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TAIFLEX Scientific Co., Ltd.

2017 Annual Report

Corporate Website: http://www.taiflex.com.tw
Market Observation Post System Website: http://mops.twse.com.tw

Published on March 31, 2018

<u>Notice to readers</u>

This English-version annual report is a summary translation of the Chinese version and is not an official document of the Shareholders' Meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

1. **Name, Title and Contact Details of Company's Spokesperson and Deputy Spokesperson:**

   Spokesperson: Fang-I Hsieh
   Title: Chief Financial Officer
   Telephone Number: (07)813-9989
   E-mail address: shieh@taiflex.com.tw
   Deputy Spokesperson: Qi-Xun Zhang
   Title: Project Manager
   Telephone Number: (07)813-9989 ext. 52818
   E-mail address: charles_chang@taiflex.com.tw

2. **Address and Telephone Numbers of Company's Headquarters, Branches and Fabs:**

   Fab 1: No. 4, S. 3rd Rd., KEPZ, Qianzhen Dist., Kaohsiung City 806, Taiwan (R.O.C.)
   Fab 2 (Headquarters): No.1, Huanqu 3rd Rd., KEPZ, Qianzhen Dist., Kaohsiung City 806, Taiwan (R.O.C.)
   Fab 3: No. 3, S. 2nd Rd., KEPZ, Qianzhen Dist., Kaohsiung City 806, Taiwan (R.O.C.)
   Fab 5: No. 8, S. 3rd Rd., KEPZ, Qianzhen Dist., Kaohsiung City 806, Taiwan (R.O.C.)
   Telephone Number: (07)813-9989

3. **Name, Address, Website and Telephone Number of the Share Registrar:**

   Name: Stock Management Service Department, Yuanta Securities
   Address: No.210-B1, Sec. 3, Chengde Rd., Datong Dist., Taipei City 103, Taiwan (R.O.C.)
   Website: http://www.yuanta.com.tw
   Telephone Number: (02)2586-5859

4. **Names, Accounting Firm, Address, Website and Telephone Number of Independent Auditors in the Most Recent Year:**

   Names: Fang-Wen Li and Jheng-Chu Chen
   CPA Firm: Ernst & Young
   Address: 17F., No.2, Zhongzheng 3rd Rd., Xinxing Dist., Kaohsiung City 800, Taiwan (R.O.C.)
   Website: http://www.ey.com
   Telephone Number: (07)238-0011

5. **Overseas Securities Exchange:**

   None

6. **Corporate Website:**

   http://www.taiflex.com.tw

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I. Letter to Shareholders

1. 2017 Operating Results

Net revenue of the Company amounted to NT$11.19 billion in 2017, an increase of 8.84% from the NT$10.28 billion in 2016. Net income attributable to shareholders of the parent came to NT$735 million, up 26.7% year over year. Earnings per share was NT$3.55. We enjoyed substantial revenue growth, which was supported by successful collaboration throughout the entire electronic materials supply chain, and improved profitability on our core business in the same year. Moreover, renminbi broke away from the trend of significant and persistent depreciation in 2017. Under relatively stable currencies and continuing hedging strategies, we succeeded in mitigating the impact of exchange rate volatility, which also contributed to the considerable improvement in profit margin on a year-over-year basis.

Our electronics materials business unit generated net revenue of NT$7.34 billion in 2017, an increase of 13.5% comparing to 2016. Contributors of the huge growth were a) enhancement in technical capabilities and collaboration and integration within the supply chain which broadened our product application ranges and allowed us to enjoy business opportunities associated with the use of new materials, and b) market share expansion on the current stable customer base as we became business partners to reputable global companies with our advantages in economies of scale.

Our energy materials business unit generated net revenue of NT$3.72 billion in 2017, a year-over-year increase of 1.6%. Competitions in the photovoltaics (PV) market remain heated. China is still the world’s single largest PV terminal market. As it continues to tighten requirements for electricity subsidies, associated supply chains face severe price competitions. As a result, our energy materials business unit adopts the “stability maintenance” strategy. Instead of aggressively pursuing market share expansion, we invest resources in the development of protective packaging materials for lithium batteries in order to get a head start on the next growth momentum.

(1) Consolidated revenue and net income

(In Thousands of New Taiwan Dollars)

	2017	2016	Change (in Dollar Amount)	Change (in Percentage)
Net revenue	11,192,892	10,283,979	908,913	8.84%
Gross profit	2,134,482	1,895,651	238,831	12.60%
Net income	746,545	546,610	199,935	36.58%

(2) Profitability analysis

	2017	2016
Net profit margin	6.66%	5.31%
Return on assets	6.81%	5.26%
Return on equity	10.66%	8.04%

(3) Directions of research and development

The persistent move of electronic devices towards compact and energy-efficient models and the impending 5G era boost the demand for materials featuring high frequency, high dimensional stability and fine line applications. The Company has invested resources and proactively carries out supply chain integration in order to develop products which meet consumers' requirements. We utilize our core formula capabilities to provide customers with total solutions.

Meanwhile, we also use our core formula and manufacturing capabilities to develop protective packaging materials for lithium batteries so as to benefit from the enormous business opportunities of electric vehicles in the future.

2. Overview of 2018 Business Plan

(1) Business policy

Looking at the current macroeconomic environment, the global economy starts to recover and all economic figures are looking up, which in turn drive up the prices of basic raw materials, such as oil and copper foil. Moreover, as the Federal Reserve commences its balance sheet reduction policy, inflation and interest rates are expected to rise further. The escalating costs of raw materials, labor and capital put mounting pressure on business operation.

On the other hand, economic growth generates more opportunities. Being the key material supplier in the Greater China Region, we not only initiate price increase to mitigate the upward pricing pressure of raw materials, but also adopt cost and expense improvement schemes and supply chain integration to effectively lower the impact of surging costs and take hold of the growth drives in order to create more added value.

As the growth of smartphones slows down, material suppliers can no longer expect to derive growth momentum from the sales of end user devices. Instead, they shall rely on opportunities stemming from the new designs and applications, which create new material demand. That is the source of growth momentum for material suppliers. For instance, the upcoming 5G network and surface phones would introduce new material demand to the market. Whether a material supplier can benefit from demand driven by new designs is determined by its speed in development and capability in mass production. The Company has taken up a relatively leading position and continues to work closely with international companies in the research and development of new materials in hope to enjoy the vast business opportunities created by new designs and applications.

Relative to new designs and applications, cost competitiveness is the deciding factor in the competition. We have advantages in economies of scale and comprehensive supply chain management ability. Thus, we will be able to fulfill market demand with competitive cost structures, continue to expand our market share and strengthen our competitive advantages.

We will adopt the "stability maintenance" strategy where the energy industry is concerned. The objective is to maintain a certain level of operating scale and reduce operational risk. Moreover, we will divert resources to the lithium battery industry to keep track of its subsequent growth momentum.

In addition, a fire broke out at the Company's Kunshan subsidiary on January 25, 2018, affecting part of the PV backsheets capacity. The production capacity in Taiwan and China was swiftly reallocated and the whole supply chain adjusted to ease the impact on short-term operation. Moreover, the Company was covered by property and business interruption insurance policies which further lessened the impact on the overall operation.

(2) Sales forecast and basis

Electronic materials: the sales in 2018 is expected to grow 6 to 10% comparing to 2017

Basis:

A. Although the overall growth of smartphone sales is slowing, new applications and functions are expected to further stimulate the use of flexible print circuits (FPC). Consequently, the FPC demand is expected to rise. This combines with our comprehensive product lines, quality assurance and economies of scale put us in an excellent position to expand our collaboration with international companies and reap the benefits of shipment growth from new material applications.

B. Even with higher raw material prices and in some cases supply shortages, as a key supplier of FPC materials in the Greater China Region, we expect to expand our market share further on the basis of our long-term, stable relationship with parties in the supply chain, relative advantages in securing raw materials and continuous cost optimization.

C. Under the influence of two above-mentioned factors, the Company expects the 2018 shipment to maintain the 2017 growth momentum.

PV backsheets: the sales volume in 2018 is expected to remain flat comparing to 2017

Basis:

A. The Company's PV backsheets are mostly sold in the Great China Region and China remains the largest PV system installation market in 2018. Nevertheless, it continuously lowers the wholesale electricity price which brings persistent price competition to the industry. Therefore, although the overall market demand exists, the Company adopts stability maintenance strategy in the PV backsheets segment considering the industry's operational risk. Instead of shipment growth, the Company optimizes product and customer portfolios to sustain stable profitability.

B. Thus, the Company expects the 2018 sales volume to remain flat comparing to 2017.

(3) Key production and marketing policies

A. To establish Rudong Fuzhan Scientific Co., Ltd. as a new production base in China in order to support the increasing customer demand.

B. Successfully built VMI warehouses with key suppliers to accelerate the inventory flows and adjust the supply chain flexibly.

C. Expand the technical service team for end customers, be the first one to address their demand and enhance the efficiency of product research and development.

D. Optimize product portfolio to better satisfy customer demand and pursue profitability enhancement simultaneously.

3. Strategies for Future Developments

(1) Exploit current material formulas and precision manufacturing technology and explore market opportunities to develop new business in pursue of the Company's long-term growth.

(2) Combine end customers' participation in design and collaboration in material development with the Company's existing technology and advantages in economies of scale to stabilize and strengthen the overall supply chain connectivity and create high barriers to entry for competitors.

(3) Utilize the advantages of joint purchase and vertical integration to carry out horizontal expansion for products requested by customers through the enormous sales network and customer base built by the Company. We can provide lower-cost, high-efficient and one-stop shop services via self- or cooperative development or joint-agency.

(4) Continue to rationalize workflow and carry out waste reduction measures in order to lower operation costs and increase work efficiency.

4. Impacts from external competition, regulatory compliance and macro-environment

(1) External competition

A. The slowing growth momentum of smartphone sales and increasing production capacity of competitors create potential risk of fiercer price competition.

B. Price war in the solar industry remains heated as capacity expansion continues and subsidies are cut.

C. Quick changes in customer demand force the Company to identify new technologies and launch new products at a faster rate, which raises the development cost. At the same time, increasing difference in peak and low-season demand brings greater challenge to capacity flexibility and resource allocation capability.

D. Being the dominant producer of FCCL and PV backsheets in the Greater China Region, the Company has strong competitive advantages in supply chain relationships and economies of scale. In addition to cost competitiveness due to scale, we can also meet customers' demand timely in the peak season. Furthermore, we collaborate with companies in the supply chain to accelerate our progress in research and development in order to satisfy customers' demand for new products and assist them with seizing the growth opportunity.

