TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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

Notice to readers

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

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Representation Letter

The entities that are required to be included in the combined financial statements of Taiflex Scientific Company Limited as of and for the year ended December 31, 2018, under the “Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No. 10. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Therefore, Taiflex Scientific Company Limited does not prepare a separate set of combined financial statements.

Very truly yours,

Taiflex Scientific Company Limited

By

Ta-Wen Sun

Chairperson

February 20, 2019

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017
(In Thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2018	December 31, 2017
Current assets			
Cash and cash equivalents	4, 6(1)	$ 1,862,586	$ 1,934,276
Financial assets at fair value through profit or loss - current	4, 6(2)	36,438	17,463
Notes receivable, net	4, 6(3)	1,218,019	2,027,778
Accounts receivable, net	4, 6(4)	3,678,098	2,748,633
Other receivables		54,605	55,865
Inventories, net	4, 6(5)	1,464,307	1,626,286
Prepayments		85,594	95,630
Other current assets	8	25,412	26,746
Total current assets		8,425,059	8,532,677
Non-current assets			
Financial assets at fair value through other comprehensive income - non-current	4, 6(6)	-	-
Financial assets carried at cost - non-current	4, 6(7)	-	-
Investments accounted for under the equity method	4, 6(8)	51,470	-
Property, plant and equipment	4, 6(9)	3,020,888	2,876,458
Intangible assets	4, 6(10,12)	114,708	121,378
Deferred income tax assets	4, 6(25)	157,314	130,697
Other non-current assets	4, 6(11)	172,451	72,026
Total non-current assets		3,516,831	3,200,559
Total assets		$ 11,941,890	$ 11,733,236

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

(Continued)

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS-(Continued)
December 31, 2018 and 2017
(In Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	December 31, 2018	December 31, 2017
Current liabilities			
Short-term loans	6(13)	$ 1,362,054	$ 656,596
Financial liabilities at fair value through profit or loss - current	6(14)	2,656	13,351
Contract liabilities – current	6(20)	2,372	-
Notes payable		65,772	324
Accounts payable		1,672,749	2,416,532
Other payables		640,267	666,715
Current income tax liabilities	4, 6(25)	194,512	115,338
Current portion of long-term loans	6(16)	12,258	44,825
Lease payable - current	6(15)	758	639
Other current liabilities		6,062	5,777
Total current liabilities		3,959,460	3,920,097
Non-current liabilities			
Long-term loans	6(16)	329,674	210,871
Deferred income tax liabilities	4, 6(25)	130,944	176,327
Lease payable – non-current	6(15)	1,685	2,499
Net defined benefit liabilities - non-current	4, 6(17)	138,423	184,124
Other non-current liabilities	4, 12	255	255
Total non-current liabilities		600,981	574,076
Total liabilities		4,560,441	4,494,173
Equity attributable to shareholders of the parent			
Capital	6(18)		
Common stock		2,091,197	2,087,802
Capital collected in advance		-	665
Capital surplus	6(18)	1,446,639	1,441,339
Retained earnings			
Legal capital reserve		815,590	742,131
Special capital reserve		75,546	102,158
Unappropriated earnings		2,999,383	2,845,730
Total retained earnings		3,890,519	3,690,019
Others	4	(166,117)	(92,974)
Treasury stocks	6(18)	-	-
Total equity attributable to shareholders of the parent		7,262,238	7,126,851
Non-controlling interests	4, 6(18)	119,211	112,212
Total equity		7,381,449	7,239,063
Total liabilities and equity		$ 11,941,890	$ 11,733,236

(Concluded)

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018 and 2017
(In Thousands of New Taiwan Dollars)

	Notes	2018	2017
Net revenue	4, 6(20)	$ 9,643,051	$ 11,192,892
Cost of revenue	4, 6(5)	(7,650,007)	(9,058,315)
Gross profit		1,993,044	2,134,577
Unrealized sales profit or loss		-	(95)
Gross profit, net		1,993,044	2,134,482
Operating expenses	4, 6(23)		
Sales and marketing expenses		(445,484)	(473,619)
General and administrative expenses		(450,461)	(414,505)
Research and development expenses		(264,278)	(257,468)
Reversal of expected credit loss	6(21)	136,144	-
Total operating expenses		(1,024,079)	(1,145,592)
Operating income		968,965	988,890
Non-operating income and expenses	6(24)		
Other income		40,828	27,115
Other gains and losses		(111,328)	9,278
Finance costs		(49,589)	(66,185)
Share of profit or loss of associates under the equity method	4, 6(8)	19,666	-
Total non-operating income and expenses		(100,423)	(29,792)
Income before income tax		868,542	959,098
Income tax expense	4, 6(25)	(189,068)	(212,553)
Net income of continuing operations		679,474	746,545
Net income		679,474	746,545
Other comprehensive income (loss)	6(24)		
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit plan		55,488	24,130
Income tax related to components of other comprehensive income that will not be reclassified subsequently		(11,098)	(4,102)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(86,077)	(22,115)
Income tax related to components of other comprehensive income that may be reclassified subsequently to profit or loss		19,368	3,760
Total other comprehensive income, net of tax		(22,319)	1,673
Total comprehensive income		$ 657,155	$ 748,218
Net income (loss) attributable to:	4, 6(26)		
Shareholders of the parent		$ 672,309	$ 734,589
Non-controlling interests		7,165	11,956
		$ 679,474	$ 746,545

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

(Continued)

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME-(Continued)
For the Years Ended December 31, 2018 and 2017
(In Thousands of New Taiwan Dollars)

	Notes	2018	2017
Total comprehensive income (loss) attributable to:			
Shareholders of the parent		$ 650,156	$ 736,316
Non-controlling interests		6,999	11,902
		$ 657,155	$ 748,218
Earnings per share (NT$)	4, 6(26)		
Earnings per share - basic		$ 3.22	$ 3.55
Earnings per share - diluted		$ 3.18	$ 3.53

(Concluded)

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2018 and 2017
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Shareholders of the Parent											
				Retained Earnings			Others					
	Common Stock	Capital Collected in Advance	Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Unrealized Gain/Loss on Financial Assets at Fair Value through Other Comprehensive Income	Treasury Stocks	Total	Non-Controlling Interests	Total Equity
Balance as of January 1, 2017	$ 2,083,252	$ -	$1,407,558	$ 684,163	$ 102,158	$ 2,561,335	$ (74,673)	$ -	$ (98,744)	$ 6,665,049	$ 100,310	$ 6,765,359
Appropriation and distribution of 2016 earnings												
Legal capital reserve				57,968		(57,968)				-		-
Cash dividends for common stocks						(412,254)				(412,254)		(412,254)
Changes in other capital surplus												
Share-based payment	4,550	665	33,781						98,744	137,740		137,740
Net income for the year ended December 31, 2017						734,589				734,589	11,956	746,545
Other comprehensive income (loss) for the year ended December 31, 2017						20,028	(18,301)			1,727	(54)	1,673
Total comprehensive income	-	-	-	-	-	754,617	(18,301)	-	-	736,316	11,902	748,218
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	$ 112,212	$ 7,239,063
Balance as of January 1, 2018	$ 2,087,802	$ 665	$1,441,339	$ 742,131	$ 102,158	$2,845,730	$ (92,974)	$ -	$ -	$ 7,126,851	$ 112,212	$ 7,239,063
Effect of retrospective application						6,600		(6,600)		-		-
Adjusted balance as of January 1, 2018	2,087,802	665	1,441,339	742,131	102,158	2,852,330	(92,974)	(6,600)	-	7,126,851	112,212	7,239,063
Appropriation and distribution of 2017 earnings												
Legal capital reserve				73,459		(73,459)				-		-
Cash dividends for common stocks						(522,799)				(522,799)		(522,799)
Changes in other capital surplus												
Changes in associates accounted for under the equity method			(1,553)							(1,553)		(1,553)
Share-based payment	3,395	(665)	6,853							9,583		9,583
Reversal of special capital reserve					(26,612)	26,612				-		-
Net income for the year ended December 31, 2018						672,309				672,309	7,165	679,474
Other comprehensive income (loss) for the year ended December 31, 2018						44,390	(66,543)			(22,153)	(166)	(22,319)
Total comprehensive income	-	-	-	-	-	716,699	(66,543)	-	-	650,156	6,999	657,155
Balance as of December 31, 2018	$ 2,091,197	$ -	$1,446,639	$ 815,590	$ 75,546	$2,999,383	$ (159,517)	$ (6,600)	$ -	$ 7,262,238	$ 119,211	$ 7,381,449

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from operating activities:		
Income before income tax	$ 868,542	$ 959,098
Adjustments:		
Non-cash income and expense items:		
Depreciation	291,462	273,700
Amortization	28,815	27,876
(Reversal of) expected credit loss	(136,144)	8,967
Net (gain) loss of financial assets (liabilities) at fair value through profit or loss	(7,215)	41,821
Interest expense	49,589	66,185
Interest income	(20,534)	(17,731)
Compensation cost related to share-based payment	-	22,647
Share of profit of associates under the equity method	(19,666)	-
(Gain) loss on disposal of property, plant and equipment	(856)	418
Gain on liquidation of subsidiaries	(35,761)	-
Gain on reversal of impairment loss for non-financial assets	(31,518)	-
Others	79,259	40,257
Changes in operating assets and liabilities:		
Increase in financial assets mandatorily at fair value through profit or loss	(22,455)	(9,926)
Decrease (increase) in notes receivable	809,759	(485,019)
(Increase) decrease in accounts receivable	(792,315)	39,320
Decrease (increase) in other receivables	2,428	(9,481)
Decrease (increase) in inventories	82,720	(534,144)
Decrease in prepayments	10,036	5,943
Decrease in other current assets	1,393	542
Increase in other non-current assets	(888)	(4,719)
Decrease in contract liabilities	(199)	-
Increase (decrease) in notes payable	65,448	(177,569)
(Decrease) increase in accounts payable	(743,783)	283,256
(Decrease) increase in other payables	(10,391)	97,262
Increase (decrease) in other current liabilities	2,761	(10,122)
Increase in net defined benefit liabilities	9,787	17,978
Increase in other non-current liabilities	-	209
Cash generated from operations	480,274	636,768
Interest received	19,366	18,607
Interest paid	(50,153)	(64,929)
Income tax paid	(175,367)	(166,045)
Net cash generated by operating activities	274,120	424,401

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

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TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS-(Continued)
For the Years Ended December 31, 2018 and 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from investing activities:		
Acquisition of property, plant and equipment	$ (464,333)	$ (357,753)
Disposal of property, plant and equipment	1,661	444
Increase in refundable deposits	-	(389)
Decrease in refundable deposits	7,221	-
Acquisition of intangible assets	(10,448)	(22,546)
Increase in other current assets - other financial assets - current	(59)	-
Decrease in other current assets - other financial assets - current	-	16,388
Increase in other non-current assets	(119,009)	-
Net cash used in investing activities	(584,967)	(363,856)
Cash flows from financing activities:		
Increase in short-term loans	705,458	-
Decrease in short-term loans	-	(283,187)
Increase in long-term loans	86,236	-
Repayment of long-term loans	-	(515,102)
Decrease in lease payable	(1,036)	(341)
Distribution of cash dividends	(522,799)	(412,254)
Exercise of employee stock options	9,583	18,653
Purchase of treasury stocks by employees	-	96,440
Net cash generated by (used in) financing activities	277,442	(1,095,791)
Effect of exchange rate changes on cash and cash equivalents	(38,285)	(12,686)
Net decrease in cash and cash equivalents	(71,690)	(1,047,932)
Cash and cash equivalents at beginning of period	1,934,276	2,982,208
Cash and cash equivalents at end of period	$ 1,862,586	$ 1,934,276

(Concluded)

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

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 consolidated financial statements of the Company and its subsidiaries ("the Group") for the years ended December 31, 2018 and 2017 were approved and authorized for issue in the Board of Directors' meeting on February 20, 2019.

