

Stock Code : 4103

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Consolidated Financial Statements  
June 30, 2016 and 2015**

**Address: 9F., No. 431, Ruiguang Rd., Neihu Dist., Taipei City 114, Taiwan (R.O.C.)  
Telephone: 886-2-8797-1288**

**Reviewed only, not audited in accordance with generally accepted auditing standards as of June 30, 2016 and 2015**

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Consolidated Balance Sheets**

**June 30, 2016, and December 31 and June 30, 2015**  
(expressed in thousands of New Taiwan Dollars)

| Assets  | June 30, 2016              |                   | December 31, 2015       |                   | June 30, 2015           |                   | Liabilities and Equity   | June 30, 2016              |                   | December 31, 2015       |                   | June 30, 2015           |                   |
|---|----------------------------|-------------------|-------------------------|-------------------|-------------------------|-------------------|--|----------------------------|-------------------|-------------------------|-------------------|-------------------------|-------------------|
|   | Amount                     | %                 | Amount                  | %                 | Amount                  | %                 |  | Amount                     | %                 | Amount                  | %                 | Amount                  | %                 |
| <b>Current assets:</b>  |                            |                   |                         |                   |                         |                   | <b>Current liabilities:</b>  |                            |                   |                         |                   |                         |                   |
| Cash and cash equivalents (note 6(a))                                       | \$ 2,742,576               | 59                | 2,372,718               | 43                | 2,512,114               | 56                | Short-term borrowings (note 6(h))  | \$ -                       | -                 | -                       | -                 | -                       | -                 |
| Financial assets at fair value through profit or loss – current (note 6(b)) | -                          | -                 | 932                     | -                 | 10,873                  | -                 | Financial liabilities at fair value through profit or loss – current (note 6(b)) | 6,790                      | -                 | 18,521                  | -                 | 1,493                   | -                 |
| Notes and accounts receivable, net (note 6(c))                              | 542,158                    | 10                | 1,495,866               | 28                | 748,448                 | 14                | Accounts payable   | 903,079                    | 16                | 671,675                 | 12                | 1,070,612               | 20                |
| Other receivables, net (note 6(c))  | 90,884                     | 1                 | 83,302                  | 2                 | 100,974                 | 2                 | Other payables   | 571,654                    | 11                | 695,545                 | 13                | 488,942                 | 10                |
| Inventories (note 6(d))   | 1,588,121                  | 29                | 956,198                 | 18                | 1,356,314               | 26                | Promotion fees payable   | 123,862                    | 2                 | 238,617                 | 5                 | 103,420                 | 2                 |
| Other assets – current  | 39,015                     | 1                 | 27,651                  | -                 | 33,197                  | 1                 | Dividend payables  | 439,988                    | 8                 | -                       | -                 | 439,988                 | 8                 |
|   | <u>5,002,754</u>           | <u>91</u>         | <u>4,936,667</u>        | <u>91</u>         | <u>4,761,920</u>        | <u>91</u>         | Other payables – related parties (note 7)  | 176                        | -                 | 3                       | -                 | 17                      | -                 |
|   |                            |                   |                         |                   |                         |                   | Current income tax liabilities   | 52,126                     | 1                 | 88,374                  | 2                 | 51,228                  | 1                 |
| <b>Non-current assets:</b>  |                            |                   |                         |                   |                         |                   | Other liabilities – current  | <u>36,116</u>              | <u>1</u>          | <u>26,193</u>           | <u>-</u>          | <u>19,663</u>           | <u>-</u>          |
| Available-for-sale financial assets – non-current (note 6(b))               | -                          | -                 | -                       | -                 | 2,536                   | -                 |  | <u>2,133,791</u>           | <u>39</u>         | <u>1,738,928</u>        | <u>32</u>         | <u>2,175,363</u>        | <u>41</u>         |
| Financial assets measured at cost – non-current (note 6(b))                 | 9,972                      | -                 | 9,972                   | -                 | 11,759                  | -                 | <b>Non-current liabilities:</b>  |                            |                   |                         |                   |                         |                   |
| Investments under equity method (note 6(e))                                 | 3,431                      | -                 | 3,359                   | -                 | 3,566                   | -                 | Deferred income tax liabilities  | 185,027                    | 3                 | 189,510                 | 3                 | 143,319                 | 3                 |
| Property, plant and equipment (note 6(f))                                   | 370,268                    | 7                 | 338,564                 | 6                 | 291,917                 | 6                 | Net defined benefit liability  | <u>44,990</u>              | <u>1</u>          | <u>45,054</u>           | <u>1</u>          | <u>39,643</u>           | <u>1</u>          |
| Intangible assets (note 6(g))   | 32,806                     | 1                 | 34,899                  | 1                 | 56,516                  | 1                 | <b>Total liabilities</b>   | <u>2,363,808</u>           | <u>43</u>         | <u>1,973,492</u>        | <u>36</u>         | <u>2,358,325</u>        | <u>45</u>         |
| Deferred income tax assets  | 55,183                     | 1                 | 55,172                  | 1                 | 44,009                  | 1                 | <b>Equity attributable to owners of parent (note 6(l))</b>                       |                            |                   |                         |                   |                         |                   |
| Other financial assets – non-current (note 8)                               | 15,366                     | -                 | 15,752                  | -                 | 43,306                  | 1                 | Capital stock  | 1,099,970                  | 20                | 1,099,970               | 20                | 1,099,970               | 21                |
| Other assets – non-current  | 25,183                     | -                 | 29,259                  | 1                 | 32,178                  | 1                 | Capital surplus  | 276,960                    | 5                 | 276,960                 | 5                 | 276,960                 | 5                 |
|   | 512,209                    | 9                 | 486,977                 | 9                 | 485,787                 | 9                 | Retained earnings:   |                            |                   |                         |                   |                         |                   |
|   |                            |                   |                         |                   |                         |                   | Legal reserve  | 715,475                    | 13                | 650,647                 | 12                | 650,647                 | 12                |
|   |                            |                   |                         |                   |                         |                   | Unappropriated retained earnings (note 6(k))                                     | <u>1,031,973</u>           | <u>19</u>         | <u>1,373,916</u>        | <u>26</u>         | <u>890,193</u>          | <u>17</u>         |
|   |                            |                   |                         |                   |                         |                   |  | <u>1,747,448</u>           | <u>32</u>         | <u>2,024,563</u>        | <u>38</u>         | <u>1,540,840</u>        | <u>29</u>         |
|   |                            |                   |                         |                   |                         |                   | Other equity interest (note 6(l))  | 26,493                     | -                 | 48,375                  | 1                 | (28,672)                | -                 |
|   |                            |                   |                         |                   |                         |                   | Equity attributable to owners of parent  | <u>3,150,871</u>           | <u>57</u>         | <u>3,449,868</u>        | <u>64</u>         | <u>2,889,098</u>        | <u>55</u>         |
|   |                            |                   |                         |                   |                         |                   | Non-controlling interests  | 284                        | -                 | 284                     | -                 | 284                     | -                 |
|   |                            |                   |                         |                   |                         |                   | <b>Total equity</b>  | <u>3,151,155</u>           | <u>57</u>         | <u>3,450,152</u>        | <u>64</u>         | <u>2,889,382</u>        | <u>55</u>         |
| <b>Total assets</b>   | <b>\$ <u>5,514,963</u></b> | <b><u>100</u></b> | <b><u>5,423,644</u></b> | <b><u>100</u></b> | <b><u>5,247,707</u></b> | <b><u>100</u></b> | <b>Total liabilities and equity</b>  | <b>\$ <u>5,514,963</u></b> | <b><u>100</u></b> | <b><u>5,423,644</u></b> | <b><u>100</u></b> | <b><u>5,247,707</u></b> | <b><u>100</u></b> |

See accompanying notes to financial statements.  
(With KPMG review report dated August 8, 2016)

Reviewed only, not audited in accordance with generally accepted auditing standards

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**Three Months and Six Months Ended June 30, 2016 and 2015**  
(expressed in thousands of New Taiwan Dollars, except for earnings per share)

|  | Three Months<br>Ended June 30,<br>2016 |          | Three Months<br>Ended June 30,<br>2015 |          | Six Months<br>Ended June 30,<br>2016 |          | Six Months<br>Ended June 30,<br>2015 |          |
|--|--|----------|--|----------|--------------------------------------|----------|--------------------------------------|----------|
|  | Amount                                 | %        | Amount                                 | %        | Amount                               | %        | Amount                               | %        |
| <b>Net operating revenues (note 6(o))</b>  | \$ 957,192                             | 100      | 1,085,323                              | 100      | 2,026,420                            | 100      | 2,077,263                            | 100      |
| <b>Operating costs (notes 6(d), (i), and (j), and 12(a))</b>                         | 536,952                                | 56       | 669,758                                | 62       | 1,220,245                            | 60       | 1,264,396                            | 61       |
| <b>Gross profit from operations</b>  | 420,240                                | 44       | 415,565                                | 38       | 806,175                              | 40       | 812,867                              | 39       |
| <b>Operating expenses (notes 6(c), (i), and (j), and 12(a)):</b>                     |  |          |  |          |                                      |          |                                      |          |
| Selling expenses   | 155,615                                | 16       | 160,400                                | 15       | 323,071                              | 16       | 325,775                              | 16       |
| Administrative expenses  | 107,505                                | 11       | 104,109                                | 10       | 192,201                              | 10       | 188,637                              | 9        |
| Research and development expenses  | 35,342                                 | 4        | 32,035                                 | 3        | 66,909                               | 3        | 67,625                               | 3        |
| <b>Total operating expenses</b>  | 298,462                                | 31       | 296,544                                | 28       | 582,181                              | 29       | 582,037                              | 28       |
| <b>Operating income</b>  | 121,778                                | 13       | 119,021                                | 10       | 223,994                              | 11       | 230,830                              | 11       |
| <b>Non-operating income and expenses:</b>  |  |          |  |          |                                      |          |                                      |          |
| Other income   | 4,187                                  | -        | 5,854                                  | 1        | 9,435                                | -        | 10,251                               | -        |
| Other gains and losses (note 6(l))   | 3,069                                  | -        | (20,485)                               | (1)      | (4,578)                              | -        | (29,401)                             | (1)      |
| Finance costs  | -                                      | -        | (266)                                  | -        | -                                    | -        | (396)                                | -        |
| Shares of profit and losses of investees accounted for using equity method           | 20                                     | -        | 91                                     | -        | (2)                                  | -        | 909                                  | -        |
| <b>Total non-operating income and expenses</b>                                       | 7,276                                  | -        | (14,806)                               | -        | 4,855                                | -        | (18,637)                             | (1)      |
| <b>Profit before income tax</b>  | 129,054                                | 13       | 104,215                                | 10       | 228,849                              | 11       | 212,193                              | 10       |
| <b>Less: income tax expense (note 6(k))</b>  | 41,610                                 | 4        | 29,700                                 | 3        | 65,976                               | 3        | 49,607                               | 2        |
| <b>Profit</b>  | 87,444                                 | 9        | 74,515                                 | 7        | 162,873                              | 8        | 162,586                              | 8        |
| <b>Other comprehensive income:</b>   |  |          |  |          |                                      |          |                                      |          |
| <b>Items that may be reclassified subsequently to profit or loss:</b>                |  |          |  |          |                                      |          |                                      |          |
| Exchange differences on translation of foreign operations                            | (2,123)                                | -        | (9,649)                                | (1)      | (26,364)                             | (1)      | (59,384)                             | (3)      |
| Income tax relating to items that may be reclassified subsequently to profit or loss | 361                                    | -        | 1,640                                  | -        | 4,482                                | -        | 10,095                               | -        |
| <b>Other comprehensive income, net of income tax</b>                                 | (1,762)                                | -        | (8,009)                                | (1)      | (21,882)                             | (1)      | (49,289)                             | (3)      |
| <b>Comprehensive income</b>  | <b>\$ 85,682</b>                       | <b>9</b> | <b>66,506</b>                          | <b>6</b> | <b>140,991</b>                       | <b>7</b> | <b>113,297</b>                       | <b>5</b> |
| <b>Profit attributable to:</b>   |  |          |  |          |                                      |          |                                      |          |
| Owners of parent   | \$ 87,444                              | 9        | 74,515                                 | 7        | 162,873                              | 8        | 162,586                              | 8        |
| Non-controlling interests  | -                                      | -        | -                                      | -        | -                                    | -        | -                                    | -        |
|  | <b>\$ 87,444</b>                       | <b>9</b> | <b>74,515</b>                          | <b>7</b> | <b>162,873</b>                       | <b>8</b> | <b>162,586</b>                       | <b>8</b> |
| <b>Comprehensive income attributable to:</b>   |  |          |  |          |                                      |          |                                      |          |
| Owners of parent   | \$ 85,682                              | 9        | 66,506                                 | 6        | 140,991                              | 7        | 113,297                              | 5        |
| Non-controlling interests  | -                                      | -        | -                                      | -        | -                                    | -        | -                                    | -        |
|  | <b>\$ 85,682</b>                       | <b>9</b> | <b>66,506</b>                          | <b>6</b> | <b>140,991</b>                       | <b>7</b> | <b>113,297</b>                       | <b>5</b> |
| <b>Earnings per share (expressed in dollars) (note 6(m))</b>                         |  |          |  |          |                                      |          |                                      |          |
| <b>Basic earnings per share</b>  | <b>\$ 0.79</b>                         |          | <b>0.68</b>                            |          | <b>1.48</b>                          |          | <b>1.48</b>                          |          |
| <b>Diluted earnings per share</b>  | <b>\$ 0.79</b>                         |          | <b>0.68</b>                            |          | <b>1.48</b>                          |          | <b>1.47</b>                          |          |

