TAIFLEX SCIENTIFIC COMPANY LIMITED

PARENT COMPANY ONLY FINANCIAL STATEMENTS

For the Years Ended December 31, 2017 and 2016

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Notice to readers

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

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TAIFLEX SCIENTIFIC COMPANY LIMITED
PARENT COMPANY ONLY BALANCE SHEETS
December 31, 2017 and 2016
(In Thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2017	December 31, 2016
Current assets			
Cash and cash equivalents	4, 6(1)	$ 1,230,607	$ 2,574,444
Financial assets at fair value through profit or loss, current	4, 6(2)	16,721	22,802
Notes receivable, net	4, 6(3)	9,858	7,344
Accounts receivable, net	4, 6(4)	498,477	407,495
Accounts receivable – related parties	6(4), 7	1,543,450	1,111,868
Other receivables		39,256	38,926
Other receivables – related parties	7	1,057,967	577,261
Inventories, net	4, 6(5)	752,378	520,989
Prepayments		28,674	27,536
Other current assets	8	24,025	23,776
Total current assets		5,201,413	5,312,441
Non-current assets			
Financial assets carried at cost, non-current	4, 6(6)	-	-
Investments accounted for under the equity method	4, 6(7)	2,514,071	2,068,159
Property, plant and equipment	4, 6(8)	2,039,184	1,936,821
Intangible assets	4, 6(9)	45,372	36,897
Deferred income tax assets	4, 6(21)	99,874	126,425
Other non-current assets	4, 6(10)	10,755	11,248
Total non-current assets		4,709,256	4,179,550
Total assets		$ 9,910,669	$ 9,491,991

(The accompanying notes are an integral part of the parent company only financial statements.)

(Continued)

TAIFLEX SCIENTIFIC COMPANY LIMITED
PARENT COMPANY ONLY BALANCE SHEETS-(Continued)
December 31, 2017 and 2016
(In Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	December 31, 2017	December 31, 2016
Current liabilities			
Short-term loans	6(11)	$ -	$ 4,287
Financial liabilities at fair value through profit or loss, current	4, 6(12)	4,036	-
Accounts payable		1,574,207	1,342,665
Accounts payable – related parties	7	64,273	15,327
Other payables		533,921	482,576
Other payables – related parties	7	11,880	5,680
Current income tax liabilities	4, 6(21)	94,979	83,657
Current portion of long-term loans		19,091	-
Other current liabilities		1,922	2,038
Total current liabilities		2,304,309	1,936,230
Non-current liabilities			
Long-term loans	6(13)	119,091	541,321
Deferred income tax liabilities	4, 6(21)	176,294	159,115
Net defined benefit liabilities, non-current	4, 6(14)	184,124	190,276
Total non-current liabilities		479,509	890,712
Total liabilities		2,783,818	2,826,942
Equity			
Capital	6(15)		
Common stock		2,087,802	2,083,252
Capital collected in advance		665	-
Capital surplus	6(15)	1,441,339	1,407,558
Retained earnings			
Legal capital reserve		742,131	684,163
Special capital reserve		102,158	102,158
Unappropriated earnings		2,845,730	2,561,335
Total retained earnings		3,690,019	3,347,656
Others	4	(92,974)	(74,673)
Treasury stocks		-	(98,744)
Total equity		7,126,851	6,665,049
Total liabilities and equity		$ 9,910,669	$ 9,491,991

(Concluded)

(The accompanying notes are an integral part of the parent company only financial statements.)

TAIFLEX SCIENTIFIC COMPANY LIMITED
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2017 and 2016
(In Thousands of New Taiwan Dollars)

	Notes	2017	2016
Net revenue	4, 6(17), 7	$ 7,383,077	$ 6,712,397
Cost of revenue	4, 6(5), 6(19), 7	(5,884,638)	(5,407,622)
Gross profit		1,498,439	1,304,775
Realized sales profit or loss		8,945	2,899
Gross profit, net		1,507,384	1,307,674
Operating expenses	4, 6(19)		
Sales and marketing expenses		(203,557)	(179,888)
General and administrative expenses		(290,052)	(220,384)
Research and development expenses		(241,537)	(197,110)
Total operating expenses		(735,146)	(597,382)
Operating income		772,238	710,292
Non-operating income and expenses	6(20)		
Other income		39,164	155,718
Other gains and losses		(52,185)	(122,424)
Finance costs		(17,427)	(20,825)
Share of profit or loss of subsidiaries and associates under the equity method	4, 6(7)	161,428	316
Total non-operating income and expenses		130,980	12,785
Income before income tax		903,218	723,077
Income tax expense	4, 6(21)	(168,629)	(143,399)
Net income of continuing operations		734,589	579,678
Net income		734,589	579,678
Other comprehensive income (loss)	6(20)		
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit obligation		24,130	(72,083)
Income tax benefit (expense) related to components of other comprehensive income that will not be reclassified subsequently		(4,102)	12,254
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(22,050)	(163,913)
Income tax benefit (expense) related to components of other comprehensive income that may be reclassified subsequently to profit or loss	6(21)	3,749	27,865
Total other comprehensive income, net of tax		1,727	(195,877)
Total comprehensive income		$ 736,316	$ 383,801
Earnings per share (NT$)	4, 6(22)		
Earnings per share - basic		$ 3.55	$ 2.81
Earnings per share - diluted		$ 3.53	$ 2.79

(The accompanying notes are an integral part of the parent company only financial statements.)

TAIFLEX SCIENTIFIC COMPANY LIMITED

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2017 and 2016

(In Thousands of New Taiwan Dollars)

				Retained Earnings			Others		
	Common Stock	Capital Collected in Advance	Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Treasury Stocks	Total Equity
Balance as of January 1, 2016	$ 2,042,858	$ -	$ 1,447,952	$ 611,177	$ 102,158	$ 2,518,408	$ 61,375	$ (98,744)	$ 6,685,184
Appropriation and distribution of 2015 earnings									
Legal capital reserve				72,986		(72,986)			-
Cash dividends for common stocks						(403,936)			(403,936)
Changes in other capital surplus									
Stock dividends from capital surplus	40,394	-	(40,394)						-
Net income for the year ended December 31, 2016						579,678			579,678
Other comprehensive income (loss) for the year ended December 31, 2016						(59,829)	(136,048)		(195,877)
Total comprehensive income	-	-	-	-	-	519,849	(136,048)	-	383,801
Balance as of December 31, 2016	2,083,252	-	1,407,558	684,163	102,158	2,561,335	(74,673)	(98,744)	6,665,049
Appropriation and distribution of 2016 earnings									
Legal capital reserve				57,968		(57,968)			-
Cash dividends for common stocks						(412,254)			(412,254)
Changes in other capital surplus									
Share-based payment	4,550	665	33,781					98,744	137,740
Net income for the year ended December 31, 2017						734,589			734,589
Other comprehensive income (loss) for the year ended December 31, 2017						20,028	(18,301)		1,727
Total comprehensive income	-	-	-	-	-	754,617	(18,301)	-	736,316
Balance as of December 31, 2017	$ 2,087,802	$ 665	$ 1,441,339	$ 742,131	$ 102,158	$ 2,845,730	$ (92,974)	$ -	$ 7,126,851

(The accompanying notes are an integral part of the parent company only financial statements.)

TAIFLEX SCIENTIFIC COMPANY LIMITED
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from operating activities:		
Income before income tax	$ 903,218	$ 723,077
Adjustments:		
Non-cash income and expense items:		
Depreciation	181,007	153,254
Amortization	14,548	12,131
Gain on reversal of bad debt expense	(64,274)	(100,660)
Net loss (gain) of financial assets (liabilities) at fair value through profit or loss	11,963	(9,834)
Interest expense	17,427	20,825
Interest income	(24,690)	(19,296)
Compensation cost relating to share-based payment	22,647	-
Share of profit/loss of subsidiaries and associates under the equity method	(161,428)	(316)
Others	(5,828)	8,899
Changes in operating assets and liabilities:		
(Increase) decrease in financial assets at fair value through profit or loss, current	(1,846)	6,332
(Increase) decrease in notes receivable	(2,514)	4,453
(Increase) decrease in accounts receivable	(26,708)	299,383
Increase in accounts receivable – related parties	(431,582)	(67,240)
(Increase) decrease in other receivables	(1,206)	145,392
(Increase) decrease in other receivables – related parties	(480,706)	975,224
(Increase) decrease in inventories	(225,561)	79,419
Increase in prepayments	(1,138)	(8,705)
(Increase) decrease in other current assets	(190)	13,538
Increase (decrease) in accounts payable	231,542	(414,958)
Increase (decrease) in accounts payable – related parties	48,946	(92,240)
Increase in other payables	44,123	6,476
Increase in other payables – related parties	6,200	5,680
Decrease in other current liabilities	(20,510)	(9,353)
Increase in net defined benefit liabilities	17,978	7,185
Cash generated from operations	51,418	1,738,666
Interest received	25,566	21,122
Interest paid	(17,559)	(21,218)
Income tax paid	(113,930)	(144,895)
Net cash (used in) generated by operating activities	(54,505)	1,593,675

(The accompanying notes are an integral part of the parent company only financial statements.)

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TAIFLEX SCIENTIFIC COMPANY LIMITED
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS-(Continued)
For the Years Ended December 31, 2017 and 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from investing activities:		
Acquisition of investments accounted for under the equity method	$ (286,140)	-
Acquisition of property, plant and equipment	(276,043)	(387,843)
Disposal of property, plant and equipment	27	-
Increase in refundable deposits	(327)	(1,613)
Acquisition of intangible assets	(22,203)	(16,468)
Increase in other current assets - other financial assets, current	(59)	(31)
Net cash used in investing activities	(584,745)	(405,955)
Cash flows from financing activities:		
Decrease in short-term loans	(4,287)	(94,080)
Repayment of long-term loans	(403,139)	(339,037)
Distribution of cash dividends	(412,254)	(403,936)
Exercise of employee stock options	18,653	-
Purchase of treasury stocks by employees	96,440	-
Net cash used in financing activities	(704,587)	(837,053)
Net (decrease) increase in cash and cash equivalents	(1,343,837)	350,667
Cash and cash equivalents at beginning of period	2,574,444	2,223,777
Cash and cash equivalents at end of period	$ 1,230,607	$ 2,574,444

(Concluded)

(The accompanying notes are an integral part of the parent company only financial statements.)

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

1. HISTORY AND ORGANIZATION

Taiflex Scientific Company Limited ("the Company") was incorporated in August, 1997. Its main operations consist of manufacturing, research and development, and selling of flexible copper-clad laminate, cover layer and PV module backsheet. The shares of the Company commenced trading on Taiwan's Over-the-Counter Market on December 19, 2003 and were listed on the Taiwan Stock Exchange on December 17, 2009.

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS

The parent company only financial statements of the Company for the years ended December 31, 2017 and 2016 were approved and authorized for issue in the Board of Directors' meeting on February 27, 2018.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

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

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

No.	**Projects of New, Revised and Amended Standards or Interpretations**	**Effective Date**
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IFRS 9	Financial Instruments	January 1, 2018
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
IAS 7	Disclosure Initiative	January 1, 2017
IFRS 15	Clarifications to Revenue from Contracts with Customers	January 1, 2018
IFRS 2	Share-based Payment	January 1, 2018
IFRS 4	Application of IFRS 9 "Financial Instruments" under IFRS 4 "Insurance Contracts "	No earlier than 2020

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

No.	Projects of New, Revised and Amended Standards or Interpretations	Effective Date
IAS 40	Transfers of Investment Property	January 1, 2018
Improvements to IFRS (2014-2016 cycle):		
IFRS 1	First-time Adoption of International Financial Reporting Standards	January 1, 2018
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2017
IAS 28	Investment in Associates and Joint Ventures	January 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018

The potential effects of adopting above standards or interpretations, which are issued by IASB and endorsed by FSC, in the preparation of Company's financial statements for future periods are listed below:

A. IFRS 15 "Revenue from Contracts with Customers" (including the relevant clarifications associated with IFRS 15)

The Company chooses to recognize the cumulative effect of the first-time adoption on the date of initial application (i.e. January 1, 2018) and to retrospectively apply IFRS 15 to contracts that were not completed on that date.

The Company's revenue from contracts with customers mostly involves the sale of goods. The impact of IFRS 15 on the Company's recognition of revenue is as follows:

(a) The Company currently recognizes revenue from the sale of goods when the products are delivered to the customers. Under IFRS 15, revenue is recognized when the promised products are transferred to the customers and the performance obligation is satisfied. The adoption does not have any material impact on the Company's recognition of revenue from the sale of goods.

(b) IFRS 15 requires an increased level of disclosure.

