819 | $ 1,009,289 | $ 4,275,071 | ($ 814,521) | $ 22,467,681 |
| Segment income | $ 1,728,960 | $ 197,592 | $ 211,140 | $ 80,499 | $ 916,354 | ($ 623,817) | $ 2,510,728 |
| Segment assets | | | | | | | |
| Identifiable assets | $ 14,594,885 | $ 6,641,216 | $ 1,283,376 | $ 3,634,252 | $ 6,358,133 | ($ 67,071) | $ 32,444,791 |
| Investments accounted for using equity methed | | | | | | | 3,140,269 |
| General assets | | | | | | | 65,654,771 |
| | | | | | | | $ 101,239,831 |

| | Six months ended June 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Second business group | | | | | |
| | First business group | Cord fabric department | Gasoline department | Other segment | FATC department | Adjustment and write-off | Total |
| Segment revenue | | | | | | | |
| Revenue from | | | | | | | |
| external customers | $ 7,280,731 | $ 3,672,170 | $ 5,249,936 | $ 787,317 | $ 4,110,012 | $ - | $ 21,100,166 |
| Inter-segment revenue | 643,756 | 242,103 | - | 44,743 | - | ( 930,602) | - |
| Total segment | | | | | | | |
| revenue | $ 7,924,487 | $ 3,914,273 | $ 5,249,936 | $ 832,060 | $ 4,110,012 | ($ 930,602) | $ 21,100,166 |
| Segment income | $ 3,212,815 | $ 137,146 | $ 227,044 | $ 22,056 | $ 618,623 | ($ 619,060) | $ 3,598,624 |
| Segment assets | | | | | | | |
| Identifiable assets | $ 14,274,125 | $ 5,921,269 | $ 1,249,101 | $ 4,182,306 | $ 4,841,565 | ($ 433,459) | $ 30,034,907 |
| Investments accounted for using equity methed | | | | | | | 3,326,108 |
| General assets | | | | | | | 59,584,908 |
| | | | | | | | $ 92,945,923 |

(4) Reconciliation for segment income (loss)

A. Sales between segments are carried out at arm's length. The revenue from external customers reported to the chief operating decision-maker is measured in a manner consistent with that in the statement of comprehensive income.

B. The total consolidated profit (loss) after adjustment and reconciliation information for profit after tax of reportable segments are provided in Note 14(3).

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES

Provision of endorsements and guarantees to others

Six months ended June 30, 2018

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | Party being endorsed/guaranteed | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Number (Note 1) | Endorser/ guarantor | Company name | Relationship with the endorser/ guarantor (Note 2) | Limit on endorsements/ guarantees provided for a single party (Note 3,8) | Maximum outstanding endorsement/ guarantee amount as of June 30, 2018 (Note 4) | Outstanding endorsement/ guarantee amount at June 30, 2018 (Note 5) | Actual amount drawn down (Note 6) | Amount of endorsements/ guarantees secured with collateral | Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company | Ceiling on total amount of endorsements/ guarantees provided (Note 3,8) | Provision of endorsements/ guarantees by parent company to subsidiary (Note 7) | Provision of endorsements/ guarantees by subsidiary to parent company (Note 7) | Provision of endorsements/ guarantees to the party in Mainland China (Note 7) | Footnote |
| 0 | FORMOSA TAFFETA CO., LTD. | FORMOSA TAFFETA (ZHONG SHAN) CO., LTD. | 2 | $ 46,487,040 | $ 1,410,525 | $ 1,005,180 | $ 243,680 | $ - | 1.41 | $ 92,974,081 | Y | N | Y | |
| 0 | FORMOSA TAFFETA CO., LTD. | FORMOSA TAFFETA VIETNAM CO., LTD. | 2 | 46,487,040 | 1,567,250 | 1,523,000 | 405,551 | - | 2.13 | 92,974,081 | Y | N | N | |
| 0 | FORMOSA TAFFETA CO., LTD. | FORMOSA TAFFETA (CHANGSHU) CO., LTD. | 3 | 46,487,040 | 2,037,425 | 1,675,300 | 413,525 | - | 2.34 | 92,974,081 | Y | N | Y | |
| 0 | FORMOSA TAFFETA CO., LTD. | FORMOSA TAFFETA DONG NAI CO., LTD. | 2 | 46,487,040 | 4,629,920 | 4,629,920 | 3,003,847 | - | 6.47 | 92,974,081 | Y | N | N | |
| 0 | FORMOSA TAFFETA CO., LTD. | FORMOSA HA TINH (CAYMAN) LIMITED | 6 | 46,487,040 | 5,308,237 | 5,308,237 | 4,300,492 | - | 7.42 | 92,974,081 | N | N | N | |
| 1 | FORMOSA DEVELOPMENT CO., LTD. | PUBLIC MORE INTERNATION COMPANY LTD. | 2 | 182,401 | 3,000 | 3,000 | 3,000 | - | 1.07 | 364,803 | Y | N | N | |