See accompanying notes to financial statements.  
(With KPMG review report dated August 8, 2016)

Reviewed only, not audited in accordance with generally accepted auditing standards

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**

**Six Months Ended June 30, 2016 and 2015**  
(expressed in thousands of New Taiwan Dollars)

|  | <u>Equity attributable to owners of parent</u> |                        |                          |                            |   |                  |   |  |   |                     |
|--|--|------------------------|--------------------------|----------------------------|---|------------------|---|--|---|---------------------|
|  | <u>Capital stock</u>                           | <u>Capital surplus</u> | <u>Retained earnings</u> |                            |   |                  | <u>Other equity interest<br/>Exchange difference<br/>on translation<br/>of foreign financial<br/>statements</u> | <u>Equity<br/>attributable<br/>to owners of<br/>parent</u> | <u>Non-<br/>controlling<br/>interests</u> | <u>Total equity</u> |
|  |  |                        | <u>Legal<br/>reserve</u> | <u>Special<br/>reserve</u> | <u>Unappropriated<br/>retained<br/>earnings</u> | <u>Total</u>     |   |  |   |                     |
| <b>Balance on January 1, 2015</b>                                    | \$ 1,099,970                                   | 276,960                | 588,679                  | 24,192                     | 1,205,371                                       | 1,818,242        | 20,617  | 3,215,789  | 284                                       | 3,216,073           |
| Profit for the six months ended June 30,2015                         | -  | -                      | -                        | -                          | 162,586   | 162,586          | -   | 162,586  | -   | 162,586             |
| Other comprehensive income for the six months ended<br>June 30, 2015 | -  | -                      | -                        | -                          | -   | -                | (49,289)  | (49,289)   | -   | (49,289)            |
| Total comprehensive income for the six months ended June<br>30, 2015 | -  | -                      | -                        | -                          | 162,586   | 162,586          | (49,289)  | 113,297  | -   | 113,297             |
| Legal reserve  | -  | -                      | 61,968                   | -                          | (61,968)  | -                | -   | -  | -   | -                   |
| Special reserve  | -  | -                      | -                        | (24,192)                   | 24,192  | -                | -   | -  | -   | -                   |
| Cash dividends   | -  | -                      | -                        | -                          | (439,988)                                       | (439,988)        | -   | (439,989)  | -   | (439,988)           |
| <b>Balance on June 30, 2015</b>                                      | <b>\$ 1,099,970</b>                            | <b>276,960</b>         | <b>650,647</b>           | <b>-</b>                   | <b>890,193</b>                                  | <b>1,540,840</b> | <b>(28,672)</b>   | <b>2,889,382</b>   | <b>284</b>                                | <b>2,889,382</b>    |
| <b>Balance on January 1, 2016</b>                                    | \$ 1,099,970                                   | 276,960                | 650,647                  | -                          | 1,373,916                                       | 2,024,563        | 48,375  | 3,449,868  | 284                                       | 3,450,152           |
| Profit for the six months ended June 30,2016                         | -  | -                      | -                        | -                          | 162,873   | 162,873          | -   | 162,873  | -   | 162,873             |
| Other comprehensive income for the six months ended<br>June 30, 2016 | -  | -                      | -                        | -                          | -   | -                | (21,882)  | (21,882)   | -   | (21,882)            |
| Total comprehensive income for the six months ended June<br>30, 2016 | -  | -                      | -                        | -                          | 162,873   | 162,873          | (21,882)  | 140,991  | -   | 140,991             |
| Legal reserve  | -  | -                      | 64,828                   | -                          | (64,828)  | -                | -   | -  | -   | -                   |
| Cash dividends   | -  | -                      | -                        | -                          | (439,988)                                       | (439,988)        | -   | (439,988)  | -   | (439,988)           |
| <b>Balance on June 30, 2016</b>                                      | <b>\$ 1,099,970</b>                            | <b>276,960</b>         | <b>715,475</b>           | <b>-</b>                   | <b>1,031,973</b>                                | <b>1,747,448</b> | <b>26,493</b>   | <b>3,150,871</b>   | <b>284</b>                                | <b>3,151,155</b>    |

See accompanying notes to financial statements.  
(With KPMG review report dated August 8, 2016)

Reviewed only, not audited in accordance with generally accepted auditing standards

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**Six Months Ended June 30, 2016 and 2015**  
(expressed in thousands of New Taiwan Dollars)

|   | <b>Six Months Ended June 30,</b> |                  |
|---|----------------------------------|------------------|
|   | <b>2016</b>                      | <b>2015</b>      |
| <b>Cash flows from operating activities:</b>                                      |                                  |                  |
| <b>Profit before tax</b>  | \$ 228,849                       | 212,193          |
| <b>Adjustments</b>  |                                  |                  |
| <b>Adjustment to reconcile profit:</b>  |                                  |                  |
| Depreciation  | 30,044                           | 33,973           |
| Amortization  | 6,604                            | 4,922            |
| Net loss on financial assets and liabilities at fair value through profit or loss | (10,799)                         | (8,040)          |
| Interest expense  | -                                | 396              |
| Interest revenue  | (9,435)                          | (10,251)         |
| Shares of profit or loss of investees accounted for using equity method           | 2                                | (909)            |
| Loss on disposal of property, plant and equipment                                 | 531                              | 276              |
| Total adjustment to reconcile profit  | 16,947                           | 20,367           |
| <b>Changes in operating assets or liabilities:</b>                                |                                  |                  |
| <b>Changes in operating assets</b>  |                                  |                  |
| Decrease in notes and accounts receivable   | 953,708                          | 920,703          |
| Decrease (increase) in other receivables  | (10,801)                         | 20,137           |
| Increase in inventories   | (631,923)                        | (546,655)        |
| Decrease (increase) in other assets – current                                     | (9,431)                          | 4,269            |
| Decrease in other financial assets – non-current                                  | -                                | 24,933           |
| Total changes in operating assets   | 301,553                          | 423,387          |
| <b>Changes in operating liabilities</b>   |                                  |                  |
| Increase in accounts payable  | 231,404                          | 370,697          |
| Decrease in other payables and promotion fees payable                             | (238,646)                        | (231,432)        |
| Increase (decrease) in other payables – related parties                           | 173                              | (540)            |
| Increase (decrease) in other liabilities – current                                | 9,923                            | (15,376)         |
| Decrease in net defined benefit liability   | (64)                             | (8,960)          |
| Total changes in operating liabilities  | 2,790                            | 114,389          |
| Total changes in operating assets or liabilities                                  | 304,343                          | 537,776          |
| Total adjustments   | 321,290                          | 558,143          |
| Cash inflow generated from operating activities                                   | 550,139                          | 770,336          |
| Interest received   | 12,606                           | 9,640            |
| Interest paid   | -                                | (396)            |
| Income taxes paid   | (103,422)                        | (97,705)         |
| <b>Net cash flows from operating activities</b>                                   | 459,323                          | 681,875          |
| <b>Cash flows from investing activities:</b>                                      |                                  |                  |
| Acquisition of property, plant and equipment                                      | (68,864)                         | (18,786)         |
| Proceeds from disposal of property, plant and equipment                           | 1,998                            | 930              |
| Acquisition of intangible assets  | (5,903)                          | (2,799)          |
| Decrease in other financial assets – non-current                                  | 399                              | 16,871           |
| Decrease (increase) in other assets – non-current                                 | 4,530                            | (774)            |
| <b>Net cash flows used in investing activities</b>                                | (67,840)                         | (4,558)          |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>               | (21,625)                         | (49,713)         |
| <b>Increase in cash and cash equivalents</b>                                      | 369,858                          | 627,604          |
| <b>Cash and cash equivalents at beginning of period</b>                           | 2,372,718                        | 1,884,510        |
| <b>Cash and cash equivalents at end of period</b>                                 | <b>\$ 2,742,576</b>              | <b>2,512,114</b> |

See accompanying notes to financial statements.  
(With KPMG review report dated August 8, 2016)

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**Reviewed only, not audited in accordance with generally accepted auditing standards  
as of June 30, 2016 and 2015**

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**June 30, 2016 and 2015**

**(expressed in thousands of New Taiwan Dollars unless otherwise specified)**

**1. Company history**

MicroLife Corporation (the “Company”) was incorporated in November 1981 as a company limited by shares under the laws of the Republic of China (ROC). The consolidated financial statements comprise the Company and its subsidiaries (the “Group”). The major business activities of the Group are the manufacturing and sale of clinical medical thermometers, blood pressure monitors, and flexible heating products.

**2. Approval date and procedures of the consolidated financial statements**

The consolidated interim financial statements for the six months ended June 30, 2016 and 2015, were authorized for issuance by the board of directors on August 8, 2016.

**3. New standards, amendments and interpretations adopted**

(a) A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC as of the reporting date is as follows:

| <b>New standards, amendments and interpretations</b>   | <b>Effective date<br/>per IASB</b> |
|--|------------------------------------|
| Amendment to IFRS 10、IFRS 12 and IAS 28 “Investments : the exceptions to the consolidated statement apply” | January 1, 2016                    |
| Amendment to IFRS 11 “Accounting of joint operation equity”  | January 1, 2016                    |
| IFRS 14 “Control Deferred Accounts”  | January 1, 2016                    |
| Amendment to IAS 1 “Disclosure Initiative”   | January 1, 2016                    |
| Amendment to IAS 16 and IAS 38 “Acceptable depreciation and amortization methods”                          | January 1, 2016                    |
| Amendment to IAS 16 and IAS 41 “Agriculture productive plants”   | January 1, 2016                    |
| Amendment to IAS 19 “Defined benefit plans : employee contribution”  | July 1, 2014                       |
| Amendment to IAS 27 “The equity method of a separate financial statement”                                  | January 1, 2016                    |

**(Continued)**

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

| <b>New standards, amendments and interpretations</b>  | <b>Effective date per IASB</b> |
|---|--------------------------------|
| Amendment to IAS 36 “Disclosure of recoverable amount of non-Financial Assets”                                    | January 1, 2014                |
| Amendment to IAS 39 “Derivatives of the contract replacement and the continuing application of hedge accounting ” | January 1, 2014                |
| Year improved to 2010-2012 and 2011-2013 cycle  | July 1, 2014                   |
| Year improved to 2012-2014 International Financial Report   | January 1, 2016                |
| IFRS 21 “Public Courses”  | January 1, 2014                |

- (b) Newly released or amended standards and interpretations not yet endorsed by the FSC  
 A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC as of the end of reporting date is as follows: :

| <b>New, Revised or Amended Standards and Interpretations</b>   | <b>Effective date per IASB</b>          |
|--|---|
| IFRS 9 "Financial Instruments"   | January 1, 2018                         |
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture" | Effective date to be determined by IASB |
| IFRS 15 "Revenue from Contracts with Customers"  | January 1, 2018                         |
| IFRS 16 "Leases"   | January 1, 2019                         |
| Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"               | January 1, 2018                         |
| Amendment to IFRS 15 "Clarifications of IFRS 15"   | January 1, 2018                         |
| Amendment to IAS 7 "Disclosure Initiative"   | January 1, 2017                         |
| Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"   | January 1, 2017                         |

**(Continued)**

## MICROLIFE CORPORATION AND ITS SUBSIDIARIES

### Notes to Consolidated Financial Statements

The Group is still currently determining the potential impact of the standards listed below:

| Issuance / Release<br>Dates        | Standards or Interpretations                       | Content of amendment   |
|------------------------------------|--|--|
| May 28, 2014<br>April 12, 2016     | IFRS 15 "Revenue from<br>Contracts with Customers" | <p>IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations.</p> <p>Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.</p>  |
| November 19, 2013<br>July 24, 2014 | IFRS 9 "Financial Instruments"                     | <p>The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows:</p> <ul style="list-style-type: none"> <li>• Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income.</li> </ul> |

(Continued)



**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

| <b>Issuance / Release<br/>Dates</b> | <b>Standards or Interpretations</b>            | <b>Content of amendment</b>  |
|-------------------------------------|--|--|
| January 13, 2016                    | IFRS 16 "Leases"                               | <ul style="list-style-type: none"> <li>• Impairment: The expected credit loss model is used to evaluate impairment.</li> <li>• Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio</li> </ul> <p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> <li>• For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term.</li> <li>• A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</li> </ul> |
| January 29, 2016                    | Amendments to IAS 7<br>"Disclosure Initiative" | <p>The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.</p>   |

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

**(Continued)**

## MICROLIFE CORPORATION AND ITS SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### 4. Summary of significant accounting policies

##### (a) Statement of compliance

The consolidated interim financial statements have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and IAS 34 “Interim Financial Reporting” endorsed by the FSC. The consolidated interim financial statements do not include all the information required by the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to as the IFRSs endorsed by the FSC) for full annual consolidated financial statements.

Except for the accounting policies mentioned below, the significant accounting policies applied in the consolidated interim financial statements are consistent with those in the consolidated financial statements for the year ended December 31, 2015. Please refer to note 4 to the consolidated financial statements for the year ended December 31, 2015, for the related information.

##### (b) Basis of consolidation

Except for those stated in note 3, the principles of preparation of the consolidated interim financial statements are the same as those of the consolidated financial statements for the year ended December 31, 2015. Please refer to note 4(c) to the consolidated financial statements for the year ended December 31, 2015, for the related information.