B. IFRS 9 "Financial Instruments"
Pursuant to IFRS 9, the Company chooses not to restate the comparative periods upon the first-time adoption (i.e. January 1, 2018). The effects of adopting IFRS 9 are as follows:

(a) Classification and measurement of financial assets
<u>Available-for-sale financial assets - equity investments</u>
Assessment is conducted based on the facts and circumstances that exist at the date of initial application. Since these equity investments (as equity instruments) are not held for

trading, they are designated as financial assets at fair value through other comprehensive income. The amount reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income is NT$0 thousand on the first-time adoption date. Other relevant information is as follows:

Impairment loss is recognized fully for the non-listed (OTC) stocks with an initial carrying amount of NT$6,600 thousand that are measured at cost pursuant to IAS 39. However, under IFRS 9, those stocks shall be measured at fair value and the recognition of impairment loss is not required. As the fair value is deemed to be NT$0 thousand, the Company would adjust the carrying amount of financial assets at fair value through other comprehensive income on the initial application date. Retained earnings and other equity would also be adjusted by NT$6,600 thousand.

Impairment assessment on financial assets
This is for financial assets not at fair value through profit or loss. Pursuant to IFRS 9, impairment of debt instruments is measured using the expected credit loss model. Accounts receivables or contract assets generated from transactions within the scope of IFRS 15 shall adopt the simplified approach (including the provision matrix) when assessing the expected credit loss. The above-mentioned rules of impairment assessment do not have any material impact on the Company.

(b) Others
Due to the adoption of IFRS 9 and the amendments to the disclosure requirements of IFRS 7, which also include disclosure requirements for the first-time adoption of IFRS 9, a significant number of additional disclosures is needed.

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

D. Amendments to IFRS 2 “Share-based Payment”
The amendments include (1) to clarify that if vesting conditions (service or non-market performance conditions) exist for a cash-settled share-based payment transaction, only

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

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

E. Disclosure initiative (Amendments to IAS 7 “Statement of Cash Flows”)
A reconciliation of the opening and closing balances of the Company’s liabilities arising from financing activities will be included.

The aforementioned new, revised and amended standards and interpretations are issued by IASB and endorsed by FSC to take effect for annual periods beginning on January 1, 2018. Except for the preceding B and E, the adoption of these new, revised and amended standards and interpretations will not have a significant effect on the Company.

(3) As of the date of issuance of the financial statements, the Company has not adopted the following standards or interpretations issued by IASB but not yet endorsed by FSC:

No.	Projects of New, Revised and Amended Standards or Interpretations	Effective Date
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021
IAS 28	Investments in Associates and Joint Ventures	January 1, 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation”	January 1, 2019
Improvements to IFRS (2015-2017 cycle):		
IFRS 3	Business Combinations	January 1, 2019
IFRS 11	Joint Arrangements	January 1, 2019
IAS 12	Income Taxes	January 1, 2019
IAS 23	Borrowing Costs	January 1, 2019
IAS 19	Employee Benefits	January 1, 2019

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

A. IFRS 16 "Leases"
The new standard requires lessees to adopt a single accounting model for all leases except for certain exemptions. Nearly all leases will be capitalized on the balance sheet by recognizing assets and liabilities. Moreover, lessors continue to classify leases as operating or finance leases.

B. IFRIC 23 "Uncertainty over Income Tax Treatments"
The Interpretation clarifies the application of recognition and measurement requirements in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments.

C. Amendments to IAS 28 "Investments in Associates and Joint Ventures"
The amendments clarify that prior to the adoption of IAS 28, IFRS 9 shall be used to account for the long-term interests in associates or joint ventures that form part of the net investment in the associates or joint ventures. Also, during the application of IFRS 9, adjustments arising from the adoption of IAS 28 shall not be considered.

D. Amendments to IFRS 9 "Financial Instruments"
The amendments allows financial assets with prepayment features (parties to the contract may pay or receive reasonable compensation for early termination of the contracts) to be measured at amortized cost or fair value through other comprehensive income.

E. Improvements to IFRS (2015-2017 cycle)
IAS 12 "Income Taxes"
The amendments clarify that entities shall recognize income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on how the originating transaction or event that has given rise to the dividends is recognized.

IAS 23 "Borrowing Costs"
The amendments clarify that when a qualifying asset is ready for its intended use or sale, the entity shall treat borrowings related specifically to the acquisition of such an asset as general borrowings.

F. Amendments to IAS 19 "Employee Benefits"
The amendments clarify that when changes occurred to the defined benefit plan (e.g. amendment, curtailment or settlement), entities shall remeasure the net defined benefit liability or asset using the updated assumptions.

The Company currently assesses the potential effects of the new, revised and amended standards or interpretations in the preceding A to F on the financial status and performance of the Company, which will be disclosed upon completion of the assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The parent company only financial statements for the years ended December 31, 2017 and 2016 have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, and IFRIC endorsed by FSC.

(2) Basis of preparation

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

The Company accounts for subsidiaries by using the equity method in the preparation of the parent company only financial statements. In order to agree with the amount of net income, other comprehensive income and equity attributable to shareholders of the parent in the consolidated financial statements, the differences of the accounting treatment between the parent company only basis and the consolidated basis are adjusted through investments accounted for under the equity method and share of profit or loss of subsidiaries and associates under the equity method in the parent company only financial statements.

(3) Foreign currency transactions and translation of financial statements in foreign currencies

The Company’s parent company only financial statements are presented in New Taiwan Dollars, which is the Company’s functional currency.

Transactions in foreign currencies are initially recognized by the Company at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date; non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined; and non-monetary items measured at historical cost that are denominated in foreign currencies are retranslated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement or translation of monetary items are recognized in profit or loss in the period in which they arise, except for the following:

A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
B. Foreign currency items within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are accounted for based on the accounting policies for financial instruments.
C. Exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss upon disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

In the preparation of parent company only financial statements, the assets and liabilities of foreign operations are translated into New Taiwan Dollars using exchange rates prevailing at the reporting date and income and expense items are translated at the average exchange rates for the period. The exchange differences arising on the translation are recognized in other comprehensive income and accumulated under exchange differences on translation of foreign operations in equity. On the partial disposal of a subsidiary that includes a foreign operation while retaining control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is adjusted under the heading of investments accounted for under the equity method instead of being recognized in profit or loss. In partial disposal of an associate or jointly controlled entity that includes a foreign operation while retaining significant influence or joint control, the proportionate share of the cumulative amount of the exchange differences is reclassified to profit or loss.

(4) Classification of current and non-current assets and liabilities

An asset is classified as current when:

A. the Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
B. the Company holds the asset primarily for the purpose of trading
C. the Company expects to realize the asset within twelve months after the reporting period
D. the asset is cash or cash equivalent, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

A. the Company expects to settle the liability in its normal operating cycle
B. the Company holds the liability primarily for the purpose of trading
C. the liability is due to be settled within twelve months after the reporting period
D. the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(5) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including fixed deposits with terms equal to or less than twelve months).

(6) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are recognized initially at fair value plus or minus, in the case of financial assets and financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial assets or financial liabilities.

A. Financial assets

The Company accounts for regular way purchase or sales of financial assets on the trade date basis.

<u>Classification of financial assets</u>:
Financial assets of the Company are classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and loans and receivables. The Company determines the classification of its financial assets at initial recognition based on their natures and purposes.

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

i. A financial asset is classified as held for trading if:
   (i) it is acquired principally for the purpose of selling it in the short term;
   (ii) it is part of a portfolio of identifiable financial instruments that are managed together on initial recognition and for which there is evidence of a recent actual pattern of short-term profit-taking; or
   (iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

ii. If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information, because either:
   (i) it eliminates or significantly reduces measurement or recognition inconsistency; or
   (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel of the entity.

Those financial assets are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If those financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity investments, or loans and receivables.

Exchange differences resulting from changes in the carrying amount of available-for-sale monetary financial assets, interest income calculated using the effective interest method relating to available-for-sale financial assets and dividends on an available-for-sale equity instrument are recognized in profit or loss. All other changes in the carrying amount of available-for-sale financial assets are recognized in equity until the investment is derecognized or is determined to be impaired, at which time the cumulative gain or loss is reclassified to profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

(c) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments are classified as held-to-maturity when the Company has the positive intention and ability to hold them to maturity, other than those that are designated as at fair value through profit or loss or available-for-sale upon initial recognition, or meet the definition of loans and receivables.

After initial measurement, held-to-maturity financial assets are measured at amortized cost less impairment using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition and transaction costs. Amortization calculated using the effective interest method is recognized in profit or loss.

(d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company classifies as at fair value through profit or loss, designates as available-for-sale, or those for which the holder may not recover substantially all of its initial investment due to credit worsening.

Loans and receivables are separately presented on the balance sheet as receivables or bond investments with no active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and transaction costs. Amortization calculated using the effective interest method is recognized in profit or loss.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset other than the ones at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has a negative impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:
(a) significant financial difficulty of the issuer or counterparty; or
(b) breach of contract, such as a default or delinquency in interest or principal payments; or
(c) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(d) the disappearance of an active market for the financial asset due to financial difficulties of the issuer.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the carrying amount of asset and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the original effective interest rate of the financial asset. If a loan has a variable interest rate, the discount rate used for measuring impairment loss would be the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, applying the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent period, the amount of estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss shall be increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

For equity instruments classified as available-for-sale, where there is evidence of impairment, the impairment amount recognized is the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss, and it shall be reclassified from equity to profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in the fair value after impairment are recognized directly in equity.

For debt instruments classified as available-for-sale, the impairment amount recognized is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss previously recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss shall be reversed through profit or loss.

Derecognition of financial assets

A financial asset is derecognized when:
(a) the rights to receive cash flows from the asset have expired
(b) the Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
(c) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred its control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable, including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

B. Financial liabilities and equity instruments

Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract of the Company that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

Compound instruments

The Company evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Company assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the economic characteristics and risks of the host contract before separating the equity element.

For liability component excluding derivatives, its fair value is determined based on the rate of interest applied at that time by the market to an equivalent non-convertible bond. The liability component is classified as a financial liability measured at amortized cost before the instrument is converted or settled. For the embedded derivative that is not closely related to the economic characteristics and risks of the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal to the amortized cost of the debt instrument on each exercise date), it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies for an equity component. The equity component is assigned the residual amount after deducting from the fair value of the convertible bond the amount separately determined for the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IAS 39 “Financial Instruments: Recognition and Measurement.”

Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instrument is initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of its liability component is adjusted to the carrying amount as of the conversion date to be the recognition basis for the issuance of common stocks.

Financial liabilities

Financial liabilities within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

i. A financial liability is classified as held for trading if:
   (i) it is acquired principally for the purpose of selling it in short term;
   (ii) on initial recognition it is part of a portfolio of identifiable financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

ii. If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information, because either:

(i) it eliminates or significantly reduces measurement or recognition inconsistency; or

(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel of the entity.

Gains or losses on the remeasurement of those financial liabilities, including interest paid, are recognized in profit or loss.

If those financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

(b) Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include payables and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Relevant gains or losses and amortization amounts are recognized in profit or loss when the liabilities are derecognized and amortized through the effective interest rate method.

Amortized cost is calculated by taking into account any discount or premium on acquisition and transaction costs.

(c) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid or payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

C. Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(7) Derivative financial instrument

The Company uses derivative financial instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (held for trading) except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges and hedges of a net investment in a foreign operation, which is recognized in equity.

Derivatives embedded in host contracts are accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss.

(8) Inventories

Inventories are valued at the lower of cost or net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials	- Actual purchase cost
Work in progress and finished goods	- Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale.

(9) Investments accounted for under the equity method

The Company accounts for its investments in subsidiaries and associates using the equity method, except for ones classified as non-current assets held for sale.

A. Investment in subsidiaries

A subsidiary is an entity controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost. After the acquisition date, the carrying amount is adjusted to reflect the Company’s share of profit or loss and other comprehensive income of the subsidiary. The Company recognizes its share of profit or loss and other comprehensive income of the subsidiary in its profit or loss and other comprehensive income. Distributions received from the subsidiary reduce the carrying amount of the investment

Unrealized profits and losses from downstream transactions between the Company and its subsidiaries are eliminated in the Company’s parent company only financial statements. Profits and losses from upstream and lateral transactions are recognized in the Company’s parent company only financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

Financial statements of subsidiaries are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring subsidiaries’ accounting policies into line with those used by the Company.