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:
(1)The Company is ‘0’.
(2)The subsidiaries are numbered in order starting from ‘1’.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories; fill in the number of category each case belongs to:
(1)Having business relationship.
(2)The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.
(3)The endorsed/guaranteed company owns directly and indirectly more than 50% voting shares of the endorser/guarantor parent company.
(4)The endorser/guarantor parent company owns directly and indirectly more than 90% voting shares of the endorsed/guaranteed company.
(5)Mutual guarantee of the trade made by the endorsed/guaranteed company or joint contractor as required under the construction contract.
(6)Due to joint venture, all shareholders provide endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.
(7)Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

Note 3: Fill in limit on endorsements/guarantees provided for a single party and ceiling on total amount of endorsements/guarantees provided as prescribed in the endorser/guarantor company’s “Procedures for Provision of Endorsements and Guarantees”, and state each individual party to which the endorsements/guarantees have been provided and the calculation for ceiling on total amount of endorsements/guarantees provided in the footnote.

Note 4: Fill in the year-to-date maximum outstanding balance of endorsements/guarantees provided as of the reporting period.

Note 5: Fill in the amount approved by the Board of Directors or the chariman if the chairman has been authorised by the Board of Directors based on subparagraph 8, Article 12 of the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies.

Note 6: Fill in the actual amount of endorsements/guarantees used by the endorsed/guaranteed company.

Note 7: Fill in ‘Y’ for those cases of provision of endorsements/guarantees by listed parent company to subsidiary and provision by subsidiary to listed parent company, and provision to the party in Mainland China.

Note 8: In accordance with the Company’s procedures of endorsements and guarantees, limit on the Company’s total guarantee amount is 1.3 times of the Company's net assets, and limit on endorsement/guarantee to a single party is 50% of the aforementioned total amount.

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

Six months ended June 30, 2018

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

| Securities held by | Marketable securities (Note 1) | Relationship with the securities issuer (Note 2) | General ledger account | As of June 30, 2018 | | | | Footnote (Note 4) |
|---|---|---|---|---|---|---|---|---|
| | | | | Number of shares | Book value (Note 3) | Ownership (%) | Fair value | |
| FORMOSA TAFFETA CO., LTD. | FORMOSA CHEMICALS & FIBRE CORPORATION | Ultimate parent company | Current financial assets at fair value through other comprehensive | 12,169,610 | $ 1,478,608 | 0.21 | $ 1,478,608 | |
| FORMOSA TAFFETA CO., LTD. | PACIFIC ELECTRIC WIRE AND CABLE CO., LTD. | - | Current financial assets at fair value through other comprehensive | 32 | - | - | - | |
| FORMOSA TAFFETA CO., LTD. | FORMOSA PLASTICS CORPORATION | Other related party | Current financial assets at fair value through other comprehensive | 640 | 72 | 0.00 | 72 | |
| FORMOSA TAFFETA CO., LTD. | NAN YA PLASTICS CORPORATION | Other related party | Current financial assets at fair value through other comprehensive | 482,194 | 42,047 | 0.01 | 42,047 | |
| FORMOSA TAFFETA CO., LTD. | ASIA PACIFIC INVESTMENT CO. (APIC) | Other related party | Current financial assets at fair value through other comprehensive | 10,000,000 | 583,500 | 2.35 | 583,500 | |
| FORMOSA TAFFETA CO., LTD. | NAN YA TECHNOLOGY CORPORATION | Other related party | Non-current financial assets at fair value through other comprehensive income | 7,711,010 | 641,556 | 0.25 | 641,556 | |
| FORMOSA TAFFETA CO., LTD. | FORMOSA PETROCHEMICAL CORP. | Other related party | Non-current financial assets at fair value through other comprehensive income | 365,267,576 | 44,745,278 | 3.83 | 44,745,278 | |
| FORMOSA TAFFETA CO., LTD. | SYNTRONIX CORPORATION | - | Non-current financial assets at fair value through other comprehensive income | 174,441 | 3,959 | 0.45 | 3,959 | |
| FORMOSA TAFFETA CO., LTD. | TOA RESIN CORPORATION LIMITED | Other related party | Non-current financial assets at fair value through other comprehensive income | 14,400 | 47,926 | 10.00 | 47,926 | |
| FORMOSA TAFFETA CO., LTD. | SHIN YUN GAS CO., LTD. | - | Non-current financial assets at fair value through other comprehensive income | 644,230 | 16,410 | 1.20 | 16,410 | |