##### (1) List of subsidiaries in the consolidated interim financial statements:

| Name of investor | Name of subsidiary                                       | Principal activity   | Shareholding  |                   |               | Note |
|------------------|--|--|---------------|-------------------|---------------|------|
|                  |  |  | June 30, 2016 | December 31, 2015 | June 30, 2015 |      |
| The Company      | Malacca International Corporation (Malacca)              | Investments in securities; export and import trading   | 100.00        | 100.00            | 100.00        | -    |
| Malacca          | Microlife Health Solutions Inc. (MHS)                    | Holding company  | 100.00        | 100.00            | 100.00        | -    |
| MHS              | Biddeford Blankets Limited Liability Corporation (BBLLC) | Manufacturing and selling of electronic blankets   | 100.00        | 100.00            | 100.00        | -    |
| MHS              | Microlife USA Inc. (ML USA)                              | Selling and marketing of clinical medical thermometers, blood pressure monitors, and flexible heating products | 100.00        | 100.00            | 100.00        | -    |
| MHS              | Microlife Medical Home Solutions Inc.(MiMHS)             | Health management platform   | 100.00        | 100.00            | 100.00        | -    |
| The Company      | Microlife European Holding AG (MLE Holding)              | Holding company  | 100.00        | 100.00            | 100.00        | -    |

(Continued)

## MICROLIFE CORPORATION AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

| Name of investor      | Name of subsidiary                          | Principal activity   | Shareholding  |                   |               | Note |
|-----------------------|---|--|---------------|-------------------|---------------|------|
|                       |   |  | June 30, 2016 | December 31, 2015 | June 30, 2015 |      |
| MLE Holding           | Microlife AG (ML AG)                        | Selling and marketing of clinical medical thermometers, blood pressure monitors, and flexible heating products | 100.00        | 100.00            | 100.00        | -    |
| MLE Holding           | Lifeware Rheintal AG (Lifeware AG)          | Health service business integration  | 100.00        | 100.00            | 100.00        | -    |
| MLE Holding           | Microlife Health Management Ltd. UK (ML UK) | Selling and marketing of clinical medical thermometers, blood pressure monitors, and flexible heating products | 100.00        | 100.00            | 100.00        | -    |
| MLE Holding           | Microlife France SA (ML France)             | Selling and marketing of clinical medical thermometers, blood pressure monitors, and flexible heating products | 100.00        | 100.00            | 100.00        | -    |
| MLE Holding           | UAB Microlife Vilnius (MLB)                 | Selling and marketing of clinical medical thermometers, blood pressure monitors, and flexible heating products | 100.00        | 100.00            | 100.00        | -    |
| MLE Holding           | Microlife Watch BP AG                       | Selling and marketing of clinical medical thermometers, blood pressure monitors, and flexible heating products | 99.00         | 99.00             | 99.00         | -    |
| MLE Holding           | Microlife Watch BP Solutions BV             | Selling and marketing of clinical medical thermometers, blood pressure monitors, and flexible heating products | 100.00        | 100.00            | 100.00        | -    |
| Microlife Watch BP AG | Microlife Watch BP GmbH                     | Selling and marketing of clinical medical thermometers, blood pressure monitors, and flexible heating products | -             | -                 | 100.00        | Note |
| The Company           | Procure Investments Pte. Ltd. (Procure)     | Holding company  | 100.00        | 100.00            | 100.00        | -    |

(Continued)

## MICROLIFE CORPORATION AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

| Name of investor | Name of subsidiary                                       | Principal activity   | Shareholding  |                   |               | Note |
|------------------|--|--|---------------|-------------------|---------------|------|
|                  |  |  | June 30, 2016 | December 31, 2015 | June 30, 2015 |      |
| Procure          | ONBO Electronic (Shenzhen) Co., Ltd. (Onbo)              | Manufacturing and selling of medical thermometers and blood pressure monitors                          | 100.00        | 100.00            | 100.00        | -    |
| Procure          | Cathay Electronic (Shenzhen) Co., Ltd. (Cathay)          | Manufacturing, Selling and marketing of medical thermometers and blood pressure monitors               | 100.00        | 100.00            | 100.00        | -    |
| Cathay           | Echeal International Trading (Shanghai) Co., Ltd. (Shin) | Selling and marketing of medical thermometers and blood pressure monitors                              | 100.00        | 100.00            | 100.00        | -    |
| Procure          | Ongain Electronic (Shenzhen) Co., Ltd. (Ongain)          | Manufacturing and selling of electronic blankets   | 100.00        | 100.00            | 100.00        | -    |
| Procure          | Ongoyuan Plastic (Shenzhen) Co. Ltd. (Ongoyuan)          | Plastic injection  | 100.00        | 100.00            | 100.00        | -    |
| The Company      | Microlife Manufacturing Holdings Pte. Ltd. (MMH)         | Holding company  | 100.00        | 100.00            | -             | -    |
| MMH              | Onwei Electronic (Anhui) Co., Ltd. (Onwei)               | Manufacturing and selling of electronic blankets   | 100.00        | 100.00            | -             | -    |
| The Company      | Cathay Holdings Corporation (Cathay Holdings)            | Holding company  | 100.00        | 100.00            | 100.00        | -    |
| Cathay Holdings  | Microlife American Trading Corporation (MATC)            | Sales and marketing of clinical medical thermometers, blood pressure monitors, and electronic blankets | 100.00        | 100.00            | 100.00        | -    |
| The Company      | Wholcare Biomedical Corporation (Wcare)                  | Manufacturing, selling and marketing of medical thermometers and blood pressure monitors               | 100.00        | 100.00            | 100.00        | -    |

Note: Microlife Watch BP GmbH was liquidated in 2015 and was excluded from the consolidated financial statements from the date that control ceased.

(Continued)

## MICROLIFE CORPORATION AND ITS SUBSIDIARIES

### Notes to Consolidated Financial Statements

(2) Subsidiaries excluded from the consolidated interim financial statements:

| Name of investor            | Name of subsidiary                       | Principal activity                              | Shareholding     |                      |                  | Note   |
|-----------------------------|--|---|------------------|----------------------|------------------|--------|
|                             |  |   | June 30,<br>2016 | December<br>31, 2015 | June 30,<br>2015 |        |
| The Company and MLE Holding | Microlife Intellectual Property AG (MIP) | Intellectual property management                | 100.00           | 100.00               | 100.00           | Note 1 |
| Cathay Holdings             | Microlife Service AG (ML Service)        | Research and development of medical instruments | 100.00           | 100.00               | 100.00           | Note 2 |

Note 1: The total assets of MIP at June 30, 2016, were 0.05% of the consolidated assets, and there were no operating revenues for the six months ended June 30, 2016. Thus, MIP was not included in the consolidated interim financial statements.

Note 2: The total assets of ML Service at June 30, 2016, were 0.02% of the consolidated assets, and there were no operating revenues for the six months ended June 30, 2016. Thus, ML Service was not included in the interim consolidated financial statements.

(c) Income taxes

The income tax expenses have been prepared and disclosed in accordance with paragraph B12 of International Financial Reporting Standard 34 “Interim Reporting”.

Income tax expenses for the period are best estimated by multiplying pre-tax income for the interim reporting period by the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period. Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rate that has been enacted or substantively enacted at the time the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

(d) Employee benefits

The pension cost in the consolidated interim financial statements was calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-time events.

**(Continued)**

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**5. Significant accounting assumptions and judgments, and major sources of estimation uncertainty**

The preparation of the consolidated interim financial statements in conformity with IAS 34 “Interim Financial Reporting” endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In the preparation of the consolidated interim financial statements, the significant accounting assumptions and judgments and major sources of estimation uncertainty are consistent with note 5 to the consolidated financial statements for the year ended December 31, 2015.

**6. Explanation of significant accounts**

Except for the following disclosures, there is no significant difference from those in the consolidated financial statements for the year ended December 31, 2015. For more information, please refer to note 6 to the consolidated financial statements for the year ended December 31, 2015.

(a) Cash and cash equivalents

|  | <u>June 30,<br/>2016</u> | <u>December 31,<br/>2015</u> | <u>June 30,<br/>2015</u> |
|--|--------------------------|------------------------------|--------------------------|
| Cash, checking accounts, and demand deposits         | \$ 1,577,577             | 1,878,047                    | 1,360,063                |
| Time deposits  | <u>1,164,999</u>         | <u>494,671</u>               | <u>1,152,051</u>         |
| Cash and cash equivalents in statement of cash flows | <u>\$ 2,742,576</u>      | <u>2,372,718</u>             | <u>2,512,114</u>         |

(b) Financial instruments

As of June 30, 2016, and December 31 and June 30, 2015, the financial instruments were as follows:

1. Available-for-sale financial assets – non-current:

|  | <u>June 30,<br/>2016</u> | <u>December 31,<br/>2015</u> | <u>June 30,<br/>2015</u> |
|--|--------------------------|------------------------------|--------------------------|
| Biotechnology Development Fund L.P.<br>(Biotechnology) | \$ -                     | -                            | 1,102                    |
| Inverness Medical Innovations, Inc.                    | -                        | -                            | 1,412                    |
| Cyber-Care Inc.  | -                        | -                            | <u>22</u>                |
|  | <u>\$ -</u>              | <u>-</u>                     | <u>2,536</u>             |

**(Continued)**

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

2. Financial assets measured at cost – non-current:

|   | <b>June 30,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>June 30,<br/>2015</b> |
|---|--------------------------|------------------------------|--------------------------|
| Taiwan Incubator SME Development Co.<br>(Incubator) | \$ 8,270                 | 8,270                        | 8,270                    |
| Yang Ling Biotechnology Co. Ltd.                    | 1,702                    | 1,702                        | 3,129                    |
| Tang An Medical Ltd.                                | -                        | -                            | 360                      |
|   | <b>\$ 9,972</b>          | <b>9,972</b>                 | <b>11,759</b>            |

None of the financial assets held by the Group were pledged or collateralized as of June 30, 2016, and December 31 and June 30, 2015.

3. Derivative financial instruments not qualified for hedge accounting

The Group entered into derivative contracts to manage exposures due to fluctuations of foreign exchange rates. As of June 30, 2016, and December 31 and June 30, 2015, derivative financial instruments not qualified for hedge accounting were as follows:

|                       | June 30, 2016                     |            |                    | December 31, 2015                 |            |                     | June 30, 2015                     |            |                      |
|-----------------------|-----------------------------------|------------|--------------------|-----------------------------------|------------|---------------------|-----------------------------------|------------|----------------------|
|                       | Contract amount<br>(in thousands) | Currency   | Maturity dates     | Contract amount<br>(in thousands) | Currency   | Maturity dates      | Contract amount<br>(in thousands) | Currency   | Maturity dates       |
| Forward exchange sold | <b>USD 12,000</b>                 | USD to RMB | 2016.9.9~2017.1.26 | <b>USD 13,000</b>                 | USD to RMB | 2016.1.4~2016.9.9   | <b>USD 24,500</b>                 | USD to RMB | 2015.9.18~2016.5.31  |
| Forward exchange sold | <b>EUR 1,000</b>                  | EUR to RMB | 2016.7.21~2016.9.2 | <b>EUR 4,000</b>                  | EUR to RMB | 2016.1.14~2016.5.10 | <b>EUR 4,500</b>                  | EUR to RMB | 2015.7.16~2015.12.11 |

As of June 30, 2016, and December 31 and June 30, 2015, the derivative financial instruments reported in the financial statements were as follows:

|  | <b>June 30,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>June 30,<br/>2015</b> |
|--|--------------------------|------------------------------|--------------------------|
| Financial assets at fair value through profit or loss – current      | \$ -                     | 932                          | 10,873                   |
| Financial liabilities at fair value through profit or loss – current | 6,790                    | 18,521                       | 1,493                    |

**(Continued)**

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(c) Notes and accounts receivable and other receivables

|   | <u>June 30,<br/>2016</u> | <u>December 31,<br/>2015</u> | <u>June 30,<br/>2015</u> |
|---|--------------------------|------------------------------|--------------------------|
| Notes receivable  | \$ 440                   | 15,689                       | 14,791                   |
| Accounts receivable   | 577,864                  | 1,560,512                    | 771,308                  |
| Other receivables   | 90,884                   | 83,302                       | 100,974                  |
| Other financial assets – non-current – doubtful<br>accounts     | 26,067                   | 26,067                       | 26,067                   |
| Less: allowance for impairment (including<br>doubtful accounts) | (49,373)                 | (50,108)                     | (42,756)                 |
| allowance for sales returns and allowances                      | (12,840)                 | (56,294)                     | (20,962)                 |
|   | <u>\$ 633,042</u>        | <u>1,579,168</u>             | <u>849,422</u>           |

The aging analysis of notes and accounts and other receivables which were past due but not impaired was as follows:

|                        | <u>June 30,<br/>2016</u> | <u>December 31,<br/>2015</u> | <u>June 30,<br/>2015</u> |
|------------------------|--------------------------|------------------------------|--------------------------|
| Overdue 1 to 60 days   | \$ 84,818                | 274,160                      | 100,978                  |
| Overdue 61 to 90 days  | 13,566                   | 29,600                       | 3,313                    |
| Overdue 91 to 120 days | 15,258                   | 1,988                        | 7,726                    |
| Overdue above 120 days | 14,000                   | 4,897                        | 3,136                    |
|                        | <u>\$ 127,642</u>        | <u>310,645</u>               | <u>115,153</u>           |

The movement in the allowance for notes and accounts receivable and other receivables was as follows:

|                              | <u>Individually<br/>assessed<br/>impairment</u> | <u>Collectively<br/>assessed<br/>impairment</u> | <u>Total</u>  |
|------------------------------|---|---|---------------|
| Balance at January 1, 2016   | \$ 27,698                                       | 22,410  | 50,108        |
| Impairment loss reversed     | -   | (456)   | (456)         |
| Foreign exchange adjustments | -   | (279)   | (279)         |
| Balance at June 30, 2016     | <u>\$ 27,698</u>                                | <u>21,675</u>                                   | <u>49,373</u> |

(Continued)



**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

|                              | <u>Individually<br/>assessed<br/>impairment</u> | <u>Collectively<br/>assessed<br/>impairment</u> | <u>Total</u>  |
|------------------------------|---|---|---------------|
| Balance at January 1, 2015   | \$ 26,067                                       | 15,989  | 42,056        |
| Impairment loss reversed     | -   | (425)   | (425)         |
| Foreign exchange adjustments | -   | 1,125   | 1,125         |
| Balance at June 30, 2015     | <u>\$ 26,067</u>                                | <u>16,689</u>                                   | <u>42,756</u> |

Details of allowance for impairment were as follows:

|  | <u>June 30,<br/>2016</u> | <u>June 30,<br/>2015</u> |
|--|--------------------------|--------------------------|
| Accounts receivable                                      | \$ 23,306                | 16,689                   |
| Other financial assets – non-current – doubtful accounts | <u>26,067</u>            | <u>26,067</u>            |
|  | <u>\$ 49,373</u>         | <u>42,756</u>            |

As of June 30, 2016 and 2015, the allowance recognized for individually assessed impairment arising from a customer's bankruptcy in the previous year amounted to \$26,067 thousand. The rest of the allowance for impaired receivables was assessed based on the default payment history of transaction parties and their current financial positions. Except for the impaired receivables, the Group believes that the past-due receivables are collectible based on the historical payment patterns and the financial position of the Group's customers.