(2) Regulatory compliance

A. Our allocation of resources is directly impacted by whether cross-strait bilateral investments are permissible.

B. The protectionism-inclined US trade policy, potential global trade wars (e.g. anti-dumping and countervailing investigations by U.S. and Europe) and India's protectionist policy all have significant impact on the PV industry and directly affect the module assembly plants' global deployment strategies.

(3) Macro-environment

A. The Federal Reserve's balance sheet reduction and stabilization of inflation are expected to drive up the global interest rates which in turn increase enterprises' cost of funds.

B. Supply chain capacity allocation becomes challenging as prices of international raw materials start to surge significantly and environmental protection issues affect the supply of certain materials.

C. As the trend of China's economy switches to structural adjustment and the level of environmental awareness increases, the operating costs of China escalate.

D. Our government has less participation in the regional integration agreements than the competing nations. Even though we enjoy some tariff concessions under ECFA with China, we are falling behind in the war of tariffs within the Southeast Asia market.

Looking back at 2017, the economic environment as a whole gradually recovered amid turmoil. However, there are still considerable uncertainties, including the Federal Reserve's balance sheet reduction and tensions between the US and North Korea. Those factors have significant impact on the flow of international funds and bring noises to the financial market. We do our utmost to adopt adequate business strategies for each business unit in accordance with market changes, strive to balance our operation against risks and persistently optimize our operational efficiency. As the benefits of our long-term deployment in supply chain start to emerge, there are signs of stable growth in both revenue and profitability.

We will strengthen our core competitiveness and invest research and development resources in advanced flexible materials persistently, aiming to produce high-value products. We will also utilize our advantages in flexible materials to collaborate with customers in order to capture the driving forces of market growth and build the foundation for sustainability.

Sincerely yours,

Chairperson: Ta-Wen Sun

II. Company Profile

1. Founded on August 16, 1997

2. Company History

Year	Milestones
August, 1997	Founded at the Incubator Center of Industrial Technology Research Institute (ITRI) with paid-in capital of NT$4,000,000. Focused on manufacturing of polymer film based copper clad laminates and associated high-tech products.
June, 1998	Moved to Kaohsiung Export Processing Zone at Qianzhen District, Kaohsiung with an area of 3,638 square meters.
Februrary, 1999	Mass production.
April, 1999	Obtained ISO9001 Certification.
December, 1999	Formed strategic alliance with Arisawa MFG Co. Ltd., a leading FPC manufacturer in Japan.
March, 2000	Signed technology transfer agreement with Arisawa.
May, 2000	Underwent the supplemental public issuance procedure and approved by Securities and Futures Institute with Official Letter (2000) Tai-Cai-Zheng-Quan (1) No. 44617.
March, 2002	Received Best R&D Award and Best Sales of Own-Brand Award from Ministry of Economic Affairs, R.O.C.
January, 2003	Traded on the Emerging Stock Market.
December, 2003	Listed on the OTC Stock Exchange on December 19.
June, 2004	Paid-in capital of NT$587,500,000 after the merge with HuaPeng Technology on June 1.
October, 2004	Received National Award for Outstanding SMEs from Small and Medium Enterprise Administration, Ministry of Economic Affairs, R.O.C.
July, 2006	Obtained TS16949 Certification.
October, 2008	Obtained TÜV certification.
	Obtained TOSHMS: 2007 certification.
	Obtained OHSAS 18001: 2007 certification.
November, 2009	Obtained ISO14064 certification.
December, 2009	Listed on Taiwan Stock Exchange since December 17, 2009.
March, 2010	The first company in the Kaohsiung Export Processing Zone approved by Customs Administration, Ministry of Finance to be Authorized Economic Operator (AEO).
March, 2010	Share swap between Koatech Technology Corporation and Taiflex with issuance of new shares amounting to NT$46,650,590.
November, 2011	Received Golden Award of TTQS from Executive Yuan.
August, 2012	Ranked 10th in the CommonWealth Magazine's Corporate Citizenship Awards in Medium-Sized Enterprises.

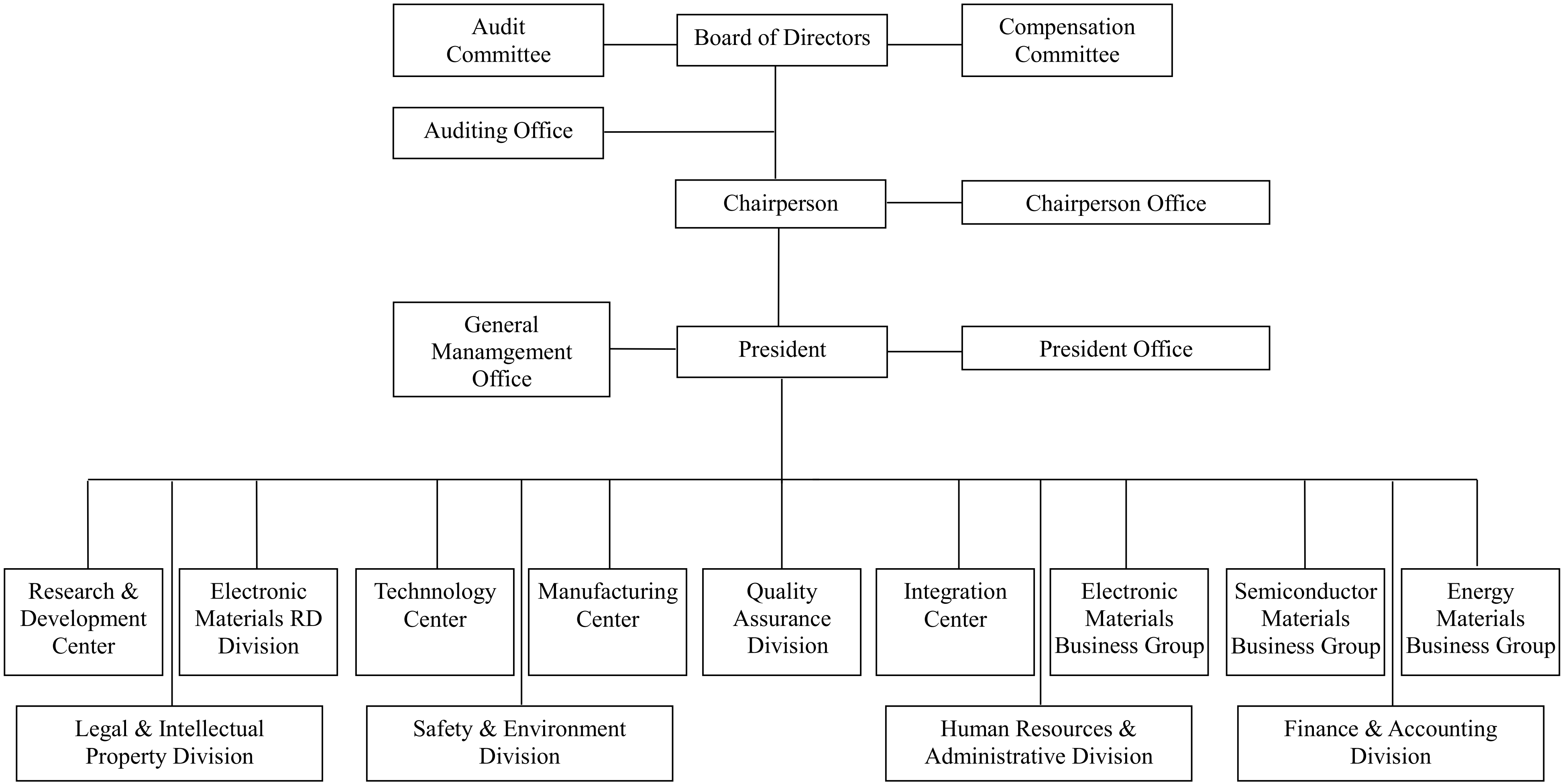
Year	Milestones
January, 2013	Selected in the “Enterprises as Backbones of Industries Leaping Promotion Program” of Industrial Development Bureau, Ministry of Economic Affairs, R.O.C.
June, 2013	Received 2013 National TrainQuali Prize.
August, 2013	Ranked 10th in the CommonWealth Magazine's Corporate Citizenship Awards.
January, 2014	Received Badge of Accredited Healthy Workplace from Health Promotion Administration, Ministry of Health and Welfare.
February, 2014	Received Administration-Enthusiastic Prize of Public Welfare from Export Processing Zone Administration, Ministry of Economic Affairs, R.O.C.
May, 2015	Received A++ Award in the 12th Information Transparency and Disclosure Ranking for Exchange and OTC-Listed Companies.
August, 2015	Ranked 38th in the CommonWealth Magazine's Corporate Citizenship Awards in Large-Scale Enterprises.
Novenmber, 2015	Received Copper Pyramid Award in the 24th National Quality Control Circle Competition.
December, 2015	Received Golden Award of TTQS (Enterprise Version).
December, 2015	Received award in the Corporate Benefit Plan Competition, Labor Affairs Bureau of Kaohsiung City Government.
December, 2015	Received awards from Export Processing Zone Administration for (1) being the models of water-use efficiency, (2) charities and community services, (3) industry-academia collaboration, and (4) fab transformation.
January, 2016	Established Taiflex Scientific Japan Co., Ltd.
July, 2016	Received the 2015 certification mark for Exporters/Importers with Excellent Trade Performance, the Bureau of Foreign Trade, Ministry of Economic Affairs, R.O.C.
August, 2016	Paid-in capital of NT$2,083,251,920 after capitalizing capital surplus of NT$40,393,570.
	Ranked 37th in the CommonWealth Magazine's Corporate Citizenship Awards in Large-Scale Enterprises.
September, 2016	Received 2016 Work and Life Balance Award - Work Autonomy and Achievement, Ministry of Labor.
December, 2016	Obtained ISO27001 Information Security Management certification.
January, 2017	Received SGS ISO9001 18 Years Merit Award.
July, 2017	Received the 2016 certification mark for Exporters/Importers with Excellent Trade Performance, the Bureau of Foreign Trade, Ministry of Economic Affairs, R.O.C.
January, 2018	Approved by the Ministry of Finance to be an AEO.
January, 2018	Established Taiflex USA Corporation.