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

Six months ended June 30, 2018

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

| Securities held by | Marketable securities (Note 1) | Relationship with the securities issuer (Note 2) | General ledger account | As of June 30, 2018 Number of shares | Book value (Note 3) | Ownership (%) | Fair value | Footnote (Note 4) |
|---|---|---|---|---|---|---|---|---|
| FORMOSA TAFFETA CO., LTD. | WK TECHNOLOGY FUND IV LIMITED | - | Non-current financial assets at fair value through other comprehensive income | 1,348,731 | $ 8,781 | 3.17 | $ 8,781 | |
| FORMOSA TAFFETA CO., LTD. | NAN YA PHOTONICS INC. | Other related party | Non-current financial assets at fair value through other comprehensive income | 4,261,443 | 66,819 | 9.53 | 66,819 | |
| FORMOSA TAFFETA CO., LTD. | FG INC | Other related party | Non-current financial assets at fair value through other comprehensive income | 600 | 201,036 | 3.00 | 201,036 | |
| FORMOSA TAFFETA (CAYMAN) LIMITED | FORMOSA HA TINH (CAYMAN) LIMITED | Other related party | Non-current financial assets at fair value through other comprehensive income | 209,010,676 | 6,452,728 | 3.85 | 6,452,728 | |
| FORMOSA DEVELOPMENT CO., LTD. | FORMOSA TAFFETA CO., LTD. | Parent company | Non-current financial assets at fair value through other comprehensive income | 2,293,228 | 76,479 | 0.14 | 76,479 | |
| XIAMEN XIANGYU FORMOSA IMPORT & EXPORT TRADING CO., LTD. | Association of R.O.C. | - | Non-current financial assets at fair value through other comprehensive income | - | 138 | 0.11 | 138 | |
| FORMOSA ADVANCED TECHNOLOGIES CO., LTD. | FORMOSA PLASTICS CORPORATION | Other related party | Current financial assets at fair value through other comprehensive | 146,388 | 16,469 | 0.00 | 16,469 | |
| FORMOSA ADVANCED TECHNOLOGIES CO., LTD. | NAN YA PLASTICS CORPORATION | Other related party | Current financial assets at fair value through other comprehensive | 672,512 | 58,643 | 0.01 | 58,643 | |
| FORMOSA ADVANCED TECHNOLOGIES CO., LTD. | FORMOSA CHEMICALS & FIBRE CORPORATION | Utimate parent company | Current financial assets at fair value through other comprehensive | 15,249,000 | 1,852,754 | 0.26 | 1,852,754 | |
| FORMOSA ADVANCED TECHNOLOGIES CO., LTD. | FORMOSA PETROCHEMICAL CORP. | Other related party | Current financial assets at fair value through other comprehensive | 1,110,000 | 135,974 | 0.01 | 135,974 | |
| FORMOSA ADVANCED TECHNOLOGIES CO., LTD. | NAN YA TECHNOLOGY CORPORATION | Other related party | Non-current financial assets at fair value through other comprehensive income | 7,376,215 | 613,701 | 0.24 | 613,701 | |
| FORMOSA ADVANCED TECHNOLOGIES CO., LTD. | NAN YA PHOTONICS INC. | Other related party | Non-current financial assets at fair value through other comprehensive income | 2,130,721 | $ 33,401 | 0.15 | $ 33,401 | |
| FORMOSA ADVANCED TECHNOLOGIES CO., LTD. | SYNTRONIX CORPORATION | - | Non-current financial assets at fair value through other comprehensive income | 59,945 | 1,320 | 4.77 | 1,320 | |
| FORMOSA ADVANCED TECHNOLOGIES CO., LTD. | JIH SUN MONEY MARKET FUND | - | Financial assets at fair value through profit or loss - current | 25,512,583 | 376,545 | - | 376,545 | |