None of the notes and accounts receivable and other receivables held by the Group were pledged as collateral as of June 30, 2016, and December 31, 2015 and June 30, 2015.

(d) Inventories

|                  | <u>June 30,<br/>2016</u> | <u>December 31,<br/>2015</u> | <u>June 30,<br/>2015</u> |
|------------------|--------------------------|------------------------------|--------------------------|
| Raw materials    | \$ 150,143               | 123,284                      | 199,686                  |
| Work in progress | 445,844                  | 189,929                      | 422,105                  |
| Finished goods   | <u>992,134</u>           | <u>642,985</u>               | <u>734,523</u>           |
|                  | <u>\$ 1,588,121</u>      | <u>956,198</u>               | <u>1,356,314</u>         |

(Continued)

## MICROLIFE CORPORATION AND ITS SUBSIDIARIES

### Notes to Consolidated Financial Statements

For the three months ended and the six months ended June 30, 2016 and 2015, cost of inventories recognized as cost of sales amounted to \$521,039 thousand · \$680,895 thousand · \$1,195,377 thousand and \$1,271,709 thousand, respectively. The cost of inventories for the write-downs (reversal) of inventories recognized as cost of sales was as follows:

|                                       | Three Months     |                 | Six Months     |                |
|---------------------------------------|------------------|-----------------|----------------|----------------|
|                                       | Ended June 30,   |                 | Ended June 30, |                |
|                                       | 2016             | 2015            | 2016           | 2015           |
| Write-downs (reversal) of inventories | \$ <u>15,913</u> | <u>(11,137)</u> | <u>24,868</u>  | <u>(7,313)</u> |

None of the inventories held by the Group were pledged as collateral as of June 30, 2016, and December 31 and June 30, 2015.

(e) Investments accounted for using equity method

The Group's investments accounted for using the equity method consisted of the following:

|              | June 30, 2016   | December 31, 2015 | June 30, 2015 |
|--------------|-----------------|-------------------|---------------|
| Subsidiaries | \$ <u>3,431</u> | <u>3,359</u>      | <u>3,566</u>  |

None of the investments accounted for using the equity method held by the Group was pledged as collateral as of June 30, 2016, and December 31 and June 30, 2015.

(f) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group for the six months ended June 30, 2016 and 2015 were as follows:

|                                       | Land             | Buildings and construction | Molding equipment | Machinery and other equipment | Construction in progress and equipment under installation | Total          |
|---------------------------------------|------------------|----------------------------|-------------------|-------------------------------|---|----------------|
| <b>Cost or deemed cost:</b>           |                  |                            |                   |                               |   |                |
| Balance at January 1, 2016            | \$ 87,346        | 326,786                    | 68,987            | 252,272                       | 33,958  | 769,349        |
| Additions                             | -                | 7,552                      | 3,588             | 14,913                        | 42,811  | 68,864         |
| Reclassification                      | -                | 76,450                     | -                 | (580)                         | (76,741)  | (871)          |
| Disposals                             | -                | -                          | (4,015)           | (10,467)                      | -   | (14,482)       |
| Effect of movements in exchange rates | -                | (5,873)                    | (725)             | (3,677)                       | (28)  | (10,303)       |
| Balance at June 30, 2016              | \$ <u>87,346</u> | <u>404,915</u>             | <u>67,835</u>     | <u>252,461</u>                | -   | <u>812,557</u> |
| Balance at January 1, 2015            | \$ 87,346        | 294,316                    | 95,562            | 250,948                       | -   | 728,172        |
| Additions                             | -                | 7,682                      | 3,789             | 7,315                         | -   | 18,786         |
| Reclassification                      | -                | -                          | -                 | (2)                           | -   | (2)            |
| Disposals                             | -                | (3,101)                    | (699)             | (372)                         | -   | (4,172)        |
| Effect of movements in exchange rates | -                | (5,946)                    | (1,709)           | (7,375)                       | -   | (15,030)       |
| Balance at June 30, 2015              | \$ <u>87,346</u> | <u>292,951</u>             | <u>96,943</u>     | <u>250,514</u>                | -   | <u>727,754</u> |

(Continued)

## MICROLIFE CORPORATION AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

|                                       | <u>Land</u>      | <u>Buildings and<br/>construction</u> | <u>Molding<br/>equipment</u> | <u>Machinery<br/>and other<br/>equipment</u> | <u>Construction<br/>in progress and<br/>equipment under<br/>installation</u> | <u>Total</u>   |
|---------------------------------------|------------------|---------------------------------------|------------------------------|--|--|----------------|
| <b>Depreciation:</b>                  |                  |                                       |                              |  |  |                |
| Balance at January 1, 2016            | \$ -             | 229,450                               | 48,363                       | 152,972                                      | -  | 430,785        |
| Depreciation                          | -                | 9,771                                 | 6,233                        | 14,040                                       | -  | 30,044         |
| Reclassification                      | -                | 669                                   | (669)                        | (522)  | -  | (522)          |
| Disposals                             | -                | -                                     | (4,015)                      | (7,938)                                      | -  | (11,953)       |
| Effect of movements in exchange rates | -                | (3,674)                               | (440)                        | (1,951)                                      | -  | (6,065)        |
| Balance at June 30, 2016              | <u>\$ -</u>      | <u>236,216</u>                        | <u>49,472</u>                | <u>156,601</u>                               | <u>-</u>   | <u>442,289</u> |
| Balance at January 1, 2015            | \$ -             | 204,265                               | 67,207                       | 143,971                                      | -  | 415,443        |
| Depreciation                          | -                | 10,528                                | 10,588                       | 12,857                                       | -  | 33,973         |
| Reclassification                      | -                | 748                                   | (748)                        | -  | -  | -              |
| Disposals                             | -                | (2,791)                               | (715)                        | 540  | -  | (2,966)        |
| Effect of movements in exchange rates | -                | (4,653)                               | (1,138)                      | (4,822)                                      | -  | (10,613)       |
| Balance at June 30, 2015              | <u>\$ -</u>      | <u>208,097</u>                        | <u>75,194</u>                | <u>152,546</u>                               | <u>-</u>   | <u>435,837</u> |
| <b>Carrying value:</b>                |                  |                                       |                              |  |  |                |
| Balance at January 1, 2016            | <u>\$ 87,346</u> | <u>97,336</u>                         | <u>20,624</u>                | <u>99,300</u>                                | <u>33,958</u>  | <u>338,564</u> |
| Balance at June 30, 2016              | <u>\$ 87,346</u> | <u>168,699</u>                        | <u>18,363</u>                | <u>95,860</u>                                | <u>-</u>   | <u>370,268</u> |
| Balance at January 1, 2015            | <u>\$ 87,346</u> | <u>90,051</u>                         | <u>28,355</u>                | <u>106,977</u>                               | <u>-</u>   | <u>312,729</u> |
| Balance at June 30, 2015              | <u>\$ 87,346</u> | <u>84,854</u>                         | <u>21,749</u>                | <u>97,968</u>                                | <u>-</u>   | <u>291,917</u> |

None of the property, plant and equipment of the Group was pledged as collateral as of June 30, 2016, and December 31 and June 30, 2015.

## (g) Intangible assets

|                            | <u>Goodwill</u>  | <u>Patents and others</u> | <u>Total</u>  |
|----------------------------|------------------|---------------------------|---------------|
| <b>Carrying value:</b>     |                  |                           |               |
| Balance at January 1, 2016 | \$ <u>21,353</u> | <u>13,546</u>             | <u>34,899</u> |
| Balance at June 30, 2016   | \$ <u>20,275</u> | <u>12,531</u>             | <u>32,806</u> |
| Balance at January 1, 2015 | \$ <u>19,148</u> | <u>41,961</u>             | <u>61,109</u> |
| Balance at June 30, 2015   | \$ <u>17,616</u> | <u>38,900</u>             | <u>56,516</u> |

For the six months ended June 30, 2016 and 2015, there were no significant additions, disposals, or recognition and reversal of impairment losses. For the amortization for the six months ended June 30, 2016 and 2015, please refer to note 12(a). For other related information, please refer to note 6(g) to the consolidated financial statements for the year ended December 31, 2015.

None of the intangible assets was pledged as collateral as of June 30, 2016, and December 31 and June 30, 2015.

(Continued)

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(h) Short-term borrowings

The short-term borrowings are summarized as follows:

|                         | <u>June 30, 2016</u> | <u>December 31, 2015</u> | <u>June 30, 2015</u> |
|-------------------------|----------------------|--------------------------|----------------------|
| Unsecured bank loans    | \$ <u>-</u>          | <u>-</u>                 | <u>-</u>             |
| Unused credit lines     | \$ <u>1,559,640</u>  | <u>1,566,686</u>         | <u>1,542,259</u>     |
| Range of interest rates | <u>-</u>             | <u>-</u>                 | <u>-</u>             |

(i) Operating lease

Non-cancellable operating lease rentals payable were as follows:

|                            | <u>June 30,<br/>2016</u> | <u>December 31,<br/>2015</u> | <u>June 30,<br/>2015</u> |
|----------------------------|--------------------------|------------------------------|--------------------------|
| Less than one year         | \$ 94,443                | 48,071                       | 43,372                   |
| Between one and five years | 64,804                   | 35,112                       | 8,588                    |
| Over five years            | <u>-</u>                 | <u>-</u>                     | <u>91</u>                |
|                            | <u>\$ 159,247</u>        | <u>83,183</u>                | <u>52,051</u>            |

The Group leases a number of office, warehouse and factory facilities under operating leases.

For the three months and the six months ended June 30, 2016 and 2015, the operating lease expenses were \$24,492 thousand, \$14,443 thousand, \$44,267 thousand and \$33,287 thousand, respectively.

The warehouse and factory leases were entered into as combined leases of land and buildings. The rent paid to the landlord is increased to market rent at regular intervals, and the Group does not participate in the residual value of the land and buildings. As a result, it was determined that substantially all the risks and rewards of the land and buildings are with the landlord. The Group determined that the land and building elements of the warehouse and factory leases are operating leases.

(j) Employee benefits

Except for the Company and ML AG applying defined benefit plans, the subsidiaries apply defined contribution plans and contribute to the schemes in accordance with local government regulations. The contributions to defined contribution plans are charged to pension expense.

**(Continued)**

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

1. Defined benefit plans

Management believes that there was no significant volatility of the market or any significant reimbursement, settlement, or other one-time event since the prior fiscal year. As a result, the pension cost in the consolidated interim financial statements was measured and disclosed according to the actuarial report as of December 31, 2015 and 2014.

Expense recognized in profit or loss of the Group was as follows:

|                    | <b>Three Months</b>   |              | <b>Six Months</b>     |              |
|--------------------|-----------------------|--------------|-----------------------|--------------|
|                    | <b>Ended June 30,</b> |              | <b>Ended June 30,</b> |              |
|                    | <b>2016</b>           | <b>2015</b>  | <b>2016</b>           | <b>2015</b>  |
| Operating expenses | \$ <u>2,087</u>       | <u>1,449</u> | <u>3,825</u>          | <u>3,100</u> |

2. Defined contribution plans

The Group's pension costs under the defined contribution pension plans for the three months and the six months ended June 30, 2016 and 2015 were as follows, and the Group made defined benefit plan contributions to the institution designated by local government.

|                    | <b>Three Months</b>     |                      | <b>Six Months</b>     |                      |
|--------------------|-------------------------|----------------------|-----------------------|----------------------|
|                    | <b>Ended June 30,</b>   |                      | <b>Ended June 30,</b> |                      |
|                    | <b>2016</b>             | <b>2015</b>          | <b>2016</b>           | <b>2015</b>          |
| Cost of sales      | \$ 11,648               | 11,320               | 20,880                | 19,745               |
| Operating expenses | <u>5,573</u>            | <u>4,102</u>         | <u>10,913</u>         | <u>9,069</u>         |
|                    | <b>\$ <u>17,221</u></b> | <b><u>15,422</u></b> | <b><u>31,793</u></b>  | <b><u>28,814</u></b> |

(k) Income tax

1. Income tax expense

The components of income tax expense were as follows:

|                            | <b>Three Months</b>   |               | <b>Six Months</b>     |               |
|----------------------------|-----------------------|---------------|-----------------------|---------------|
|                            | <b>Ended June 30,</b> |               | <b>Ended June 30,</b> |               |
|                            | <b>2016</b>           | <b>2015</b>   | <b>2016</b>           | <b>2015</b>   |
| Current income tax expense | \$ <u>41,610</u>      | <u>29,700</u> | <u>65,907</u>         | <u>49,607</u> |

(Continued)

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The amount of income tax recognized in other comprehensive income was as follows:

|  | <b>Three Months</b>   |                | <b>Six Months</b>     |                 |
|--|-----------------------|----------------|-----------------------|-----------------|
|  | <b>Ended June 30,</b> |                | <b>Ended June 30,</b> |                 |
|  | <b>2016</b>           | <b>2015</b>    | <b>2016</b>           | <b>2015</b>     |
| Items that may be reclassified subsequently to profit or loss: |                       |                |                       |                 |
| Exchange differences on translation of foreign operations      | \$ <u>(361)</u>       | <u>(1,640)</u> | <u>(4,482)</u>        | <u>(10,095)</u> |

2. Except for 2011, the Company's income tax returns have been examined and approved by the ROC tax authorities through 2013.