3. Newly Issued or Revised Standards and Interpretations

(1) The Group has adopted International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC interpretations and SIC interpretations endorsed by the Financial Supervisory Commission (FSC) to take effect for annual periods beginning on January 1, 2018. The first-time adoption does not have any material impact on the Group except for the following descriptions on the nature and the impact of the newly issued or revised standards and interpretations:

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

IFRS 15 replaces IAS 11 "Construction Contracts", IAS 18 "Revenue" and relevant interpretations. The Group chooses to recognize the cumulative effect of the first-time adoption on the initial application date (i.e. January 1, 2018) in accordance with the transitional provisions of IFRS 15 and to retrospectively apply IFRS 15 to contracts that are not completed on that date.

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

(a) Please refer to Note 4 for accounting policies adopted by the Group after and prior to January 1, 2018.

(b) Prior to January 1, 2018, the Group recognizes revenue from the sale of goods when the products are delivered to the customers. For reporting periods starting on or after January 1, 2018, revenue is recognized when the promised products are transferred to the customers and the performance obligation is satisfied under IFRS 15. The adoption of IFRS 15 does not have any material impact on the Group's recognition of revenue from the sale of goods. As for contracts where a part of the considerations is collected upon signing the contracts, the Group assumes the obligations to transfer the goods subsequently. Prior to January 1, 2018, the considerations collected in advance are recognized as other current liabilities. After January 1, 2018, they are recognized as contract liabilities in accordance with IFRS 15. The Group reclassified NT$2,571 thousand from other current liabilities to contract liabilities on January 1, 2018. In addition, as of December 31, 2018, other current liabilities decreased by NT$2,372 thousand and contract liabilities increased by NT$2,372 thousand comparing to the adoption of IAS 18.

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

(c) Please refer to Notes 4, 5 and 6 for additional disclosures required by IFRS 15.

B. IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39. In accordance with the transitional provisions of IFRS 9, the Group chooses not to restate the comparative periods upon the initial application date (i.e. January 1, 2018). The effects of adopting IFRS 9 are as follows:

(a) The Group adopts IFRS 9 starting from January 1, 2018 and prior to this date, IAS 39 is used. Please refer to Note 4 for details on accounting policies.

(b) In accordance with the transitional provisions of IFRS 9, the business model is assessed and the financial assets are classified into appropriate categories pursuant to IFRS 9 based on the facts and circumstances that exist as of January 1, 2018. The classifications and carrying amounts of those financial assets as of January 1, 2018 are as follows:

IAS 39		IFRS 9	
Measurement Category	Carrying Amount	Measurement Category	Carrying Amount
Fair value through profit or loss (including carried at cost)	$ 17,463	Fair value through profit or loss	$ 17,463
Measured at amortized cost		Measured at amortized cost (including cash and cash equivalents, notes and accounts receivables, financial assets measured at amortized cost and other receivables)	6,786,254
Loans and receivables (including cash and cash equivalents, notes and accounts receivables, other financial assets and other receivables)	6,786,254		
Total	$ 6,803,717	Total	$ 6,803,717

(c) Detailed information concerning the changes in the classifications of financial assets and financial liabilities for the transition from IAS 39 to IFRS 9 as of January 1, 2018 is as follows:

IAS 39		IFRS 9		Adjustment on Retained Earnings	Adjustment on Other Equity
Account	Carrying Amount	Account	Carrying Amount		
Financial assets at fair value through profit or loss					
Designated as at fair value through profit or loss	$ 17,463	At fair value through profit or loss	$ 17,463		
Available-for-sale financial assets (including financial assets carried at cost) (Note)	0	At fair value through other comprehensive income – equity instruments	0	$ 6,600	($ 6,600)
Subtotal	$ 17,463				

(Continued)

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

IAS 39		IFRS 9		Adjustment on Retained Earnings	Adjustment on Other Equity
Account	Carrying Amount	Account	Carrying Amount		
Loans and receivables (Note)					
Cash and cash equivalents (excluding cash on hand)	$ 1,933,624	Cash and cash equivalents (excluding cash on hand)	$ 1,933,624		
Other financial assets	20,354	Other financial assets	20,354		
Notes receivable	2,027,778	Notes receivable	2,027,778		
Accounts receivable	2,748,633	Accounts receivable	2,748,633		
Other receivables	55,865	Other receivables	55,865		
Subtotal	$ 6,786,254				
Total	$ 6,803,717	Total	$ 6,803,717	$ 6,600	($ 6,600)

(Concluded)

Note: Investments classified as available-for-sale financial assets in accordance with IAS 39 include investments in funds, stocks and bonds of listed (OTC) companies and non-listed (OTC) stocks. Details concerning the changes in classification are as follows:

Investments in stocks (both listed (OTC) and non-listed (OTC) stocks)

The assessment is conducted based on the facts and circumstances that exist as of January 1, 2018. As these investments (equity instruments) are not held-for-trading, the Group chooses to designate them as financial assets at fair value through other comprehensive income. The amount reclassified from available-for-sale financial assets (including ones measured at cost) to financial assets at fair value through other comprehensive income was NT$0 thousand as of January 1, 2018. Other relevant adjustments are 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 as of January 1, 2018, the Group would adjust the carrying amount of financial assets at fair value through other comprehensive income. Retained earnings and other equity (i.e. unrealized gain/loss on financial assets at fair value through other comprehensive income) would also be adjusted by NT$6,600 thousand each.

For items classified as loans and receivables in accordance with IAS 39, their cash flows are solely payments of principal and interest on the outstanding principal. Based on the facts and circumstances that exited as of January 1, 2018, as the business model is assessed to be one that collects contractual cash flows, they are measured at amortized cost. In addition, no adjustment arisen from the impairment assessment conducted in accordance with IFRS 9 on January 1, 2018. Thus, the carrying amount as of January 1, 2018 is not affected.

(d) Please refer to Notes 4, 5, 6 and 12 for disclosures required by IFRS 7 and IFRS 9.

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

C. Disclosure Initiative (Amendments to IAS 7 "Statement of Cash Flows")

A reconciliation between the opening and closing balances for liabilities arising from financing activities of the Group is provided. Please refer to Note 12 for disclosures required.

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

No.	Projects of New, Revised and Amended Standards or Interpretations	Effective Date
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
IAS 28	Investments in Associates and Joint Ventures	January 1, 2019
IFRS 9	Prepayment Features with Negative Compensation	January 1, 2019
Improvements to IFRS (2015-2017 cycle)		January 1, 2019
IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019

A. IFRS 16 "Leases"

The new standard requires lessees to adopt a single accounting model for all leases except for short-term leases or leases of low value assets, i.e. to recognize right-of-use assets and lease liabilities on the balance sheets, and lease-related depreciation and interest expense on the statements of comprehensive income. Moreover, lessors continue to classify leases as operating or finance leases. However, more extensive disclosure is required.

B. IFRIC 23 "Uncertainty over Income Tax Treatments"

The interpretation clarifies the application of recognition and measurement requirements under 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 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. Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments allow 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 at fair value through other comprehensive income.

E. Improvements to IFRS (2015-2017 cycle)

IFRS 3 "Business Combinations"

The amendments clarify that when an entity having joint control over a joint operation obtains control of the joint operation, it shall remeasure previously held interests in that business.

IFRS 11 "Joint Arrangements"

The amendments clarify that when an entity that participates in (but has no joint control over) a joint operation obtains joint control over the joint operation, it shall not remeasure previously held interests in that business.

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 an 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. Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

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 abovementioned new, revised and amended standards or interpretations are issued by IASB and endorsed by FSC to take effect from January 1, 2019. Except for A with effects listed below, the adoption of these new, revised and amended standards and interpretations will not have a significant effect on the Group.

A. IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease". The effect of IFRS 16 on the Group is as follows:

(a) For definition of leases, the Group adopts the transitional provisions of IFRS 16 and elects not to reevaluate whether contracts are (or contain) leases on the initial application date (i.e. January 1, 2019). Contracts previously identified as leases under IAS 17 and IFRS 4 are now subject to IFRS 16. For contracts previously identified as not containing leases under IAS 17 and IFRS 4, IFRS 16 does not apply.

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

i. Leases classified as operating leases

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

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

(i) the carrying amount of the right-of-use assets as if IFRS 16 has applied since the beginning of leases. However, the amount shall be discounted by the incremental borrowing rate of lessee as of January 1, 2019, or

(ii) the amount of lease liabilities, adjusted for all prepaid or accrued lease payments associated with the leases (recognized in the balance sheet immediately before January 1, 2019).

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

ii. Leases classified as finance leases

For leases classified as finance leases under IAS 17, the Group plans to reclassify lease assets of NT$2,245 thousand and lease payable of NT$2,443 thousand recognized previously under IAS 17 to right-of-use assets of NT$2,245 thousand and lease liabilities of NT$2,443 thousand, respectively.

(b) The Group provides additional disclosures in accordance with the lessee and lessor provisions of IFRS 16.

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

No.	Projects of New, Revised and Amended Standards or Interpretations	Effective Date
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by IASB
IFRS 17	Insurance Contracts	January 1, 2021
IFRS 3	Definition of a Business	January 1, 2020
IAS 1 and IAS 8	Definition of Material	January 1, 2020

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

A. Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The plan deals with the inconsistency between IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" in relation to the loss of control 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 or losses shall be eliminated in accordance with the treatments of a downstream transaction. However, IFRS 10 requires a full recognition of gains or losses arising from the loss of control of a subsidiary. The amendments place restrictions on the above-mentioned rules of IAS 28 so that gains or losses shall be recognized in full for sale or contribution of assets that constitute a business as defined in IFRS 3.

The amendments also change IFRS 10 so that gains or losses arising from the sale or contributions of a subsidiary, that does not constitute a business as defined in IFRS 3, between an investor and its associate or joint venture are recognized only to the extent of their shares owned by non-investors.