When changes in a subsidiary’s equity are not caused by profit or loss or other comprehensive income, and such changes do not affect the Company’s ownership percentage, the Company recognizes related changes in equity according to its ownership percentage. Changes in the Company’s ownership interests in a subsidiary that do not result in the Company losing control over the subsidiary are accounted for as equity transactions. The difference between the carrying amount of the investment and the fair value of consideration paid or received is recognized directly in equity.

The Company ceases to use the equity method when it loses control over the subsidiary. The retained investment is measured and recognized at fair value. The difference between the carrying amount of the former subsidiary and the fair value of the remaining investment plus proceeds from disposal is recognized in profit or loss. If an investment in a subsidiary becomes an investment in a joint venture or vice versa, the Company continues to apply the equity method and does not remeasure the retained interest.

The Company determines at each reporting date whether there is any objective evidence that the investments in subsidiaries are impaired. The difference between the recoverable amount of the subsidiary and its carrying value is recognized as an impairment loss in the statement of comprehensive income and the carrying amount of the investment is adjusted accordingly.

B. Investment in associates

An associate is an entity over which the Company has significant influence and that is not a subsidiary. Significant influence refers to the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Difference between the Company’s investment cost and the share of fair value of associates’ identifiable assets and liabilities is accounted for as follows:

(a) Any excess of the investment cost over the Company's share of fair value of associates' identifiable assets and liabilities as of the acquisition date is recognized as goodwill and included in the carrying amount of the investment. Goodwill cannot be amortized.

(b) Any excess of the Company's share of net fair value of associates' identifiable assets and liabilities over the investment cost is recognized as a gain in profit or loss on the investment date, after reassessing the fair value.

Under the equity method, an investment in an associate is initially recognized at cost. After the acquisition date, the carrying amount is adjusted to reflect the Company's share of profit or loss and other comprehensive income of the associate. The Company recognizes its share of profit or loss and other comprehensive income of the associate in its profit or loss and other comprehensive income. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Company's proportionate interest in the associate arising from changes in the associate's other comprehensive income. Any unrealized gains and losses resulting from transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates.

Financial statements of associates are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring associates' accounting policies into line with those used by the Company.

If the Company subscribes more shares than its original ownership percentage when an associate issues new shares, while maintaining its significant influence over that associate, such an increase would be accounted for as an additional investment in the associate. If the Company's subscription results in a decrease in its ownership percentage while maintaining significant influence over that associate, the proportionate gain or loss previously recognized in other comprehensive income relative to that reduction is reclassified to profit and loss. When the Company subscripts or acquires shares of associates in a percentage differs from its existing shareholding percentage which in turn changes its net interest in the associate, the change is adjusted through capital surplus. Where the change in equity of an associate does not result from its profit or loss or other comprehensive income, and such changes do not affect the Company's ownership percentage, the Company recognizes its proportionate share of all related changes in equity. Upon disposal of the associate, the Company reclassifies the aforementioned capital surplus to profit or loss on a pro rata basis.

The Company ceases to use the equity method when it loses significant influence over the associate. The retained investment is measured and recognized at fair value. The difference between the carrying amount of the former associate and the fair value of the remaining investment plus proceeds from disposal is recognized in profit or loss. If an investment in an associate becomes an investment in a joint venture or vice versa, the Company continues to apply the equity method and does not remeasure the retained interest.

The Company determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. The difference between the recoverable amount of the associate and its carrying value is recognized as an impairment loss in the statement of comprehensive income and the carrying amount of the investment is adjusted accordingly.

(10) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of property, plant and equipment with a cost that is significant in relation to the total cost is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts separately as individual assets with specific useful lives and depreciation methods. The carrying amount of those parts is derecognized in accordance with the provisions of IAS 16 “Property, Plant and Equipment.” When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement cost if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

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

Buildings	20 to 50 years
Machinery and equipment	10 years
Hydropower equipment	5 to 20 years
Testing equipment	10 years
Miscellaneous equipment	5 to 10 years

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

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

(11) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(12) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, which fail to meet the recognition criteria, are not capitalized. They are recognized in profit or loss as incurred.

The useful lives of intangible assets are categorized as either finite or indefinite.

Intangible assets with finite lives are amortized on a straight-line basis over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization method or period, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss.

<u>In-process intangible assets - research and development costs</u>

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:
A. the technical feasibility of completing the intangible asset so that it will be available for use or sale
B. its intention to complete and its ability to use or sell the asset
C. how the asset will generate future economic benefits
D. the availability of resources to complete the asset
E. the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied, i.e. the asset is required to be carried at cost less any accumulated amortization and accumulated impairment losses. During the period of development, the asset is tested for impairment annually. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

(13) Impairment of non-financial assets

The Company assesses whether there is any indication that an asset in the scope of IAS 36 “Impairment of Assets” may be impaired at the end of each reporting period. If any such indication exists, or when annual impairment testing for an asset is required, the Company would conduct impairment tests at individual or CGU level. Where the carrying amount of an asset or its CGU exceeds its recoverable amount, the asset is considered impaired. An asset's recoverable amount is the higher of an asset's net fair value or its value in use.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

Impairment loss or reversals of continuing operations are recognized in profit or loss.

(14) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, of which amount can be reliably estimated. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset only when it is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the liability due to the passage of time is recognized as a borrowing cost.

(15) Treasury stocks

The Company's stocks acquired (treasury stocks) are recognized at cost and as a deduction to equity. Difference between the carrying amount and the consideration is recognized in equity.

(16) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

A. the significant risks and rewards of ownership of the goods have passed to the buyer;
B. neither continuing managerial involvement nor effective control over the goods sold have been retained;
C. the amount of revenue can be measured reliably;
D. it is probable that the economic benefits associated with the transaction will flow to the entity; and
E. the costs incurred in respect of the transaction can be measured reliably.

(17) Post-employment benefits

All regular employees of the Company are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company. Therefore, fund assets are not included in the parent company only financial statements.

For the defined contribution plan, the Company would make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. The remeasurements of net defined benefit liability (asset) include return on plan assets and any changes in the effect of the asset ceiling, and exclude amounts included in the net interest on the net defined benefit liability (asset) and actuarial gains and losses. The remeasurements of net defined benefit liability (asset) are recognized in other comprehensive income in the periods they occur and immediately recognized in the retained earnings. Past service cost is the change in the present value of defined benefit obligation due to plan amendments or curtailments. It is recognized as an expense at the earlier of the following two dates:

A. when a plan amendment or curtailment occurs; and
B. the date when the Company recognizes any related restructuring costs or termination benefits.

Net interest on the net defined benefit liability (asset) is determined by multiplying the net defined benefit liability (asset) by the discount rate. Both net defined benefit liability (asset) and discount rate are determined at the beginning of annual reporting period. Changes in net defined benefit liability (asset) due to actual contributions and benefits paid during the period shall be taken into consideration.

(18) Share-based payment transactions

The cost of equity-settled transactions between the Company and its employees is recognized based on the fair value of the equity instruments on the grant date. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the service conditions and performance are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative cost recognized for share-based payment transactions as at the beginning and end of that period is recognized as profit or loss for the period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other service or performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(19) Income tax

Income tax expense (benefit) is the aggregate amount included in the determination of profit or loss for the period in respect of current income tax and deferred income tax.

Current income tax

Current income tax liabilities (assets) for the current and prior periods are measured based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity respectively, instead of in profit or loss.

The 10% income tax for undistributed earnings is recognized as income tax expense in the year when the distribution proposal is approved by the shareholders' meeting.

Deferred income tax

Deferred income tax is the temporary difference between the tax bases of assets and liabilities and their carrying amounts in balance sheet at the reporting date.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

A. Where the taxable temporary differences arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (loss);
B. Where the taxable temporary differences is associated with investments in subsidiaries and associates and the timing of its reversal can be controlled; and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, any unused tax losses and carryforward of unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

A. Where the deferred income tax asset is related to the deductible temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
B. Where the deferred income tax asset is related to the deductible temporary differences associated investments in subsidiaries, associates and joint ventures. The deferred income tax asset is recognized only to the extent that it is probable that the temporary differences

will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred income tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred income tax relating to items recognized outside profit or loss cannot be recognized as profit or loss. Instead, it is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred income tax assets are reassessed and recognized at each reporting date.

Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(20) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes the transaction takes place in one of the following markets:
A. the principal market for the asset or liability, or
B. in the absence of a principal market, the most advantageous market for the asset or liability.
The principal or most advantageous markets shall be the ones that the Company have access to and can transact in.

Assumptions that market participants would use when pricing the asset or liability are used in the fair value measurement. Market participants are assumed to act in their economic best interest.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company adopts valuation technique which is appropriate and has sufficient data under the circumstances for fair value measurement. The use of relevant observable inputs is maximized and the use of unobservable inputs is minimized.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's parent company only financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that may result in significant risks for a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

(1) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including income approach (for example, the discounted cash flows model) or the market approach. Changes in assumptions of those models could affect the fair value of the reported financial instruments. Please refer to Note 12 for details.

(2) Receivables – impairment loss estimate

Where there is objective evidence of impairment, the Company considers the estimates of future cash flows. Impairment loss is measured as the difference between the carrying amount of the asset and the present value of its estimated future cash flows (excluding future credit losses not yet incurred), discounted at the original effective interest rate of the financial asset. For short-term receivables, as the discount effect is not significant, impairment loss is measured as the difference between the carrying amount of the asset and its estimated undiscounted future cash flows. A less-than-expected future cash flows could result in significant impairment charges. Please refer to Note 6 for details.

(3) Inventory

The estimates of net realizable value for inventory take into account inventory spoilage, total or partial obsolescence or selling price declines. They are based on the most reliable evidence available when those estimates are made. Please refer to Note 6 for details.

(4) Post-employment benefits

The cost of pension plan and the present value of defined benefit obligation within the post-employment benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the discount rate and expected future salary changes. The assumptions used for measuring pension cost and defined benefit obligation are disclosed in Note 6.

(5) Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments on the grant date. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model, including the expected life of the share option, volatility and dividend yield, and making assumptions about them. The assumptions and models used for estimating the fair value of share-based payment transactions are disclosed in Note 6.

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

(6) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences between the actual results and the assumptions made or future changes to such assumptions could necessitate future adjustments to tax benefit and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates.

Deferred income tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred income tax assets to be recognized is based upon the likely timing and the level of future taxable income and taxable temporary differences together with future tax planning strategies.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	$ 252	$ 172
Bank deposits	1,230,355	2,574,272
Total	$ 1,230,607	$ 2,574,444

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

	December 31, 2017	December 31, 2016
Held for trading:		
Derivative financial instruments not designated in a hedging relationship	$ 44	$ 6,557
Non-derivative financial assets - Stocks	16,677	16,245
	$ 16,721	$ 22,802

The Company's financial assets held for trading were not pledged.

(3) Notes receivable, net

	December 31, 2017	December 31, 2016
Notes receivable, net	$ 9,858	$ 7,344

The Company's notes receivable were not pledged.

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

(4) Accounts receivable, net

	December 31, 2017	December 31, 2016
Accounts receivable	$ 644,177	$ 617,469
Less: allowance for doubtful accounts	(145,700)	(209,974)
Subtotal	498,477	407,495
Accounts receivable – related parties	1,543,450	1,111,868
Net	$ 2,041,927	$ 1,519,363

A. The credit terms of accounts receivable are generally set at 60 to 150 days end of month. The movements in the allowance for impairment of accounts receivable and the ageing analysis were as follows (please refer to Note 12 for credit risk disclosure):

	December 31, 2017	December 31, 2016
Beginning balance	$ 209,974	$ 260,550
Reversal for the year	(64,274)	(36,045)
Write off	–	(14,531)
Ending balance	$ 145,700	$ 209,974

B. Ageing analysis of net accounts receivable:

	December 31, 2017	December 31, 2016
Neither past due nor impaired	$ 1,833,708	$ 1,421,264
Past due but not impaired		
≤ 120 days	208,198	97,915
121 to 180 days	21	–
≥ 181 days	–	184
Total	$ 2,041,927	$ 1,519,363

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

December 31, 2017			
Amount of accounts receivable	Amount of factoring	Condition	Unreceived amount (Recorded as other receivables)
US$ 38,680 thousand	US$ 38,680 thousand	without recourse	-

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

December 31, 2016			
Amount of accounts receivable	Amount of factoring	Condition	Unreceived amount (Recorded as other receivables)
US$ 32,322 thousand	US$ 32,322 thousand	without recourse	-

D. The Company's accounts receivable were not pledged.

(5) Inventories, net

	December 31, 2017	December 31, 2016
Raw materials	$ 357,939	$ 180,556
Inventories in transit	20,873	22,033
Supplies	1,035	1,049
Work in process	19,548	97,581
Finished goods	348,991	216,793
Merchandise	3,992	2,977
Total	$ 752,378	$ 520,989

Expenses or income recognized were as follows:

	Years ended December 31	
	2017	2016
Cost of inventories sold	$ 5,914,573	$ 5,414,305
Gain on inventory value recovery	(8,662)	(1,500)
Loss on inventory write-off	2,834	10,399
Revenue from sale of scraps	(24,107)	(15,582)
Cost of revenue	$ 5,884,638	$ 5,407,622

For the years ended December 31, 2017 and 2016, gain on inventory value recovery due to a decrease in allowance for inventory valuation losses from price recovery of inventories with allowance for inventory valuation losses at beginning of period, inventories sold or inventories used amounted to NT$ 8,662 thousand and NT$1,500 thousand, respectively.