III.Corporate Governance

1. Organization

(1) Organizational Structure

March 31, 2018



(2) Functions

Departments	Functions
Auditing Office	1. To review and assess the internal control system and to provide analysis and evaluations 2. To conduct routine and non-routine audits
Chairperson Office	1. To assist the Chairperson with internal management and external issues
President Office	1. To assist the President with internal management and external issues
General Management Office	1. To manage the execution of Company business in accordance with resolutions of the Shareholders' Meetings and the Board meetings, and orders from the Board. 2. To assist in the planning of founding the next emerging industry and product 3. To assist the Company in formulating important investment decisions and strategies 4. To assist the President in supervising the operations and performance of each business group, center and division 5. To analyze operation cost and compose business plans 6. To maintain relationships with external investors and media
Legal & Intellectual Property Division	1. To review the Company's legal contracts 2. To manage the Company's commercial contracts, patents and other intellectual property rights 3. To provide consultation and handle relevant legal issues
Safety & Environment Division	1. In charge of public safety, sanitary control and employee well-being
Finance & Accounting Division	1. In charge of financial planning, accounting and tax management
Human Resources & Administrative Division	1. In charge of policies for the organization, human resource, education and training, general affairs and asset management 2. To plan and execute corporate social responsibility and maintain corporate image 3. To maintain and repair public facilities within the Company 4. To manage industry-academia collaboration projects
Research & Development Center	1. To develop short-, mid- and long-term products and technology 2. To study and improve product formulas and develop new products
Electronic Materials RD Division	1. To develop short-, mid- and long-term products and technology of electronic materials 2. To study and improve product formulas and develop new products concerning electronic materials
Technology Center	1. To set conditions for pilot runs and mass production 2. To manage high-mix, low-volume orders and test runs of samples

Departments	Functions
Manufacturing Center	1. To improve the manufacturing process 2. In charge of the maintenance, upkeep, repair and automation enhancement of manufacturing equipment
Quality Assurance Division	1. To establish and uphold quality control system 2. To inspect and accept raw materials and perform quality controls on process and products 3. To monitor product quality and provide relevant data to manufacturing units 4. To support sales on providing technical consultation to customers
Integration Center	1. To plan production capacity based on sales and purchase strategies of each division; to obtain, allocate and integrate the management of raw materials and finished goods levels to meet the sale and cost targets 2. To purchase, allocate and store raw materials, supplies and equipment 3. In charge of bonding and customs 4. To ensure a smooth supply chain operation through supplier relationship management 5. To maintain and control software and hardware, including computers and IT system
Electronic Materials Business Group	1. To formulate business philosophy and mid-term, long-term and annual business plans 2. In charge of the planning, selling, marketing and servicing of FPC products 3. To analyze domestic and overseas FPC markets and relevant electronic material data; to formulate and execute marketing plans
Semiconductor Materials Business Group	1. To formulate business philosophy and mid-term, long-term and annual business plans 2. In charge of the planning, selling, marketing and servicing of semiconductor products 3. To analyze domestic and overseas semiconductor market and relevant material data; to formulate and execute marketing plans
Energy Materials Business Group	1. To formulate business philosophy and mid-term, long-term and annual business plans 2. In charge of the planning, selling, marketing and servicing of solar products 3. To analyze domestic and overseas solar markets and relevant material data and to formulate and execute marketing plans

2. Directors, Supervisors, President, Vice Presidents, Assistant Vice Presidents and Managers of Departments and Branches:

(1) Directors and Supervisors

A. Directors and Supervisors

As of March 31, 2018 (In Shares; %)

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Taiflex and Other Companies	Managers, Directors or Supervisors Who are Spouses or within Second-Degree of Kinship to Each Other		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Corporate Director	Taiwan	Qiao Mei Development Corporation	-	2017.05	3 years	2000.04	14,963,729	7.18	15,213,729	7.28	0	0	0	0	-	-	-	-	-
Representative of Corporate Director	Taiwan	Ta-Wen Sun	Male	2017.05	3 years	2000.04	838,760	0.40	838,760	0.40	72,722	0.03	0	0	B.S. Degree in Business Administration, Fu Jen Catholic University	Chairperson of the Taiflex Scientific Co., Ltd. Chairperson of Qiao Mei Development Corporation Chairperson of Innatech Co., Ltd. Chairperson of Yu Pen Investment Corp. Chairperson of Kunshan Taiflex Electronic Material Co., Ltd. (Note 1) Director of Taiflex Scientific (Kunshan) Co., Ltd. (Note 1) Supervisor of BIONET Corp. Independent Director of Advanced Ceramic X Corp. Corporate Director (Representative) of San Far Property Limited Director of SciVision Biotech Inc. Executive Director of Puren Youth Care Foundation	-	-	-

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Taiflex and Other Companies	Managers, Directors or Supervisors Who are Spouses or within Second-Degree of Kinship to Each Other		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
																Chief Counselor of Youth Career Development Association Headquarters, R.O.C.			
Representative of Corporate Director	Taiwan	Jun-Yan Jiang	Male	2017.05	3 years	2011.08	446,047	0.21	160,047	0.08	0	0	0	0	EMBA, National Sun Yat-sen University Certificate of completion for Entrepreneur Business Administration Class, National Chengchi University Former President of Taiflex Scientific Co., Ltd.	Corporate Director (Representative) of Qiao Mei Development Corporation Chairperson of Taiflex Scientific (Kunshan) Co., Ltd. (Note 1) Director of Kunshan Taiflex Electronic Material Co., Ltd (Note 1) Independent Director of Anpec Electronics Corp. Independent Director of Sinopower Semiconductor, Inc.	-	-	-
Director	Taiwan	Ching-Yi Chang	Male	2017.05	3 years	2002.06	4,599,282	2.21	4,599,282	2.20	442,313	0.21	0	0	Master of Business Administration, National Chengchi University	Vice Chairperson of Taiflex Scientific Co., Ltd. Chairperson of LandMark Optoelectronics Corporation Founder/Chairperson of the CID Group Chairperson of csrCommunity International Limited Vice Chairperson of Taiwan Venture Capital Association Director of Epoch Foundation Chairperson of HuaHe Cultural & Creative Management Consultant Corp. Chairperson of HuaWei International Technologies Consultant Corp. Chairperson of HuaWei Century Venture Capital Co., Ltd.	-	-	-

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Taiflex and Other Companies	Managers, Directors or Supervisors Who are Spouses or within Second-Degree of Kinship to Each Other		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
																Corporate Director (Representative) of Huasheng International Investment Corp.			
Director	Taiwan	Fu-Le Lin	Male	2017.05	3 years	1997.08	370,249	0.18	390,249	0.19	10,663	0.01	0	0	Ph.D. in Polymer Science, University of Akron Former Senior Engineer of Vishay General Semiconductor Taiwan Ltd. Former Analyst of Material Research Laboratories, Industrial Technology Research Institute	Senior R&D Director of Taiflex Scientific Co., Ltd. Chairperson of Koatech Technology Corporation	-	-	-
Corporate Director	Taiwan	Fuding Investment Co., Ltd.	-	2017.05	3 years	2014.06	1,020,000	0.49	1,020,000	0.49	0	0	0	0	-	-	-	-	-
Representative of Corporate Director	Taiwan	Re-Zhang Lin	Male	2017.05	3 years	2014.06	0	0	0	0	0	0	0	0	B.S. Degree in Accounting, Soochow University	Chairperson of Taiwan Fu Hsing Industrial Co., Ltd. Chairperson of Fortress Industrial Co., Ltd. Chairperson of Tong Hsing Co., Ltd. Chairperson of ARCTEK Industrial Co., Ltd. Director of Fu Hsing Americas Inc. Director of Fine Blanking & Tool Co., Ltd. Director of Launch Technologies Co., Ltd.	-	-	-

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Taiflex and Other Companies	Managers, Directors or Supervisors Who are Spouses or within Second-Degree of Kinship to Each Other		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
																Supervisor of Advanced International Multitech Co. Ltd. Corporate Director (Representative) of Taiflex Scientific Co., Ltd. Director of Arctek (Shanghai) Co., Ltd. Director of Allegion Fu Hsing Limited			
Director	Taiwan	Chun-Chi Lin	Male	2017.05	3 years	2017.05	0	0	0	0	0	0	0	0	EMBA, College of Management, National Taiwan University Former President of KANTO-PPC Inc. Former Executive Vice President of Global Unichip Corporation Former CEO of Xintec Inc. Former CEO/President of VisEra Technologies Co., Ltd.	Director of Taiflex Scientific Co., Ltd. Independent Director of Favite Inc. Independent Director of Silicon Optronics, Inc. Independent Director of M31 Technology Corporation Corporate Director (Representative) Taiwan Carbon Nano Technology Corporation Chairperson of Taiwan Electron Microscope Instrument Corporation Chairperson of Chi Investment Limited Director/CEO of TEN Incubator Management Co., Ltd. Director of Capital TEN Inc. Director of Tze Chiang Foundation of Science and Technology	-	-	-
Independent Director	Taiwan	Chein-Ming Hsu	Male	2017.05	3 years	2017.05	0	0	0	0	0	0	0	0	Electrical Engineering, Chung Yuan Christian University	Independent Director of Taiflex Scientific Co., Ltd.	-	-	-

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Taiflex and Other Companies	Managers, Directors or Supervisors Who are Spouses or within Second-Degree of Kinship to Each Other		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
															Former CEO of 3M Thailand Limited				
Independent Director	Taiwan	Wen-I Lo	Male	2017.05	3 years	2017.05	0	0	0	0	0	0	0	0	M.S. Degree in Business Administration, National ChengChi University Former Vice President of CDIB Capital Management Corporation Former President of China Venture Management, Inc. Former President of R.O.C. Strategic Company Ltd. Former President of R.O.C. Venture Co., Ltd.	Chairperson of FengYi Capital Management Co., Ltd. Chairperson of HuaQing Material Co., Ltd. Independent Director of Allied Biotech Corporation Independent Director of BASO Precision Optics, Ltd. Remuneration Committee Member of ADO Optronics Corporation	-	-	-
Independent Director	Taiwan	Shi-Chern Yen	Male	2017.05	3 years	2017.05	0	0	0	0	0	0	0	0	Ph.D. in Chemical Engineering, University of Wisconsin	Professor of Chemical Engineering, National Taiwan University Independent Director of Shin Foong Specialty and Applied Materials Co., Ltd. Independent Director of Subtron Technology Co., Ltd.	-	-	-

Note 1: Kunshan Taiflex Electronic Material Co., Ltd. and Taiflex Scientific (Kunshan) Co., Ltd. are 100%-owned investees of the Company.