3. Information related to the imputation credit account is summarized below:

|   | <b>June 30,</b>     | <b>December 31,</b>         | <b>June 30,</b>            |
|---|---------------------|-----------------------------|----------------------------|
|   | <b>2016</b>         | <b>2015</b>                 | <b>2015</b>                |
| Unappropriated earnings of 1998 and after                   | \$ <u>1,031,973</u> | <u>1,373,916</u>            | <u>890,193</u>             |
| Balance of imputation credit account (ICA)                  | \$ <u>254,220</u>   | <u>165,783</u>              | <u>224,370</u>             |
|   |                     | <b><u>2015 (Actual)</u></b> | <b><u>2014(Actual)</u></b> |
| Creditable ratio for earnings distribution to ROC residents |                     | <u>18.50%</u>               | <u>18.25%</u>              |

The above information about the ICA was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance of the R.O.C. on October 17, 2013.

(l) Capital and other equity

Except for the following disclosures, there were no significant changes in capital and other equity for the six-month periods ended June 30, 2016 and 2015. For the related information, please refer to note 6(m) to the consolidated financial statements for the year ended December 31, 2015.

**(Continued)**

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

1. Capital surplus

The balances of capital surplus were as follows:

|                                      | <b>June 30,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>June 30,<br/>2015</b> |
|--------------------------------------|--------------------------|------------------------------|--------------------------|
| Surplus arising from bond conversion | \$ <u>276,960</u>        | <u>276,960</u>               | <u>276,960</u>           |

According to the ROC Company Act amended in January 2012, realized capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. Realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the “Regulations Governing the Offering and Issuance of Securities by Securities Issuers”, a capital increase by transferring paid-in capital in excess of par value should not exceed 10% of the total common stock outstanding.

2. Retained earnings

According to the Company’s articles of incorporation, 10% of annual net profit after tax is to be set aside as legal reserve after offsetting prior years’ deficits, if any. Also, a special reserve could be retained when necessary. Annual net profit after tax, after offsetting prior years’ deficit and deducting legal reserve and special reserve, plus the beginning undistributed earnings was accounted for as accumulated distributable earnings. Due to the growth stage of the Company’s operations and in consideration of its future operating demands, capital expenditure, and long-term financial structure, the distribution of earnings is proposed by the board of directors and approved by the stockholders at their annual meeting. The dividends to shareholders cannot be lower than 20% of accumulated distributable earnings. The Company should set aside the following items accordingly:

(i) Legal reserve

According to the amendment of the ROC Company Act announced in January 2012, the Company must retain 10% of its after-tax annual profit as legal reserve until such retention equals the amount of total capital. When the Company incurs no loss, it may, pursuant to a resolution by a shareholders’ meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

(ii) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other shareholders’ equity. Similarly,

**(Continued)**

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

(iii) Earnings distribution

On June 29, 2016, the shareholder's meeting resolved to appropriate the 2015 earnings. On June 30, 2015, the shareholders' meeting resolved to distribute the 2014 earnings. The relevant dividend distributions to the shareholders were as follows:

|      | 2015                |                | 2014                |                |
|------|---------------------|----------------|---------------------|----------------|
|      | Amount<br>per share | Total amount   | Amount<br>per share | Total amount   |
| Cash | \$ 4.00             | <b>439,988</b> | 4.00                | <b>439,988</b> |

3. Other equity (net of tax)

|                            | <b>Exchange differences<br/>on translation of<br/>foreign operations</b> |
|----------------------------|--|
| Balance at January 1, 2016 | \$ 48,375  |
| Group                      | (21,882)   |
| Balance at June 30, 2016   | <b>\$ 26,493</b>   |
| Balance at January 1, 2015 | \$ 20,617  |
| Group                      | (49,289)   |
| Balance at June 30, 2015   | <b>\$ (28,672)</b>   |

(m) Earnings per share

1. Basic earnings per share

|  | Three Months<br>Ended June 30, |                | Six Months<br>Ended June 30, |                |
|--|--------------------------------|----------------|------------------------------|----------------|
|  | 2016                           | 2015           | 2016                         | 2015           |
| Profit attributable to ordinary shareholders           | \$ <u>87,444</u>               | <u>74,515</u>  | <u>162,873</u>               | <u>162,586</u> |
| Weighted-average number of ordinary shares outstanding | <u>109,997</u>                 | <u>109,997</u> | <u>109,997</u>               | <u>109,997</u> |
| <b>Basic earnings per share</b>                        | <b>\$ 0.79</b>                 | <b>0.68</b>    | <b>1.48</b>                  | <b>1.48</b>    |

(Continued)



**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

2. Diluted earnings per share

|  | <b>Three Months</b>   |                    | <b>Six Months</b>     |                    |
|--|-----------------------|--------------------|-----------------------|--------------------|
|  | <b>Ended June 30,</b> |                    | <b>Ended June 30,</b> |                    |
|  | <b>2016</b>           | <b>2015</b>        | <b>2016</b>           | <b>2015</b>        |
| Profit attributable to ordinary shareholders (diluted)           | \$ <u>87,444</u>      | <u>74,515</u>      | <u>162,873</u>        | <u>162,586</u>     |
| Weighted-average number of ordinary shares outstanding           | 109,997               | 109,997            | 109,997               | 109,997            |
| Effect of employee bonus   | <u>73</u>             | <u>127</u>         | <u>134</u>            | <u>254</u>         |
| Weighted-average number of ordinary shares outstanding (diluted) | <u>110,070</u>        | <u>110,124</u>     | <u>110,131</u>        | <u>110,251</u>     |
| <b>Diluted earnings per share</b>                                | <b>\$ <u>0.79</u></b> | <b><u>0.68</u></b> | <b><u>1.48</u></b>    | <b><u>1.47</u></b> |

(n) Employee compensation and directors' and supervisors' remuneration

In accordance with the Company's articles of incorporation, the Company should contribute no less than 1.5% of the profit as employee compensation and less than 1.5% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit.

The Company estimated the employee compensation amounting to \$3,000 thousand and \$6,000 thousand, respectively, and the directors' and supervisors' remuneration amounting to \$1,787 thousand and \$3,075 thousand, respectively, for the three months and the six months ended June 30, 2016. These amounts were calculated by using the Company's pre-tax net profit for the period before deducting the amount of the employee compensation and directors' and supervisors' remuneration multiplied by the distribution ratio under the Company's articles of incorporation, and expensed under operating expenses for each period. The differences between the actual amounts approved in the shareholders' meeting and the estimated amounts in the financial statements, if any, are accounted for as changes in accounting estimates and recognized in profit or loss in the following year.

The Company estimated the employee compensation amounting to \$2,750 thousand and \$5,500 thousand, respectively, and the directors' and supervisors' remuneration amounting to \$756 thousand and \$1,512 thousand, respectively, for the three months and the six months ended June 30, 2015. These amounts were calculated by using the Company's net profit after income tax for the period and multiplied by the distribution ratio of compensation to employee and remuneration to directors' and supervisors' under the Company's articles of incorporation, and the estimated are recognized as operating expenses for each period.

**(Continued)**

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

For the year ended December 31, 2015, the employee remunerations and directors' and supervisors' remunerations amounted to \$12,500 thousand and \$6,720 thousand, respectively. There was no difference between the actual emoluments to the directors' and supervisors' and the recognized amount in 2016 and 2015. The related information can be accessed through the Market Observation Post System web site.

(o) Revenue

The details of revenue for the three months and six months ended June 30, 2016 and 2015 were as follows:

|               | <b>Three Months</b>   |                  | <b>Six Months</b>     |                  |
|---------------|-----------------------|------------------|-----------------------|------------------|
|               | <b>Ended June 30,</b> |                  | <b>Ended June 30,</b> |                  |
|               | <b>2016</b>           | <b>2015</b>      | <b>2016</b>           | <b>2015</b>      |
| Sale of goods | \$ <u>957,192</u>     | <u>1,085,323</u> | <u>2,026,420</u>      | <u>2,077,263</u> |

(p) Other gains and losses

The details of other gains and losses for the three months and six month ended June30, 2016 and 2015, were as follows:

|   | <b>Three Months</b>    |                        | <b>Six months</b>     |                        |
|---|------------------------|------------------------|-----------------------|------------------------|
|   | <b>Ended June 30,</b>  |                        | <b>Ended June 30,</b> |                        |
|   | <b>2016</b>            | <b>2015</b>            | <b>2016</b>           | <b>2015</b>            |
| Foreign exchange gains (losses), \$ net                                       | 3,529                  | (17,346)               | (25,294)              | (42,293)               |
| Net gains (losses) on financial assets and liabilities measured at fair value | (5,312)                | (4,868)                | 10,799                | 8,040                  |
| Others  | <u>4,852</u>           | <u>1,729</u>           | <u>9,917</u>          | <u>4,852</u>           |
|   | \$ <u><u>3,069</u></u> | <u><u>(20,485)</u></u> | <u><u>(4,578)</u></u> | <u><u>(29,401)</u></u> |

(q) Financial instruments

Except for those mentioned below, there was no significant change in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk, and exchange rate risk arising from financial instruments. For the related information, please refer to note 6(r) to the consolidated financial statements for year ended in December 31, 2015.

1. Credit risk

The major customers of the Group are retailers. The Company periodically evaluates the possibility of collecting accounts receivable and recognizes an allowance for doubtful receivables. Bad debt expense has always been under management's expectation.

**(Continued)**

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

2. Liquidity risk

The following table shows the contractual maturities of financial liabilities, including the estimated interest payments and excluding the impact of netting agreements.

|                                      | <u>Carrying<br/>amount</u> | <u>Contractual<br/>cash flow</u> | <u>Within 6<br/>months</u> | <u>6~12 months</u> | <u>1~2 years</u> | <u>2~5 years</u> | <u>Over 5 years</u> |
|--------------------------------------|----------------------------|----------------------------------|----------------------------|--------------------|------------------|------------------|---------------------|
| <b>June 30, 2016</b>                 |                            |                                  |                            |                    |                  |                  |                     |
| Non-derivative financial liabilities |                            |                                  |                            |                    |                  |                  |                     |
| Accounts payable and other payables  | \$ 2,038,759               | (2,038,759)                      | (2,038,759)                | -                  | -                | -                | -                   |
| Derivative financial liabilities     |                            |                                  |                            |                    |                  |                  |                     |
| Forward exchange contracts:          |                            |                                  |                            |                    |                  |                  |                     |
| Outflow                              | 6,790                      | (426,088)                        | (263,021)                  | (163,067)          | -                | -                | -                   |
| Inflow                               | -                          | 419,298                          | 259,246                    | 160,052            | -                | -                | -                   |
|                                      | <u>\$ 2,045,549</u>        | <u>(2,045,549)</u>               | <u>(2,042,534)</u>         | <u>(3,015)</u>     | <u>-</u>         | <u>-</u>         | <u>-</u>            |
| <b>December 31, 2015</b>             |                            |                                  |                            |                    |                  |                  |                     |
| Non-derivative financial liabilities |                            |                                  |                            |                    |                  |                  |                     |
| Accounts payable and other payables  | \$ 1,605,840               | (1,605,840)                      | (1,605,840)                | -                  | -                | -                | -                   |
| Derivative financial liabilities     |                            |                                  |                            |                    |                  |                  |                     |
| Forward exchange contracts:          |                            |                                  |                            |                    |                  |                  |                     |
| Outflow                              | 17,589                     | (576,928)                        | (476,002)                  | (100,926)          | -                | -                | -                   |
| Inflow                               | -                          | 559,339                          | 460,749                    | 98,590             | -                | -                | -                   |
|                                      | <u>\$ 1,623,429</u>        | <u>(1,623,429)</u>               | <u>(1,621,093)</u>         | <u>(2,336)</u>     | <u>-</u>         | <u>-</u>         | <u>-</u>            |
| <b>June 30, 2015</b>                 |                            |                                  |                            |                    |                  |                  |                     |
| Non-derivative financial liabilities |                            |                                  |                            |                    |                  |                  |                     |
| Accounts payable and other payables  | \$ 2,102,979               | (2,102,979)                      | (2,102,979)                | -                  | -                | -                | -                   |
| Derivative financial liabilities     |                            |                                  |                            |                    |                  |                  |                     |
| Forward exchange contracts:          |                            |                                  |                            |                    |                  |                  |                     |
| Outflow                              | -                          | (917,284)                        | (700,616)                  | (216,668)          | -                | -                | -                   |
| Inflow                               | (9,380)                    | 926,664                          | 710,202                    | 216,462            | -                | -                | -                   |
|                                      | <u>\$ 2,093,599</u>        | <u>(2,093,599)</u>               | <u>(2,093,393)</u>         | <u>(206)</u>       | <u>-</u>         | <u>-</u>         | <u>-</u>            |