The aforementioned inventories were not pledged.

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

	December 31, 2017	December 31, 2016
Stocks	$ 6,600	$ 6,600
Less: accumulated impairment	(6,600)	(6,600)
Net	$ —	$ —

The Company's financial assets measured at cost were not pledged.

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

(7) Investments accounted for under the equity method

Investees	December 31, 2017 Amount	December 31, 2017 Percentage of ownership	December 31, 2016 Amount	December 31, 2016 Percentage of ownership
Investments in subsidiaries:				
Taistar Co., Ltd.	$ 1,763,948	100.00%	$ 1,677,148	100.00%
Leadmax Limited	15,730	100.00%	16,077	100.00%
Koatech Technology Corp.	230,964	53.86%	222,766	53.86%
TFS Co., Ltd.	486,900	100.00%	134,508	100.00%
Taiflex Scientific Japan Co., Ltd.	16,529	100.00%	17,660	100.00%
Subtotal	2,514,071		2,068,159	
Investments in associates:				
Innovision FlexTech Corp.	31,518	15.67%	31,518	16.72%
Less: accumulated impairment – Innovision FlexTech Corp.	(31,518)		(31,518)	
Subtotal	–		–	
Total	$ 2,514,071		$2,068,159	

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

A. The shares of profit or loss of the subsidiaries and associates accounted for under the equity method for the years ended December 31, 2017 and 2016 were as follows:

Investee	Years ended December 31 2017	Years ended December 31 2016
Taistar Co., Ltd.	$ 88,867	$ 42,745
Leadmax Limited	890	2,040
Innovision FlexTech Corp.	–	–
Koatech Technology Corp.	8,262	(44,297)
TFS Co., Ltd.	63,853	(1,379)
Taiflex Scientific Japan Co., Ltd.	(444)	1,207
Total	$ 161,428	$ 316

In December 2017, the Company participated in the capital increase of Innovision FlexTech Corp. (Innovision). As it subscribed at a percentage different from its existing ownership percentage, the shareholding percentage reduced from 16.72% to 15.67%. The Company evaluated and concluded that it still has significant influence over Innovision; thus, this investment is accounted for using the equity method.

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

	December 31, 2017	December 31, 2016
Total assets	$ 331,496	$ 267,136
Total liabilities	$ 73,767	$ 57,282

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

	Years ended December 31	
	2017	2016
Revenue	$ 190,056	$ 121,354
Net income	$ 12,587	$ 22,866

(8) Property, plant and equipment

	December 31, 2017	December 31, 2016
Buildings	$ 549,548	$ 555,380
Machinery and equipment	707,518	768,809
Hydropower equipment	61,602	48,457
Testing equipment	121,074	107,376
Miscellaneous equipment	60,828	44,198
Construction in progress and equipment awaiting inspection	538,614	412,601
Net	$ 2,039,184	$ 1,936,821

	As of January 1, 2017	Additions	Disposals	Reclassification	As of December 31, 2017
Cost					
Buildings	$ 700,219	$ 1,272	$ –	$ 23,503	$ 724,994
Machinery and equipment	1,989,189	15,306	(3,442)	38,625	2,039,678
Hydropower equipment	238,006	3,993	(19)	17,197	259,177
Testing equipment	199,856	14,614	(213)	14,425	228,682
Miscellaneous equipment	128,184	3,776	(3,039)	24,673	153,594
Total	$ 3,255,454	$ 38,961	$ (6,713)	$ 118,423	$ 3,406,125
Accumulated depreciation and impairment					
Buildings	$ 144,839	$ 30,607	$ –	$ –	$ 175,446
Machinery and equipment	1,220,380	115,195	(3,415)	–	1,332,160
Hydropower equipment	189,549	8,045	(19)	–	197,575
Testing equipment	92,480	15,341	(213)	–	107,608
Miscellaneous equipment	83,986	11,819	(3,039)	–	92,766
Total	$ 1,731,234	$ 181,007	$ (6,686)	$ –	$ 1,905,555
Construction in progress and equipment awaiting inspection	412,601	244,436	–	(118,423)	538,614
Net	$ 1,936,821				$ 2,039,184

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

	As of January 1, 2016	Additions	Disposals	Reclassification	As of December 31, 2016
Cost					
Buildings	$ 641,813	$ 4,491	$ —	$ 53,915	$ 700,219
Machinery and equipment	1,705,549	35,334	—	248,306	1,989,189
Hydropower equipment	223,865	3,634	—	10,507	238,006
Testing equipment	155,262	21,550	(470)	23,514	199,856
Miscellaneous equipment	96,608	9,963	(275)	21,888	128,184
Total	$ 2,823,097	$ 74,972	$ (745)	$ 358,130	$ 3,255,454
Accumulated depreciation and impairment					
Buildings	$ 117,772	$ 27,067	$ —	$ —	$ 144,839
Machinery and equipment	1,119,688	100,972	—	(280)	1,220,380
Hydropower equipment	183,289	6,260	—	—	189,549
Testing equipment	81,223	11,447	(470)	280	92,480
Miscellaneous equipment	76,753	7,508	(275)	—	83,986
Total	$ 1,578,725	$ 153,254	$ (745)	$ —	$ 1,731,234
Construction in progress and equipment awaiting inspection	481,299	289,770	—	(358,468)	412,601
Net	$ 1,725,671				$ 1,936,821

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

(9) Intangible assets

	December 31, 2017	December 31, 2016
Trademarks	$ 415	$ 385
Patents	7,779	7,347
Software cost	37,178	29,165
Total	$ 45,372	$ 36,897

	As of January 1, 2017	Additions	Reclassification	As of December 31, 2017
Cost				
Trademarks	$ 583	$ 89	$ —	$ 672
Patents	12,836	2,045	—	14,881
Software cost	87,449	20,069	—	107,518
Total	$ 100,868	$ 22,203	$ —	$ 123,071
Amortization and impairment				
Trademarks	$ 198	$ 59	$ —	$ 257
Patents	5,489	1,613	—	7,102
Software cost	58,284	12,056	—	70,340
Total	63,971	$ 13,728	$ —	77,699
Net	$ 36,897			$ 45,372

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

	As of January 1, 2016	Additions	Reclassification	As of December 31, 2016
Cost				
Trademarks	$ 372	$ 211	$ —	$ 583
Patents	9,867	2,969	—	12,836
Software cost	74,161	13,288	—	87,449
Total	$ 84,400	$ 16,468	$ —	$ 100,868
Amortization and impairment				
Trademarks	$ 151	$ 47	$ —	$ 198
Patents	3,976	1,513	—	5,489
Software cost	47,713	10,571	—	58,284
Total	51,840	$ 12,131	$ —	63,971
Net	$ 32,560			$ 36,897

(10) Other non-current assets

	December 31, 2017	December 31, 2016
Refundable deposits	$ 10,755	$ 10,428
Other non-current assets-other	—	820
Total	$ 10,755	$ 11,248

(11) Short-term loans

	December 31, 2017	December 31, 2016
Unsecured bank loans	$ —	$ 4,287

The interest rate of loans were 0.85% as of December 31, 2016.

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

	December 31, 2017	December 31, 2016
Held for trading:		
Derivative financial instruments not designated in a hedging relationship		
- Forward foreign exchange contracts	$ 4,036	$ —

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

(13) Long-term loans

	December 31, 2017	December 31, 2016
Revolving loans	$ 138,182	$ 351,646
Syndicated loans	—	193,675
Total	138,182	545,321
Less: current portion	(19,091)	—
Less: unamortized syndicated loan fee	—	(4,000)
Net	$ 119,091	$ 541,321

A. The interest rates of loans were 0.85% to 2.47% and 0.98% to 2.59% as of December 31, 2017 and 2016, respectively.

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

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

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

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

D. In January 2016, the Company entered into a syndicated loan agreement with ten financial institutions, including the Bank of Taiwan (bookrunner), for a loan facility of NT$2.5 billion or the equivalent in U.S. dollars. (The Company applied to lower the credit to NT$1.5 billion or the equivalent in U.S. dollars in July 2017.) The contract term is five years from the initial draw-down date, i.e. June 2016 to June 2021. The credit term of the agreement was mid-term loans - current. During the loan term, the Company is required to calculate and maintain the following financial ratios at an agreed level based on the consolidated financial statements audited by CPAs every six months: current ratio, liability ratio, interest coverage ratio and tangible net value. The Company has abided by those terms.

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

(14) Post-employment benefits

A. Defined contribution plan

Expenses under the defined contribution plan for the years ended December 31, 2017 and 2016 were NT$ 20,956 thousand and NT$ 18,779 thousand, respectively.

B. Defined benefits plan

Expenses under the defined benefits plan were as follows:

	Years ended December 31	
Financial Statement Account	2017	2016
Operating costs	$ 7,339	$ 5,095
Sales and marketing expenses	1,055	1,286
General and administrative expenses	9,026	2,017
Research and development expenses	3,318	1,610
Total	$ 20,738	$ 10,008

C. Accumulated amounts of actuarial gain or loss recognized under other comprehensive income were as follows:

	Years ended December 31	
	2017	2016
Beginning balance	$ 125,139	$ 53,056
Actuarial gain or loss	(24,130)	72,083
Ending balance	$ 101,009	$ 125,139

D. Reconciliation of defined benefit obligation at present value and plan asset at fair value was as follows:

	Years ended December 31	
	2017	2016
Present value of defined benefit obligation	$ 213,669	$ 222,272
Fair value of plan assets	(29,545)	(31,996)
Funded status	184,124	190,276
Net defined benefit liability	$ 184,124	$ 190,276

E. Changes in the present value of the defined benefit obligation were as follows:

	Years ended December 31	
	2017	2016
Balance, beginning of year	$ 222,272	$ 139,920
Current service cost	11,782	7,787
Past service cost	5,531	-
Interest cost	4,001	2,798
Actuarial gain or loss	(24,386)	71,767
Benefits paid	(5,531)	-
Balance, end of year	$ 213,669	$ 222,272

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

F. Changes in the fair value of the plan assets were as follows:

	Years ended December 31	
	2017	2016
Balance, beginning of year	$ 31,996	$ 28,911
Return on plan assets	576	577
Contributions from employer	2,760	2,824
Actuarial gain or loss	(256)	(316)
Benefits paid	(5,531)	-
Balance, end of year	$ 29,545	$ 31,996

G. The Company expects to make contributions of NT$ 12,590 thousand to the defined benefit plan in the following 12 months as of December 31, 2017.

H. The major categories of plan assets as a percentage of the fair value of total plan assets were as follows:

	Pension Plan (%)	
	December 31, 2017	December 31, 2016
Cash	100%	100%

The Company's actual return on plan assets were NT$ 320 thousand and NT$ 262 thousand for the years ended December 31, 2017 and 2016, respectively.

The expected rate of return on plan assets is determined based on historical trend and analyst's expectation on the asset's return in its market over the obligation period. Furthermore, the utilization of the fund by the labor pension fund supervisory committee and the fact that the minimum earnings are guaranteed to be no less than the earnings attainable from local banks' two-year time deposits are also taken into consideration in determining the expected rate of return on plan assets.

I. The principal assumptions used in determining the Company's defined benefit plan were shown below:

	December 31, 2017	December 31, 2016
Discount rate	1.60%	1.80%
Expected rate of return on plan assets	1.60%	1.80%
Expected rate of salary increases	4.50%	5.00%

J. A 0.5 percentage point change in the discount rate would result in the following:

	Years ended December 31			
	2017		2016	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Effect on the aggregate current service cost and interest cost	$ (502)	$ 453	$ (376)	$ 354
Effect on the present value of defined benefit obligation	(19,506)	21,744	(21,635)	24,267

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

K. Other information on the defined benefit plan was as follows:

	Years ended December 31	
	2017	2016
Present value of defined benefit obligation, ending balance	$ 213,669	$ 222,272
Fair value of plan assets, ending balance	(29,545)	(31,996)
Surplus/deficit of plan, ending balance	$ 184,124	$ 190,276
Experience adjustments on plan liabilities	$ (9,037)	$ (2,266)
Experience adjustments on plan assets	$ 256	$ 316

(15) Equity

A. Capital

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

(b) The Company's issued capital was NT$2,087,802 thousand and NT$2,083,252 thousand, each at a par value of NT$10, divided into 208,780 thousand shares and 208,325 thousand shares as of December 31, 2017 and 2016, respectively.