(a) Major shareholders of corporate shareholders

As of March 31, 2018

Name of Corporate Shareholder	Major Shareholders of Corporate Shareholders	Shareholding %
Qiao Mei Development Corporation	You Ben Investment Co., Ltd.	22.74
	Ching-Yi Chang	21.58
	Tai Cheng International Co., Ltd	20.00
	Ju Yang Investment Ltd.	12.54
	Xiang Yao International Investment Co., Ltd.	9.95
	Xiu-Zhen Yang	4.98
	Qian-Ying Yang	2.49
	Zhi-Cheng Zhang	2.49
	Ai-Lin Sun	2.23
	Jun-Xiang Zhang	0.50
	Jia-Dong Zhang	0.50
Fuding Investment Co., Ltd.	Fuxun Investment Co., Ltd.	42.0
	Hongcheng Investment Co., Ltd.	16.8
	ShengYou Investment Co., Ltd.	10.4
	LianYu Investment Development Co., Ltd.	7.9
	DeLi International Investment Co., Ltd.	7.3
	LianQuang Investment Co., Ltd.	3.7
	Jian-Kun Chen	2.6
	Zi-Yang Lin	2.1
	Yi-Xin Wu	1.8
	Zi-Xuan Lin	1.4

(b) Major shareholders of the major shareholders that are juridical persons in the table above

Name of Juridical Person	Major Shareholders of the Juridical Person
You Ben Investment Co., Ltd.	Ta-Wen Sun
Tai Cheng International Co., Ltd	Zhi-Cheng Zhang
	Pei-Ru Lin
Ju Yang Investment Ltd.	Xiu-Zhen Yang
	Ming-Zhi Zheng
Xiang Yao International Investment Co., Ltd.	Yu-Hui Lin
	Yu-Mei Lin
	Mei-Dai Zhang

Name of Juridical Person	Major Shareholders of the Juridical Person
FuXun Investment Co., Ltd.	Rui-Bi Zhang
	Zi-Xuan Lin
	Zi-Yang Lin
	Shan Zhang
	Re-Zhang Lin
HongCheng Investment Co., Ltd.	Li-Wen Lin-Yin
	Zhao-Hong Lin
	Shao-Qian Lin
	Shao-Jie Lin
ShengYou Investment Co., Ltd.	Miao-Zhen Lin
	Deng-Cai Lin
	Shan Zhang
	Bing-Kuan Lin
	Zhi-Wei Lin
	Zhi-Ning Lin
LianYu Investment Development Co., Ltd.	Wen-Xing Lin
	Mei-Hui Xu
DeLi International Investment Co., Ltd.	Miao-Yin Lin
	Zhen-Yue Chen
	Si-Kai Chen
	Si-Jin Chen
LianQuang Investment Co., Ltd.	Wen-Xing Lin
	Mei-Hui Xu
	Zhi-Cheng Lin
	Zhi-You Lin

B. Independence Status of Directors and Supervisors

Conditions / Name	Over Five Years of Work Experience and the Following Professional Qualifications: An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, CPA, or Other Professional or Technical Specialist Who has Passed a National Examination with a Certificate in a Profession Necessary for the Business of the Company	With Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	Independence Status (Note 1): 1	2	3	4	5	6	7	8	9	10	Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
Qiao Mei Development Corporation Representative: Ta-Wen Sun	No	No	Yes			✓	✓		✓	✓	✓	✓		1
Qiao Mei Development Corporation Representative: Jun-Yan Jiang	No	No	Yes			✓	✓	✓	✓	✓	✓	✓		2
Ching-Yi Chang	No	No	Yes	✓	✓		✓	✓	✓	✓	✓	✓	✓	None
Fu-Le Lin	No	No	Yes			✓	✓	✓	✓	✓	✓	✓	✓	None
Fuding Investment Co., Ltd. Representative: Re-Zhang Lin	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓		None
Chun-Chi Lin	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Chein-Ming Hsu	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Wen-I Lo	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Shi-Chern Yen	Yes	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2

Note 1: Please tick the corresponding boxes if directors or supervisors have met any of the following conditions during the two years prior to being elected or during the term of office:

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company's affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary appointed in accordance with the Securities and Exchange Act or local laws and regulations.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by nominee arrangement, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranks in the top ten in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that ranks in the top five shareholding.
6. Not a director, supervisor, manager, or shareholder with 5% or more of the shareholding of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. However, the same does not apply to any member of the compensation committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Compensation Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEx".
8. Not a spouse or a relative within the second degree of kinship to any other director of the Company.
9. Not being a person of any conditions defined in Article 30 of the Company Act.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

Note 2: The Company held election of Directors across the board on May 26, 2017. Three independent directors were elected to replace Supervisors.

(2) President, Vice Presidents, Assistant Vice Presidents and Managers of Departments and Branches

As of March 31, 2018 (In Shares; %)

Title	Nationality	Name	Gender	On-Board Date	Shareholding		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Other Companies Relation	Managers Who are Spouses or within Second-Degree of Kinship to Each Other		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
President	Taiwan	Zhi-Ming Yen	Male	2017.03	404,064	0.19	100,000	0.05	0	0	Bachelor of Accounting, Chung Yuan Christian University Former Assistant Manager of Finance of Thinking Electronic Industrial Co. Ltd.	Corporate Director (Representative) of Koatech Technology Corporation Chairperson of Shenzhen Taiflex Electronic Co., Ltd. (Note 1) President of Kunshan Taiflex Electronic Material Co., Ltd. (Note 1) Director of Taiflex Scientific (Kunshan) Co., Ltd. (Note 1) Chairperson of Taiflex USA Corporation (Notes 1 & 2)	-	-	-
Vice President	Taiwan	Zong-Han Jiang	Male	2016.08	0	0	0	0	0	0	Master of Mechanical Engineering, University of Southern California Former Assistant Vice President of Ko-E Limited, Yageo Corp.	Chairperson of Taiflex Scientific (Japan) Co., Ltd. (Note 1) Director of Shenzhen Taiflex Electronic Co., Ltd. (Note 1)	-	-	-
Senior R&D Director	Taiwan	Fu-Le Lin	Male	1998.04	390,249	0.19	10,663	0.01	0	0	Ph.D. in Polymer Science, University of Akron, USA Former Senior Engineer of Vishay General Semiconductor Taiwan Ltd. Former Analyst of Material Research Laboratories, Industrial Technology Research Institute	Corporate Director (Representative) of Koatech Technology Corporation Chairperson of Koatech Technology Corporation	-	-	-
Project Vice President	Taiwan	Jiang-Zhi Zhao	Male	2007.04	182,200	0.09	0	0	0	0	Master of Science in Finance, Drexel University Former Vice President of Cradle Technology Corp. Former Vice President of Origo Co., Ltd.	CEO of Taiflex USA Corporation (Notes 1 & 2)	-	-	-
Chief Legal Officer	Taiwan	Jin-Cheng Zhang	Male	2014.03	18,420	0.01	0	0	0	0	Dual Bachelor Degrees in International Business and Law, National Taiwan University	-	-	-	-

Title	Nationality	Name	Gender	On-Board Date	Shareholding		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Other Companies Relation	Managers Who are Spouses or within Second-Degree of Kinship to Each Other		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
											Candidate for Ph.D. in Economic Law, East China University of Political Science and Law Former Legal Manager of Investment at Hon Hai Precision Industry				
Senior Assistant Vice President	Taiwan	Zhen Lin	Male	2014.02	60	0	0	0	0	0	Master of Mechanical Engineering, National Taiwan University Former Acting Plant Chief of Himax Technologies, Inc	Executive Vice President of Taiflex Scientific (Kunshan) Co., Ltd. (Note 1)	-	-	-
Senior Assistant Vice President	Taiwan	Chong-Chen Liu	Male	2016.02	100,561	0.05	0	0	0	0	Bachelor of Information Technology and Computer Science, Feng-Chia University Former Assistant Vice President of W&Jsoft Inc.	-	-	-	-
Senior Assistant Vice President	Taiwan	Guo-Xiong Xia	Male	2017.02	40,573	0.02	0	0	0	0	Master of Biomedical Science and Engineering, National Yang-Ming University	-	-	-	-
Assistant Vice President	Taiwan	Zi-Kang Yang	Male	2015.08	0	0	0	0	0	0	Bachelor of Business Management, National Sun Yat-Sen University	-	-	-	-
Assistant Vice President	Taiwan	Yu-Cheng Qiu	Male	2016.08	0	0	0	0	0	0	Ph.D. of Institute of Manufacturing Information and Systems, National Cheng Kung University Former Manager of Production Automation at ASE Group	-	-	-	-
Assistant Vice President	Taiwan	Jing-Wen Lu	Male	2017.02	0	0	0	0	0	0	Master of BioMedical Engineering, National Cheng Kung University	-	-	-	-
Assistant Vice President	Taiwan	Sheng-Ying Lin	Male	2017.08	20,000	0.01	0	0	0	0	Master of Materials Science and Engineering, I-Shou University Product marketing manager of YAGEO Corporation	-	-	-	-
Assistant Vice President	Taiwan	Bing-Xun Zhang	Male	2018.02	0	0	0	0	0	0	Master of Industrial Engineering, National Taiwan University	Director of Shenzhen Taiflex Electronic Co., Ltd. (Note 1)	-	-	-

Title	Nationality	Name	Gender	On-Board Date	Shareholding		Spouse and Minor Children		Nominee Arrangement		Education and Selected Past Positions	Selected Present Positions at Other Companies Relation	Managers Who are Spouses or within Second-Degree of Kinship to Each Other		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chief Financial Officer	Taiwan	Fang-I Hsieh	Female	2005.10	147,583	0.07	50,616	0.02	0	0	Master of Finance, National Sun Yat-Sen University	Supervisor of Taiflex Scientific (Kunshan) Co., Ltd. (Note 1) Supervisor of Koatech Technology Corporation	-	-	-
Internal Audit Supervisor	Taiwan	Shu-Zhen Guo	Female	2002.09	108	0	0	0	0	0	Bachelor of Business Management-Accounting, National Sun Yat-Sen University	-	-	-	-

Note 1: Kunshan Taiflex Electronic Material Co., Ltd., Taiflex Scientific (Kunshan) Co., Ltd., Shenzhen Taiflex Electronic Co., Ltd., Taiflex Scientific (Japan) Co., Ltd. and Taiflex USA Corporation are 100%-owned investees of the Company.

Note 2: The Company invested to establish Taiflex USA Corporation on January 24, 2018.