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

Six months ended June 30, 2018

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | | | As of June 30, 2018 | | | | |
|---|---|---|---|---|---|---|---|---|
| Securities held by | Marketable securities (Note 1) | Relationship with the securities issuer (Note 2) | General ledger account | Number of shares | Book value (Note 3) | Ownership (%) | Fair value | Footnote (Note 4) |
| FORMOSA ADVANCED TECHNOLOGIES CO., LTD. | MEGA DIAMOND MONEY MARKET FUND | - | Financial assets at fair value through profit or loss - current | 20,396,748 | 254,831 | - | 254,831 | |

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Leave the column blank if the issuer of marketable securities is non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES

Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company's paid-in capital

Six months ended June 30, 2018

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | | | | Balance as at January 1, 2018 | | Addition (Note 3)(Note 4) | | Disposal (Note 3) | | | | Balance as at June 30, 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Investor | Marketable securities (Note 1) | General ledger account | Counterparty (Note 2) | Relationship with the investor (Note 2) | Number of shares | Amount | Number of shares | Amount | Number of shares | Selling price | Book value | Gain (loss) on disposal | Number of shares | Amount |
| FORMOSA TAFFETA CO., LTD. | NAN YA TECHNOLOGY CORPORATION | Non-current financial assets at fair value through other comprehensive | - | - | 15,421,010 | $ 1,175,081 | - | $ - | 7,710,000 | $ 693,199 | $ 696,277 | Note 5 | 7,711,010 | $ 641,556 |
| FORMOSA TAFFETA (CAYMAN) LIMITED | FORMOSA HA TINH (CAYMAN) LIMITED | Non-current financial assets at fair value through other comprehensive income | - | - | 190,009,706 | 5,490,371 | 19,000,970 | 566,417 | - | - | - | - | 209,010,676 | 6,452,728 |

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.
Note 2: Fill in the columns the counterparty and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.
Note 3: Aggregate purchases and sales amounts should be calculated separately at their market values to verify whether they individually reach NT$300 million or 20% of paid-in capital or more.
Note 4: Beginning balance plus addition amount is not equal to balance at June 30, 2018 because of valuation in exchange rate.
Note 5: The loss on disposal (including the portion attributable to non-controlling interests) of ($1,804,708) was reclassified to retained earnings.