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

B. Capital surplus

	December 31, 2017	December 31, 2016
Additional paid-in capital	$ 1,036,041	$ 1,022,603
Premium from merger	262,500	262,500
Donated assets	1,970	1,970
Treasury stock transactions	27,280	6,937
Others	113,548	113,548
Total	$ 1,441,339	$ 1,407,558

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

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

C. Treasury Stocks

As of December 31, 2017 and 2016, the number of treasury stocks held by the Company was 0 thousand shares and 2,318 thousand shares with the amount of NT$0 thousand and NT$98,744 thousand, respectively.

The changes of treasury stocks in the years ended December 31, 2017 and 2016 were as follows:

Reasons of Repurchase	As of January 1	Increase	Decrease	As of December 31
2017				
For transfer to employees	2,318 thousand shares	—	2,318 thousand shares	—
2016				
For transfer to employees	2,318 thousand shares	—	—	2,318 thousand shares

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

D. Appropriation of profits and dividend policies

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

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

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

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

As of December 31, 2017 and 2016, special capital reserve set aside for the first-time adoption of IFRS amounted to NT$102,158 thousand. Furthermore, the Company did not reverse special reserve to undistributed earnings during the years ended December 31, 2017 and 2016 as a result of the use, disposal or reclassification of related assets.

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

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

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

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

(16) Share-based payment plans

A. The Company issued employee stock options – after January 1, 2008
On February 25, 2010, the Company resolved at the Board of Directors' meeting to issue employee stock options with a total number of 2,355 units. Each unit entitles an optionee to subscribe to one thousand shares of the Company's common stock. The chairperson is authorized by the Board to set the actual grant date. If a consensus was not reached regarding all terms and conditions, the grant date would be the date when consensuses for all were reached (April 30, 2010). Settlement upon exercise of the options will be made through issuance of new shares by the Company. An optionee may exercise the options in accordance with certain schedules and percentages prescribed by the plan two years from the grant date. The expense of compensatory employee stock option plan for the year ended December 31, 2017 was NT$0 thousand.

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

There have been no cancellations or modifications to any of the employee stock option plans by December 31, 2017.

	Years ended December 31			
	2017		2016	
Stock options	Options	Weighted average exercise price per share (NT$)	Options	Weighted average exercise price per share (NT$)
Outstanding at beginning of period	952	$ 36.80	1,022	$ 39.70
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	(522)	35.77	-	-
Expired	(157)	-	(50)	-
Outstanding at end of period	273	35.10	952	36.80
Exercisable at end of period	273	35.10	952	36.80

Information on the aforementioned employee stock options outstanding as of December 31, 2017 and 2016 was as follows:

	Weighted Average Remaining Contractual Years	
Date of Grant	December 31, 2017	December 31, 2016
2010.4.30	0.33	1.33

B. The Board of Directors' meeting held on August 22, 2017 resolved to transfer 2,318 thousand shares of treasury stocks to employees, including ones who met certain conditions set by the Company.

The Company adopted the Black-Scholes pricing model and applied the following inputs:

	2017.8.22
Time to expiration	9 days
Stock price	NT$ 51.50
Transfer price	NT$ 41.73
Volatility	27.39 %
Risk-free interest rate	0.32 %
Fair value of each unit	NT$ 9.77

For the year ended December 31, 2017, expenses recognized due to share-based payment transactions amounted to NT$22,647 thousand.

(17) Revenue

	Years ended December 31	
	2017	2016
Sale of goods	$ 7,383,077	$ 6,712,397

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

(18) Operating lease

Pursuant to non-cancellable operating lease agreements, the Company entered into commercial property leases. The average duration was between one to ten years. Some lease agreements had renewal options.

Total future minimum lease payments were as follows:

	2017.12.31	2016.12.31
Less than 1 year	$ 15,597	$ 22,288
More than 1 year but less than 5 years	34,126	45,092
More than 5 years	13,796	18,571
Total	$ 63,519	$ 85,591

Expenses recognized under operating leases were as follows:

	Years ended December 31	
	2017	2016
Minimum lease payments	$ 33,054	$ 29,251

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

Function / Nature	Years ended December 31					
	2017			2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	335,010	318,150	653,160	302,546	322,788	625,334
Labor and health insurance	28,751	18,239	46,990	23,639	18,464	42,103
Pension	20,275	21,419	41,694	15,653	13,134	28,787
Other employee benefits expense	37,719	21,312	59,031	27,417	19,311	46,728
Depreciation	157,356	23,651	181,007	133,619	19,635	153,254
Amortization	4,018	10,530	14,548	4,411	7,720	12,131

As of December 31, 2017 and 2016, the Company had 715 and 662 employees, respectively.

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

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

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

Information about 2017 compensation to employees and remuneration to directors resolved in the Board of Directors' meeting on February 27, 2018 and 2016 compensation to employees and remuneration to directors in the form of cash reported in the shareholders' meeting on May 26, 2017 was as follows:

	Years ended December 31	
	2017	2016
Compensation to employees	$ 74,579	$ 53,949
Remuneration to directors and supervisors	20,393	16,185

The above-mentioned 2016 compensation to employees and remuneration to directors and supervisors reported in the shareholders' meetings were consistent with the amounts resolved in the Board of Directors' meetings held on January 19, 2017 and the amounts recognized as expenses in the financial statements.

(20) Non-operating income and expenses

A. Other income

	Years ended December 31	
	2017	2016
Interest income	$ 24,690	$ 19,296
Other income	14,474	136,422
Total	$ 39,164	$ 155,178

B. Other gains and losses

	Years ended December 31	
	2017	2016
Foreign exchange loss, net	$ (39,022)	$ (129,546)
(Loss) gain of financial assets (liabilities) at fair value through profit or loss, net	(11,963)	9,834
Other losses	(1,200)	(2,712)
Total	$ (52,185)	$ (122,424)

C. Finance costs

	Years ended December 31	
	2017	2016
Interest on borrowings from banks	$ (17,427)	$ (20,825)

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

D. Components of other comprehensive income

For the year ended December 31, 2017

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plan	$ 24,130	$ –	$ 24,130	$ (4,102)	$ 20,028
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	(22,050)	–	(22,050)	3,749	(18,301)
Total	$ 2,080	$ –	$ 2,080	$ (353)	$ 1,727

For the year ended December 31, 2016

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plan	$ (72,083)	$ –	$ (72,083)	$ 12,254	$ (59,829)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	(163,913)	–	(163,913)	27,865	(136,048)
Total	$ (235,996)	$ –	$ (235,996)	$ 40,119	$ (195,877)

(21) Income tax

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

Income tax recognized in profit or loss

	Years ended December 31	
	2017	2016
Current income tax expense (benefit):		
Current income tax expense	$ 113,960	$ 145,177
Income tax adjustments on prior years	11,292	(2,518)
Deferred income tax expense:		
Deferred income tax expense relating to origination and reversal of temporary differences	43,377	740
Total income tax expense	$ 168,629	$ 143,399

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

Income tax recognized in other comprehensive income

	Years ended December 31	
	2017	2016
Deferred income tax expense (benefit):		
Remeasurement of defined benefit plan	$ 4,102	$ (12,254)
Exchange differences arising on translation of foreign operations	(3,749)	(27,865)
Income tax relating to components of other comprehensive income	$ 353	$ (40,119)

B. The reconciliation of income tax expense and income tax based on pre-tax net income at the statutory tax rate was as follows

	Years ended December 31	
	2017	2016
Income before tax of continuing operations	$ 903,218	$ 723,077
Income tax expense at the statutory rate of the Company (17%)	$ 153,547	$ 122,923
Additional 10% income tax on unappropriated earnings	4,963	23,385
Income tax adjustments on prior years	11,292	(2,518)
Tax effects of other tax adjustments	(1,173)	(391)
Income tax expense recognized in profit or loss	$ 168,629	$ 143,399

C. Balance of deferred income tax assets (liabilities):

For the year ended December 31, 2017

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Ending balance
Temporary differences					
Exchange gain and loss	$ 5,048	$ (591)	$ —	$ —	$ 4,457
Allowance for inventory valuation and obsolescence loss	9,814	(1,473)	—	—	8,341
Investments accounted for under the equity method	(127,644)	(29,113)	3,749	—	(153,008)
Unrealised intra-group profits and losses	8,766	(5,099)	—	—	3,667
Impairment of assets	6,480	—	—	—	6,480
Allowance for doubtful accounts	34,295	(11,876)	—	—	22,419
Net defined benefit liabilities	32,347	3,056	(4,102)	—	31,301
Others	(1,796)	1,719	—	—	(77)
Deferred income tax benefit (expense)		$ (43,377)	$ (353)	$ —	
Net deferred income tax assets (liabilities)	$ (32,690)				$ (76,420)
Reflected in balance sheet as follows:					
Deferred income tax assets	$ 126,425				$ 99,874
Deferred income tax liabilities	$ 159,115				$ 176,294

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

For the year ended December 31, 2016

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Ending balance
Temporary differences					
Exchange gain and loss	$ (14,895)	$ 19,943	$ –	$ –	$ 5,048
Allowance for inventory valuation and obsolescence loss	10,069	(255)	–	–	9,814
Investments accounted for under the equity method	(155,455)	(54)	27,865	–	(127,644)
Unrealised intra-group profits and losses	10,885	(2,119)	–	–	8,766
Impairment of assets	6,480	–	–	–	6,480
Allowance for doubtful accounts	53,177	(18,882)	–	–	34,295
Net defined benefit liabilities	18,871	1,222	12,254	–	32,347
Others	(1,201)	(595)	–	–	(1,796)
Deferred income tax benefit (expense)		$ (740)	$ 40,119	$ –	
Net deferred income tax assets (liabilities)	$ (72,069)				$ (32,690)
Reflected in balance sheet as follows:					
Deferred income tax assets	$ 121,598				$ 126,425
Deferred income tax liabilities	$ 193,667				$ 159,115

D. Unrecognized deferred income tax assets:

As of December 31, 2017 and 2016, the Company had no deferred income tax assets that had not been recognized.

E. Imputation credit information:

	December 31, 2017	December 31, 2016
Balances of imputation credit amount	$ 543,320	$ 528,054

The expected creditable ratio for 2017 and the actual creditable ratio for 2016 were 21.11% and 23.02%, respectively. Pursuant to Article 66-6 of the Income Tax Act, the 2016 creditable ratio for individual shareholders residing in the territory of the Republic of China is reduced by half. In addition, amendments to the Income Tax Act passed the third reading by the Legislative Yuan on January 18, 2018 and the integrated income tax system was abolished. The 2017 expected creditable ratio is used for reference only.

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

G. The assessment of income tax returns:

As of December 31, 2017, the Company's income tax returns was assessed and approved up to 2013.

(22) Earnings per share

	Year ended December 31, 2017		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT$)
Basic earnings per share			
Net income available to common shareholders of the Company	$ 734,589	206,938	$ 3.55
Effect of dilutive potential common stocks			
Employee compensation - stock	—	1,406	
Diluted earnings per share			
Net income available to common shareholders of the Company and effect of potential common stocks	$ 734,589	208,344	$ 3.53

	For the year ended December 31, 2016		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT$)
Basic earnings per share			
Net income available to common shareholders of the Company	$ 579,678	206,007	$ 2.81
Effect of dilutive potential common stocks			
Employee compensation - stock	—	1,589	
Diluted earnings per share			
Net income available to common shareholders of the Company and effect of potential common stocks	$ 579,678	207,596	$ 2.79

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

7. RELATED PARTY TRANSACTIONS

(1) Names and relationships

Name	Relationship
Taistar Co., Ltd.	100% owned subsidiary
Leadmax Limited	100% owned subsidiary
TFS Co., Ltd.	100% owned subsidiary
Taiflex Scientific Japan Co., Ltd.	100% owned subsidiary
TSC Co., Ltd.	100% owned second-tier subsidiary
Richstar Co., Ltd.	100% owned second-tier subsidiary
Taiflex Scientific (Kunshan) Co., Ltd. (Taiflex Kunshan)	100% owned third-tier subsidiary
Kunshan Taiflex Electronic Material Co., Ltd (Kunshan Taiflex)	100% owned third-tier subsidiary
Shenzhen Taiflex Electronic Co., Ltd. (Shenzhen Taiflex)	100% owned third-tier subsidiary
Koatech Technology Corporation (Koatech)	53.86% owned subsidiary
Innatech Co., Ltd. (Innatech)	Its chairperson is the Company’s chairperson

(2) Significant transactions with related parties

A. Sales

	Years ended December 31	
	2017	2016
Subsidiaries	$ 2,340,459	$ 3,840,228

The sales prices of related party transactions were determined through mutual agreements based on market conditions. The outstanding balances as of December 31, 2017 and 2016 were unsecured and non-interest bearing and must be settled in cash. The receivables from the related parties were not guaranteed.