3. Remuneration Paid to Directors (including Independent Directors), Supervisors, President and Vice Presidents:

(1) Remuneration Paid to Directors (including Independent Directors)

As of December 31, 2017 (In Thousands of New Taiwan Dollars; Thousands of Shares; %)

<table>
<tr><th rowspan="4">Title</th><th rowspan="4">Name</th><th colspan="8">Remuneration to Directors</th><th colspan="2" rowspan="2">Total of A, B, C and D as a % of 2017 Net Income</th><th colspan="8">Compensation Earned by Being an Employee of Taiflex or Taiflex's Consolidated Entities</th><th colspan="2" rowspan="2">Total of A, B, C, D, E, F and G as a % of 2017 Net Income</th><th rowspan="4">Compensation from Non-consolidated Affiliates</th></tr>
<tr><th colspan="2">Base Compensation (A)</th><th colspan="2">Severance Pay and Pensions (B)</th><th colspan="2">Compensation to Directors (C) (Note 5)</th><th colspan="2">Allowances (D)</th><th colspan="2">Base Compensation, Bonus and Allowances, etc. (E)</th><th colspan="2">Severance Pay and Pensions (F)</th><th colspan="4">Employee Compensation (G) (Note 6)</th></tr>
<tr><th rowspan="2">From Taiflex</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From Taiflex</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From Taiflex</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From Taiflex</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From Taiflex</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From Taiflex</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From Taiflex</th><th rowspan="2">From All Consolidated Entities</th><th colspan="2">From Taiflex</th><th colspan="2">From All Consolidated Entities</th><th rowspan="2">From Taiflex</th><th rowspan="2">From All Consolidated Entities</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>Chairperson</td><td>Ta-Wen Sun (Note 1)</td><td rowspan="13">0</td><td rowspan="13">0</td><td rowspan="13">0</td><td rowspan="13">0</td><td rowspan="13">18,354</td><td rowspan="13">18,354</td><td rowspan="13">410</td><td rowspan="13">449</td><td rowspan="13">2.55</td><td rowspan="13">2.56</td><td rowspan="13">9,747</td><td rowspan="13">12,095</td><td rowspan="13">5,531</td><td rowspan="13">5,531</td><td rowspan="13">4,091</td><td rowspan="13">0</td><td rowspan="13">4,091</td><td rowspan="13">0</td><td rowspan="13">5.19</td><td rowspan="13">5.52</td><td rowspan="13">0</td></tr>
<tr><td>Director</td><td>Jun-Yan Jiang (Note 1)</td></tr>
<tr><td>Director</td><td>Ching-Yi Chang</td></tr>
<tr><td>Director</td><td>Fu-Le Lin</td></tr>
<tr><td>Director</td><td>Re-Zhang Lin (Note 2)</td></tr>
<tr><td>Director</td><td>Chun-Chi Lin</td></tr>
<tr><td>Director</td><td>Jyh-Bing Chen (Note 3)</td></tr>
<tr><td>Independent Director</td><td>Chein-Ming Hsu</td></tr>
<tr><td>Independent Director</td><td>Wen-I Lo</td></tr>
<tr><td>Independent Director</td><td>Shi-Chern Yen</td></tr>
<tr><td>Independent Director</td><td>Ming-Tung Kuo (Note 4)</td></tr>
<tr><td>Independent Director</td><td>Po-Hsun Chen (Note 4)</td></tr>
<tr><td colspan="23">*Except for information disclosed above, remuneration paid for services rendered by Directors of the Company to all consolidated entities (e.g. being a nonemployee consultant) in 2017: None.</td></tr>
</table>

Note 1: Representatives of corporate directors, Qiao Mei Development Corporation

Note 2: Representatives of corporate directors, Fuding Investment Co., Ltd.

Note 3: The Company held election of Directors across the board on May 26, 2017. The tenure of outgoing Director expired on May 26, 2017.

Note 4: The Company held election of independent directors across the board on May 26, 2017. The tenure of outgoing independent director expired on May 26, 2017.

Note 5: 2017 compensation to Directors approved in the Board of Directors' meeting on January 17, 2018.

Note 6: 2017 employee compensation earned by Directors for concurrently serving as an employee of Taiflex and approved in the Board of Directors' meeting on January 17, 2018.

Remuneration Paid to Directors

Ranges	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	From Taiflex	From All Consolidated Entities I	From Taiflex	From All Consolidated Entities J
NT$ 1,999,999 and under	Fu-Le Lin, Ching-Yi Chang, Chun-Chi Lin, Chein-Ming Hsu, Wen-I Lo, Shi-Chern Yen, Jyh-Bing Chen, Ming-Tung Kuo, Po-Hsun Chen, Corporate Directors of Qiao Mei Development Corporation Representatives: Jun-Yan Jiang, Corporate Directors of Fuding Investment Co., Ltd. Representative: Re-Zhang Lin	Fu-Le Lin, Ching-Yi Chang, Chun-Chi Lin, Chein-Ming Hsu, Wen-I Lo, Shi-Chern Yen, Jyh-Bing Chen, Ming-Tung Kuo, Po-Hsun Chen, Corporate Directors of Qiao Mei Development Corporation Representatives: Jun-Yan Jiang Corporate Directors of Fuding Investment Co., Ltd. Representative: Re-Zhang Lin	Ching-Yi Chang, Chun-Chi Lin, Chein-Ming Hsu, Wen-I Lo, Shi-Chern Yen, Jyh-Bing Chen, Ming-Tung Kuo, Po-Hsun Chen, Corporate Directors of Fuding Investment Co., Ltd. Representative: Re-Zhang Lin	Ching-Yi Chang, Chun-Chi Lin, Chein-Ming Hsu, Wen-I Lo, Shi-Chern Yen, Jyh-Bing Chen, Ming-Tung Kuo, Po-Hsun Chen, Corporate Directors of Fuding Investment Co., Ltd. Representative: Re-Zhang Lin
NT$ 2,000,000 ~ NT$ 4,999,999	-	-	Fu-Le Lin	Fu-Le Lin
NT$ 5,000,000 ~ NT$ 9,999,999	Corporate Directors of Qiao Mei Development Corporation Representatives: Ta-Wen Sun	Corporate Directors of Qiao Mei Development Corporation Representatives: Ta-Wen Sun	-	-
NT$ 10,000,000 ~ NT$ 14,999,999	-	-	Corporate Directors of Qiao Mei Development Corporation Representatives: Ta-Wen Sun, Jun-Yan Jiang	Corporate Directors of Qiao Mei Development Corporation Representatives: Ta-Wen Sun, Jun-Yan Jiang
NT$ 15,000,000 ~ NT$ 29,999,999	-	-	-	-
NT$ 30,000,000 ~ NT$ 49,999,999	-	-	-	-
NT$ 50,000,000 ~ NT$ 99,999,999	-	-	-	-
NT$ 100,000,000 and above	-	-	-	-
Total	12	12	12	12

(2) Remuneration Paid to Supervisors

As of December 31, 2017 (In Thousands of New Taiwan Dollars; %)

Title	Name	Remuneration to Supervisors						Total of A, B and C as a % of 2017 Net Income		Compensation from Non-Consolidated Affiliates
		Base Compensation (A)		Compensation (B)		Allowances (C)				
		From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	
Supervisor	Chuan-Sheng Kao	0	0	2,039	2,039	50	50	0.28	0.28	0
Supervisor	Re-Zhang Lin (Note 1)									
Supervisor	Pai-Chun Wu									

Note 1: The Company held election of Directors across the board on May 26, 2017. He is the representative of corporate director, Fuding Investment Co., Ltd.

Note 2: The Company held election of Directors across the board on May 26, 2017. The newly elected three independent directors formed the Audit Committee and replaced the Supervisor system.

Note 3: 2017 remuneration to Supervisors approved in the Board of Directors' meeting on January 17, 2018.

Remuneration Paid to Supervisors

Ranges	Names of Supervisors	
	Total of (A+B+C)	
	From Taiflex	From All Consolidated Entities D
NT$ 1,999,999 and under	Chuan-Sheng Kao, Pai-Chun Wu, Corporate Supervisor of Fuding Investment Co., Ltd. Representative: Re-Zhang Lin	Chuan-Sheng Kao, Pai-Chun Wu, Corporate Supervisor of Fuding Investment Co., Ltd. Representative: Re-Zhang Lin
NT$ 2,000,000 ~ NT$ 4,999,999	-	-
NT$ 5,000,000 ~ NT$ 9,999,999	-	-
NT$ 10,000,000 ~ NT$ 14,999,999	-	-
NT$ 15,000,000 ~ NT$ 29,999,999	-	-
NT$ 30,000,000 ~ NT$ 49,999,999	-	-
NT$ 50,000,000 ~ NT$ 99,999,999	-	-
NT$ 100,000,000 and above	-	-
Total	3	3

(3) Compensation Paid to President and Vice Presidents

As of December 31, 2017 (In Thousands of New Taiwan Dollars; Thousands of Shares; %)

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="2">Salary (A)</th><th colspan="2">Severance Pay and Pensions (B)</th><th colspan="2">Bonus and Allowance (C)</th><th colspan="4">Employee Compensation (D)</th><th colspan="2">Total of A, B, C and D as a % of 2017 Net Income</th><th rowspan="3">Compensation from Non-Consolidated Affiliates</th></tr>
<tr><th rowspan="2">From Taiflex</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From Taiflex</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From Taiflex</th><th rowspan="2">From All Consolidated Entities</th><th colspan="2">From Taiflex</th><th colspan="2">From All Consolidated Entities</th><th rowspan="2">From Taiflex</th><th rowspan="2">From All Consolidated Entities</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>Chairperson and CEO of Reinvestment (Note 1)</td><td>Ta-Wen Sun</td><td rowspan="11">20,509</td><td rowspan="11">27,051</td><td rowspan="11">5,531</td><td rowspan="11">5,531</td><td rowspan="11">12,010</td><td rowspan="11">12,121</td><td rowspan="11">12,101</td><td rowspan="11">0</td><td rowspan="11">12,101</td><td rowspan="11">0</td><td rowspan="11">6.83</td><td rowspan="11">7.73</td><td rowspan="11">0</td></tr>
<tr><td>President (Note 2)</td><td>Zhi-Ming Yen</td></tr>
<tr><td>President (Note 1)</td><td>Jun-Yan Jiang</td></tr>
<tr><td>Vice President</td><td>Zong-Han Jiang</td></tr>
<tr><td>Senior R&D Director</td><td>Fu-Le Lin</td></tr>
<tr><td>Project Vice President</td><td>Jiang-Zhi Zhao</td></tr>
<tr><td>Vice President (Note 3)</td><td>Xing-Ze Liu</td></tr>
<tr><td>Vice President (Note 4)</td><td>Yung-Mao Yeh</td></tr>
<tr><td>Vice President (Note 5)</td><td>Qiu-Feng Chen</td></tr>
<tr><td>Vice President (Note 5)</td><td>Jiang-Zhi Chen</td></tr>
<tr><td>Vice President (Note 6)</td><td>Xiao-Zhong Hu</td></tr>
</table>

Note 1: The former President, Mr. Jun-Yan Jiang, was released from his concurrent position as the Company's President to serve exclusively as the Chairperson of Taiflex Scientific (Kunshan) Co., Ltd. (a 100%-owned subsidiary of the Company) in order to carry out future strategies and create greater value for the subsidiary. The adjustment was resolved in the Company's Board meeting on February 23, 2017. The Chairperson of Taiflex Scientific Co., Ltd. has served as the President concurrently starting March 1, 2017.