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more

Six months ended June 30, 2018

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | | Transaction | | | | Differences in transaction terms compared to third party transactions (Note 1) | | Notes/accounts receivable (payable) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Purchaser/seller | Counterparty | Relationship with the counterparty | Purchases (sales) | Amount | Percentage of total purchases (sales) | Credit term | Unit price | Credit term | Balance | Percentage of total notes/accounts receivable (payable) | Footnote (Note 2) |
| FORMOSA TAFFETA CO., LTD. | QUANG VIET ENTERPRISE CO., LTD. | Associate | Sales | ($ 280,995) | ( 2.04) | Pay by mail transfer 60 days after delivery | $ - | - | Accounts receivable $ 130,858 | 5.05 | |
| FORMOSA TAFFETA CO., LTD. | YUGEN YUEH CO., LTD. | Other related party | Sales | ( 170,035) | ( 1.23) | Pay 120 days after delivery | - | - | Accounts receivable 84,648 | 3.27 | |
| FORMOSA TAFFETA CO., LTD. | FORMOSA PETROCHEMICAL CORP. (FPCC) | Other related party | Purchases | 5,252,449 | 45.81 | Pay every 15 days by mail transfer | - | - | Accounts payable ( 464,047) | ( 32.16) | |
| FORMOSA TAFFETA CO., LTD. | FORMOSA CHEMICALS & FIBRE CORPORATION | Ultimate parent company | Purchases | 860,519 | 7.50 | Draw promissory notes due in 2 months after inspection | - | - | Notes payable ( 355,836)<br>Accounts payable ( 171,139) | ( 24.66)<br>( 11.86) | |
| FORMOSA TAFFETA CO., LTD. | NAN YA PLASTICS CORPORATION | Other related party | Purchases | 423,961 | 3.70 | Pay every 15 days by mail transfer | - | - | Accounts payable ( 81,970) | ( 5.68) | |
| FORMOSA TAFFETA CO., LTD. | FORMOSA PLASTICS CORP. | Other related party | Purchases | 173,557 | 1.51 | Pay every 15 days by mail transfer | - | - | Accounts payable ( 22,383) | ( 1.55) | |
| FORMOSA ADVANCED TECHNOLOGIES CO., LTD. | NAN YA TECHNOLOGY CORPORATION | Other related party | Sales | ( 2,973,110) | ( 69.55) | 60 days after monthly | - | - | Accounts receivable 1,069,564 | 65.67 | |
| FORMOSA TAFFETA (ZHONG SHAN) CO., LTD. | FORMOSA TAFFETA (CHANGSHU) CO., LTD. | Associate | Sales | ( 199,865) | ( 22.03) | 60 days after monthly | - | - | Accounts receivable 174,378 | 48.40 | |
| FORMOSA TAFFETA VIETNAM CO., LTD. | FORMOSA INDUSTRY CO., LTD | Associate | Purchases | 108,041 | 10.44 | 60 days after monthly | - | - | Accounts payable ( 36,191) | ( 12.74) | |
| FORMOSA TAFFETA DONG NAI CO., LTD. | FORMOSA TAFFETA VIETNAM CO., LTD. | Associate | Sales | ( 127,711) | ( 6.26) | 60 days after monthly | - | - | Accounts receivable 42,612 | 4.07 | |
| FORMOSA TAFFETA DONG NAI CO., LTD. | FORMOSA TAFFETA CO., LTD. | Parent company | Sales | ( 136,646) | ( 6.69) | 60 days after monthly | - | - | Accounts receivable 99,870 | 9.53 | |
| FORMOSA TAFFETA DONG NAI CO., LTD. | KWANG VIET GARMENT CO., LTD. | Other related party | Sales | ($ 105,054) | ( 5.15) | 60 days after monthly | $ - | - | Accounts receivable 88,139 | 8.41 | |
| FORMOSA TAFFETA DONG NAI CO., LTD. | FORMOSA INDUSTRY CO., LTD | Associate | Purchases | 276,219 | 13.85 | 60 days after monthly | - | - | Accounts payable ( 49,182) | ( 11.82) | |
| FORMOSA TAFFETA DONG NAI CO., LTD. | FORMOSA CHEMICALS & FIBRE CORPORATION | Ultimate parent company | Purchases | 222,642 | 11.16 | 60 days after monthly | - | - | Accounts payable ( 56,129) | ( 13.48) | |
| FORMOSA TAFFETA DONG NAI CO., LTD. | NAN YA PLASTICS CORPORATION | Other related party | Purchases | 102,291 | 5.13 | 60 days after monthly | - | - | Accounts payable ( 10,862) | ( 2.61) | |

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more

Six months ended June 30, 2018

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | | Transaction | | | | Differences in transaction terms compared to third party transactions (Note 1) | | Notes/accounts receivable (payable) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Purchaser/seller | Counterparty | Relationship with the counterparty | Purchases (sales) | Amount | Percentage of total purchases (sales) | Credit term | Unit price | Credit term | Balance | Percentage of total notes/accounts receivable (payable) | Footnote (Note 2) |
| FORMOSA TAFFETA (CHANGSHU) CO., LTD. | JIAXING QUANG VIET GARMENT CO., LTD. | Associate | Sales | ( 113,286) | ( 13.62) | Pay by mail transfer 60 days after delivery | - | - | Accounts receivable 38,543 | 11.32 | |

Note 1: If terms of related party transactions are different from third party transactions, explain the differences and reasons in the 'Unit price' and 'Credit term' columns.

Note 2: In case related-party transaction terms involve advance receipts (prepayments) transactions, explain in the footnote the reasons, contractual provisions, related amounts, and differences in types of transactions compared to third-party transactions.

Note 3: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 4:The transactions are disclosed by presenting revenues. The related transactions are not disclosed.