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

**(Continued)**

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

3. Exchange rate risk

The Group's significant exposure to foreign currency risk was as follows:

|                              | June 30, 2016       |                  |           | December 31, 2015   |                  |           | June 30, 2015       |                  |           |
|------------------------------|---------------------|------------------|-----------|---------------------|------------------|-----------|---------------------|------------------|-----------|
|                              | Foreign<br>currency | Exchange<br>rate | NTD       | Foreign<br>currency | Exchange<br>rate | NTD       | Foreign<br>currency | Exchange<br>rate | NTD       |
| <u>Financial assets</u>      |                     |                  |           |                     |                  |           |                     |                  |           |
| <u>Monetary items</u>        |                     |                  |           |                     |                  |           |                     |                  |           |
| USD                          | 79,337              | 32.28            | 2,561,011 | 78,887              | 32.82            | 2,589,223 | 70,797              | 30.94            | 2,190,680 |
| CNY                          | 89,828              | 4.86             | 436,439   | 121,964             | 5.00             | 616,525   | 148,122             | 4.99             | 738,611   |
| EUR                          | 5,915               | 35.89            | 212,282   | 4,364               | 35.86            | 156,480   | 5,966               | 34.57            | 206,202   |
| <u>Financial liabilities</u> |                     |                  |           |                     |                  |           |                     |                  |           |
| <u>Monetary items</u>        |                     |                  |           |                     |                  |           |                     |                  |           |
| USD                          | 37,421              | 32.28            | 1,207,938 | 34,176              | 32.82            | 1,121,710 | 33,975              | 30.94            | 1,051,284 |
| CNY                          | 187,142             | 4.86             | 909,246   | 139,787             | 5.06             | 706,622   | 198,793             | 4.99             | 991,279   |
| EUR                          | 324                 | 35.89            | 11,637    | 489                 | 35.86            | 17,545    | 809                 | 34.57            | 27,957    |

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, accounts payable and other payables. A strengthening (weakening) of 1% of the NTD against the USD, EUR, and CNY as of June 30, 2016 and 2015, would have increased (decreased) the net profit after tax by \$8,972 thousand and \$8,839 thousand, respectively. The analysis is performed on the same basis for both periods.

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For the three months and the six months ended June 30, 2016 and 2015, foreign exchange gain (loss) (included realized and unrealized) amounted to \$3,529 thousand、\$(17,346) thousand、\$(25,294) thousand and \$(42,293) thousand, respectively.

4. Fair value

(i) Categories and fair value of financial instruments

The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy, were as follows; however, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that have no quoted prices in an active market and whose fair value cannot be reliably measured, disclosure of fair value information is not required.

**(Continued)**

## MICROLIFE CORPORATION AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

|   | June 30, 2016     |            |         |         |        |
|---|-------------------|------------|---------|---------|--------|
|   | Book Value        | Fair Value |         |         | Total  |
|   |                   | Level 1    | Level 2 | Level 3 |        |
| <b>Financial liabilities at fair value through profit or loss</b> |                   |            |         |         |        |
| Derivative financial liabilities                                  | \$ 6,790          | -          | 6,790   | -       | 6,790  |
|   |                   |            |         |         |        |
|   | December 31, 2015 |            |         |         |        |
|   | Book Value        | Fair Value |         |         | Total  |
|   |                   | Level 1    | Level 2 | Level 3 |        |
| <b>Financial assets at fair value through profit or loss</b>      |                   |            |         |         |        |
| Derivative financial assets                                       | \$ 932            | -          | 932     | -       | 932    |
| <b>Financial liabilities at fair value through profit or loss</b> |                   |            |         |         |        |
| Derivative financial liabilities                                  | 18,521            | -          | 18,521  | -       | 18,521 |
|   |                   |            |         |         |        |
|   | June 30, 2015     |            |         |         |        |
|   | Book Value        | Fair Value |         |         | Total  |
|   |                   | Level 1    | Level 2 | Level 3 |        |
| <b>Financial assets at fair value through profit or loss</b>      |                   |            |         |         |        |
| Derivative financial assets                                       | \$ 10,873         | -          | 10,873  | -       | 10,873 |
| <b>Available-for-sale financial assets</b>                        |                   |            |         |         |        |
| Stocks in listed companies  | 1,434             | 2,997      | -       | -       | 2,997  |
| Unquoted equity instruments                                       | 1,102             | -          | -       | 1,102   | 1,102  |
| Subtotal  | 2,536             | 2,997      | -       | 1,102   | 4,099  |
| <b>Financial liabilities at fair value through profit or loss</b> |                   |            |         |         |        |
| Derivative financial liabilities                                  | 1,493             | -          | 1,493   | -       | 1,493  |

## (ii) Valuation techniques for financial instruments not measured at fair value

## A. Non-derivative financial instruments

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the bid-ask spreads are very wide, or only small volumes are traded. Determining whether a market is active involves judgment.

Except for the aforementioned financial instruments, the fair value of financial instruments is determined by using valuation techniques or the quoted price from a counterparty. Fair value measured by a valuation technique can be extrapolated from similar financial instruments, the discounted cash flow method, or other valuation techniques including a model using observable market data at the consolidated balance sheet date.

(Continued)

## MICROLIFE CORPORATION AND ITS SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### B. Derivative financial instruments

Measurement of the fair value of derivative instruments is based on the valuation techniques generally accepted by market participants. Fair value of a forward exchange contract is usually determined by the forward currency exchange rate.

There were no transfers in either direction of fair value hierarchy for the six months ended June 30, 2016 and 2015.

#### (r) Financial risk management

There were no significant changes in the Group's financial risk management and policies from those disclosed in note 6(s) to the consolidated financial statements for the year ended December 31, 2015.

#### (s) Capital management

Management believes that the objectives, policies and processes of capital management of the Group have been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2015. Please refer to note 6(t) to the consolidated financial statements for the year ended December 31, 2015, for further details.

The Group's debt-to-equity ratios at the end of the reporting periods were as follows:

|                                 | <u>June 30,</u><br><u>2016</u> | <u>December 31,</u><br><u>2015</u> | <u>June 30,</u><br><u>2015</u> |
|---------------------------------|--------------------------------|------------------------------------|--------------------------------|
| Total liabilities               | \$ 2,363,808                   | 1,973,492                          | 2,358,325                      |
| Less: cash and cash equivalents | <u>(2,742,576)</u>             | <u>(2,372,718)</u>                 | <u>(2,512,114)</u>             |
| Net debt                        | <u>\$ (378,768)</u>            | <u>(399,226)</u>                   | <u>(153,789)</u>               |
| Total equity                    | <u>\$ 3,151,155</u>            | <u>3,450,152</u>                   | <u>2,889,382</u>               |
| <b>Debt-to-equity ratio</b>     | <u>- %</u>                     | <u>- %</u>                         | <u>- %</u>                     |

## 7. Related-party transactions

#### (a) Significant transactions with related parties

Related-party payables

| <u>Account</u> | <u>Relationship</u> | <u>June 30,</u><br><u>2016</u> | <u>December 31,</u><br><u>2015</u> | <u>June 30,</u><br><u>2015</u> |
|----------------|---------------------|--------------------------------|------------------------------------|--------------------------------|
| Other payables | Subsidiaries        | <u>\$ 176</u>                  | <u>3</u>                           | <u>17</u>                      |

(Continued)

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(b) Key management personnel compensation

Key management personnel compensation comprised:

|                              | <b>Three Months</b>   |               | <b>Six Months</b>     |               |
|------------------------------|-----------------------|---------------|-----------------------|---------------|
|                              | <b>Ended June 30,</b> |               | <b>Ended June 30,</b> |               |
|                              | <b>2016</b>           | <b>2015</b>   | <b>2016</b>           | <b>2015</b>   |
| Short-term employee benefits | \$ <u>19,375</u>      | <u>15,751</u> | <u>34,378</u>         | <u>27,553</u> |

**8. Pledged assets**

The carrying value of the Group pledged assets were as follows:

| <b>Pledged assets</b>                                  | <b>Object</b>      | <b>June 30,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>June 30,<br/>2015</b> |
|--|--------------------|--------------------------|------------------------------|--------------------------|
| Other financial assets —<br>non-current — time deposit | Purchase guarantee | \$ 6,647                 | 6,709                        | 6,325                    |
| Other financial assets —<br>non-current — time deposit | Customs guarantee  | <u>8,719</u>             | <u>9,043</u>                 | <u>36,981</u>            |
|  |                    | <b>\$ <u>15,366</u></b>  | <b><u>15,752</u></b>         | <b><u>43,306</u></b>     |

**9. Significant commitments and contingencies**

(a) The Group issued promissory notes to the banks to apply for facilities for borrowings, the purchase of material, customs guarantee, and forward contracts. The promissory notes issued were as follows:

|                         | <b>June 30,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>June 30,<br/>2015</b> |
|-------------------------|--------------------------|------------------------------|--------------------------|
| Promissory notes issued | \$ <u>1,641,670</u>      | <u>1,641,670</u>             | <u>1,641,670</u>         |

(b) The Group entered into licensing agreements for the development of new business (blood pressure monitor for atrial fibrillation). The Group was obligated to pay a royalty in due course upon the development and commercialization of the product.

(c) On October 1, 2015, Exergen Corporation filed a lawsuit against the Company for infringing their patent in the United States District Court for the District of Massachusetts. The Company has engaged attorneys to process the lawsuit, and the Company does not expect a material impact on the Company's business operations.

**(Continued)**

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**10. Significant casualty loss: None.**

**11. Significant subsequent events: None.**

**12. Others**

(a) The Group's personnel, depreciation, and amortization expenses, categorized by function, were as follows:

|                            | Three Months Ended June 30, |                    |         |               |                    |         |
|----------------------------|-----------------------------|--------------------|---------|---------------|--------------------|---------|
|                            | 2016                        |                    |         | 2015          |                    |         |
|                            | Cost of sales               | Operating expenses | Total   | Cost of sales | Operating expenses | Total   |
| Personnel expenses         |                             |                    |         |               |                    |         |
| Salaries                   | 165,232                     | 131,222            | 296,454 | 215,763       | 102,330            | 318,093 |
| Labor and health insurance | 4,121                       | 7,787              | 11,908  | 5,113         | 5,551              | 10,664  |
| Pension                    | 11,648                      | 7,660              | 19,308  | 11,320        | 5,551              | 16,871  |
| Others                     | 6,160                       | 5,834              | 11,994  | 4,563         | 7,122              | 11,685  |
| Depreciation               | 7,299                       | 8,437              | 15,736  | 6,900         | 9,717              | 16,617  |
| Amortization               | 93                          | 3,367              | 3,460   | 1,050         | 1,442              | 2,492   |

|                            | Six Months Ended June 30, |                    |         |               |                    |         |
|----------------------------|---------------------------|--------------------|---------|---------------|--------------------|---------|
|                            | 2016                      |                    |         | 2015          |                    |         |
|                            | Cost of sales             | Operating expenses | Total   | Cost of sales | Operating expenses | Total   |
| Personnel expenses         |                           |                    |         |               |                    |         |
| Salaries                   | 271,869                   | 243,801            | 515,670 | 310,964       | 213,916            | 524,880 |
| Labor and health insurance | 7,119                     | 16,999             | 24,118  | 7,850         | 22,942             | 30,792  |
| Pension                    | 20,880                    | 14,738             | 35,618  | 19,745        | 12,169             | 31,914  |
| Others                     | 9,831                     | 11,121             | 20,952  | 7,180         | 14,733             | 21,913  |
| Depreciation               | 14,066                    | 15,978             | 30,044  | 14,508        | 19,465             | 33,973  |
| Amortization               | 222                       | 6,382              | 6,604   | 2,069         | 2,853              | 4,922   |

(b) The Group's electronic blanket segment is subject to seasonal fluctuations as a result of weather conditions. The sales of electronic blankets are concentrated in the second half of the year. Therefore, this segment typically has higher revenues and net profit in the second half of the year.

**(Continued)**



## MICROLIFE CORPORATION AND ITS SUBSIDIARIES

### Notes to Consolidated Financial Statements

- (c) Pursuant to a resolution of stockholders at the annual meeting on June 24, 2011, the Company decided to spin off its professional medical business to Wcare, a newly established subsidiary of the Company. The original spin-off date was to be September 1, 2011, and the spin-off value was \$95,000 thousand. Pursuant to a resolution of stockholders at the annual meeting on June 20, 2013, the spin-off was postponed for two years due to changes in the current status of the Group, and it was proposed that the Board of Directors further discuss the matter based on future operations.

Due to changes in the environment and adjustments to operating strategy, the Company decided to terminate the above-mentioned spin-off pursuant to a resolution of stockholders at the annual meeting on June 30, 2015.