Note 2: The Company's Board meeting on July 27, 2017 resolved to appoint Mr. Zhi-Ming Yen as the President starting August 1, 2017.

Note 3: Released from his position as the vice president on July 1, 2017 to serve exclusively as the President of Taiflex Scientific (Kunshan) Co., Ltd. (a 100%-owned subsidiary of the Company). He was released from his position as the President on March 30, 2018 due to personnel adjustment.

Note 4: Released from his position as the vice president on July 1, 2017 to serve exclusively as the assistant vice president of Taiflex Scientific (Kunshan) Co., Ltd. (a 100%-owned subsidiary of the Company).

Note 5: Released from his position as the vice president on November 1, 2017.

Note 6: Released from his position as the vice president on December 26, 2017 to serve exclusively as the President of Koatech Technology Corporation (a 53.86%-owned subsidiary of the Company).

Compensation Paid to President and Vice Presidents

Ranges	Names of President and Vice Presidents	
	From Taiflex	From All Consolidated Entities E
NT$ 1,999,999 and under	Yung-Mao Yeh	-
NT$ 2,000,000 ~ NT$ 4,999,999	Jiang-Zhi Zhao, Fu-Le Lin, Jiang-Zhi Chen, Xiao-Zhong Hu, Qiu-Feng Chen, Xing-Ze Liu, Zong-Han Jiang	Jiang-Zhi Zhao, Fu-Le Lin, Jiang-Zhi Chen, Xiao-Zhong Hu, Qiu-Feng Chen, Zong-Han Jiang, Yung-Mao Yeh
NT$ 5,000,000 ~ NT$ 9,999,999	Ta-Wen Sun, Zhi-Ming Yen, Jun-Yan Jiang	Ta-Wen Sun, Zhi-Ming Yen, Xing-Ze Liu
NT$ 10,000,000 ~ NT$ 14,999,999	-	Jun-Yan Jiang
NT$ 15,000,000 ~ NT$ 29,999,999	-	-
NT$ 30,000,000 ~ NT$ 49,999,999	-	-
NT$ 50,000,000 ~ NT$ 99,999,999	-	-
NT$ 100,000,000 and above	-	-
Total	11	11

(4) Employee Compensation Granted to Managers

As of December 31, 2017 (In Thousands of New Taiwan Dollars)

	Title	Name	Stock	Cash	Total	Total as a % of 2017 Net Income
Managers	Chairperson and CEO of Reinvestment (Note 1)	Ta-Wen Sun	0	16,845	16,845	2.29
	President (Note 2)	Zhi-Ming Yen				
	President (Note 1)	Jun-Yan Jiang				
	Vice President	Zong-Han Jiang				
	Senior R&D Director	Fu-Le Lin				
	Project Vice President	Jiang-Zhi Zhao				
	Vice President (Note 3)	Xing-Ze Liu				
	Vice President (Note 4)	Yung-Mao Yeh				
	Vice President (Note 5)	Qiu-Feng Chen				
	Vice President (Note 5)	Jiang-Zhi Chen				
	Vice President (Note 6)	Xiao-Zhong Hu				
	Assistant Vice President	Jin-Cheng Zhang				
	Assistant Vice President	Zhen Lin				
	Assistant Vice President	Fang-I Hsieh				
	Assistant Vice President	Chong-Chen Liu				
	Assistant Vice President	Zi-Kang Yang				
	Assistant Vice President (Note 7)	Xiao-Lei Long				
	Assistant Vice President	Yu-Cheng Qiu				
	Assistant Vice President	Guo-Xiong Xia				
	Assistant Vice President	Jing-Wen Lu				
	Assistant Vice President	Sheng-Ying Lin				

Note 1: The former President, Mr. Jun-Yan Jiang, was released from his concurrent position as the Company's President to serve exclusively as the Chairperson of Taiflex Scientific (Kunshan) Co., Ltd. (a 100%-owned subsidiary of the Company) in order to carry out future strategies and create greater value for the subsidiary. The adjustment was resolved in the Company's Board meeting on February 23, 2017. The Chairperson of Taiflex Scientific Co., Ltd. has served as the President concurrently starting March 1, 2017.

Note 2: The Company's Board meeting on July 27, 2017 resolved to appoint Mr. Zhi-Ming Yen as the President starting August 1, 2017.

Note 3: Released from his position as the vice president on July 1, 2017 to serve exclusively as the President of Taiflex Scientific (Kunshan) Co., Ltd. (a 100%-owned subsidiary of the Company).

Note 4: Released from his position as the vice president on July 1, 2017 to serve exclusively as the assistant vice president of Taiflex Scientific (Kunshan) Co., Ltd. (a 100%-owned subsidiary of the Company).

Note 5: Released from his position as the vice president on November 1, 2017.

Note 6: Released from his position as the vice president on December 26, 2017 to serve exclusively as the President of Koatech Technology Corporation (a 53.86%-owned subsidiary of the Company).

Note 7: Released from his position as the assistant vice president on July 1, 2017 to serve exclusively as the sales director of Taiflex Scientific (Kunshan) Co., Ltd. (a 100%-owned subsidiary of the Company).

(5) Analysis of remuneration and compensation paid to Directors, Supervisors, President and Vice Presidents by the Company and all consolidated entities in 2016 and 2017 as a percentage of net income in the parent company only or individual financial statements and explanation on remuneration policy, standards and composition, procedures and the correlation with operation performance and future risks are as follows:

A. Analysis of remuneration and compensation paid to Directors, Supervisors, President and Vice Presidents by the Company and all consolidated entities in 2016 and 2017 as a percentage of net income in the parent company only or individual financial statements

(In %)

Year / Item	2017		2016	
	Taiflex	All Consolidated Entities	Taiflex	All Consolidated Entities
Directors and Supervisors	5.47	5.80	5.76	5.85
President and Vice Presidents	6.83	7.73	7.22	7.60

Note: The remuneration above includes travel allowance, base compensation, compensation from profit sharing and other compensations.

B. Remuneration policy, standards and composition, procedures and the correlation with operation performance and future risks:

(a) Remuneration to Directors and Supervisors: Remuneration is determined based on the Articles of Incorporation. The Compensation Committee would evaluate the involvement of Directors and Supervisors in the business operation of the Company and their contributions to the Company, and make recommendations to the Board concerning their remuneration. The Board of Directors has been delegated to determine the remuneration based on the recommendations from the Compensation Committee with reference to the remuneration standard of the industry. The Board of Directors would present the distribution proposal at the Shareholders' Meeting for shareholders to approve and finalize the amount.

(b) Compensation to President and Vice President: Compensation is determined based on the salary levels among peers, job scopes and degree of contributions by individuals to the Company's operation target. It also takes into account the Company's overall performance and individual's performance and contributions.

(c) Compensation paid to individuals are carefully assessed by the Company, and reviewed and resolved by the Compensation Committee and the Board. Thus, we do not expect any significant risk of uncertainty arising from the compensation policy in the future.

4. Corporate Governance Implementation

(1) Board of Directors Meeting Status:

Mr. Ta-Wen Sun, Chairperson of the Board, convened ten (A) Board meetings in 2017. The attendance status of the Directors are as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A)	Remark
Chairperson	Qiao Mei Development Corporation Representative: Ta-Wen Sun	10	0	100%	Re-elected (Election on May 26, 2017)
Director	Fu-Le Lin	8	2	80%	Re-elected (Election on May 26, 2017)
Director	Qiao Mei Development Corporation Representative: Jun-Yan Jiang	9	1	90%	Re-elected (Election on May 26, 2017)
Director	Ching-Yi Chang	10	0	100%	Re-elected (Election on May 26, 2017)
Director	Fuding Investment Co., Ltd. Representative: Re-Zhang Lin	9	1	90%	Re-elected (Election on May 26, 2017; the predecessor was a corporate supervisor representative)
Director	Chun-Chi Lin	6	0	100%	New (Election on May 26, 2017)
Director	Jyh-Bing Chen	2	0	50%	Predecessor (Election on May 26, 2017)
Independent Director	Ming-Tung Kuo	4	0	100%	Predecessor (Election on May 26, 2017)
Independent Director	Po-Hsun Chen	4	0	100%	Predecessor (Election on May 26, 2017)
Independent Director	Chein-Ming Hsu	6	0	100%	New (Election on May 26, 2017)
Independent Director	Wen-I Lo	6	0	100%	New (Election on May 26, 2017)
Independent Director	Shi-Chern Yen	6	0	100%	New (Election on May 26, 2017)

Note: There was a total of ten Board meetings in 2017. Four meetings were held before the Board election and six meetings afterwards.