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES

Receivables from related parties reaching $100 million or 20% of paid-in capital or more

Six months ended June 30, 2018

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

| Creditor | Counterparty | Relationship with the counterparty | Balance as at June 30, 2018 (Note 1) | | Turnover rate | Overdue receivables | | Amount collected subsequent to the balance sheet date | Allowance for doubtful accounts |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Amount | Action taken | | |
| FORMOSA TAFFETA CO., LTD. | QUANG VIET ENTERPRISE CO., LTD. | Associate | Notes receivable | $ 130,858 | 6.20 | $ – | – | $ 55,767 | $ - |
| FORMOSA ADVANCED TECHNOLOGIES CO., LTD. | NAN YA TECHNOLOGY CORPORATION | Other related party | | 1,069,564 | 5.88 | – | – | 536,182 | – |
| FORMOSA TAFFETA (ZHONG SHAN) CO., LTD. | FORMOSA TAFFETA (CHANG SHU) CO., LTD. | Associate | | 174,378 | 2.71 | – | – | 34,572 | – |

Note 1: Fill in separately the balances of accounts receivable–related parties, notes receivable–related parties, other receivables–related parties.

Note 2: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES

Significant inter-company transactions during the reporting period

Six months ended June 30, 2018

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | Transaction: General ledger account | Transaction: Amount | Transaction: Transaction terms | Transaction: Percentage of consolidated total operating revenues or total assets (Note 3) |
|---|---|---|---|---|---|---|---|
| 0 | FORMOSA TAFFETA CO., LTD. | FORMOSA CHEMICALS & FIBRE CORPORATION | 1 | Purchases | $ 860,519 | Draw promissory notes due in 2 months after | 3.83 |
| 0 | FORMOSA TAFFETA CO., LTD. | FORMOSA CHEMICALS & FIBRE CORPORATION | 1 | Notes payable | 355,836 | Draw promissory notes due in 2 months after inspection | 0.35 |
| 0 | FORMOSA TAFFETA CO., LTD. | FORMOSA CHEMICALS & FIBRE CORPORATION | 1 | Accounts payable | 171,139 | Draw promissory notes due in 2 months after | 0.17 |

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is ‘0’.

(2) The subsidiaries are numbered in order starting from ‘1’.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories:

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: The amount of transactions under $500 million are not disclosed.

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES

Information on investees

Six months ended June 30, 2018

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investor | Investee (Notes 1 and 2) | Location | Main business activities | Initial investment amount: Balance as at June 30, 2018 | Initial investment amount: Balance as at December 31, 2017 | Shares held as at June 30, 2018: Number of shares | Shares held as at June 30, 2018: Ownership (%) | Shares held as at June 30, 2018: Book value | Net profit (loss) of the investee for the six months ended June 30, 2018 (Note 2(2)) | Investment income (loss) recognized by the company for the six months ended June 30, 2018 （Note 2(3)） | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FORMOSA TAFFETA CO., LTD. | FORMOSA DEVELOPMENT CO., LTD. | Taiwan | Handling urban land consolidation, development, rent and sale of industrial plants, residences and building | $ 114,912 | $ 114,912 | 16,100,000 | 100.00 | $ 215,856 | $ 20,494 | $ 20,494 | |
| FORMOSA TAFFETA CO., LTD. | FORMOSA ADVANCED TECHNOLOGIES CO., LTD. | Taiwan | IC assembly, testing and modules | 3,773,440 | 3,773,440 | 290,464,472 | 65.68 | 8,126,915 | 725,407 | 476,447 | |
| FORMOSA TAFFETA CO., LTD. | FORMOSA TAFFETA (HONG KONG) CO., LTD. | Hong Kong | Sale of spun fabrics and filament textile | 1,356,862 | 1,356,862 | - | 100.00 | 1,156,158 | 53,994 | 53,994 | |
| FORMOSA TAFFETA CO., LTD. | FORMOSA TAFFETA VIETNAM CO., LTD. | Vietnam | Production, processing, further processing various yam and cotton cloth, and dyeing and finishing clothes, curtains, towels, bed covers and carpets | 1,709,221 | 1,709,221 | - | 100.00 | 1,908,312 | 78,717 | 78,717 | |
| FORMOSA TAFFETA CO., LTD. | QUANG VIET ENTERPRISE CO., LTD. | Taiwan | Processing and producion of ready-to-wear, processing and trading of cotton cloth, and import and export of the aforementioned products | 213,771 | 213,771 | 18,595,352 | 17.92 | 1,147,168 | ( 135,237) | ( 15,954) | |