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

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

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

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

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

4. Summary of Significant Accounting Policies

(1) Statement of compliance

The consolidated financial statements for the years ended December 31, 2018 and 2017 have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, IFRIC interpretations and SIC interpretations endorsed and issued into effect by FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

<u>Preparation principle of consolidated financial statements</u>

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if it has:

A. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)

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

B. exposure, or rights, to variable returns from its involvement with the investee, and

C. the ability to use its power over the investee to affect its returns

When the Group directly or indirectly has less than a majority of the voting or similar rights over an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

A. the contractual arrangement with the other vote holders of the investee

B. rights arising from other contractual arrangements

C. the voting rights and potential voting rights

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three control elements.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are adjusted to be in line with the accounting policies used by the Group. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests (NCIs) even if this results in a deficit balance of the NCIs.

If the Group loses control of a subsidiary, it:

A. derecognizes the assets (including goodwill) and liabilities of the subsidiary;

B. derecognizes the carrying amount of any NCI;

C. recognizes the fair value of the consideration received;

D. recognizes the fair value of any investment retained;

E. recognizes any surplus or deficit in profit or loss for the period; and

F. reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Main Business	Percentage of Ownership	
			2018.12.31	2017.12.31
The Company	Taistar Co., Ltd. (Taistar)	Investment holding	100.00%	100.00%
The Company	Leadmax Ltd. (Leadmax)	Trading of electronic materials	100.00%	100.00%
The Company	Koatech Technology Corporation (Koatech)	Manufacturing and selling of electronic materials and components	53.86%	53.86%
The Company	TFS Co., Ltd. (TFS)	Investment holding	100.00%	100.00%

(Continued)

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

Investor	Subsidiary	Main Business	Percentage of Ownership	
			2018.12.31	2017.12.31
The Company	Taiflex Scientific Japan Co., Ltd. (Japan Taiflex)	Trading and technical support of electronic materials	100.00%	100.00%
The Company	Taiflex USA Corporation (USA Taiflex)	Technical support and marketing of electronic materials	100.00%	-
The Company	Richstar Co., Ltd. (Richstar)	Investment holding	53.01%	-
Taistar	TSC International Ltd. (TSC)	Investment holding	100.00%	100.00%
TSC	Kunshan Taiflex Electronic Material Co., Ltd. (Kunshan Taiflex)	Trading of coating materials for high polymer film and copper foil	- (Note)	100.00%
TSC	Taiflex Scientific (Kunshan) Co., Ltd. (Taiflex Kunshan)	Manufacturing and selling of coating materials for high polymer film and copper foil	100.00%	100.00%
TFS	Richstar Co., Ltd. (Richstar)	Investment holding	46.99%	100.00%
Richstar	Shenzhen Taiflex Electronic Co., Ltd. (Shenzhen Taiflex)	Trading of coating materials for high polymer film and copper foil	100.00%	100.00%
Richstar	Rudong Fuzhan Scientific Co., Ltd. (Rudong Fuzhan)	Manufacturing and selling of electronic materials	100.00%	-
Koatech	KTC Global Co., Ltd. (KTC Global)	Investment holding	100.00%	100.00%
KTC Global	KTC PanAsia Co., Ltd. (KTC PanAsia)	Investment holding	100.00%	100.00%
KTC PanAsia	Kunshan Koatech Technology Corporation (Kunshan Koatech)	A wholesaler and a commission agent of electronic materials and components	100.00%	100.00%

(Concluded)

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

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

The Group's consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recognized by each entity of the Group 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 closing rates of 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 is measured; 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 IFRS 9 “Financial Instruments” (prior to January 1, 2018: IAS 39) 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 are 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 consolidated financial statements, the assets and liabilities of foreign operations are translated into New Taiwan Dollars using the closing rates 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. Upon disposal of the foreign operations, the cumulative exchange differences recognized in other comprehensive income and accumulated in the separate component of equity are reclassified from equity to profit or loss when recognizing the gain or loss on disposal. The partial disposal involving the loss of control of a subsidiary that includes a foreign operation, and the partial disposal of interests in an associate or a joint arrangement that includes a foreign operation while the retained interests are financial assets that include a foreign operation are accounted for as disposals.

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 re-attributed to the NCIs in that foreign operation instead of being recognized in profit or loss. In partial disposal of an associate or a joint arrangement 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.

Goodwill arising from the acquisition of a foreign operation and fair value adjustments on the carrying amounts of assets and liabilities of such an acquisition are deemed as assets and liabilities of the foreign operation and expressed in the functional currency of the foreign operation.

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

An asset is classified as current when:

A. the Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
B. the Group holds the asset primarily for the purpose of trading
C. the Group 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 Group expects to settle the liability in its normal operating cycle

B. the Group 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 Group 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.

(6) 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 time deposits with terms equal to or less than twelve months).

(7) Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 “Financial Instruments” (prior to January 1, 2018: IAS 39) 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. Recognition and measurement of financial assets

<u>The accounting treatment starting from January 1, 2018 is as follows:</u>

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

The Group classifies financial assets as subsequently measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss based on the following two conditions:

(a) the business model for managing the financial assets, and

(b) the contractual cash flow characteristics of the financial assets

<u>Financial assets measured at amortized cost</u>

A financial asset satisfying both conditions below is measured at amortized cost and presented as notes receivables, accounts receivables, financial assets measured at amortized cost and other receivables on the balance sheet:

(a) the business model for managing the financial assets: the financial asset is held to collect its contractual cash flows, and

(b) the contractual cash flow characteristics of the financial assets: cash flows are solely payments of principal and interest on the outstanding principal.

Such financial assets (excluding ones involved in a hedging relationship) are subsequently measured at amortized cost {the amount initially recognized less principal repayments, plus or minus the cumulative amortization of the difference between the initial amount and the maturity amount (calculated using the effective interest method), and adjusted for loss allowance}. A gain or loss is recognized in profit or loss when the financial asset is derecognized, going through the amortization process or recognizing the impairment gains or losses.

Interest calculated by the effective interest method (applying the effective interest rate to the gross carrying amount of financial assets) or under one of the follow situations is recognized in profit or loss:

(a) For purchased or originated credit-impaired financial assets, interest is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial assets.

(b) For financial assets that do not belong to the former category but subsequently have become credit-impaired, interest is calculated by applying the effective interest rate to the amortized cost of the financial assets.

<u>Financial assets at fair value through other comprehensive income</u>

A financial asset satisfying both conditions below is measured at fair value through other comprehensive income and presented as financial assets at fair value through other comprehensive income on the balance sheet:

(a) the business model for managing the financial assets: the financial asset is held to collect its contractual cash flows and for sale, and

(b) the contractual cash flow characteristics of the financial assets: cash flows are solely payments of principal and interest on the outstanding principal.

Recognition of gain or loss on such a financial asset is described below:

(a) Prior to its derecognition or reclassification, the gain or loss on a financial asset at fair value through other comprehensive income is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains or losses, which are recognized in profit or loss.

(b) Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

(c) Interest calculated by the effective interest method (applying the effective interest rate to the gross carrying amount of financial assets) or under one of the follow situations is recognized in profit or loss:

   i. For purchased or originated credit-impaired financial assets, interest is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial assets.

ii. For financial assets that do not belong to the former category but subsequently have become credit-impaired, interest is calculated by applying the effective interest rate to the amortized cost of the financial assets.

In addition, for an equity instrument within the scope of IFRS 9 that is not held for trading and the contingent consideration recognized by an acquirer in a business combination under IFRS 3 does not apply, the Group makes an (irrevocable) election at initial recognition to present its subsequent changes in the fair value in other comprehensive income. Amounts presented in other comprehensive income cannot be subsequently transferred to profit or loss (upon disposal of such equity instrument, its cumulative amount in other equity is transferred directly to retained earnings) and shall be recognized as a financial asset measured at fair value through other comprehensive income on the balance sheet. Dividends from the investment are recognized in profit or loss unless they clearly represent the recovery of a part of the investment cost.

Financial assets at fair value through profit or loss

Except for financial assets that are measured at amortized cost or at fair value through other comprehensive income due to the satisfaction of certain conditions, all other financial assets are measured at fair value through profit or loss and presented as financial assets at fair value through profit or loss on the balance sheet.

Those financial assets are measured at fair value and the gains or losses resulting from their remeasurement are recognized in profit or loss, which include dividends or interests received on such financial assets.

B. Impairment of financial assets

The accounting treatment from January 1, 2018 is as follows:

The Group recognizes and measures the loss allowance for debt instrument investments at fair value through other comprehensive income and financial assets measured at amortized cost at an amount equal to expected credit losses. The loss allowance on debt instrument investments at fair value through other comprehensive income is recognized in other comprehensive income and does not reduce the carrying amount of the investments.

The Group measures expected credit loss in a way that reflects:

(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(b) the time value of money; and

(c) reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that is available (without undue cost or effort at the balance sheet date)

The loss allowance is measured as follows:

(a) at an amount equal to 12-month expected credit losses: including financial assets whose credit risk has not increased significantly since initial recognition or ones that are determined to have low credit risk at the balance sheet date. In addition, financial assets whose loss allowance is measured at an amount equal to lifetime expected credit losses in the previous reporting period, but the condition of a significant increase in credit risk since initial recognition is no longer met at the current balance sheet date shall also be included.

(b) at an amount equal to lifetime expected credit losses: including financial assets whose credit risk has increased significantly since initial recognition or purchased or originated credit-impaired financial assets.

(c) for accounts receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Group assesses whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default at the reporting date and initial recognition. Please refer to Note 12 for further details on credit risk.

(8) Derivative financial instrument

The Group uses derivative 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 assets or liabilities for hedging.

Derivative 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.

Prior to January 1, 2018, 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.

(9) 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. Borrowing costs are excluded.

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.

(10) Investments accounted for under the equity method

An associate is an entity over which the Group has significant influence. The Group’s investment in its associate is accounted for under the equity method other than those that meet the criteria to be classified as assets held for sale.

Under the equity method, the investment in the associate is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group’s share of net assets of the associate. After the interest in the associate is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group’s related interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Group.

The Group determines at each reporting date whether there is any objective evidence indicating that its investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the “share of profit or loss of associates under the equity method” in the statements of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment plus proceeds from disposal is recognized in profit or loss.

(11) Property, plant and equipment

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

(12) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial time period 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.

(13) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. 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 Group 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.

(14) Impairment of non-financial assets

The Group 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 Group 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 Group 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.

A CGU, or groups of CGUs, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the CGU (or group of units), then to the other assets of the unit (or group of units) pro rata based on the carrying amount of each asset in the unit (or group of units.) Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

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

(15) Provisions

Provisions are recognized when the Group 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 Group 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.

(16) Treasury stocks

The Group recognizes the parent company’s stocks acquired (treasury stocks) at cost and as a deduction to equity. Difference between the carrying amount and the consideration is recognized in equity.

(17) Revenue recognition

The accounting treatment from January 1, 2018 is as follows:

The Group's revenue from contracts with customers mostly involves the sale of goods. The accounting treatment is detailed as follows:

The Group manufactures and sells goods. Revenues are recognized when goods have been delivered to the customers and customers have obtained control (i.e. the customers can direct the use of goods and obtain substantially all remaining benefits from the goods). The main products of the Group are flexible copper-clad laminate, cover layer and PV module backsheet. Revenues are recognized based on the prices stated on the contracts.