B. Purchases

	Years ended December 31	
	2017	2016
Subsidiaries	$ 212,207	$ 264,634

The purchase prices of related party transactions were determined through mutual agreement based on market conditions. The payment terms from the related party suppliers were comparable with the ones from the non-related party suppliers.

C. Accounts receivable - related parties

	December 31, 2017	December 31, 2016
Subsidiaries	$ 1,543,450	$ 1,111,868

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

D. Other receivables - related parties

(a) Non-financing

	December 31, 2017	December 31, 2016
Subsidiaries	$ 65,230	$ 252,440

(b) Financing

	December 31, 2017					
	Maximum Balance	Ending Balance	Amount Actually Drawn	Interest Receivable	Interest Rate	Interest Income (Expense)
Subsidiaries	$ 1,651,040	$ 1,610,820	$ 990,477	$ 2,260	1.2%～7.0%	$13,384

	December 31, 2016					
	Maximum Balance	Ending Balance	Amount Actually Drawn	Interest Receivable	Interest Rate	Interest Income (Expense)
Subsidiaries	$ 605,700	$ 581,022	$ 323,575	$ 1,246	1.5%～7.0%	$ 3,188

E. Accounts payable - related parties

	December 31, 2017	December 31, 2016
Subsidiaries	$ 64,273	$ 15,327

F. Other payables – related parties

	December 31, 2017	December 31, 2016
Subsidiaries	$ 11,439	$ 730
Other related parties	441	4,950
Total	$ 11,880	$ 5,680

G. Acquisition of property, plant, and equipment

	Acquisition Price	
	December 31, 2017	December 31, 2016
Associates	$ -	$ 3,200

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

H. Compensation to key management

	Years ended December 31			
	2017		2016	
Short-term employee benefits	$	64,637	$	65,570
Post-employment benefits		6,396		940
Total	$	71,033	$	66,510

8. PLEDGED ASSETS

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

	Carrying Amount				
	December 31, 2017		December 31, 2016		Purpose of Pledge
Time deposits (Note)	$	20,354	$	20,295	Customs Guarantee
Buildings		43,626		44,976	Letters of credit, collateral for short-term loans
Total	$	63,980	$	65,271	

Note: Those assets were recognized as other current assets.

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

Details of the Company’s unused letters of credit as of December 31, 2017 were as follows:

	L / C Amount	
NTD	NT$	6,178 thousand
JPY	JPY	41,156 thousand
USD	US$	7,932 thousand

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

(1) The Board of Directors resolved on the capital increase of US$35,000 thousand to Richstar Co., Ltd. for the reinvestment in subsidiaries in China, e.g. Rudong Fuzhan Scientific Co., Ltd., on December 5, 2017. The proposal was approved by the Investment Commission, Ministry of Economic Affairs on January 12, 2018. As of February 27, 2018, the investment had yet to be made.

(2) Amendments to the Income Tax Act passed the third reading by the Legislative Yuan on January 18, 2018. According to the amended Income Tax Act, profit-seeking enterprise income tax rate would increase from 17% to 20% from January 2018 onwards. The change will result in increases in deferred income tax assets and deferred income tax liabilities of NT$16,981 thousand and NT$31,111 thousand, respectively.

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

(3) A fire broke out in the Company's subsidiary, Taiflex Scientific (Kunshan) Co., Ltd. on the morning of January 25, 2018 and damaged parts of the plants, equipment and inventories. Those assets were covered by fire insurance policies. The insurance company is handling the claims.

12. OTHERS

(1) Categories of financial instruments

Financial assets

	December 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss:		
Derivative financial instruments not designated in a hedging relationship –		
Forward foreign exchange contracts	$ 44	$ 6,557
Non-derivative financial assets - Stocks	16,677	16,245
Loans and receivables:		
Cash and cash equivalents (excluding cash on hand and petty cash)	1,230,355	2,574,272
Receivables	3,149,008	2,142,894
Other financial assets, current	20,354	20,295

Financial liabilities

	December 31, 2017	December 31, 2016
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments not designated in a hedging relationship –		
Forward foreign exchange contracts	$ 4,036	$ －
Financial liabilities at amortized cost:		
Short-term loans	－	4,287
Payables	2,184,281	1,846,248
Long-term loans (including current portion)	138,182	541,321

(2) Objectives of financial risk management

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

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

(3) Market risk

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

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

A. Foreign currency risk

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

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

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

B. Interest rate risk

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

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

C. Equity price risk

Equity securities of listed domestic companies held by the Company are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on equity portfolio are submitted to the Company’s senior management on a regular basis. The Board of Directors shall review all equity investment decisions and approve where appropriate.

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

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

For the year ended December 31, 2017

Key risk	Variation	Sensitivity of profit and loss
Foreign currency risk	NTD/USD Foreign currency +/− 1%	−/+ NT$10,809 thousand
	NTD/CNY Foreign currency +/− 1%	−/+ NT$ 1,455 thousand
Interest rate risk	Market rate +/− 10 basis points	+/− NT$ 1,092 thousand

For the year ended December 31, 2016

Key risk	Variation	Sensitivity of profit and loss
Foreign currency risk	NTD/USD Foreign currency +/− 1%	−/+ NT$13,077 thousand
	NTD/CNY Foreign currency +/− 1%	−/+ NT$ 513 thousand
Interest rate risk	Market rate +/− 10 basis points	+/− NT$ 2,029 thousand

(4) Credit risk management

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

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

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

(5) Liquidity risk management

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

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

Non-derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2017					
Borrowings	$ 19,143	$ 119,091	$ –	$ –	$ 138,234
Payables	2,184,281	–	–	–	2,184,281
December 31, 2016					
Borrowings	$ 4,471	$ 541,321	$ –	$ –	$ 545,792
Payables	1,846,248	–	–	–	1,846,248

Derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2017					
Inflows	$ 566,937	$ –	$ –	$ –	$ 566,937
Outflows	576,387	–	–	–	576,387
Net	$ (9,450)	$ –	$ –	$ –	$ (9,450)
December 31, 2016					
Inflows	$ 727,398	$ –	$ –	$ –	$ 727,398
Outflows	735,070	–	–	–	735,070
Net	$ (7,672)	$ –	$ –	$ –	$ (7,672)

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

(6) Fair values of financial instruments

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

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

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

B. Fair value of financial instruments measured at amortized cost

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

C. Information on the fair value hierarchy of financial instruments

Please refer to Note 12(8) for details.

(7) Derivative financial instruments

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

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

Currency	Contract period	Contract amount (in thousands)
2017.12.31		
CNY to NTD	2017.09～2018.04	CNY 126,000/NT$ 566,937

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

(8) Fair value hierarchy

A. Definition of fair value hierarchy

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

Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities at the measurement date
Level 2 inputs are inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly
Level 3 inputs are unobservable inputs for the asset or liability

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

B. Hierarchy of fair value measurement

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

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Financial assets:				
Financial assets at fair value through profit or loss				

(Continued)

	Level 1	Level 2	Level 3	Total
Forward foreign exchange contracts	$ —	$ 44	$ —	$ 44
Stocks	16,677	—	—	16,677
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	4,036	—	4,036

(Concluded)

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	$ —	$ 6,557	$ —	$ 6,557
Stocks	16,245	—	—	16,245
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	—	—	—

For the years ended December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value hierarchy.

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

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

	December 31, 2017			December 31, 2016		
	Foreign currencies (in thousands)	Exchange rate	NTD	Foreign currencies (in thousands)	Exchange rate	NTD
Financial assets						
Monetary items						
USD	$ 82,143	29.8300	$ 2,450,326	$ 79,748	32.2790	$ 2,574,186
CNY	32,640	4.5745	149,312	11,407	4.6225	52,729
Financial liabilities						
Monetary items						
USD	$ 45,871	29.8300	$ 1,368,332	$ 39,261	32.2790	$ 1,267,306
JPY	222,018	0.2648	58,790	151,316	0.2757	41,718

(10)Capital management

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

13. ADDITIONAL DISCLOSURES

(1) Information on significant transactions and investees

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

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

C. Marketable securities held as of December 31, 2017 (excluding investments in subsidiaries, associates and joint ventures): Please refer to Table 3.

D. Individual securities acquired or disposed of with accumulated amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2017: None.

E. Acquisition of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2017: None.

F. Disposal of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2017: None.

G. Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital for the year ended December 31, 2017: Please refer to Table 4.

H. Receivables from related parties of at least NT$100 million or 20 percent of the paid-in capital as of December 31, 2017: Please refer to Table 5.

I. Direct or indirect significant influence or control over the investees for the year ended December 31, 2017 (excluding investments in China): Please refer to Table 6.

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

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

TABLE 1: FINANCING PROVIDED TO OTHERS

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Financing Company	Counterparty	Financial Statement Account (Note 2)	Whether a related party	Maximum Balance for the Period (Note 3)	Ending Balance (Note 10)	Amount Actually Drawn (Note 11)	Interest Rate Range	Nature of Financing (Note 4)	Transaction Amounts (Note 5)	Reason for Financing (Note 6)	Allowance for Doubtful Accounts	Collateral		Financing Limits for Each Borrower	Financing Company's Total Financing Amount Limits	Note
													Item	Value			
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	$ 439,040	$ 417,620	$ 90,767	1.20%~7.00%	2	–	Operating capital	–	–	–	$ 1,425,370	$ 2,850,740	(Note 7)
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Other receivables - related parties	Y	1,212,000	1,193,200	899,710	1.20%~7.00%	2	–	Operating capital	–	–	–	1,425,370	2,850,740	(Note 7)
1	Taistar Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	125,440	119,320	59,660	1.20%~2.50%	2	–	Operating capital	–	–	–	352,183	704,367	(Note 9)

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

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

Note 3: The maximum balance of financing provided to others for the year ended December 31, 2017.

Note 4: Nature of Financing are coded as follows:
(1) Business transaction is coded "1".
(2) Short-term financing is coded "2".

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

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

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

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

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

Note 10: Financing provided is limited to the parent company in Taiwan or subsidiaries that the parent company holds, directly and indirectly, 100% of the voting shares. The financing provided to any single entity shall not exceed 20% of the net worth in the most recent financial statements of the financing company. Total financing shall not exceed 40% of the net worth in the most recent financial statements of the financing company.

Note 11: If public companies, pursuant to Paragraph 1, Article 14 of Regulations Governing Loaning of Funds and Making of Endorsements / Guarantees by Public Companies, resolve each individual lending at the board meetings, the amounts resolved before drawing shall be the publicly-announced balance to disclose the risk they assume; provided however, if any repayment is made subsequently, the outstanding balance after such repayment shall be disclosed to reflect the risk adjusted. If public companies, pursuant to Paragraph 2, Article 14 of the same Regulations, authorize the chairperson by board resolution, within a certain monetary limit and a period not to exceed one year, to give loans in instalments or to make a revolving credit line available, the amount resolved shall be the publicly-announced balance. Although repayment may be made subsequently, as drawings are likely to happen again, the amount of financing resolved by the board shall be recorded as the publicly-announced balance.

Note 12: This is the ending balance after evaluation.

TABLE 2: ENDORSEMENT/GUARANTEE PROVIDED TO OTHERS

(In Thousands of New Taiwan Dollars)

No (Note 1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 3)	Maximum Balance for the Period (Note 4)	Ending Balance (Note 5)	Amount Actually Drawn (Note 6)	Amount of Endorsement/ Guarantee Secured by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Worth per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowed (Note 3)	Endorsement Provided by Parent Company to Subsidiaries	Endorsement Provided by Subsidiaries to Parent Company	Endorsement Provided to Subsidiaries in China
		Name	Nature of Relationship (Note 2)										
0	Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	2	$ 3,563,426	$ 125,440	$ 119,320	$ 44,745	—	1.67%	$ 3,563,426	Y	N	N
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	3	3,563,426	1,249,961	1,241,945	133,370	—	17.43%		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	3	3,563,426	1,864,640	1,246,270	182,023	—	17.49%		Y	N	Y

Note 1: Companies are coded as follows:

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

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

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

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

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

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

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

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

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

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

Note 4: The maximum endorsement/guarantee balance for the year ended December 31, 2017.