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES
Information on investees
Six months ended June 30, 2018

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

| Investor | Investee (Notes 1 and 2) | Location | Main business activities | Initial investment amount: Balance as at June 30, 2018 | Initial investment amount: Balance as at December 31, 2017 | Shares held as at June 30, 2018: Number of shares | Shares held as at June 30, 2018: Ownership (%) | Shares held as at June 30, 2018: Book value | Net profit (loss) of the investee for the six months ended June 30, 2018 (Note 2(2)) | Investment income (loss) recognized by the company for the six months ended June 30, 2018 （Note 2(3)） | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FORMOSA TAFFETA CO., LTD. | SCHOELLER FTC (HONG KONG) CO., LTD. | Hong Kong | Trading of textiles | $ 2,958 | $ 2,958 | - | 50.00 | $ 7,149 | $ 3,225 | $ 1,613 | |
| FORMOSA TAFFETA CO., LTD. | FORMOSA TAFFETA DONG NAI CO., LTD. | Vietnam | Production, processing and sale of various dyeing and finishing textiles and yarn | 2,590,434 | 2,590,434 | - | 100.00 | 2,259,692 | ( 22,142) | ( 22,142) | |
| FORMOSA TAFFETA CO., LTD. | FORMOSA INDUSTRIES CORPORATION | Vietnam | Synthetic fiber, spinning, weaving, dyeing and finishing and electricity generation | 1,987,122 | 1,987,122 | - | 10.00 | 1,975,484 | 742,824 | 80,634 | |
| FORMOSA TAFFETA CO., LTD. | FORMOSA TAFFETA (CAYMAN) LIMITED | Cayman Islands | Investments | 6,241,670 | 5,675,253 | 171,028,736 | 100.00 | 6,452,779 | - | - | |
| FORMOSA DEVELOPMENT CO., LTD. | FORMOSA ADVANCED TECHNOLOGIES CO., LTD. | Taiwan | IC assembly, testing and modules | 21,119 | 21,119 | 469,500 | 0.11 | 24,878 | 725,407 | 773 | |
| FORMOSA DEVELOPMENT CO., LTD. | PUBLIC MORE INTERNATION COMPANY LTD. | Taiwan | Employment service, manpower allocation and agency service etc. | 5,000 | 5,000 | - | 100.00 | 7,019 | 1,859 | 1,859 | |

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

(1)The columns of 'Investee', 'Location', 'Main business activities', Initial investment amount' and 'Shares held as at June 30, 2018' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column.

(2)The 'Net profit (loss) of the investee for the three months ended June 30, 2018' column should fill in amount of net profit (loss) of the investee for this period.

(3)The 'Investment income (loss) recognised by the Company for the three months ended June 30, 2018' column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognised by regulations.

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

Six months ended June 30, 2018

Table 8

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investee in Mainland China | Main business activities | Paid-in capital | Investment method (Note 1) | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018 | Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the six months ended June 30, 2018: Remitted to Mainland China | Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the six months ended June 30, 2018: Remitted back to Taiwan | Accumulated amount of remittance from Taiwan to Mainland China as of June 30, 2018 | Net income of investee for the six months ended June 30, 2018 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognized by the Company for the six months ended June 30, 2018 (Note 2) | Book value of investments in Mainland China as of June 30, 2018 | Accumulated amount of investment income remitted back to Taiwan as of June 30, 2018 | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FORMOSA TAFFETA (ZHONG SHAN) CO., LTD. | Production and sale of polyester and polyamide fabrics | $ 1,402,085 | (1) | $ 1,402,085 | $ - | $ - | $ 1,402,085 | $ 12,503 | 100.00 | $ 12,503 | $ 1,662,885 | $ - | Note 3 |
| XIAMEN XIANGYU FORMOSA IMPORT & EXPORT TRADING CO., | Import and export, entrepot trade, merchandise export processing, warehousing and design and drawing of black | 15,273 | (1) | 15,273 | - | - | 15,273 | ( 457) | 100.00 | ( 457) | 5,809 | - | Note 4 |
| FORMOSA TAFFETA (CHANGSHU) CO., LTD. | Weaving and dyeing as well as post dressing of high-grade loomage face fabric | 1,302,019 | (2) | 1,334,739 | - | - | 1,334,739 | 54,063 | 100.00 | 54,063 | 1,038,553 | - | Note 5 |
| CHANG SHU YU YUAN DEVELOPMENT. CO., LTD. | Building and selling real estate | 70,788 | (2) | - | - | - | - | 1,121 | 40.78 | 457 | 17,617 | - | Note 6 |