The credit terms of accounts receivable are set at 60 to 150 days. Accounts receivables are recognized when the control over goods is transferred and the Group has an unconditional right to collect the considerations. Those accounts receivables usually have a short collection period and do not have a significant financing component.

As for contracts where a part of the considerations is collected upon signing the contracts, the Group assumes the obligations to transfer the goods subsequently. Thus, they are recognized as contract liabilities. As it usually takes less than one year for the said contract liabilities to be reclassified to revenue, no significant financing component has arisen.

(18) Post-employment benefit plans

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 consolidated 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 Group 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.

(19) Share-based payment transactions

The cost of equity-settled transactions between the Group 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 Group'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 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.

(20) 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.

<u>Current income tax</u>

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

<u>Deferred income tax</u>

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 arise 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 are 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; and

B. Where the deferred income tax asset is related to the deductible temporary differences associated with investments in subsidiaries and associates. 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 Group 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.

(21) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at fair value as at the acquisition date. For each business combination, the acquirer measures any NCI in the acquiree either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under general and administrative expenses.

When the Group acquires a business, it assesses the assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in acquiree's host contracts.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date and the resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IFRS 9 (prior to January 1, 2018: IAS 39) as a change in either the profit or loss or other comprehensive income. However, if the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured as the excess amount of the aggregate of the consideration transferred and the NCI over the net fair value of the identifiable assets acquired and the liabilities assumed. If this aggregate is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purpose and is not larger than an operating segment.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation. Goodwill disposed of in this circumstance is measured based on the relative recoverable amounts of the operation disposed of and the portion of the CGU retained.

5. Significant Accounting Judgments and Major Sources of Estimation Uncertainty

The preparation of the Group's consolidated 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

From January 1, 2018

The Group estimates the impairment loss of receivables by measuring the lifetime expected credit losses. Credit loss is calculated as the present value of the difference between contractual cash flows that are due to the Group under contracts (carrying amount) and cash flows the Group expects to receive (assessing the forward-looking information). For short-term receivables, as the discount effect is not significant, credit loss is measured using the undiscounted difference. Less-than-expected future cash flows could result in significant impairment charges. Please refer to Note 6(21) for details.

(3) Inventories

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(5) for details.

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

(4) Post-employment benefit plans

The cost of pension plan and the present value of defined benefit obligation within the post-employment benefit plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the discount rates and expected future salary changes. The assumptions used for measuring pension cost and defined benefit obligation are disclosed in Note 6(17).

(5) Share-based payment transactions

The Group 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(19).

(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 Group 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. Deferred income tax assets unrecognized by the Group as of December 31, 2018 are disclosed in Note 6(25).

6. Details of Significant Accounts

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	$ 688	$ 652
Bank deposits	1,861,898	1,933,624
Total	$ 1,862,586	$ 1,934,276

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

	December 31, 2018	December 31, 2017 (Note)
Mandatorily at fair value through profit or loss:		
Derivative instruments not designated in a hedging relationship		
- Forward foreign exchange contracts	$ 13,659	
- Cross-currency swap contracts	2,358	
Stocks	20,421	
Total	$ 36,438	

	December 31, 2018 (Note)	December 31, 2017
Held for trading:		
Derivative instruments not designated in a hedging relationship		
- Forward foreign exchange contracts		$ 214
- Cross-currency swap contracts		572
Non-derivative financial assets - Stocks		16,677
Total		$ 17,463

Note: The Group adopted IFRS 9 on January 1, 2018 and chose not to restate the comparative periods in accordance with the transitional provisions of IFRS 9.

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

(3) Notes receivable, net

	December 31, 2018	December 31, 2017
Notes receivable, net	$ 1,218,019	$ 2,027,778

The Group's notes receivables were not pledged.

The Group adopted IFRS 9 for impairment assessment on January 1, 2018. Please refer to Note 6(21) for details on loss allowance and Note 12 for information concerning credit risk.

(4) Accounts receivable, net

	December 31, 2018	December 31, 2017
Accounts receivable	$ 3,755,856	$ 2,965,128
Less: loss allowance	(77,758)	(216,495)
Net	$ 3,678,098	$ 2,748,633

A. The credit terms of accounts receivable are generally set at 60 to 150 days from the end of month. The Group adopted IFRS 9 for impairment assessment on January 1, 2018. Please refer to Note 6(21) for loss allowance for the year ended December 31, 2018. Prior to January 1, 2018, IAS 39 was adopted for impairment assessment. The movements in the allowance for impairment of accounts receivable for the year ended December 31, 2017 were as follows (please refer to Note 12 for credit risk disclosure):

	December 31, 2017
Beginning balance	$ 211,697
Charge for the year	8,967
Write off	(5,224)
Effect of exchange rate changes	1,055
Ending balance	$ 216,495

B. Ageing analysis of net accounts receivable:

	December 31, 2017
Neither past due nor impaired	$ 2,053,205
Past due but not impaired	
≤ 120 days	462,019
121 to 180 days	201,612
≥ 181 days	31,797
Total	$ 2,748,633

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

The Group had no factoring agreements as of December 31, 2018 and factoring transactions as of December 31, 2017 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	-

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

(5) Inventories, net

	December 31, 2018	December 31, 2017
Raw materials	$ 572,527	$ 585,584
Inventories in transit	81,199	171,759
Supplies	8,568	4,966
Work in process	52,921	52,701
Finished goods	426,139	619,307
Merchandise	322,953	191,969
Total	$ 1,464,307	$ 1,626,286

Expenses or income recognized were as follows:

	Years Ended December 31	
	2018	2017
Cost of inventories sold	$ 7,597,252	$ 9,043,138
(Gain on recovery) write-down of inventory	(238)	29,753
Loss on inventory write-off	79,497	10,504
Revenue from sale of scraps	(26,504)	(25,080)
Cost of revenue	$ 7,650,007	$ 9,058,315

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

For the year ended December 31, 2018, gain on inventory value recovery due to a decrease in allowance for inventory valuation losses from price recovery of inventories with allowance for inventory valuation losses at beginning of period, inventories sold or inventories used amounted to NT$238 thousand.

The aforementioned inventories were not pledged.

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

	December 31, 2018	December 31, 2017 (Note)
Equity instrument investments at fair value through other comprehensive income – non-current:		
Non-listed (OTC) stocks	$ —	

Note: The Group adopted IFRS 9 on January 1, 2018 and chose not to restate the comparative periods in accordance with the transitional provisions of IFRS 9.

The Group's financial assets at fair value through other comprehensive income were not pledged.

(7) Financial assets carried at cost - non-current

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

Note: The Group adopted IFRS 9 on January 1, 2018 and chose not to restate the comparative periods in accordance with the transitional provisions of IFRS 9.

The aforementioned non-listed (OTC) stocks held by the Group were recognized in accordance with IAS 39 prior to January 1, 2018. Since the range of reasonable fair value estimates was significant and the probabilities of various estimates could not be reasonably assessed, those stocks could not be measured at fair value. Thus, they were measured at cost.

The Group's financial assets carried at cost were not pledged.

(8) Investments accounted for under the equity method

	December 31, 2018		December 31, 2017	
Investees	Amount	Percentage of Ownership	Amount	Percentage of Ownership
Investments in associates:				
Innovision FlexTech Corp.	$ 51,470	15.07%	$ 31,518	15.67%
Less: accumulated impairment – Innovision FlexTech Corp.	—		(31,518)	
Net	$ 51,470		$ —	

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

A. The shares of profit or loss of the associates accounted for under the equity method for the years ended December 31, 2018 and 2017 were as follows:

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

Investee	Years Ended December 31 2018	2017
Innovision FlexTech Corp.	$ 19,666	$ –

B. In December 2017, the Group participated in the capital increase of Innovision FlexTech Corp. (Innovision) and subscribed at a percentage different from its existing ownership percentage. Thus, the shareholding percentage reduced from 16.72% to 15.67%. In February 2018, the Group subscribed in the capital increase of Innovision at a percentage different from its existing ownership percentage. The shareholding percentage dropped from 15.67% to 15.07%. The Group evaluated and concluded that it still had significant influence over Innovision; thus, this investment was accounted for using the equity method.

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

	December 31, 2018	December 31, 2017
Total assets	$ 471,150	$ 331,496
Total liabilities	$ 129,608	$ 73,767

	Years Ended December 31 2018	2017
Revenue	$ 333,264	$ 190,056
Net income	$ 72,099	$ 12,587

D. For investments accounted for under the equity method, the Group recognized a gain on reversal of impairment of NT$31,518 thousand for the year ended December 31, 2018 based on the assessment of future recoverable amount.

E. The aforementioned recoverable amount was measured at fair value less costs of disposal and the fair value was determined using the market approach. The recent financing activities of the investees, the technology development status, companies with similar attributes, market conditions and other economic indicators shall all be considered. This was a level 3 fair value measurement.

(9) Property, plant and equipment

	December 31, 2018	December 31, 2017
Land	$ 100,843	$ 100,843
Buildings	1,154,006	966,217
Machinery and equipment	924,014	896,022
Hydropower equipment	186,331	118,143
Testing equipment	151,061	128,173
Miscellaneous equipment	93,415	82,032
Construction in progress and equipment awaiting inspection	411,218	585,028
Net	$ 3,020,888	$ 2,876,458

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

	As of January 1, 2018	Additions	Disposals	Reclassification	Impairment Loss	Effect of Exchange Rate Changes	As of December 31, 2018
Cost							
Land	$ 100,843	$ —	$ —	$ —	$ —	$ —	$ 100,843
Buildings	1,438,659	7,026	(213)	257,927	—	(10,920)	1,692,479
Machinery and equipment	2,552,155	62,224	(18,417)	124,453	—	(9,118)	2,711,297
Hydropower equipment	398,778	8,319	—	81,255	—	(3,098)	485,254
Testing equipment	251,175	10,822	(2,395)	37,366	—	(499)	296,469
Miscellaneous equipment	363,839	10,565	(9,588)	21,654	—	(1,790)	384,680
Total	$ 5,105,449	$ 98,956	$ (30,613)	$ 522,655	$ —	$ (25,425)	$ 5,671,022
Accumulated depreciation and impairment							
Buildings	$ 472,442	$ 70,051	$ (213)	$ —	$ —	$ (3,807)	$ 538,473
Machinery and equipment	1,656,133	156,223	(18,417)	—	—	(6,656)	1,787,283
Hydropower equipment	280,635	20,304	—	—	—	(2,016)	298,923
Testing equipment	123,002	24,757	(1,968)	—	—	(383)	145,408
Miscellaneous equipment	281,807	20,127	(9,210)	—	—	(1,459)	291,265
Total	$ 2,814,019	$ 291,462	$ (29,808)	$ —	$ —	$ (14,321)	$ 3,061,352
Construction in progress and equipment awaiting inspection	585,028	350,226	—	(523,052)	—	(984)	411,218
Net	$ 2,876,458						$ 3,020,888