Note 5: As of December 31, 2017, the Company assumed endorsement or guarantee liabilities for endorsement/guarantee contracts signed or bill facilities approved. All other related endorsement or guarantee shall be included in the balance of guarantee/endorsement.

Note 6: This is the ending balance after evaluation.

TABLE 3: MARKETABLE SECURITIES HELD AS OF DECEMBER 31, 2017 (EXCLUDING INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES)

(In Thousands of New Taiwan Dollars)

Name of Held Company	Type of Marketable Securities (Note 1)	Name of Marketable Securities (Note 1)	Relationship with the Company (Note 2)	Financial Statement Account	December 31, 2017				Note
					Shares (In Thousands)	Carrying Amount (Note 3)	Percentage of Ownership	Fair Value	
Taiflex Scientific Co., Ltd.	Not listed (OTC) stocks	Exploit Technology Co., Ltd.	—	Financial assets measured at cost, non-current	25	—	0.30%	—	—
	Not listed (OTC) stocks	Kyoritsu Optronics Co., Ltd.	—	Financial assets measured at cost, non-current	741	—	18.10%	—	—
	Listed stocks	Zhen Ding Technology Holding Limited	—	Financial assets at fair value through profit or loss, current	255	$ 16,677	0.03%	$ 16,677	—

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

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

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

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

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction (Note 1)		Notes/Accounts Receivable (Payable)		Note
			Purchases/ Sales	Amount	Percentage to Total	Credit / Payment Terms	Unit Price	Credit / Payment Terms	Ending Balance	Percentage to Total	
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	Purchases	$ 211,690	4.23%	150 days end of month	—	—	$ (56,985)	(3.48%)	—
	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	Sales	156,469	2.12%	150 days end of month	—	—	84,857	3.86%	—
	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	Sales	2,183,875	29.58%	150 days end of month	—	—	1,458,593	66.38%	—
Taiflex Scientific (Kunshan) Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent company	Sales	211,690	5.69%	150 days end of month	—	—	56,985	2.27%	—
	Taiflex Scientific Co., Ltd.	The company's ultimate parent company	Purchases	156,469	4.46%	150 days end of month	—	—	(84,857)	(9.05%)	—
Shenzhen Taiflex Electronic Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent company	Purchases	2,183,875	86.37%	150 days end of month	—	—	(1,458,593)	(97.66%)	—

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

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

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Ratio (times)	Overdue		Amounts Received in Subsequent Periods	Allowance for Doubtful Accounts	Note
					Amount	Action Taken			
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	$ 59,004	(Note 1)	－	－	$ 450	－	－
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	84,857	2.98	－	－	3,241	－	－
Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	1,458,593	1.71	－	－	261,957	－	－
Taiflex Scientific (Kunshan) Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent company	56,985	6.00	－	－	33,941	－	－

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

TABLE 6: INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE OR CONTROLS DIRECTLY OR INDIRECTLY (EXCLUDING INVESTEES IN MAINLAND CHINA)

(In Thousands of New Taiwan Dollars)

Investor	Investee	Business Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2017			Net Income (Losses) of Investee	Share of Profits/Losses	Note
				December 31, 2017	December 31, 2016	Shares (In Thousands)	Shareholding Percentage	Carrying Value			
Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	Belize	Investment holding	$ 822,194	$ 822,194	25,665	100.00%	$ 1,763,948	$ 88,603	$ 88,867	(Note 1)
Taiflex Scientific Co., Ltd.	Leadmax Limited	Samoa	Trading of electronic materials	337	337	10	100.00%	15,730	890	890	–
Taiflex Scientific Co., Ltd.	Koatech Technology Corporation	Taiwan	Manufacturing and selling of electronic materials and components	294,102	294,102	27,400	53.86%	230,964	26,508	8,262	(Note 2)
Taiflex Scientific Co., Ltd.	Innovision FlexTech Corp.	Taiwan	Manufacturing and selling of electronic materials	102,894	102,894	3,611	15.67%	31,518	12,587	–	(Note 3)
Taiflex Scientific Co., Ltd.	TFS Co., Ltd.	Belize	Investment holding	478,797	192,657	15,520	100.00%	486,900	63,853	63,853	–
Taiflex Scientific Co., Ltd.	Taiflex Scientific Japan Co., Ltd.	Japan	Trading of electronic materials and technical support	16,260	16,260	6	100.00%	16,529	(444)	(444)	–
TFS Co., Ltd.	Richstar Co., Ltd.	Samoa	Investment holding	478,563	192,423	15,510	100.00%	504,927	63,733	63,733	–
Taistar Co., Ltd.	TSC International Ltd.	Cayman Islands	Investment holding	801,604	801,604	25,010	100.00%	1,716,662	103,620	103,620	–
Koatech Technology Corporation	KTC Global Co., Ltd.	Samoa	Investment holding	28,649	28,649	960	100.00%	17,327	452	452	–
KTC Global Co., Ltd.	KTC PanAsia Co., Ltd.	Samoa	Investment holding	28,500	28,500	955	100.00%	17,850	(52)	(52)	–

Note 1: Including unrealized gain/loss between affiliates.
Note 2: Including amortization of fixed assets.
Note 3: The net amount of investments accounted for under the equity method was NT$0 thousand.

TABLE 7: INFORMATION ON INVESTMENTS IN MAINLAND CHINA

(In Thousands of New Taiwan Dollars)

Investee	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Profits/ Losses of Investee	Percentage of Ownership (Direct or Indirect Investment)	Share of Profits/ Losses	Carrying Amount as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 2017
					Outflow	Inflow						
Kunshan Taiflex Electronic Material Co., Ltd.	Trading of coating materials for high polymer film and copper foil	$184,126 (US$5,603,350)	Through reinvestment of a company established in the third area	$ 32,536	–	–	$ 32,536	$1,245	100.00%	$1,245	$ 246,470	$ 128,532
Taiflex Scientific (Kunshan) Co., Ltd.	Manufacturing and selling of coating materials for high polymer film and copper foil	$767,141 (US$24,000,000)	Through reinvestment of a company established in the third area	767,141	–	–	767,141	102,395	100.00%	102,395	1,469,871	–
Kunshan Koatech Technology Corporation	Wholesale and act as a commission agent of electronic materials and components	$28,351 (US$950,000)	Through reinvestment of a company established in the third area	28,351	–	–	28,351	(10)	53.86%	(5)	9,607	–
Shenzhen Taiflex Electronic Co., Ltd.	Trading of coating materials for high polymer film and copper foil	$479,160 (US$15,500,000)	Through reinvestment of a company established in the third area	193,020	286,140	–	479,160	63,883	100.00%	63,883	504,732	–

Accumulated Outflow of Investment from Taiwan to Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$1,307,188	$2,399,726	$4,276,111

Note 1: The methods for investment in Mainland China are divided into the following three types. Please specify the type.
(1) Direct investment in Mainland China.
(2) Investment in Mainland China through companies in the third area.
(3) Others.

Note 2: Significant transactions with the investees in China directly or indirectly through the third area and the relevant prices, payment terms and unrealized gains and losses:
(1) Purchase, ending balance of related payables and their weightings: see Table 4.
(2) Sales, ending balance of related receivables and their weightings: see Tables 4 and 5.
(3) The transaction amount and gain or loss arising from property transactions: N/A.
(4) Ending balance of endorsements/guarantees or collateral provided and the purposes: see Table 2.
(5) Maximum balance, ending balance, interest rate range and total interest of current period from financing provided to others: see Table 1.
(6) Transactions that have significant impact on profit or loss or the financial position of current period, such as services rendered or received: N/A.

TAIFLEX SCIENTIFIC COMPANY LIMITED

1. STATEMENT OF CASH AND CASH EQUIVALENTS

December 31, 2017

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Petty cash		$ 150	
Cash on hand		102	
Subtotal		252	
Bank deposits:			
Demand deposits in NTD		74,679	Exchange rate:
Checking account in NTD		20	
Demand deposits - USD	US$ 18,885 thousand	563,335	29.83
Demand deposits – JPY	JPY 13,837 thousand	3,664	0.2648
Demand deposits – HKD	HK$ 7 thousand	25	3.818
Demand deposits – CNY	CNY 32,640 thousand	149,312	4.5745
Time deposits in NTD		320,000	
Time deposits - USD	US$ 4,000 thousand	119,320	
Subtotal		1,230,355	
Total		$ 1,230,607	

TAIFLEX SCIENTIFIC COMPANY LIMITED
2. STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT
December 31, 2017

In Thousands of New Taiwan Dollars

Name	Description	Number of Stocks	Fair Value		Note
			Unit Price	Total	
Listed stocks	Zhen Ding Technology Holding Limited	254,625	65.50	$ 16,677	
Forward foreign exchange contract	Notional amount of CNY 6,000 thousand			44	
				$ 16,721	

TAIFLEX SCIENTIFIC COMPANY LIMITED
3. STATEMENT OF NOTES RECEIVABLE, NET
December 31, 2017

In Thousands of New Taiwan Dollars

Customer	Description	Amount	Note
Company A		$ 638	
Company B		878	
Company C		2,733	
Company D		2,980	
Company E		1,216	
Others (Note)		1,413	
Total		9,858	
Less: allowance for doubtful accounts		—	
Net		$ 9,858	

Note: The amount of each customer included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED

4. STATEMENT OF ACCOUNTS RECEIVABLE, NET

December 31, 2017

In Thousands of New Taiwan Dollars

Customer	Description	Amount	Note
Company F		$ 73,688	
Company G		64,985	
Company H		58,512	
Company I		58,178	
Company J		57,364	
Company K		47,058	
Company L		45,289	
Others (Note)		239,103	
Total		644,177	
Less: allowance for doubtful accounts		(145,700)	
Net		$ 498,477	

Note: The amount of each customer included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED

5. STATEMENT OF ACCOUNTS RECEIVABLE – RELATED PARTIES

December 31, 2017

In Thousands of New Taiwan Dollars

Customer	Description	Amount	Note
Shenzhen Taiflex Electronic Co., Ltd.		$ 1,458,593	
Taiflex Scientific (Kunshan) Co., Ltd.		84,857	
Total		1,543,450	
Less: allowance for doubtful accounts		—	
Net		$ 1,543,450	

TAIFLEX SCIENTIFIC COMPANY LIMITED
6. STATEMENT OF OTHER RECEIVABLES
December 31, 2017

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Other receivables	Receivables from sales of scraps	$ 5,630	
Income tax refund receivable	Business tax refund receivable	33,012	
Earned revenue receivable	Estimated interest income from time deposits	614	
Total		$ 39,256	

TAIFLEX SCIENTIFIC COMPANY LIMITED
7. STATEMENT OF OTHER RECEIVABLES – RELATED PARTIES
December 31, 2017

In Thousands of New Taiwan Dollars

Customer	Description	Amount	Note
Taiflex Scientific (Kunshan) Co., Ltd.	Items purchased on behalf of others, financing and interests	$ 954,007	
Shenzhen Taiflex Electronic Co., Ltd.	Items purchased on behalf of others, financing and interests	103,932	
Koatech Technology Corporation		28	
Total		$ 1,057,967	

TAIFLEX SCIENTIFIC COMPANY LIMITED

8. STATEMENT OF INVENTORIES

December 31, 2017

In Thousands of New Taiwan Dollars

Item	Cost	Net Realizable Value	Note
Raw materials	$ 394,113	$ 357,939	
Inventories in transit	20,873	20,873	
Supplies	1,035	1,035	
Work in process	19,548	19,548	
Finished goods	361,882	348,991	
Merchandise	3,992	3,992	
Total	801,443		
Less: allowance for inventory valuation losses	(49,065)		
Net	$ 752,378		

TAIFLEX SCIENTIFIC COMPANY LIMITED

9. STATEMENT OF PREPAYMENTS

December 31, 2017

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Prepaid expenses		$ 20,193	
Other prepayments		7,479	
Others (Note)		1,002	
Total		$ 28,674	

Note: The amount of each item included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED

10. STATEMENT OF OTHER CURRENT ASSETS

December 31, 2017

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Other financial assets		$ 20,354	
Other current assets – other		517	
Temporary payments		2,973	
Others (Note)		181	
Total		$ 24,025	

Note: The amount of each item included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED

11. STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

For the Year Ended December 31, 2017

In Thousands of New Taiwan Dollars

Investee	Beginning Balance		Additions		Decrease		Share of Profits/Losses of Investee	Exchange Differences Arising on Translation of Foreign Operations	Unrealized Gains and Losses on Available-for-Sale Financial Assets	Ending Balance			Market Value or Net Asset Value	Valuation Basis	Collateral / Pledge	Note
	Shares	Amount	Shares	Amount	Shares	Amount				Shares	Percentage of Ownership	Amount				
Taistar Co., Ltd.	25,665,000	$ 1,677,148	–	$ 17,381	–	$ –	$ 88,867	$ (19,448)	$ –	25,665,000	100.00%	$ 1,763,948	$ 1,760,917	Equity method	None	(Note 1)
Leadmax Limited	10,000	16,077	–	–	–	–	890	(1,237)	–	10,000	100.00%	15,730	15,730	Equity method	None	
Innovision FlexTech Corp.	4,513,402	31,518	–	–	902,680	–	–	–	–	3,610,722	15.67%	31,518	40,386	Equity method	None	(Note 2)
Koatech Technology Corp.	27,400,252	222,766	–	–	–	–	8,262	(64)	–	27,400,252	53.86%	230,964	131,308	Equity method	None	
TFS Co., Ltd.	6,020,000	134,508	9,500,000	289,153	–	–	63,853	(614)	–	15,520,000	100.00%	486,900	505,241	Equity method	None	(Note 3)
Taiflex Scientific Japan Co., Ltd.	6,000	17,660	–	–	–	–	(444)	(687)	–	6,000	100.00%	16,529	16,529	Equity method	None	
Subtotal		2,099,677		306,534		–	161,428	(22,050)	–			2,545,589				
Less: accumulated impairment		(31,518)		–		–	–	–	–			(31,518)				
Net		$ 2,068,159		$ 306,534		$ –	$ 161,428	$ (22,050)	$ –			$ 2,514,071				

(Note 1): The increase was a result of downstream transactions between subsidiaries of NT$ 17,381 thousand.