Note 1: Investment methods are classified into the following three categories:

(1) Directly invest in a company in Mainland China.

(2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.

(3) Others

Note 2: The amount of ‘Investment income (loss) recognised by the Company for the six months ended June 30, 2018 were derived from financial statements which were reviewed by independent accountants.

Note 3: The Company's paid-in capital and accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018 and June 30, 2018 are both US$46,400,000 (remitted out US$46,388,800 and equipment amounted to US$11,200).

Note 4: The Company’s paid-in capital and accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018 and June 30, 2018 are both US$570,000.

Note 5: The Company’s paid-in capital and accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018 is US$42,000,000. Formosa Taffeta (Changshu) Co., Ltd. reduced its capital amounting to US$900,000 and divided the housing land to establish a new company named Changshu Fushun Enterprise Management Co., Ltd. in March 2015. Thus, the original currency of paid-in capital and accumulated amount of remittance from Taiwan as of December 31, 2017 was US$41,100,000.

Note 6: The Company was the surviving company after the consolidation of Changshu Yu Yuan Development.Co.,Ltd. and Changshu Fushun Enterprise Management Co., Ltd. Its paid-in capital is RMB$13,592,920.

| Company name | Accumulated amount of remittance from Taiwan to Mainland China as of June 30, 2018 | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) | Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA |
|---|---|---|---|
| FORMOSA TAFFETA (ZHONG SHAN) CO., LTD. | $ 1,402,085 | $ 1,415,200 | $ 45,211,003 |
| XIAMEN XIANGYU FORMOSA IMPORT & EXPORT TRADING CO., LTD. | 15,273 | 17,385 | 45,211,003 |
| FORMOSA TAFFETA (CHANGSHU) CO., LTD. | 1,334,739 | 1,281,000 | 45,211,003 |

Note：

(1)The investment in FORMOSA TAFFETA (ZHONG SHAN) CO., LTD. approved by the Investment Commission of MOEA is US$46,400,000.

(2)The investment in XIAMEN XIANGYU FORMOSA IMPORT & EXPORT TRADING CO., LTD. approved by the Investment Commission of MOEA is US$570,000.

(3)The investment in FORMOSA TAFFETA (CHANG SHU) CO., LTD. approved by the Investment Commission of MOEA is US$42,000,000, while the company reduced its capital and divided some part of housing land to Changshu Fushun Enterprise Management Co.,Ltd. Such investment is still awaiting approval by MOEA.

(4)The original currency of paid-in capital was translated at USD:TWD = 1:30.5

FORMOSA TAFFETA CO., LTD. AND SUBSIDIARIES

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

Six months ended June 30, 2018

Table 9

Expressed in thousands of NTD

(Except as otherwise indicated)

| | Sale (purchase) | | Property transaction | | Accounts receivable (payable) | | Provision of endorsements/guarantees or collaterals | | Financing | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Investee in Mainland China | Amount | % | Amount | % | Balance at June 30, 2018 | % | Balance at June 30, 2018 | Purpose | Maximum balance during the six months ended June 30, 2018 | Balance at June 30, 2018 | Interest rate | Interest during the six months ended June 30, 2018 | Others |
| FORMOSA TAFFETA (ZHONG SHAN) CO., LTD. | $ 24,517 | 0.18 | $ - | - | $ 12,397 | 0.48 | $ 1,005,180 | For short-tem loans from financial institutions | $ - | $ - | - | $ - | |
| FORMOSA TAFFETA (CHANGSHU) CO., LTD. | 25,423 | 0.18 | - | - | 13,014 | 0.50 | 1,675,300 | For short-tem loans from financial institutions | - | - | - | - | |