	As of January 1, 2017	Additions	Disposals	Reclassification	Impairment Loss	Effect of Exchange Rate Changes	As of December 31, 2017
Cost							
Land	$ 100,843	$ —	$ —	$ —	$ —	$ —	$ 100,843
Buildings	1,415,481	4,827	—	23,503	—	(5,152)	1,438,659
Machinery and equipment	2,488,501	39,648	(14,369)	42,635	—	(4,260)	2,552,155
Hydropower equipment	370,939	8,157	(19)	21,081	—	(1,380)	398,778
Testing equipment	223,526	15,623	(3,037)	15,309	—	(246)	251,175
Miscellaneous equipment	334,839	10,623	(6,272)	25,430	—	(781)	363,839
Total	$ 4,934,129	$ 78,878	$ (23,697)	$ 127,958	$ —	$ (11,819)	$ 5,105,449
Accumulated depreciation and impairment							
Buildings	$ 410,029	$ 63,402	$ —	$ —	$ —	$ (989)	$ 472,442
Machinery and equipment	1,519,451	153,192	(14,342)	—	—	(2,168)	1,656,133
Hydropower equipment	262,438	18,819	(19)	—	—	(603)	280,635
Testing equipment	108,104	17,518	(2,489)	—	—	(131)	123,002
Miscellaneous equipment	267,413	20,769	(5,952)	—	—	(423)	281,807
Total	$ 2,567,435	$ 273,700	$ (22,802)	$ —	$ —	$ (4,314)	$ 2,814,019
Construction in progress and equipment awaiting inspection	422,826	290,317	—	(128,078)	—	(37)	585,028
Net	$ 2,789,520						$ 2,876,458

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

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

(10) Intangible assets

	December 31, 2018	December 31, 2017
Trademarks	$ 354	$ 414
Patents	6,848	7,780
Software cost	37,725	43,403
Goodwill	69,781	69,781
Total	$ 114,708	$ 121,378

	As of January 1, 2018	Additions	Reclassification	Effect of Exchange Rate Changes	As of December 31, 2018
Cost					
Trademarks	$ 672	$ –	$ –	$ –	$ 672
Patents	44,247	775	–	–	45,022
Software cost	128,557	9,673	396	(307)	138,319
Goodwill	69,781	–	–	–	69,781
Total	$ 243,257	$ 10,448	$ 396	$ (307)	$ 253,794
Accumulated amortization and impairment					
Trademarks	$ 258	$ 60	$ –	$ –	$ 318
Patents	36,467	1,707	–	–	38,174
Software cost	85,154	15,628	–	(188)	100,594
Total	121,879	$ 17,395	$ –	$ (188)	139,086
Net	$ 121,378				$ 114,708

	As of January 1, 2017	Additions	Reclassification	Effect of Exchange Rate Changes	As of December 31, 2017
Cost					
Trademarks	$ 583	$ 89	$ –	$ –	$ 672
Patents	42,202	2,045	–	–	44,247
Software cost	108,294	20,412	–	(149)	128,557
Goodwill	69,781	–	–	–	69,781
Total	$ 220,860	$ 22,546	$ –	$ (149)	$ 243,257
Accumulated amortization and impairment					
Trademarks	$ 198	$ 60	$ –	$ –	$ 258
Patents	34,855	1,612	–	–	36,467
Software cost	72,209	13,016	–	(71)	85,154
Total	107,262	$ 14,688	$ –	$ (71)	121,879
Net	$ 113,598				$ 121,378

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

(11) Other non-current assets

	December 31, 2018	December 31, 2017
Long-term prepaid rent (Land use rights)	$ 137,374	$ 20,218
Refundable deposits	16,879	24,100
Other non-current assets - other	18,198	27,708
Total	$ 172,451	$ 72,026

(12) Impairment testing of goodwill

Goodwill acquired through business combinations was allocated to each of the CGUs, which were expected to benefit from synergies. Impairment evaluation of recoverable amount of goodwill was conducted at each year end. The recoverable amount of the CGU was determined based on value-in-use which was calculated using cash flow projections from financial budgets approved by management covering a five-year period discounted at a pre-tax rate. The projected cash flows had been updated to reflect the change in demand of relevant products. As a result of the analysis, the Company determined that the goodwill of NT$69,781 thousand was not impaired.

<u>Key assumptions used in value-in-use calculations</u>

Discount rates – Discount rates reflect the current market assessment of the risks specific to each CGU (including the time value of money and the risks specific to the asset not included in the cash flow estimates). The Group used the pre-tax discount rate to reflect the relevant specific risk in the operating segment.

<u>Sensitivity to changes in assumptions</u>

The management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

(13) Short-term loans

	December 31, 2018	December 31, 2017
Unsecured bank loans	$ 1,362,054	$ 656,596

The interest rates of loans were 0.74% to 3.50% and 1.69% to 4.57% as of December 31, 2018 and 2017, respectively.

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

	December 31, 2018	December 31, 2017
Held for trading:		
Derivative financial instruments not designated in a hedging relationship		
- Forward foreign exchange contracts	$ 2,471	$ 13,058
- Foreign exchange swap contracts	185	224
- Cross-currency swap contracts	—	69
	$ 2,656	$ 13,351

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

(15) Lease payable

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

	December 31, 2018	December 31, 2017
Total minimum lease payments		
Less than 1 year	$ 959	$ 981
1 to 5 years (excluding)	1,730	2,750
	2,689	3,731
Less: Future financial expense	(246)	(593)
Present value of minimum lease payments	$ 2,443	$ 3,138
Present value of minimum lease payments		
Less than 1 year	$ 758	$ 639
1 to 5 years (excluding)	1,685	2,499
	$ 2,443	$ 3,138

(16) Long-term loans

	December 31, 2018	December 31, 2017
Secured loans	$ 46,932	$ 62,011
Revolving loans	295,000	193,685
Syndicated loans	—	—
Total	341,932	255,696
Less: current portion	(12,258)	(44,825)
Less: unamortized syndicated loan fee	—	—
Net	$ 329,674	$ 210,871

A. The interest rates of loans were 0.88% to 1.97% and 0.85% to 2.47% as of December 31, 2018 and 2017, respectively.

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

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

(17) Post-employment benefit plans

A. Defined contribution plan

Expenses under the defined contribution plan for the years ended December 31, 2018 and 2017 were NT$26,303 thousand and NT$23,878 thousand, respectively.

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

B. Defined benefit plan

Expenses under the defined benefit plan were as follows:

Financial Statement Account	Years Ended December 31 2018	2017
Operating costs	$ 5,232	$ 7,339
Sales and marketing expenses	598	1,055
General and administrative expenses	3,437	9,123
Research and development expenses	3,415	3,318
Total	$ 12,682	$ 20,835

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

	Years Ended December 31 2018	2017
Beginning balance	$ 101,009	$ 125,139
Actuarial gain or loss	(55,488)	(24,130)
Ending balance	$ 45,521	$ 101,009

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

	Years Ended December 31 2018	2017
Present value of defined benefit obligation	$ 172,041	$ 213,669
Fair value of plan assets	(33,618)	(29,545)
Funded status	138,423	184,124
Net defined benefit liability	$ 138,423	$ 184,124

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

	Years Ended December 31 2018	2017
Balance, beginning of year	$ 213,669	$ 222,272
Current service cost	9,644	11,782
Past service cost	—	5,531
Interest cost	3,419	4,001
Actuarial gain or loss	(54,691)	(24,386)
Benefits paid	—	(5,531)
Balance, end of year	$ 172,041	$ 213,669

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

	Years Ended December 31 2018	2017
Balance, beginning of year	$ 29,545	$ 31,996
Return on plan assets	472	576
Contributions from employer	2,804	2,760
Actuarial gain or loss	797	(256)
Benefits paid	—	(5,531)
Balance, end of year	$ 33,618	$ 29,545

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

G. The Company expects to make contributions of NT$8,962 thousand to the defined benefit plan in the following 12 months as of December 31, 2018.

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, 2018	December 31, 2017
Cash	100%	100%

The Company's actual return on plan assets were NT$1,269 thousand and NT$320 thousand for the years ended December 31, 2018 and 2017, respectively.

The expected rate of return on plan assets is determined based on historical trend and analysts' 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, 2018	December 31, 2017
Discount rate	1.31%	1.60%
Expected rate of return on plan assets	1.31%	1.60%
Expected rate of salary increases	3.00%	4.50%

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

	Years Ended December 31			
	2018		2017	
	0.5% Increase	0.5% Decrease	0.5% Increase	0.5% Decrease
Effect on the aggregate current service cost and interest cost	$ (205)	$ 131	$ (502)	$ 453
Effect on the present value of defined benefit obligation	(14,613)	16,194	(19,506)	21,744

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

	Years Ended December 31	
	2018	2017
Present value of defined benefit obligation, ending balance	$ 172,041	$ 213,669
Fair value of plan assets, ending balance	(33,618)	(29,545)
Surplus/deficit of plan, ending balance	$ 138,423	$ 184,124
Experience adjustments on plan liabilities	$ (15,345)	$ (9,037)
Experience adjustments on plan assets	$ (797)	$ 256

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

(18) 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 with the amount of NT$150,000 thousand reserved for the exercise of employee stock options, preferred stock with warrants and bond with warrants) as of December 31, 2018 and 2017.

(b) The Company's issued capital was NT$2,091,197 thousand and NT$2,087,802 thousand, each at a par value of NT$10, divided into 209,120 thousand shares and 208,780 thousand shares as of December 31, 2018 and 2017, respectively.

B. Capital surplus

	December 31, 2018	December 31, 2017
Additional paid-in capital	$ 1,042,894	$ 1,036,041
Premium from merger	262,500	262,500
Donated assets	1,970	1,970
Treasury stock transactions	27,280	27,280
Others	111,995	113,548
Total	$ 1,446,639	$ 1,441,339

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

C. Treasury stocks

As of December 31, 2018 and 2017, the number of treasury stocks held by the Company was 0 thousand shares with the amount of NT$0 thousand.

The changes of treasury stocks in the years ended December 31, 2018 and 2017 were as follows:

Reasons of Repurchase	As of January 1	Increase	Decrease	As of December 31
2018				
Transferred to employees	—	—	—	—
2017				
Transferred 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 to be transferred 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 must 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 the competent securities authorities.
(e) For the remaining profits, if any, the Board of Directors shall draft a proposal for the distribution of bonus to shareholders and submit it to the shareholders' meeting for resolution.

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

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

As of December 31, 2018 and 2017, special capital reserve set aside for the first-time adoption of IFRS amounted to NT$75,546 thousand and NT$102,158 thousand, respectively. Furthermore, the Company reversed NT$26,612 thousand of special capital reserve recognized to undistributed earnings during the year ended December 31, 2018 as the consolidated entity disposed of related assets.

Information about the appropriations of 2017 and 2016 earnings approved in the shareholders' meetings on May 29, 2018 and May 26, 2017, respectively, was as follows:

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

	Appropriation of Earnings		Dividend per Share (NT$)	
	2017	2016	2017	2016
Legal capital reserve	$ 73,459	$ 57,968	-	-
Cash dividends - common stocks	522,799	412,254	$ 2.50	$ 2.00
Total	$ 596,258	$ 470,222		

Please refer to Note 6(23) for information on the accrual basis and the amounts recognized for compensation to employees and remuneration to directors.