Annotations:

1. For matters specified in Article 14-3 of the Securities and Exchange Act and resolutions on which an independent director expresses objection or reservation, either by recorded statement or in writing, the date and session of the Board meeting, contents of motions, all independent directors' opinions and actions taken by the Company regarding the opinions shall be specified: None.
2. For situations where Directors recuse themselves from any motion due to conflict of interest, the Directors' names, contents of motions, causes for the recusal, and participation in voting shall be specified:

Date of Board Meeting	Name of Directors	Contents of Motions	Causes for Recusal	Participation in Voting
2017.01.19	Ta-Wen Sun Jun-Yan Jiang Fu-Le Lin	1. The 2016 compensation to employees and remuneration to Directors	Being one of the managers in the motion	Except for these three Directors who recused themselves from the

		and Supervisors. 2. To discuss the 2016 year-end bonus to managers. 3. Details and amount of compensation to new managers submitted by the Company's Compensation Committee.		voting due to conflict of interest, the motion was approved by the remaining three Directors in attendance.
2017.06.13	Chein-Ming Hsu Wen-I Lo Shi-Chern Yen	1. To appoint the 3rd term Compensation Committee members.	Those three independent directors are Compensation Committee members.	Except for these three independent Directors who recused themselves from the voting, the motion was approved by the remaining six Directors in attendance.
2017.07.27	Ta-Wen Sun Jun-Yan Jiang Fu-Le Lin	1. To review details and amount of compensation to managers. 2. To review the distribution of 2016 remuneration to Directors and Supervisors and compensation to managerial employees.	Being one of the managers in the motion	Except for these three Directors who recused themselves from the voting due to conflict of interest, the motion was approved by the remaining six Directors in attendance.

3. Objectives of strengthening the functionality of the Board of Directors in the current year and the most recent year and evaluation of the execution thereof:
   A. The Board had approved "Code of Ethical Conduct", "Principles of Business Ethics", "Guidelines on Corporate Governance", "Procedures and Guidelines of Business Ethics" and "Guidelines on Corporate Social Responsibility" in order to strengthen the functionality of the Board and enhance information transparency.
   B. The Company had drawn up the "Rules of Procedure for the Board of Directors' Meeting" in accordance with "Regulations Governing Procedure for Board of Directors Meetings of Public Companies". Directors' attendance of the Board meetings is available at the Market Observation Post System (MOPS) website and major resolutions from the Board meetings and election of Independent Directors are disclosed on the Company's official website.
   C. The Board meeting on December 23, 2011 had approved the establishment of Compensation Committee. The Committee assists the Board of Directors to regularly review and determine the amount of remunerations paid to Directors and management team. It also performs periodic reviews on performance evaluation and the policy, system, standards and structure of remuneration. Please refer to Page 40 for details. Three independent directors were elected to form the Audit Committee in place of Supervisors in the 2017 Shareholders' Meeting.

(2) Operations of Audit Committee or Participation of Supervisors at Board Meetings:

A. Operation of Audit Committee

The Company established the Audit Committee on May 26, 2017. Mr. Wen-I Lo, convener of the Committee, convened four (A) meetings in 2017. The attendance status of committee members are as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A)	Remark
Convener	Wen-I Lo	4	0	100%	Director election was held on May 26, 2017. Independent directors were appointed to form the Audit Committee in place of Supervisors.
Member	Chein-Ming Hsu	4	0	100%	
Member	Shi-Chern Yen	4	0	100%	

Annotations:

1. When one of the following situations occurs, the date and session of the Board meeting, contents of motions, the Committee's resolutions and actions taken by the Company regarding the Committee's opinions shall be specified.

   A. Matters specified in Article 14-3 of the Securities and Exchange Act

Date of Board Meeting	Session	Contents of Motions	Committee Resolution	Actions Taken
2017.05.26	1st meeting of the 8th term	To elect the convener of the 1st-term Audit Committee	Director, Wen-I Lo, was elected by Committee members to be the convener and chairperson of the Audit Committee	N/A
2017.07.27	3rd meeting of the 8th term	1. Financial statements for the six months ended June 30, 2017	Approved	N/A
		2. To propose an additional investment of US$9,500 thousand in Shenzhen Taiflex Electronic Co., Ltd. for operational needs	Approved	N/A
		3. To propose to provide endorsement and guarantee to subsidiaries	Approved	N/A
		4. To propose a cap increase for loans to subsidiaries	Approved	N/A
		5. To approve the provision of Letter of Comfort for investee, Taiflex Scientific (Kunshan) Co., Ltd.	Approved	N/A
		6. To update the Company's written internal control system and internal audit implementation rules	Approved	N/A
2017.10.26	5th meeting of the 8th term	1. Financial statements for the nine months ended September 30, 2017	Approved	N/A
		2. The increase in capital expenditure	Approved	N/A
		3. To propose the provision of endorsement and guarantee to subsidiaries	Approved	N/A
		4. The cap for loans to subsidiaries	Approved	N/A
		5. To approve the provision of Letter of Support for investee, Taiflex Scientific (Kunshan) Co., Ltd.	Approved	N/A

		6. To approve the 2018 annual audit plan of auditing office	Approved	N/A
2017.12.05	6th meeting of the 8th term	1. For business needs in China, it is proposed to set up a subsidiary in China through an overseas holding company.	Approved	N/A

B. Except for above-mentioned items, resolutions which were not approved by the Audit Committee but was approved by two-thirds or more of all Directors in 2017: None.

2. For situations where independent directors recuse themselves from any motion due to conflict of interest, the independent directors' names, contents of motions, causes for the recusal, and participation in voting shall be specified: None.

3. Communications between the independent directors, the internal audit supervisor, and CPAs (It shall include material issues concerning the finance and business of the Company and the means and outcomes of communication).

Issues	Means	Outcome
1. 2017 financial statements	Regular meetings with CPAs	Well
2. To amend the internal control system	Discussion at the Audit Committee meetings. Internal audit supervisor is invited to attend and report at the meetings.	Well
3. Assessment on the effectiveness of internal control system	Internal audit supervisor regularly submits the audit and follow-up report to the independent directors.	Well

B. Participation of Supervisors at Board Meetings:
The Company held an election of Directors across the board on May 26, 2017. Three newly elected independent directors formed the Audit Committee in place of the Supervisor system. The record of the Supervisors' attendance in the four (A) Board meetings before the election is as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A)	Remark
Supervisor	Chuan-Sheng Kao	4	0	100%	
Supervisor	Fuding Investment Co., Ltd. Representative: Re-Zhang Lin	4	0	100%	
Supervisor	Pai-Chun Wu	2	0	50%	

Annotations:

1. Composition and duties of Supervisors:
   A. Communication between Supervisors and employees and shareholders:
   If deemed necessary, Supervisors would communicate with employees and shareholders through mails, phone calls and emails, etc.
   B. Communication between Supervisors and internal audit supervisor and CPAs:
   (a) The audit supervisor submitted an audit report to the Supervisors in the month following the completion of audit. There was no objection from the Supervisors.
   (b) The audit supervisor attended the regular Board meetings and filed audit reports. There was no objection from the Supervisors.
   (c) Supervisors communicated with CPAs with regard to the Company's finance and business.
   (d) With regard to issues communicated in 2017, there was no disagreement between Supervisors and internal audit supervisor and CPAs.
2. Where a Supervisor attends the Board meetings and states his/her opinion, the date and session of the Board meeting, contents of motions, resolution and actions taken by the Company regarding the opinions shall be specified: No such circumstance occurred in 2017.

(3) Implementation of Corporate Governance Practices and Non-compliance with Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons

Assessment Item	Status			Non-compliance and Reasons
	Yes	No	Description	
1. Does the Company follow "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" to establish and disclose its corporate governance practices?	V		The Company has established "Guidelines on Corporate Governance" in order to enhance its performance in corporate governance, secure shareholders' rights, improve the performance of the Board, respect stakeholder's right and enhance information transparency.	None
2. Ownership structure and shareholders' rights (1) Does the Company have internal operation procedures to handle shareholders' suggestions, concerns, disputes and litigations? If yes, has these procedures been implemented accordingly? (2) Does the Company possess a list of major shareholders and ultimate owners of these major shareholders? (3) Does the Company build and execute a risk management system and firewall between itself and affiliates? (4) Does the Company have internal rules to prevent insiders from using undisclosed information to trade securities?	V V V V		(1) The Company has spokesperson, deputy spokesperson and departments such as investor relation, shareholder service and legal to handle shareholders' suggestions or complaints. (2) Pursuant to Article 25 of the Securities and Exchange Act, the Company has monthly updated the changes in shareholdings of internal parties, including Directors, Supervisors, managers and shareholders with more than 10% shareholdings, at MOPS website designated by Securities and Futures Bureau. (3) In addition to various risk management mechanism already in place, there are Procedures to be followed for operational, business and financial transactions between the Company and its affiliates, for instance, the Procedures for Long-term Investment. They provide guidance for the subsidiaries to establish internal controls in writing, set authorization levels and formulate Procedures for Acquisition or Disposal of Assets, Endorsement and Guarantee, and Lending Funds to Other Parties based on the Company's corresponding Procedures in order to enforce risk management mechanism on subsidiaries. (4) The Company has established "Procedures for Prevention of Insider Trading" prohibiting insiders from using undisclosed information to trade securities. The Company also holds sessions to inform all relevant personnel of the Procedures to avoid any violations.	None

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Status</th><th rowspan="2">Non-compliance and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td>3. Composition and duties of the Board of Directors</td><td></td><td></td><td></td><td rowspan="5">None</td></tr>
<tr><td>(1) Has the Company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly?</td><td>V</td><td></td><td>(1) Members of the Board are diversified, with different professional backgrounds and genders, to form a well-balanced structure.
Diversity in the Board:
<table>
<tr><th colspan="2">Diverse core items / Directors</th><th>Gender</th><th>Operation Judgement</th><th>Accounting and Financial Analysis</th><th>Manage-ment</th><th>Crisis Management</th><th>Industrial Knowledge</th><th>International Perspective</th><th>Leadership</th><th>Decision -Making</th></tr>
<tr><td>Chairperson</td><td>Qiao Mei Development Corporation
Representative: Ta-Wen Sun</td><td>M</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr>
<tr><td>Director</td><td>Qiao Mei Development Corporation
Representative: Jun-Yan Jiang</td><td>M</td><td>V</td><td></td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td></td></tr>
<tr><td>Director</td><td>Ching-Yi Chang</td><td>M</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr>
<tr><td>Director</td><td>Fuding Investment Co., Ltd.
Representative: Re-Zhang Lin</td><td>M</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr>
<tr><td>Director</td><td>Chun-Chi Lin</td><td>M</td><td>V</td><td>V</td><td>V</td><td>V</td><td></td><td>V</td><td>V</td><td></td></tr>
<tr><td>Director</td><td>Fu-Le Lin</td><td>M</td><td>V</td><td></td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td></td></tr>
<tr><td>Independent Director</td><td>Chein-Ming Hsu</td><td>M</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr>
<tr><td>Independent Director</td><td>Wen-I Lo</td><td>M</td><td>V</td><td>V</td><td>V</td><td>V</td><td></td><td></td><td>V</td><td></td></tr>
<tr><td>Independent Director</td><td>Shi-Chern Yen</td><td>M</td><td>V</td><td></td><td></td><td></td><td>V</td><td>V</td><td></td><td></td></tr>
</table></td></tr>
<tr><td>(2) Other than Compensation and Audit Committees which are required by law, does the Company plan to set up other functional Committees?</td><td>V</td><td></td><td>(2) In addition to the existing Compensation Committee, Audit Committee and Corporate Social Responsibility Committee, the Company plans to establish other functional committees to assist the Board in managing the Company.</td></tr>
<tr><td>(3) Has the Company established methods to evaluate the performance of its Board of Directors annually?</td><td>V</td><td></td><td>(3) The Compensation Committee regularly reviews the standards and structure of remunerations to Directors and the management team. Members would submit their recommendations to the Board for discussion.</td></tr>
<tr><td>(4) Has the Company periodically evaluate the independence of its CPAs?</td><td>V</td><td></td><td>(4) The Board annually evaluates the independence of the CPAs and obtains the Declaration of Independence. Once it is confirmed that other than audit and tax fees, there is no financial interests nor</td></tr>
</table>