### 13. Other disclosures

- (a) Information on significant transactions

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group for the six months ended June 30, 2016:

- (1) Financing provided to other parties:

(In Thousands of New Taiwan Dollars)

| No. | Name of lender                       | Name of borrower                       | Account name                      | Related party | Highest balance of financing to other parties during the period | Ending balance | Actual usage amount during the period | Range of interest rates during the period | Nature for Financing (Note 1) | Transaction amount for business between two parties | Reasons for short-term financing | Allowance for bad debt | Collateral |       | Individual funding loan limits | Maximum limit of fund financing |
|-----|--------------------------------------|--|-----------------------------------|---------------|---|----------------|---------------------------------------|---|-------------------------------|---|----------------------------------|------------------------|------------|-------|--------------------------------|---------------------------------|
|     |                                      |  |                                   |               |   |                |                                       |   |                               |   |                                  |                        | Item       | Value |                                |                                 |
| 1   | ONBO Electronic (Shenzhen) Co., Ltd. | Cathay Electronic (Shenzhen) Co., Ltd. | Other receivables-related parties | Y             | 29,697  | 29,080         | 29,080                                | 3%  | 2                             | -   | Business turnover                | -                      | N          | -     | 352,736                        | 352,736                         |

Note: The total amount for lending to a company for funding for a short-term period shall not exceed 40% of the net worth of ONBO (Shenzhen). The total amount lendable for each entity shall not exceed 40% of the net worth of ONBO (Shenzhen). In addition, when there is a lending for funding needs by the subsidiaries of the Company to the other subsidiaries, which are not located in Taiwan, directly or indirectly wholly owned by the Company, the total amount lendable to any subsidiary borrower shall be no more than 40% of the lender's net worth and the lender's capital amount.

Note 1: Nature of financing: type 2 for short-term financing purpose

(Continued)

## MICROLIFE CORPORATION AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (2) Guarantees and endorsements provided to other parties:

| No. | Name of guarantor | Counter-party of guarantee and endorsement |  | Limitation on amount of guarantees and endorsements for a specific enterprise | Highest balance for guarantees and endorsements during the period | Balance of guarantees and endorsements as of reporting date | Actual usage amount during the period | Property pledged for guarantees and endorsements (Amount) | Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements | Maximum amount for guarantees and endorsements | Parent company endorsements/ guarantees to third parties on behalf of subsidiary | Subsidiary endorsements/ guarantees to third parties on behalf of parent company | Endorsements/ guarantees to third parties on behalf of companies in Mainland China |
|-----|-------------------|--|--|---|---|---|---------------------------------------|---|---|--|--|--|--|
|     |                   | Name                                       | Relationship with the Company (Note 1) |   |   |   |                                       |   |   |  |  |  |  |
| 0   | The Company       | Malacca                                    | 1 - 2                                  | 3,150,871   | 1,103,448   | 774,720   | -                                     | -   | 24.59%  | 3,150,871                                      | Y  | -  | -  |
| 0   | The Company       | Ongoyuan                                   | 2                                      | 3,150,871   | 6,843   | 6,647   | 6,647                                 | 6,647   | 0.21%   | 3,150,871                                      | Y  | -  | Y  |
| 0   | The Company       | Onwei                                      | 1 - 2                                  | 3,150,871   | 17,323  | 16,963  | 16,963                                | -   | 0.54%   | 3,150,871                                      | Y  | -  | Y  |

Note: The aggregate endorsement / guarantee amount provided to the subsidiaries directly owned over 50% by the Company and individual guarantee parties shall not exceed the most recent net worth of the Company.

Note 1: Relationship between endorsement / guarantee provider and the guarantee party is as follows:

- 1 The Company has transactions with the counterparty.
- 2 The Company holds more than 50% of ordinary shares of the subsidiary.
- 3 The Company and its subsidiaries hold more than 50% of the ordinary shares of the investee.
- 4 The parent company holds more than 50% of the company's outstanding ordinary shares directly or indirectly through a subsidiary.
- 5 Companies in same type of business and providing mutual endorsements / guarantees in favor of each other in accordance with the contractual obligations in order to fulfill the needs of the construction project.
- 6 Shareholders making endorsements / guarantees for their mutually invested company in proportion to their shareholding percentage.

## (3) Securities held as of June 30, 2016 (excluding investment in subsidiaries, associates and joint ventures):

| Name of company | Category and name of security                | Relationship with company | Account name                                      | Ending balance |                |                           |            | Note |
|-----------------|--|---------------------------|---|----------------|----------------|---------------------------|------------|------|
|                 |  |                           |   | Shares         | Carrying value | Percentage of ownership % | Fair value |      |
| The Company     | Stock – Taiwan Incubator SME Development Co. | -                         | Financial assets measured at cost – non-current   | 1,212,640      | 8,270          | 1.72%                     | -          | -    |
| The Company     | Stock – Yang Lin Biotechnology Co. Ltd.      | -                         | Financial assets measured at cost – non-current   | 648,000        | 1,702          | 18.00%                    | -          | -    |
| The Company     | Stock – Biotechnology Development Fund L.P.  | -                         | Available-for-sale financial assets – non-current | -              | -              | 1.77%                     | -          | -    |
| Cathay Holdings | Stock – Inverness Medical Innovations, Inc.  | -                         | Available-for-sale financial assets – non-current | 1,653          | -              | 0.002%                    | -          | -    |
| Cathay Holdings | Stock – Cyber Care Inc.                      | -                         | Available-for-sale financial assets – non-current | 14,078         | -              | 0.012%                    | -          | -    |
| Cathay Holdings | Stock – Tang An Medical Ltd.                 | -                         | Financial assets measured at cost – non-current   | 100,000        | -              | 1.81%                     | -          | -    |

(4) Securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the Company's capital stock: None.

(5) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the Company's capital stock: None.

(Continued)

## MICROLIFE CORPORATION AND ITS SUBSIDIARIES

### Notes to Consolidated Financial Statements

(6) Disposal of individual real estate exceeding the lower of NT\$300 million or 20% of the Company's capital stock: None.

(7) Related-party transactions for purchase and sale with amount exceeding NT\$100 million or 20% of the Company's capital stock:

| Name of company | Related party | Nature of relationship | Transaction details |           |                                     |               | Transactions with terms different from others |                           | Notes/Accounts receivable (payable) |   | Note                    |
|-----------------|---------------|------------------------|---------------------|-----------|-------------------------------------|---------------|---|---------------------------|-------------------------------------|---|-------------------------|
|                 |               |                        | Purchase/Sale       | Amount    | Percentage of total purchases/sales | Payment terms | Unit price                                    | Payment terms             | Ending balance                      | Percentage of total notes/accounts receivable (payable) |                         |
| The Company     | MATC          | Fellow subsidiary      | Sales               | (696,786) | 40 %                                | Note 1        | Note 2  | Note 2                    | 212,517                             | 36 %  |                         |
| The Company     | ML AG         | Fellow subsidiary      | Sales               | (150,166) | 9 %                                 | 60-90 days    | 3%~4% lower than third-party customers        | No significant difference | 48,405                              | 8 %   |                         |
| The Company     | Malacca       | Parent / Subsidiary    | Purchases           | 1,514,689 | 97 %                                | Net 45 days   | Note 3  | Note 3                    | (836,286)                           | 95 %  |                         |
| MATC            | MLU           | Fellow subsidiary      | Sales               | (436,137) | 63 %                                | 60-90 days    | 7%~10% lower than third-party customers       | No significant difference | 287,400                             | 100 %   |                         |
| Malacca         | Onbo          | Fellow subsidiary      | Purchases           | 1,221,711 | 80 %                                | Net 45 days   | Note 4  | Note 4                    | (1,020,904)                         | 97 %  |                         |
| Malacca         | Ongain        | Fellow subsidiary      | Purchases           | 260,077   | 17 %                                | Net 45 days   | Note 4  | Note 4                    | 148,908                             | -   | Prepayment for purchase |

Note 1: Regarding the electronic blankets the Company sells to MATC, the payment term is 30~180 days due to the seasonal effect on electronic blankets. The payment term for other products is 60~90 days or adjusted based on the capital demands of the counter-party.

Note 2: The Company sells the electronic blankets and medical instruments to the Americas through MATC. Thus, the sales price and transaction terms are not comparable to those of third-party customers.

Note 3: The products the Company purchases from Malacca are different from third-party vendors, and the purchase price and transaction terms are not comparable to those of third-party vendors.

Note 4: The products Malacca purchases from Onbo and Ongain are different from third-party vendors, and the purchase price and transaction term are not comparable to those of third-party vendors.

Note 5: The above transactions between parent and subsidiary are eliminated when preparing the consolidated interim financial statements.

(8) Receivables from related parties with amount exceeded NT\$100 million or 20% of the Company's capital stock:

| Name of company | Related party | Nature of relationship | Ending balance | Turnover days | Overdue |                  | Amount received in subsequent period (Note 1) | Allowance for bad debts |
|-----------------|---------------|------------------------|----------------|---------------|---------|------------------|---|-------------------------|
|                 |               |                        |                |               | Amount  | Action taken     |   |                         |
| The Company     | MATC          | Fellow subsidiary      | 212,517        | 2.20          | 123,957 | Under collection | 112,980                                       | -                       |
| MATC            | MLU           | Fellow subsidiary      | 287,400        | 2.83          | 80,785  | Under collection | 43,679  | -                       |
| Onbo            | Malacca       | Fellow subsidiary      | 1,020,904      | 2.47          | 592,835 | Under collection | 169,751                                       | -                       |
| Malacca         | The Company   | Parent / Subsidiary    | 836,286        | 3.69          | 172,931 | Under collection | 289,554                                       | -                       |

Note 1: The amount was received as of August 5, 2016.

Note 2: The above transactions between parent and subsidiary are eliminated when preparing the consolidated interim financial statements.

(9) Trading in derivative financial instruments: Please refer to note 6(b)(3).

(Continued)

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(10) Business relationships and significant inter-company transactions:

| No.<br>(Note 1) | Name of company | Name of counter-party | Nature of relationship | Transactions details                |           |                           |  |
|-----------------|-----------------|-----------------------|------------------------|-------------------------------------|-----------|---------------------------|--|
|                 |                 |                       |                        | Account                             | Amount    | Trading terms             | Percentage of consolidated total revenue or total assets |
| 0               | The Company     | ML AG                 | 1                      | Sales                               | 150,166   | 60~90 days                | 7.00%  |
| 0               | The Company     | ML AG                 | 1                      | Accounts receivable – related party | 48,405    | 60~90 days                | 1.00%  |
| 0               | The Company     | Malacca               | 1                      | Purchases                           | 1,514,689 | Net 45 days               | 71.00%   |
| 0               | The Company     | Malacca               | 1                      | Accounts payable – related party    | 836,286   | Net 45 days               | 15.00%   |
| 0               | The Company     | MATC                  | 1                      | Sales                               | 696,786   | Note 1                    | 33.00%   |
| 0               | The Company     | MATC                  | 1                      | Accounts receivable – related party | 212,517   | Note 1                    | 4.00%  |
| 0               | The Company     | Onwei                 | 1                      | Purchases                           | 43,352    | Net 45 days               | 2.00%  |
| 0               | The Company     | Onwei                 | 1                      | Accounts payable – related party    | 42,671    | Net 45 days               | 1.00%  |
| 0               | The Company     | MLB                   | 1                      | Sales                               | 23,376    | 75 days                   | 1.00%  |
| 1               | Malacca         | Onbo                  | 1                      | Purchases                           | 1,221,711 | Net 45 days               | 57.00%   |
| 1               | Malacca         | Onbo                  | 1                      | Accounts payable – related party    | 1,020,904 | Net 45 days               | 19.00%   |
| 1               | Malacca         | Ongain                | 1                      | Prepayment for purchases            | 148,908   | Net 45 days               | 3.00%  |
| 1               | Malacca         | Ongain                | 1                      | Purchases                           | 260,077   | Net 45 days               | 12.00%   |
| 1               | Malacca         | Onwei                 | 1                      | Accounts receivable – related party | 34,198    | Net 45 days               | 1.00%  |
| 1               | Malacca         | Onwei                 | 1                      | Sales                               | 33,952    | Net 45 days               | 2.00%  |
| 2               | ML USA          | BBLLC                 | 1                      | Other receivables – related party   | 50,645    | Depend on capital demands | 1.00%  |
| 2               | ML USA          | MATC                  | 1                      | Purchase                            | 436,137   | Note 1                    | 20.00%   |
| 2               | ML USA          | MATC                  | 1                      | Accounts payable – related party    | 287,400   | Note 1                    | 5.00%  |
| 3               | BBLLC           | MATC                  | 1                      | Prepayment for purchases            | 195,638   | Note 1                    | 4.00%  |
| 3               | BBLLC           | MHS                   | 1                      | Other receivables – related party   | 60,156    | Depend on capital demands | 1.00%  |
| 4               | Onbo            | Cathay                | 1                      | Accounts receivable – related party | 77,335    | 60~90 days                | 1.00%  |
| 4               | Onbo            | Cathay                | 1                      | Other receivables – related party   | 31,771    | Depend on capital demands | 1.00%  |

Note 1: The Company sells the electronic blankets and medical instruments to the Americas through MATC. Thus, the sales price and transaction terms are not comparable to those of third-party customers.

Note 2: The above transactions between parent and subsidiary are eliminated when preparing the consolidated interim financial statements.