E. Non-controlling interests (NCI)

	Years Ended December 31	
	2018	2017
Beginning balance	$ 112,212	$ 100,310
Net income attributable to NCI	7,165	11,956
Other comprehensive income attributable to NCI:		
Exchange differences arising on translation of foreign operations	(166)	(54)
Ending balance	$ 119,211	$ 112,212

(19) Share-based payment plans

On February 25, 2010, the Company resolved at the Board of Directors' meeting to issue employee stock options with a total number of 2,355 units. Each unit entitles an optionee to subscribe to 1,000 shares of the Company's common stock. The chairperson is authorized by the Board to set the actual grant date. If a consensus was not reached regarding all terms and conditions, the grant date would be the date when 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. Expense of the compensatory employee stock option plan for the year ended December 31, 2018 was NT$0 thousand.

There have been no cancellations or modifications to any of the employee stock option plans by December 31, 2018.

	Years Ended December 31			
	2018		2017	
Stock options	Quantity	Weighted Average Exercise Price per Share (NT$)	Quantity	Weighted Average Exercise Price per Share (NT$)
Outstanding at beginning of period	273	$ 35.10	952	$ 36.80
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	(273)	35.10	(522)	35.77
Expired	-	-	(157)	-
Outstanding at end of period	-	-	273	35.10
Exercisable at end of period	-	-	273	35.10

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

Information on the aforementioned employee stock options outstanding as of December 31, 2018 and 2017 was as follows:

	Weighted Average Remaining Contractual Years	
Date of Grant	December 31, 2018	December 31, 2017
April 30, 2010	-	0.33

(20) Revenue

	Years Ended December 31	
	2018 (Note)	2017
Sale of goods	$ 9,643,051	$ 11,192,892

Note: The Group adopted IFRS 15 for the recognition of revenue from contracts with customers on January 1, 2018 and chose to recognize the cumulative effect of the first-time adoption on January 1, 2018.

The Group adopted IFRS 15 for the recognition of revenue from contracts with customers on January 1, 2018. Information concerning revenue from contracts with customers for the year ended December 31, 2018 was as follows:

Contract liabilities - current

	Beginning Balance	Ending Balance	Difference
Sale of goods	$ 2,571	$ 2,372	$ (199)

The decrease in the balance of contract liabilities was mostly due to the satisfaction of performance obligations in 2018, and of which NT$2,528 thousand was beginning balance recognized as revenue during this period.

(21) Reversal of expected credit loss

	Years Ended December 31	
	2018	2017 (Note)
Operating expenses – Reversal of expected credit loss		
Accounts receivable	$ (136,144)	

Note: The Group adopted IFRS 9 on January 1, 2018 and chose not to restate the comparative periods in accordance with the transitional provisions of IFRS 9.

Please refer to Note 12 for information concerning credit risk.

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

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

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

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

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

The movements in the loss allowance for receivables in the year ended December 31, 2018 were as follows:

	Receivables
Beginning balance	$ 216,495
Reversal in the current period	(136,144)
Write off	(1,586)
Effect of exchange rate changes	(1,007)
Ending balance	$ 77,758

(22) Operating leases

The Group entered into commercial property leases which were non-cancellable operating lease agreements. The average duration was between one to ten years. Some lease agreements had renewal options.

Total future minimum lease payments were as follows:

	2018.12.31	2017.12.31
Less than 1 year	$ 23,793	$ 21,634
More than 1 year but less than 5 years	42,216	39,185
More than 5 years	18,481	13,796
Total	$ 84,490	$ 74,615

Expenses recognized under operating leases were as follows:

	Years Ended December 31	
	2018	2017
Minimum lease payments	$ 38,603	$ 42,857

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

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

Function / Nature	Years Ended December 31					
	2018			2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	449,960	440,003	889,963	466,006	417,681	883,687
Labor and health insurance	45,197	28,222	73,419	42,176	27,232	69,408
Pension	22,052	16,933	38,985	21,871	22,842	44,713
Remuneration to directors	-	20,127	20,127	-	20,892	20,892
Other employee benefits expense	50,455	37,972	88,427	53,396	33,689	87,085
Depreciation	277,404	14,058	291,462	256,844	16,856	273,700
Amortization	11,214	17,601	28,815	13,397	14,479	27,876

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

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

Information on 2018 compensation to employees and remuneration to directors resolved in the Board of Directors' meeting on January 18, 2019 and 2017 compensation to employees and remuneration to directors reported in the shareholders' meeting on May 29, 2018 was as follows:

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

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

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

(24) Non-operating income and expenses

A. Other income

	Years Ended December 31			
	2018		2017	
Interest income	$	20,534	$	17,731
Other income		20,294		9,384
Total	$	40,828	$	27,115

B. Other gains and losses

	Years Ended December 31			
	2018		2017	
Gain (loss) on disposal of property, plant and equipment	$	856	$	(418)
Gain on liquidation of subsidiaries		35,761		-
Foreign exchange (loss) gain, net		(51,256)		53,774
Gain on reversal of impairment loss for non-financial assets		31,518		-
Gain (loss) of financial assets (liabilities) at fair value through profit or loss, net		7,215		(41,821)
Disaster loss (Note 10)		(131,537)		-
Other losses		(3,885)		(2,257)
Total	$	(111,328)	$	9,278

C. Finance costs

	Years Ended December 31			
	2018		2017	
Interest on borrowings from banks	$	(49,248)	$	(66,046)
Interest on finance leases		(341)		(139)
Total	$	(49,589)	$	(66,185)

D. Components of other comprehensive income

For the year ended December 31, 2018

	Arising during the period		Reclassification adjustments during the period		Other comprehensive income		Income tax benefit (expense)		Other comprehensive income, net of tax	
Items that will not be reclassified subsequently to profit or loss:										
Remeasurement of defined benefit plan	$	55,488	$	–	$	55,488	$	(11,098)	$	44,390
Items that may be reclassified subsequently to profit or loss:										
Exchange differences arising on translation of foreign operations		(86,077)		–		(86,077)		19,368		(66,709)
Total	$	(30,589)	$	–	$	(30,589)	$	8,270	$	(22,319)

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

For the year ended December 31, 2017

	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	$ 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	(22,115)	–	(22,115)	3,760	(18,355)
Total	$ 2,015	$ –	$ 2,015	$ (342)	$ 1,673

(25) Income tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company's corporate income tax rate for the year ended December 31, 2018 was adjusted from 17% to 20%. The tax rate applicable to undistributed earnings for the year ended December 31, 2018 was reduced from 10% to 5%.

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

Income tax recognized in profit or loss

	Years Ended December 31 2018	2017
Current income tax expense (benefit):		
Current income tax expense	$ 255,134	$ 178,823
Income tax adjustments on prior years	(3,149)	18,364
Effect of exchange rate changes	(204)	(621)
Deferred income tax expense:		
Income tax expense (benefit) relating to origination and reversal of temporary differences	(77,278)	15,987
Deferred income tax relating to changes in tax rates	14,565	-
Total income tax expense	$ 189,068	$ 212,553

Income tax recognized in other comprehensive income

	Years Ended December 31 2018	2017
Deferred income tax expense (benefit):		
Remeasurement of defined benefit plan	$ 11,098	$ 4,102
Exchange differences arising on translation of foreign operations	(19,368)	(3,760)
Income tax relating to components of other comprehensive income	$ (8,270)	$ 342

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

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	
	2018	2017
Income before tax of continuing operations	$ 868,542	$ 959,098
Income tax expense at the statutory rate of the parent company	$ 173,708	$ 163,047
Additional 10% income tax on unappropriated earnings	15,836	4,963
Tax effects of entities at different tax jurisdictions with different tax rates	(13,580)	27,352
Income tax adjustments on prior years	(3,149)	18,364
Tax effects of other tax adjustments	16,253	(1,173)
Income tax expense recognized in profit or loss	$ 189,068	$ 212,553

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

For the year ended December 31, 2018

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Ending balance
Temporary differences					
Exchange gain and loss	$ 4,424	$ 8,359	$ －	$ －	$ 12,783
Allowance for inventory valuation and obsolescence loss	20,458	4,224	－	－	24,682
Investments accounted for under the equity method	(135,758)	24,453	19,368	(1,742)	(93,679)
Unrealized intra-group profits and losses	3,667	3,840	－	－	7,507
Impairment of assets	10,613	(5,160)	－	－	5,453
Allowance for doubtful accounts	22,442	(8,212)	－	－	14,230
Net defined benefit liabilities	31,301	7,481	(11,098)	－	27,684
Others	(2,777)	30,487	－	－	27,710
Deferred income tax expense		$ 65,472	$ 8,270	$ (1,742)	
Net deferred income tax assets (liabilities)	$ (45,630)				$ 26,370
Reflected in balance sheet as follows:					
Deferred income tax assets	$ 130,697				$ 157,314
Deferred income tax liabilities	$ 176,327				$ 130,944

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	$ 5,078	$ (654)	$ －	$ －	$ 4,424

(Continued)

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Ending balance
Allowance for inventory valuation and obsolescence loss	$ 10,057	$ 10,401	$ －	$ －	$ 20,458
Investments accounted for under the equity method	(125,958)	(13,560)	3,760	－	(135,758)
Unrealized intra-group profits and losses	8,766	(5,099)	－	－	3,667
Impairment of assets	12,549	(1,936)	－	－	10,613
Allowance for doubtful accounts	34,295	(11,853)	－	－	22,442
Net defined benefit liabilities	32,347	3,056	(4,102)	－	31,301
Others	(6,424)	3,647	－	－	(2,777)
Deferred income tax expense		$ (15,998)	$ (342)	$ －	
Net deferred income tax assets (liabilities)	$ (29,290)				$ (45,630)
Reflected in balance sheet as follows:					
Deferred income tax assets	$ 129,825				$ 130,697
Deferred income tax liabilities	$ 159,115				$ 176,327

(Concluded)

D. Unrecognized deferred income tax assets:

As of December 31, 2018 and 2017, deferred income tax assets that had not been recognized by the Group amounted to NT$42,371 thousand and NT$45,008 thousand, respectively.