(Note 2): The decrease in shares was a result of capital reduction for deficit compensation by the investee.

(Note 3): The increase was a result of new investment amounting to NT$ 286,140 thousand and downstream transactions between subsidiaries of NT$ 3,013 thousand.

TAIFLEX SCIENTIFIC COMPANY LIMITED

12. STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT

For the Year Ended December 31, 2017

In Thousands of New Taiwan Dollars

Item	Beginning Balance	Changes			Ending Balance	Collateral / Pledge	Note
		Additions	Disposals	Reclassification			
Original cost							
Buildings	$ 700,219	$ 1,272	$ -	$ 23,503	$ 724,994	Some property, plant and equipment, such as buildings, are pledged as collateral.	
Machinery and equipment	1,989,189	15,306	(3,442)	38,625	2,039,678		
Hydropower equipment	238,006	3,993	(19)	17,197	259,177		
Testing equipment	199,856	14,614	(213)	14,425	228,682		
Miscellaneous equipment	128,184	3,776	(3,039)	24,673	153,594		
Subtotal	3,255,454	38,961	(6,713)	118,423	3,406,125		
Construction in progress and equipment awaiting inspection	412,601	244,436	-	(118,423)	538,614		
Total cost	$ 3,668,055	$ 283,397	$ (6,713)	$ -	$ 3,944,739		

TAIFLEX SCIENTIFIC COMPANY LIMITED

13. STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

For the Year Ended December 31, 2017

In Thousands of New Taiwan Dollars

Item	Beginning Balance	Changes			Ending Balance	Note
		Increase	Decrease	Reclassification		
Buildings	$ 144,839	$ 30,607	$ -	$ -	$ 175,446	
Machinery and equipment	1,220,380	115,195	(3,415)	-	1,332,160	
Hydropower equipment	189,549	8,045	(19)	-	197,575	
Testing equipment	92,480	15,341	(213)	-	107,608	
Miscellaneous equipment	83,986	11,819	(3,039)	-	92,766	
Total accumulated depreciation	$ 1,731,234	$ 181,007	$ (6,686)	$ -	$ 1,905,555	

TAIFLEX SCIENTIFIC COMPANY LIMITED
14. STATEMENT OF CHANGES IN INTANGIBLE ASSETS
For the Year Ended December 31, 2017

In Thousands of New Taiwan Dollars

Item	Beginning Balance	Additions	Reclassification	Ending Balance	Note
Trademarks	$ 583	$ 89	$ —	$ 672	
Patents	12,836	2,045	—	14,881	
Software cost	87,449	20,069	—	107,518	
Total	$ 100,868	$ 22,203	$ —	$ 123,071	

TAIFLEX SCIENTIFIC COMPANY LIMITED
15. STATEMENT OF CHANGES IN ACCUMULATED AMORTIZATION
OF INTANGIBLE ASSETS
For the Year Ended December 31, 2017

In Thousands of New Taiwan Dollars

Item	Beginning Balance	Increase	Reclassification	Ending Balance	Note
Trademarks	$ 198	$ 59	$ —	$ 257	
Patents	5,489	1,613	—	7,102	
Software cost	58,284	12,056	—	70,340	
Total	$ 63,971	$ 13,728	$ —	$ 77,699	

TAIFLEX SCIENTIFIC COMPANY LIMITED
16. STATEMENT OF DEFERRED INCOME TAX ASSETS
December 31, 2017

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Deferred income tax assets		$ 99,874	

TAIFLEX SCIENTIFIC COMPANY LIMITED
17. STATEMENT OF OTHER NON-CURRENT ASSETS
December 31, 2017

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Refundable deposits	1. Car leases	7,630	
	2. Leases	2,719	
	3. Construction deposits	300	
	4. Others (Note)	106	
		$ 10,755	

Note: The amount of each item included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED
18. STATEMENT OF FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT
December 31, 2017

In Thousands of New Taiwan Dollars

Name	Description	Number of Stocks	Fair Value		Note
			Unit Price	Total	
Forward foreign exchange contract	Notional amount of CNY 120,000 thousand			$ 4,036	

TAIFLEX SCIENTIFIC COMPANY LIMITED
19. STATEMENT OF ACCOUNTS PAYABLES
December 31, 2017

In Thousands of New Taiwan Dollars

Vendor	Description	Amount	Note
Company M		$ 151,971	
Company N		211,441	
Company O		463,931	
Company P		244,340	
Others (Note)		502,524	
Total		$ 1,574,207	

Note: The amount of each vendor included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED
20. STATEMENT OF ACCOUNTS PAYABLE – RELATED PARTIES
December 31, 2017

In Thousands of New Taiwan Dollars

Vendor	Description	Amount	Note
Taiflex Scientific (Kunshan) Co., Ltd.		$ 56,985	
Koatech Technology Corp.		7,288	
Total		$ 64,273	

TAIFLEX SCIENTIFIC COMPANY LIMITED
21. STATEMENT OF OTHER PAYABLES
December 31, 2017

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Bonus payables	Year-end and performance bonuses	$ 136,948	
Employee compensation payables		75,268	
Payables on equipment		78,298	
Others (Note)		243,407	
Total		$ 533,921	

Note: The amount of each item included in Others does not exceed 5% of the account balance

TAIFLEX SCIENTIFIC COMPANY LIMITED
22. STATEMENT OF OTHER PAYABLES – RELATED PARTIES
December 31, 2017

In Thousands of New Taiwan Dollars

Vendor	Description	Amount	Note
Taiflex Scientific Japan Co., Ltd.		$ 10,118	
Innatech Co., Ltd.		441	
Shenzhen Taiflex Electronic Co., Ltd.		1,321	
Total		$ 11,880	

TAIFLEX SCIENTIFIC COMPANY LIMITED
23. STATEMENT OF LONG-TERM LOANS
December 31, 2017

In Thousands of New Taiwan Dollars

Bank	Type	Amount	Current Portion	Unamortized Syndicated Loan Fee	Net	Contract Term	Interest Rate	Collateral	Repayment
Kaohsiung Branch, the Export-Import Bank of ROC	Medium to long term credit loan	$ 38,182	$ 19,091	$ —	$ 19,091	2015.08.13-2019.08.13	2.47%	None	Principal repayment: principal is repayable in 5 installments, each at 6-month intervals, starting August 13, 2017. Interest: interest shall be paid on the 21st of March, June, September and December.
DBS Taiwan	Medium to long term credit loan	100,000	—	—	100,000	2017.12.21-2019.02.21	0.85%	None	Principal repayment: rollover upon maturity; Interest: interest shall be paid on the 21st of each month.
Total		$ 138,182	$ 19,091	$ —	$ 119,091				

TAIFLEX SCIENTIFIC COMPANY LIMITED
24. STATEMENT OF OTHER CURRENT LIABILITIES
December 31, 2017

In Thousands of New Taiwan Dollars

Item	Amount	Note
Receipts under custody	$ 1,666	
Others (Note)	256	
Total	$ 1,922	

Note: The amount of each item included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED
25. STATEMENT OF DEFERRED INCOME TAX LIABILITIES
December 31, 2017

In Thousands of New Taiwan Dollars

Item	Amount	Note
Deferred income tax liabilities	$ 176,294	

TAIFLEX SCIENTIFIC COMPANY LIMITED
26. STATEMENT OF NET DEFINED BENEFIT LIABILITIES – NON-CURRENT
For the Year Ended December 31, 2017

In Thousands of New Taiwan Dollars

Item	Amount	Note
Beginning balance	$ 190,276	
Expenses incurred	20,738	
Funding	(2,760)	
Actuarial loss	(24,130)	
Ending balance	$ 184,124	

TAIFLEX SCIENTIFIC COMPANY LIMITED
27. STATEMENT OF NET REVENUE
For the Year Ended December 31, 2017

In Thousands of New Taiwan Dollars

Item	Quantity	Amount
Electronic materials	37,623,186	$ 7,084,600
PV	4,723,135	371,407
Others	176,182	14,718
Total		7,470,725
Less: Sales returns and discounts and allowances		(87,648)
Net		$ 7,383,077

TAIFLEX SCIENTIFIC COMPANY LIMITED
28. STATEMENT OF COST OF REVENUE
For the Year Ended December 31, 2017
In Thousands of New Taiwan Dollars

Item			Amount
Manufacturing:			
	Raw materials, beginning balance		$ 240,677
	Add:	Raw materials purchased	4,751,306
	Less:	Raw materials, ending balance	(414,986)
		Others	(111,511)
		Sale of raw materials	(91,738)
		Scrapped	(1,237)
	Raw materials used		4,372,511
	Direct labor		293,738
	Manufacturing expenses		1,085,560
	Total manufacturing cost		5,751,809
	Add:	Work in process, beginning balance	97,581
	Less:	Work in process, ending balance	(19,548)
	Cost of finished goods		5,829,842
	Add:	Finished goods, beginning balance	236,432
		Purchases	15,547
	Less:	Finished goods, ending balance	(361,882)
		Others	(41,981)
		Scrapped	(1,597)
	Total cost of production and marketing		5,676,361
Trading:			
	Merchandise, beginning balance		2,977
	Add:	Purchases	120,005
	Less:	Merchandise, ending balance	(3,992)
		Others	(249)
	Cost of goods sold		5,795,102
	Cost of raw materials sold		94,116
	Loss on inventory scrapped		2,834
	Gain on inventory value recovery		(8,662)
	Revenue from sale of scraps		(24,107)
	Others		16,410
	Total cost of revenue		$ 5,875,693

TAIFLEX SCIENTIFIC COMPANY LIMITED
29. STATEMENT OF OPERATING EXPENSES
For the Year Ended December 31, 2017

In Thousands of New Taiwan Dollars

Item	Sales and Marketing Expenses	General and Administrative Expenses	Research and Development Expenses	Total
Payroll	$ 53,839	$ 175,862	$ 88,449	$ 318,150
Commissioned research	—	—	66,214	66,214
Export	113,970	—	—	113,970
Others (Note)	35,748	114,190	86,874	236,812
Total	$ 203,557	$ 290,052	$ 241,537	$ 735,146

Note: The amount of each item included in Others does not exceed 5% of the account balance.

TAIFLEX SCIENTIFIC COMPANY LIMITED

30. STATEMENT OF NON-OPERATING INCOME AND EXPENSES

For the Year Ended December 31, 2017

In Thousands of New Taiwan Dollars

Item	Amount
Interest income	$ 24,690
Dividend income	560
Rend income	312
Miscellaneous income	13,602
Total other income	39,164
Foreign exchange gain (loss), net	(39,022)
Net gain (loss) of financial assets and liabilities at fair value through profit or loss	(11,963)
Other losses	(1,200)
Total other gains and losses	(52,185)
Finance costs	(17,427)
Share of profit or loss of subsidiaries and associates under the equity method	161,428
Total non-operating income and expenses	$ 130,980