**(Continued)**

## MICROLIFE CORPORATION AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

(b) Information on investees (excluding information on investees in Mainland China)

The following is the information on investees for the six months ended June 30, 2016:

| Name of investor            | Name of investee      | Location               | Main business and products  | Original investment amount         |                                    | Balance as of June 30, 2016 |                           |                | Net income (losses) of investee | Share of profit (losses) of investee | Note |
|-----------------------------|-----------------------|------------------------|---|------------------------------------|------------------------------------|-----------------------------|---------------------------|----------------|---------------------------------|--------------------------------------|------|
|                             |                       |                        |   | June 30, 2016                      | December 31, 2015                  | Shares                      | Percentage of ownership % | Carrying value |                                 |                                      |      |
| The Company                 | MLE Holding           | Switzerland            | Holding company   | 244,774                            | 244,774                            | 809,585                     | 100.00%                   | 184,785        | (12,822)                        | (12,822)                             | 2    |
| MLE Holding                 | ML AG                 | Switzerland            | Sales and marketing of medical instrument   | 105,977<br>(EUR 2,953 thousand)    | 105,889<br>(EUR 2,953 thousand)    | 507,880                     | 100.00%                   | 136,243        | (16,483)                        | (16,483)                             |      |
| MLE Holding                 | ML UK                 | UK                     | Selling and marketing of medical instruments  | 21,605<br>(EUR 602 thousand)       | 21,587<br>(EUR 602 thousand)       | 453,999                     | 100.00%                   | 2,941          | 516                             | 516                                  |      |
| MLE Holding                 | Lifeware AG           | Switzerland            | Health service business integration   | 11,771<br>(EUR 328 thousand)       | 11,761<br>(EUR 328 thousand)       | 50,000                      | 100.00%                   | 21,277         | 851                             | 851                                  |      |
| MLE Holding                 | MIP                   | Switzerland            | Intellectual property management  | 36<br>(EUR 1 thousand)             | 36<br>(EUR 1 thousand)             | 1                           | 5.00%                     | 25             | 8                               | -                                    |      |
| MLE Holding                 | ML France             | France                 | Selling and marketing of medical instruments  | 29,320<br>(EUR 817 thousand)       | 29,296<br>(EUR 817 thousand)       | 1,702                       | 100.00%                   | 23,621         | 1,652                           | 1,652                                |      |
| MLE Holding                 | MLB                   | Lithuania              | Selling and marketing of medical instruments  | 1,794<br>(EUR 50 thousand)         | 1,793<br>(EUR 50 thousand)         | 172,500                     | 100.00%                   | 46,491         | 497                             | 497                                  |      |
| MLE Holding                 | ML NLD                | Netherlands            | Selling and marketing of medical instruments  | 1,794<br>(EUR 50 thousand)         | 1,793<br>(EUR 50 thousand)         | 50,000                      | 100.00%                   | 3,066          | 465                             | 465                                  |      |
| MLE Holding                 | Microlife Watch BP AG | Switzerland            | Selling and marketing of medical instruments  | 32,227<br>(EUR 898 thousand)       | 32,200<br>(EUR 898 thousand)       | 132,660                     | 99.00%                    | 988            | (2)                             | (1)                                  |      |
| The Company                 | Procare               | Singapore              | Investments in securities; export and import trading                                  | 171,852                            | 171,852                            | 12,068,425                  | 100.00%                   | 1,099,669      | 30,135                          | 28,375                               | 2    |
| The Company                 | MMH                   | Singapore              | Investments in securities; export and import trading                                  | 194,639                            | 194,639                            | 6,000,000                   | 100.00%                   | 188,189        | (6,620)                         | (6,620)                              | 2    |
| The Company                 | Malacca               | British Virgin Islands | Investments in securities; export and import trading                                  | 453,015                            | 453,015                            | 7,562,522                   | 100.00%                   | 341,301        | (54,286)                        | (56,715)                             | 2    |
| Malacca                     | MHS                   | USA                    | Holding company   | 1,558,478<br>(USD 48,280 thousand) | 1,584,696<br>(USD 48,280 thousand) | 6,023                       | 100.00%                   | 332,818        | (66,867)                        | (66,867)                             |      |
| MHS                         | BLLC                  | USA                    | Selling and marketing of electronic blankets  | 763,131<br>(USD 23,641 thousand)   | 775,945<br>(USD 23,641 thousand)   | 590,000                     | 100.00%                   | 200,994        | (58,354)                        | (58,354)                             |      |
| MHS                         | ML USA                | USA                    | Selling and marketing of medical instruments  | 463,541<br>(USD 14,360 thousand)   | 471,324<br>(USD 14,360 thousand)   | 71,800                      | 100.00%                   | 215,156        | (7,302)                         | (7,302)                              |      |
| MHS                         | MiMHS                 | USA                    | Health management platform  | 106,524<br>(USD 3,300 thousand)    | 108,313<br>(USD 3,300 thousand)    | 13,975,000                  | 100.00%                   | 36,846         | 115                             | 115                                  |      |
| The Company                 | Cathay Holdings       | Cayman Islands         | Holding company   | 71,895                             | 71,895                             | 1,971,704                   | 100.00%                   | 16,328         | (310)                           | (310)                                | 2    |
| Cathay Holdings             | ML Service            | Switzerland            | Research and development of clinical medical thermometers and blood pressure monitors | 6,056                              | 6,056                              | 2,200                       | 100.00%                   | 1,222          | (9)                             | (9)                                  |      |
| Cathay Holdings             | MATC                  | Cayman Islands         | Selling and marketing of clinical medical thermometers and blood pressure monitors    | 41,742                             | 41,742                             | 1,350,000                   | 100.00%                   | 13,048         | (162)                           | (162)                                |      |
| The Company and MLE Holding | MIP                   | Switzerland            | Intellectual property management  | 398                                | 398                                | 19                          | 95.00%                    | 2,184          | 8                               | 8                                    | 1    |
| The Company                 | Wcare                 | Taiwan                 | Manufacturing, selling and marketing of medical instruments                           | 5,000                              | 5,000                              | 500,000                     | 100.00%                   | 6,099          | (355)                           | (355)                                | 1    |

(Continued)

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Note 1: Investee controlled by the Company but immaterial to the Group.

Note 2: Investee controlled by the Company but significant to the Group.

Note 3: The above transactions between parent and subsidiary are eliminated when preparing the consolidated interim financial statements.

(c) Information on investment in Mainland China

(1) The names of investees in Mainland China, their main business and products, and related information

| Name of investee | Main business and products  | Total amount of paid-in capital              | Method of investment | Accumulated outflow of investment from Taiwan as of January 1, 2016 | Investment flows               |                                | Accumulated outflow of investment from Taiwan as of June 30, 2016 | Net income (losses) of the investee | Percentage of ownership | Investment income (losses) | Carrying value | Accumulated remittance of earnings in 2016 |
|------------------|---|--|----------------------|---|--------------------------------|--------------------------------|---|-------------------------------------|-------------------------|----------------------------|----------------|--|
|                  |   |  |                      |   | Outflow                        | Inflow                         |   |                                     |                         |                            |                |  |
| ONBO             | Manufacturing and selling of clinical medical thermometers and blood pressure monitors            | 352,736<br>(HKD 87,028 thousand)<br>(Note 1) | (Note 3)             | 113,722<br>(USD 3,846 thousand)                                     | -                              | 86,970<br>(USD 2,928 thousand) | 26,752<br>(USD 918 thousand)                                      | 52,720                              | 100.00%                 | 52,720                     | 1,107,239      | 86,970<br>(USD 2,928 thousand)             |
| Cathay           | Manufacturing, selling and marketing of clinical medical thermometers and blood pressure monitors | 6,999<br>(USD 200 thousand)                  | (Note 3)             | 6,999<br>(USD 200 thousand)   | -                              | -                              | 6,999<br>(USD 200 thousand)                                       | (14,858)                            | 100.00%                 | (14,858)                   | (18,313)       | -  |
| Ongain           | Manufacturing and selling of electronic blankets  | 67,743<br>(USD 2,000 thousand)<br>(Note)     | (Note 3)             | 33,871<br>(USD 1,000 thousand)                                      | -                              | -                              | 33,871<br>(USD 1,000 thousand)                                    | (42,162)                            | 100.00%                 | (12,082)                   | 8,745          | -  |
| Ongoyuan         | Plastic injection   | 28,659<br>(USD 1,000 thousand)               | (Note 3)             | 28,659<br>(USD 1,000 thousand)                                      | -                              | -                              | 28,659<br>(USD 1,000 thousand)                                    | 4,868                               | 100.00%                 | 4,868                      | 27,622         | -  |
| Shin             | Selling and marketing of clinical medical thermometers and blood pressure monitors                | 11,555<br>(RMB 3,536 thousand)               | (Note 4)             | (Note 2)  | -                              | -                              | (Note 2)  | (3,363)                             | 100.00%                 | (3,363)                    | 7,060          | -  |
| Onwei            | Manufacturing and selling of electronic blankets  | 175,957<br>(USD 5,400 thousand)              | (Note 3)             | 91,694<br>(USD 2,800 thousand)                                      | 84,263<br>(USD 2,600 thousand) | -                              | 175,957<br>(USD 5,400 thousand)                                   | (21,327)                            | 100.00%                 | (5,222)                    | 153,075        | -  |

Note: The paid-in capital of Ongain arose from the issuance of ordinary shares by transferring the cash dividends ONBO paid to Procure amounting to USD 1,000 thousand.

Note 1: HKD 57,000 thousand of the total paid-in capital arose from the issuance of ordinary shares by transferring retained earnings of ONBO. The capital increase was authorized by and registered with the government authorities.

Note 2: The investment of RMB 3,536 thousand was made directly by Cathay.

Note 3: Indirect investment in Mainland China through a holding company established in another country.

Note 4: Direct investment in Mainland China.

**(Continued)**

**MICROLIFE CORPORATION AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(2) Limitation on investment in Mainland China

| <b>Accumulated investment<br/>in Mainland China as of<br/>June 30, 2016<br/>(Note 1)(Note 2)</b> | <b>Investment amount authorized by<br/>Investment Commission, MOEA<br/>(Note 1)(Note 2)</b> | <b>Upper limit on investment</b> |
|--|---|----------------------------------|
| 272,238<br>(USD 8,518 thousand)  | 512,081<br>(USD 8,518 thousand and<br>HKD 57,000 thousand)                                  | 1,890,523                        |

Note1: Accumulated investment in Mainland China amounts denominated in foreign currencies are translated into New Taiwan Dollars using the historical exchange rates at the financial report date.

Note2: ONBO Electronic (Shenzhen) Co., Ltd. remitted its surplus in December 2014 to its investment company Procure and remitted it back to the Company through Procure in December 2015 through capital reduction and capital repayment. The Investment Commission, MOEA, No. 10500061950 to be filed on April 20, 2016, the repatriation of shares and used to offset the amount of the company's mainland investment

(3) Significant transactions

The significant inter-company transactions with the subsidiaries in Mainland China, which were eliminated in the preparation of the consolidated financial statements, are disclosed in "Information on significant transactions".

**(Continued)**

## MICROLIFE CORPORATION AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 14. Segment information

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

| <b>Three Months Ended<br/>June 30, 2016</b> | <b>Medical<br/>instruments</b> | <b>Electronic<br/>blankets</b> | <b>Adjustments<br/>and<br/>elimination</b> | <b>Total</b>   |
|---|--------------------------------|--------------------------------|--|----------------|
| <b>Revenue</b>                              |                                |                                |  |                |
| Revenue from external customers             | \$ <u>934,925</u>              | <u>22,267</u>                  | <u>-</u>                                   | <u>957,192</u> |
| <b>Segment income or loss</b>               | (Note 1)                       | (Note 1)                       | (Note 1)                                   | (Note 1)       |
| <b>Segment total asset</b>                  | (Note 1)                       | (Note 1)                       | (Note 1)                                   | (Note 1)       |

| <b>Three Months Ended<br/>June 30, 2015</b> | <b>Medical<br/>instruments</b> | <b>Electronic<br/>blankets</b> | <b>Adjustments<br/>and<br/>elimination</b> | <b>Total</b>     |
|---|--------------------------------|--------------------------------|--|------------------|
| <b>Revenue</b>                              |                                |                                |  |                  |
| Revenue from external customers             | \$ <u>1,026,498</u>            | <u>58,825</u>                  | <u>-</u>                                   | <u>1,085,323</u> |
| <b>Segment income or loss</b>               | (Note 1)                       | (Note 1)                       | (Note 1)                                   | (Note 1)         |
| <b>Segment total asset</b>                  | (Note 1)                       | (Note 1)                       | (Note 1)                                   | (Note 1)         |

Note 1: The Group did not disclose the amount of segment income or loss and total assets due to the fact that the related information was not provided to the chief operating decision maker.

| <b>Six Months Ended<br/>June 30, 2016</b> | <b>Medical<br/>instruments</b> | <b>Electronic<br/>blankets</b> | <b>Adjustments<br/>and<br/>elimination</b> | <b>Total</b>     |
|---|--------------------------------|--------------------------------|--|------------------|
| <b>Revenue</b>                            |                                |                                |  |                  |
| Revenue from external customers           | \$ <u>1,944,464</u>            | <u>81,956</u>                  | <u>-</u>                                   | <u>2,026,420</u> |
| <b>Segment income or loss</b>             | (Note 1)                       | (Note 1)                       | (Note 1)                                   | (Note 1)         |
| <b>Segment total asset</b>                | (Note 1)                       | (Note 1)                       | (Note 1)                                   | (Note 1)         |

| <b>Six Months Ended<br/>June 30, 2015</b> | <b>Medical<br/>instruments</b> | <b>Electronic<br/>blankets</b> | <b>Adjustments<br/>and<br/>elimination</b> | <b>Total</b>     |
|---|--------------------------------|--------------------------------|--|------------------|
| <b>Revenue</b>                            |                                |                                |  |                  |
| Revenue from external customers           | \$ <u>1,971,207</u>            | <u>106,056</u>                 | <u>-</u>                                   | <u>2,077,263</u> |
| <b>Segment income or loss</b>             | (Note 1)                       | (Note 1)                       | (Note 1)                                   | (Note 1)         |
| <b>Segment total asset</b>                | (Note 1)                       | (Note 1)                       | (Note 1)                                   | (Note 1)         |

Note 1: The Group did not disclose the amount of segment income or loss and total assets due to the fact that the related information was not provided to the chief operating decision maker.

(Continued)