E. The assessment of income tax returns:

As of December 31, 2018, the income tax return assessments of the Group's entities in ROC were as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2016
Subsidiary- Koatech Technology Corporation	Assessed and approved up to 2016

(26) Earnings per share

	Year Ended December 31, 2018		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT$)
<u>Basic earnings per share</u>			
Net income available to common shareholders of the Company	$ 672,309	209,084	$ 3.22
Effect of dilutive potential common stocks			
Employee compensation - stock	－	2,142	
<u>Diluted earnings per share</u>			
Net income available to common shareholders of the Company and effect of potential common stocks	$ 672,309	211,226	$ 3.18

	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

7. Related Party Transactions

(1) Names and relationships

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

(2) Significant transactions with related parties

A. Other payables – related parties

	December 31, 2018	December 31, 2017
Other related parties	$ 648	$ 441

B. Compensation to key management of the Group

	Years Ended December 31	
	2018	2017
Short-term employee benefits	$ 73,939	$ 72,798
Post-employment benefits	641	6,396
Termination benefits	783	-
Total	$ 75,363	$ 79,194

8. Pledged Assets

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

	Carrying Amount		
	December 31, 2018	December 31, 2017	Purpose of Pledge
Time deposits (Note)	$ 20,413	$ 20,354	Customs guarantee
Land	100,843	100,843	Long-term loans
Buildings	100,749	104,185	Letter of credit, short-term credit facilities and long-term loans
Machinery and equipment	12,513	14,163	Long-term loans
Total	$ 234,518	$ 239,545	

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

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

9. Significant Contingencies and Unrecognized Contract Commitments

Details of the Group's unused letters of credit as of December 31, 2018 were as follows:

	L / C Balance	
NTD	NT$	12,501 thousand
USD	US$	6,974 thousand
JPY	JPY	384,960 thousand

10. Significant Disaster Loss

A fire broke out in the Group's subsidiary, Taiflex Scientific (Kunshan) Co., Ltd., on January 25, 2018. Parts of the plants, equipment and inventories were damaged, flooded and suffered from smoke and dust pollution. The repair and cleaning work were still underway. Those assets were covered by fire insurance policies. As of December 31, 2018, the insurance claim was still being processed by the insurance company.

11. Significant Subsequent Events

None.

12. Others

(1) Categories of financial instruments

Financial assets

	December 31, 2018	December 31, 2017
Financial assets at fair value through profit or loss:		
Held for trading	(Note 1)	$ 17,463
Mandatorily at fair value through profit or loss	$ 36,438	(Note 1)
Financial assets at amortized cost:		
Cash and cash equivalents (excluding cash on hand)	1,861,898	(Note 1)
Receivables	4,950,722	(Note 1)
Other financial assets - current	20,413	(Note 1)
Loans and receivables (Note 2)	(Note 1)	6,786,254

Financial liabilities

	December 31, 2018	December 31, 2017
Financial liabilities at fair value through profit or loss:		
Held for trading	$ –	$ 13,351
Financial liabilities at amortized cost:		
Short-term loans	1,362,054	656,596
Payables	2,378,788	3,083,571
Long-term loans (including current portion)	341,932	255,696

Note: 1. The Group adopted IFRS 9 on January 1, 2018 and chose not to restate the comparative periods in accordance with the transitional provisions of IFRS 9.

2. Including cash and cash equivalents, notes and accounts receivables, other receivables and other financial assets – current.

(2) Objectives of financial risk management

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

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

(3) Market risk

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

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

A. Foreign currency risk

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

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

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

B. Interest rate risk

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

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

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

C. Equity price risk

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

A 5% increase/decrease in the prices of listed companies' stocks classified as mandatorily at fair value through profit or loss (held for trading in 2017) could cause the profit or loss for the years ended December 31, 2018 and 2017 to increase/decrease by NT$1,021 thousand and NT$834 thousand, respectively.

D. Information on the pre-tax sensitivity analysis was as follows:

For the year ended December 31, 2018

Key Risk	Variation	Sensitivity of Profit or Loss
Foreign currency risk	NTD/USD appreciate/depreciate by 1%	−/+ NT$21,480 thousand
	NTD/CNY appreciate/depreciate by 1%	−/+ NT$ 202 thousand
Interest rate risk	Market interest rate increase/decrease by 10 basis points	+/− NT$ 159 thousand

For the year ended December 31, 2017

Key Risk	Variation	Sensitivity of Profit or Loss
Foreign currency risk	NTD/USD appreciate/depreciate by 1%	−/+ NT$ 5,120 thousand
	NTD/CNY appreciate/depreciate by 1%	−/+ NT$ 1,741 thousand
Interest rate risk	Market interest rate increase/decrease by 10 basis points	+/− NT$ 1,022 thousand

(4) Credit risk management

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

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

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

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

(5) Liquidity risk management

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

Non-derivative financial liabilities

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2018					
Borrowings	$ 1,375,895	$ 295,000	$ 34,674	$ –	$ 1,705,569
Payables	2,378,788	–	–	–	2,378,788
December 31, 2017					
Borrowings	$ 703,908	$ 165,291	$ 45,580	$ –	$ 914,779
Payables	3,083,571	–	–	–	3,083,571

Derivative financial liabilities

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2018					
Inflows	$ 526,637	$ –	$ –	$ –	$ 526,637
Outflows	$ 605,689	–	–	–	$ 605,689
Net	$ (79,052)	$ –	$ –	$ –	$ (79,052)
December 31, 2017					
Inflows	$ 1,058,336	$ –	$ –	$ –	$ 1,058,336
Outflows	$ 1,079,765	–	–	–	$ 1,079,765
Net	$ (21,429)	$ –	$ –	$ –	$ (21,429)

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

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended December 31, 2018:

	Short-term Loan	Long-term Loan	Lease Liability	Total Liabilities from Financing Activities
As of January 1, 2018	$ 656,596	$ 255,696	$ 3,138	$ 915,430
Cash flows	705,458	86,236	(1,036)	790,658
Non-cash movement	–	–	341	341
As of December 31, 2018	$1,362,054	$ 341,932	$ 2,443	$1,706,429

Reconciliation of liabilities for the year ended December 31, 2017: Not applicable.

(7) Fair values of financial instruments

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

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

(a) The carrying amount of cash and cash equivalents, receivables, payables and other current liabilities approximate their fair value due to short maturity terms.

(b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (e.g. listed equity securities, beneficiary certificates, bonds and futures).

B. Fair value of financial instruments measured at amortized cost

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

C. Information on the fair value hierarchy of financial instruments

Please refer to Note 12(9) for details.

(8) Derivative instruments

As of December 31, 2018 and 2017, the Group's derivative instruments that were not eligible for hedge accounting and were outstanding were listed as follows:

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

Currency	Contract Period	Contract Amount (in thousands)
December 31, 2018		
Sell CNY/Buy USD	2018.03～2019.07	CNY 60,939/US$ 9,300
Sell CNY/Buy NTD	2018.11～2019.05	CNY 90,000/NT$ 396,597
Sell USD/Buy NTD	2018.12～2019.03	US$ 6,000/NT$ 183,577
December 31, 2017		
Sell CNY/Buy USD	2017.05～2018.04	CNY 82,813/US$ 12,342
Sell CNY/Buy NTD	2017.09～2018.04	CNY 126,000/NT$ 566,937

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

Currency	Contract Period	Contract Amount (in thousands)
December 31, 2018		
Sell CNY/Buy NTD	2018.08～2019.04	CNY 4,200/NT$ 18,463
December 31, 2017		
Sell CNY/Buy NTD	2017.09～2018.04	CNY 4,200/NT$ 18,822

C. Cross-currency swap contracts that were not eligible for hedge accounting and were outstanding as of the balance sheet date were listed as follows:

Currency	Contract Period	Contract Amount (in thousands)	Range of Interest Rate Paid	Range of Interest Rate Received
December 31, 2018				
Sell CNY/Buy USD	2018.01~2019.01	CNY 12,870/ US$ 2,000	2.82%~4.10%	1.70%~2.81%
December 31, 2017				
Sell CNY/Buy USD	2017.09~2018.11	CNY 23,027/ US$ 3,500	2.82%~3.65%	1.70%~1.80%

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

(9) Fair value hierarchy

A. Definition of fair value hierarchy

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

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

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

Level 3 inputs are unobservable inputs for the asset or liability

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

B. Hierarchy of fair value measurement

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

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	$ －	$ 13,659	$ －	$ 13,659
Cross-currency swap contracts	－	2,358	－	2,358
Stocks	20,421	－	－	20,421

(Continued)

	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	$ —	$ 2,471	$ —	$ 2,471
Foreign exchange swap contracts	—	185	—	185
December 31, 2017				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	$ —	$ 214	$ —	$ 214
Cross-currency swap contracts	—	572	—	572
Stocks	16,677	—	—	16,677
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	13,058	—	13,058
Foreign exchange swap contracts	—	224	—	224
Cross-currency swap contracts	—	69	—	69

(Concluded)

For the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value hierarchy.

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

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

	December 31, 2018			December 31, 2017		
	Foreign Currencies (in thousands)	Exchange Rate	NTD	Foreign Currencies (in thousands)	Exchange Rate	NTD
Financial assets						
Monetary items						
USD	$ 115,349	30.7220	$ 3,543,738	$ 83,788	29.8300	$ 2,499,396
CNY	4,640	4.4730	20,754	38,906	4.5745	177,975
Financial liabilities						
Monetary items						
USD	$ 45,429	30.7220	$ 1,395,662	$ 66,607	29.8300	$ 1,986,887
JPY	192,735	0.2781	53,600	224,995	0.2648	59,579

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

As entities within the Group transact in various currencies, the exchange gain (loss) of monetary financial assets and liabilities cannot be disclosed by currencies of significant influence. For the years ended December 31, 2018 and 2017, the Group's foreign exchange gain (loss) amounted to NT$(51,256) thousand and NT$53,774 thousand, respectively.

(11) Capital management

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

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, 2018 (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, 2018: 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, 2018: 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, 2018: 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, 2018: 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, 2018: Please refer to Table 5.

I. Direct or indirect significant influence or control over the investees for the year ended December 31, 2018 (excluding investments in China): Please refer to Table 6.

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

K. Others: intercompany relationships and significant intercompany transactions for the year ended December 31, 2018: Please refer to Table 8.

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

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

14. Operating Segment Information

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

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

The overseas segment owns manufacturing and sales functions.

Operating segments have not been aggregated to form the above reportable operating segments.

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

(1) Segment income (loss)

For the year ended December 31, 2018

	General Management	Overseas	Adjustment and Elimination (Note)	Consolidated
Revenue				
External customer	$ 5,628,299	$ 4,014,752	$ —	$ 9,643,051
Inter-segment	2,265,220	152,532	(2,417,752)	—
Total revenue	$ 7,893,519	$ 4,167,284	$ (2,417,752)	$ 9,643,051
Segment income (loss) (before income tax)	$ 886,242	$ 267,651	$ (285,351)	$ 868,542

Note: Inter-segment revenues were eliminated upon consolidation.

For the year ended December 31, 2017

	General Management	Overseas	Adjustment and Elimination (Note)	Consolidated
Revenue				
External customer	$ 5,180,790	$ 6,012,102	$ —	$ 11,192,892
Inter-segment	2,462,441	225,279	(2,687,720)	—
Total revenue	$ 7,643,231	$ 6,237,381	$ (2,687,720)	$ 11,192,892
Segment income (loss) (before income tax)	$ 929,726	$ 195,496	$ (166,124)	$ 959,098

Note: Inter-segment revenues were eliminated upon consolidation.

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

(2) Geographic information

A. Revenue from external customers:

Region	Years Ended December 31 2018	2017
Taiwan	$ 1,931,443	$ 2,108,157
Mainland China	7,364,249	8,713,945
Others	347,359	370,790
Total	$ 9,643,051	$ 11,192,892

Revenue was categorized based on countries where customers are located.

B. Non-current assets:

Region	Years Ended December 31 2018	2017
Taiwan	$ 2,617,315	$ 2,503,588
Mainland China	899,516	696,971
Total	$ 3,516,831	$ 3,200,559

(3) Major customers

Customers accounted for at least 10% of the Group's net revenue for the years ended December 31, 2018 and 2017 were as follows:

Name	Years Ended December 31 2018	2017
Customer A	$ 1,608,965	$ 1,550,537
Customer B	444,675	1,181,091
Customer C	1,161,924	1,102,789

TABLE 1: FINANCING PROVIDED TO OTHERS

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Financing Company	Counterparty	Financial Statement Account (Note 2)	Whether A Related Party	Maximum Balance for the Period (Note 3)	Ending Balance (Note 10)	Amount Actually Drawn (Note 11)	Interest Rate Range	Nature of Financing (Note 4)	Transaction Amounts (Note 5)	Reason for Short-term Financing (Note 6)	Loss Allowance	Collateral		Financing Limits for Each Borrower	Financing Company's Total Financing Amount Limits	Note
													Item	Value			
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	$ 433,426	$ 430,108	$ 276,498	1.70%~4.00%	2	–	Operating capital	–	–	–	$ 1,452,448	$ 2,904,895	(Note 7)
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Other receivables - related parties	Y	1,229,040	921,660	721,744	1.70%~4.00%	2	–	Operating capital	–	–	–	1,452,448	2,904,895	(Note 7)

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

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

Note 3: The maximum balance of financing provided to others for the year ended December 31, 2018.

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

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

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

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

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

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

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

Note 11: This is the ending balance after evaluation.

TABLE 2: ENDORSEMENT/GUARANTEE PROVIDED TO OTHERS (In Thousands of New Taiwan Dollars)

No (Note 1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to 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 (Note 7)	Endorsement Provided by Subsidiaries to Parent Company (Note 7)	Endorsement Provided to Subsidiaries in China (Note 7)
		Name	Relationship (Note 2)										
0	Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	2	$ 3,631,119	$ 123,836	$ 122,888	$ –	$ –	1.69%	$ 3,631,119	Y	N	N
0	Taiflex Scientific Co., Ltd.	Rudong Fuzhan Scientific Co., Ltd.	2	3,631,119	139,316	138,249	94,023	–	1.90%		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	2	3,631,119	1,320,872	1,214,801	57,165	–	16.73%		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	2	3,631,119	1,088,519	441,410	61,444	–	6.08%		Y	N	Y

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

Note 2: The relationships between endorsement/guarantee providers and guaranteed parties are categorized into the following seven types. Please specify the type.
(1) A company that has business relationships with Taiflex.
(2) A company in which Taiflex directly or indirectly holds over 50% of the voting rights.
(3) A company that directly or indirectly holds over 50% of Taiflex's voting rights.
(4) Endorsements/guarantees between companies in which Taiflex directly or indirectly holds over 90% of the voting rights.
(5) Mutual endorsements/guarantees between companies in the same industry or between joint builders which are provided in accordance with contractual terms for construction projects.
(6) Endorsements/guarantees provided by each shareholder for their jointly invested company in proportion to their shareholding percentages.
(7) Joint and several securities between companies in the same industry for performance guarantees of pre-construction homes under the Consumer Protection Act.

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

Note 4: The maximum endorsement/guarantee balance for the year ended December 31, 2018.

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

Note 6: This is the ending balance after evaluation.

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

TABLE 3: MARKETABLE SECURITIES HELD AS OF DECEMBER 31, 2018 (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, 2018				Note
					Shares (In Thousands)	Carrying Amount (Note 3)	Percentage of Ownership	Fair Value	
Taiflex Scientific Co., Ltd.	Non-listed (OTC) stocks	Exploit Technology Co., Ltd.	–	Financial assets at fair value through other comprehensive income - non-current	25	–	0.30%	–	–
	Non-listed (OTC) stocks	Kyoritsu Optronics Co., Ltd.	–	Financial assets at fair value through other comprehensive income - non-current	741	–	18.10%	–	–
	Listed stocks	Zhen Ding Technology Holding Limited	–	Financial assets at fair value through profit or loss - current	255	$ 20,421	0.03%	$ 20,421	–

Note 1: The marketable securities stated in this table shall refer to stocks, bonds, beneficiary certificates and securities derived from the said items within the scope of IFRS 9 "Financial Instruments".

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

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

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

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationships	Transaction Details				Abnormal Transaction (Note 1)		Notes/Accounts Receivable (Payable)		Note
			Sales (Purchases)	Amount	Percentage to Total Sales (Purchases)	Credit/ Payment Terms	Unit Price	Credit/ Payment Terms	Ending Balance	Percentage to Total Notes/ Accounts Receivable (Payable)	
Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Holds 100% of the third-tier subsidiary	Purchases	$ 109,900	2.15%	150 days from end of month	—	—	$ (24,716)	(1.50%)	—
	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	Sales	2,096,373	27.46%	150 days from end of month	—	—	1,318,944	38.44%	—
Taiflex Scientific (Kunshan) Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent company	Sales	109,900	7.79%	150 days from end of month	—	—	24,716	2.43%	—
Shenzhen Taiflex Electronic Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent company	Purchases	2,096,373	68.63%	150 days from end of month	—	—	(1,318,944)	(85.12%)	—

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

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

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationships	Ending Balance	Turnover Ratio (times)	Overdue		Amounts Received in Subsequent Periods	Lost Allowance	Note
					Amount	Action Taken			
Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	$ 1,318,944	1.51	—	—	$ 178,630	—	—
Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	211,419	(Note 1)	—	—	32,428	—	—

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

TABLE 6: INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE OR CONTROL 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, 2018			Net Income (Loss) of Investee	Share of Profit/Loss	Note
				December 31, 2018	December 31, 2017	Shares (In Thousands)	Shareholding Percentage	Carrying Value			
Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	Belize	Investment holding	$ 704,536	$ 822,194	21,825	100.00%	$ 1,133,837	$ (314,924)	$ (313,497)	(Note 1)
Taiflex Scientific Co., Ltd.	Leadmax Limited	Samoa	Trading of electronic materials	337	337	10	100.00%	10,990	(5,114)	(5,114)	－
Taiflex Scientific Co., Ltd.	Koatech Technology Corporation	Taiwan	Manufacturing and selling of electronic materials and components	294,102	294,102	13,700	53.86%	233,440	15,053	2,669	(Note 2)
Taiflex Scientific Co., Ltd.	Innovision FlexTech Corp.	Taiwan	Manufacturing and selling of electronic materials	102,894	102,894	3,611	15.07%	51,470	72,099	19,666	－
Taiflex Scientific Co., Ltd.	TFS Co., Ltd.	Belize	Investment holding	478,797	478,797	15,520	100.00%	469,677	50,426	50,426	－
Taiflex Scientific Co., Ltd.	Richstar Co., Ltd.	Samoa	Investment holding	525,733	－	17,500	53.01%	564,429	60,903	10,408	－
Taiflex Scientific Co., Ltd.	Taiflex Scientific Japan Co., Ltd.	Japan	Trading and technical support of electronic materials	16,260	16,260	6	100.00%	17,696	331	331	－
Taiflex Scientific Co., Ltd.	Taiflex USA Corporation	U.S.A.	Technical support and marketing of electronic materials	8,820	－	1	100.00%	8,861	(348)	(348)	－
TFS Co., Ltd.	Richstar Co., Ltd.	Samoa	Investment holding	478,563	478,563	15,510	46.99%	500,245	60,903	50,495	－
Taistar Co., Ltd.	TSC International Ltd.	Cayman Islands	Investment holding	683,946	801,604	21,170	100.00%	1,111,768	(295,253)	(295,253)	－
Koatech Technology Corporation	KTC Global Co., Ltd.	Samoa	Investment holding	28,649	28,649	960	100.00%	14,776	(1,584)	(1,584)	－
KTC Global Co., Ltd	KTC PanAsia Co., Ltd.	Samoa	Investment holding	28,500	28,500	955	100.00%	15,369	(2,127)	(2,127)	－

Note 1: Including unrealized gain/loss between affiliates.

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

TABLE 7: INFORMATION ON INVESTMENTS IN MAINLAND CHINA (In Thousands of New Taiwan Dollars)

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, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Profit/ Loss of Investee	Percentage of Ownership (Direct or Indirect Investment)	Share of Profit/Loss	Carrying Amount as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow						
Kunshan Taiflex Electronic Material Co., Ltd.	Trading of coating materials for high polymer film and copper foil	— (Note 3)	2	$ 32,536	—	$ 32,536	—	—	—	$ 1,294	—	$ 196,579
Taiflex Scientific (Kunshan) Co., Ltd.	Manufacturing and selling of coating materials for high polymer film and copper foil	$767,141 (US$24,000,000)	2	767,141	—	—	$ 767,141	$(332,082)	100.00%	(332,082)	$ 1,111,666	—
Kunshan Koatech Technology Corporation	A wholesaler and a commission agent of electronic materials and components	$28,351 (US$950,000)	2	28,351	—	—	28,351	(2,127)	53.86%	(1,145)	8,270	—
Shenzhen Taiflex Electronic Co., Ltd.	Trading of coating materials for high polymer film and copper foil	$479,160 (US$15,500,000)	2	479,160	—	—	479,160	49,564	100.00%	49,564	542,127	—
Rudong Fuzhan Scientific Co., Ltd.	Manufacturing and selling of electronic materials	$525,733 (US$17,500,000)	2	—	$525,733	—	525,733	11,405	100.00%	11,405	522,412	—

Accumulated Outflow of Investment from Taiwan to Mainland China as of December 31, 2018	Investment Amounts Authorized by the Investment Commission, MOEA	Upper Limit on Investment
$1,800,385	$2,367,190	$4,357,343

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

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

Note 3: The liquidation of Kunshan Taiflex Electronic Material Co., Ltd. was completed by August, 2018.

TABLE 8: INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counterparty	Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Account	Amount (Note 4)	Terms	Percentage to Consolidated Net Revenue or Total Assets (Note 3)
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Sales revenue	$ 96,405	General trading terms	1.00%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Accounts receivable	29,140	General trading terms	0.24%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Other receivables	13,747	－	0.12%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Other receivables	721,744	Financing	6.04%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Cost of revenue	109,900	General trading terms	1.14%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Accounts payable	24,716	General trading terms	0.21%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Purchase on behalf of others	20,425	－	0.21%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Sales revenue	2,096,373	General trading terms	21.74%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Accounts receivable	1,318,944	General trading terms	11.04%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Other receivables	211,419	－	1.77%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Other receivables	276,498	Financing	2.32%

Note 1: Transaction information between the parent company and its subsidiaries shall be disclosed by codes below:
(1) Taiflex Scientific Co., Ltd. is coded "0".
(2) The subsidiaries are coded from "1" in the order presented in the table above.

Note 2: Relationships are categorized into the following three types. Please specify the type.
(1) From the parent company to a subsidiary.
(2) From a subsidiary to the parent company.
(3) Between subsidiaries.

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

Note 4: This is the ending balance after evaluation.