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Status</th><th rowspan="2">Non-compliance and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td></td><td></td><td></td><td>business between the Company and the CPAs, and the family members of CPAs do not violate the requirements for independence, the Company would report to the Board. When discussing the independence and engagement of CPAs in the Board meeting, the resume (detailing the CPA's past and current customers) and independence declaration (he/she did not violate Article 10 of the Bulletins of Professional Ethics Code for CPAs) of each CPA shall be submitted for evaluation.
Standards for CPA Independence:
<table>
<tr><th>Evaluation Item</th><th>Evaluation Result</th><th>Independence Status</th></tr>
<tr><td>1. Whether the auditor has a direct or materially indirect financial interest in the Company.</td><td>N</td><td>Y</td></tr>
<tr><td>2. Whether the auditor engages in financing or guarantee transactions with the Company or Directors of the Company.</td><td>N</td><td>Y</td></tr>
<tr><td>3. Whether the auditor has close commercial relationship or potential employment engagement with the Company.</td><td>N</td><td>Y</td></tr>
<tr><td>4. Whether the auditor or the audit team members serve as a director, manager or in a position of the Company that could significantly influence the audit work either currently or in the past two years.</td><td>N</td><td>Y</td></tr>
<tr><td>5. Whether the auditor provides the Company with non-audit services that could directly impact the audit work.</td><td>N</td><td>Y</td></tr>
<tr><td>6. Whether the auditor acts as a broker for shares or other securities issued by the Company.</td><td>N</td><td>Y</td></tr>
<tr><td>7. Whether the auditor acts as a defender of the Company or resolves conflicts with a third party on behalf of the Company.</td><td>N</td><td>Y</td></tr>
<tr><td>8. Whether the auditor has family relationship with the Company's directors, managers or persons in a position that could significantly influence the audit work.</td><td>N</td><td>Y</td></tr>
</table>
The Board evaluated the independence of CPAs, Fang-Wen Li and Jheng-Chu Chen, from Ernst & Young on February 27, 2018. As they both met the Company's standards for independence, they were qualified to be its CPAs.</td><td>None</td></tr>
</table>

Assessment Item	Status			Non-compliance and Reasons
	Yes	No	Description	
4. Has the Company established an exclusively (or concurrently) dedicated corporate governance unit or personnel to handle matters pertaining to corporate governance (including but not limited to provide information required for business execution by directors and supervisors, handle matters relating to board meetings and shareholders' meetings according to laws and regulations, handle corporate registration and amendment registration, produce minutes of board meetings and shareholders meetings, etc.)	V		The Company has concurrently dedicated corporate governance personnel from finance, shareholder service and legal divisions to handle matters pertaining to corporate governance, including providing information required for business execution by Directors, handling matters relating to Board meetings and Shareholders' Meetings according to laws and regulations, handling corporate registration and amendment registration, producing minutes of Board meetings and shareholders meetings, etc.	None
5. Has the Company established a communication channel with its stakeholders (including but not limited to shareholders, employees, customers and suppliers) and created a stakeholder section on the Company's website to respond to their questions on corporate social responsibilities?	V		The Company has spokesperson and deputy spokesperson. Depending on the circumstances, investor relation, shareholder service and legal divisions would also communicate with stakeholders (including but not limited to shareholders, employees, customers and suppliers). In addition, the contact information of spokesperson and each department can be found on the Company's website and a stakeholder section has been created to respond to stakeholders' questions on corporate social responsibilities with care.	None
6. Has the Company appointed a professional registrar to organize the Shareholders' Meetings?	V		To service our shareholders, the Company has appointed the stock management service department of Yuanta Securities to manage issues related to shareholders and organize the Shareholders' Meetings.	None
7. Information disclosure (1) Has the Company established a corporate website to disclose information regarding the Company's financials, business and corporate governance status?	V		(1) The Company discloses financial and business information through the corporate website, http://www.taiflex.com.tw, which is maintained by designated persons. Information is available in both Chinese and English. Material information, financial status, organization and operation of internal audit, significant laws and regulations and major resolutions of the Boards are disclosed on the Company's official website for foreign and domestic investors to access.	None

Assessment Item	Status			Non-compliance and Reasons
	Yes	No	Description	
(2) Does the Company have other information disclosure channels (e.g. maintaining an English-language website, designating people to handle information collection and disclosure, appointing spokesperson, webcasting investor conference)?	V		(2) The Company would hold investor conferences when deemed necessary and the video or audio recording of such event would be available in the shareholders section on the website. Relevant information would be filed on the MOPS website. The Company has dedicated personnel for collection of data and disclosure of material information. Spokesperson / deputy spokesperson are responsible for communication with external parties.	
8. Does the Company have other important information to facilitate better understanding of the Company's corporate governance practices (including but not limited to employees' rights and welfare, investor relations, supplier relations, rights of stakeholders, continuing education of directors and supervisors, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and insurance for directors and supervisors provided by the company) ?	V		(1) Employees' rights and welfare: A Welfare Committee is formed by employees of the Company to undertake various welfare projects and activities. Please refer to "5. Industrial Relations" (Page 88 to 94) for details. (2) Investor relations: The Company values investors' rights. Relevant information is disclosed timely on the MOPS website pursuant to laws and regulations and on the Company's official website simultaneously. (3) Supplier relations: The Company maintains good relationship with suppliers. There has been no complaints regarding the quality and delivery schedule of purchases and there is no shortage or interruption of supplies. (4) Stakeholder relations: The Company's official website has set up a stakeholder section, which is served as a communication channel to protect the legal rights of both parties. (5) Continuing education of Directors and Supervisors: Please refer to the table of "Continuing Education of Directors in 2017" for details. (6) The implementation of risk management policies and risk evaluation measures: Please refer to "Risk Analysis and Assessment" (page 108 to 112) for details. (7) The implementation of customer policies: The Company follows ethical guidelines and maintains good relationship with customers. Quality policy includes innovation on research and development, continuous improvement, quick response, customer satisfaction, environmental protection and green environment. Technical personnel of the Company provides on-time delivery and after-sale services. (8) Insurance for Directors and Supervisors provided by the Company:	None

Assessment Item	Status			Non-compliance and Reasons
	Yes	No	Description	
			The Company provides liability insurance for Directors and Supervisors each year. (9) The Company adopted electronic voting in Shareholders' Meetings since 2016, ahead of the schedule announced by Financial Supervisory Commission (FSC).	

9. The improvement status for the outcome of Corporate Governance Evaluation announced by Taiwan Stock Exchange Corporate Governance Center and the priority of pending issues. (Companies not included in the Evaluation are exempted.)
   (1) The Company was ranked in the top 21% to 35% in 2016 Corporate Governance Evaluation. It recognized the Company's outstanding performance in various management aspects, such as corporate governance, corporate social responsibility, protection of shareholders' rights, information transparency and timely disclosure of information.
   (2) Improvements completed in 2017 for the 2016 Corporate Governance Evaluation: When disclosing the execution of Shareholders' Meetings resolutions in the annual report, the distribution of dividends shall be stated in detail in accordance with the example provided in the Corporate Governance Evaluation. The Audit Committee is established. The organization chart at the corporate website is updated timely. The website now includes the operations of Compensation Committee and Audit Committee.
   (3) Pending issues with high priority
      A. To strengthen the structure and operation of the Board
         (a) Independent directors' opinions on material proposals in the Board meetings and actions taken by the Company in connection with those opinions shall be disclosed in detail in the annual report.
         (b) The Company shall establish a diversification policy for the composition of Board members and disclose the policy implementation status in the annual report and corporate website.
         (c) At least one independent director shall be present at each Board meeting. The attendance record shall be disclosed in the annual report.
      B. To enhance information transparency
         (a) The amount and nature of non-audit fees paid to CPAs and affiliates of the CPA's accounting firms shall be disclosed in the annual report.
         (b) The names and numbers and percentages of shares held by major shareholders, including shareholders with holdings exceeding 5% or top ten shareholders, shall be disclosed in the annual report and corporate website.
      C. To fulfill corporate social responsibilities
         (a) The annual report shall include details on the policies and targets for energy conservation, greenhouse gas reduction, water conservation and management of other waste.
         (b) The contact persons and their contact information shall be explicitly stated in the stakeholder section of the corporate website.
   (4) The Company performed self-assessment based on 2017 Corporate Governance Evaluation in January 2018. The outcome will be reviewed to determine the performance improvement plans.

Continuing education of Directors in 2017 is as follows:

Personnel	Date	Host	Class	Duration
Representative of corporate director: Ta-Wen Sun	2017.02.21	Taiwan Corporate Governance Association	XPEC Entertainment – Securities Regulations and Responsibilities of Directors and Supervisors	3 hours
	2017.04.24	Taiwan Academy of Banking and Finance	Corporate Governance Forum – Succession Planning for Family Business	3 hours
Representative of corporate director: Jun-Yan Jiang	2017.03.10	Taiwan Corporate Governance Association	Significant reforms on Audit Reports – Understanding of Key Audit Matters and Countermeasures of the Board	3 hours
	2017.06.29	Taiwan Corporate Governance Association	Merge and Acquisition – From Directors and Supervisors' Level	3 hours
Director: Ching-Yi Chang	2017.04.26	Taiwan Academy of Banking and Finance	Corporate Governance Forum – Succession Planning for Family Business	3 hours
	2017.07.13	Taiwan Corporate Governance Association	How to Enhance the Board Functions and Directors Capabilities	2 hours
	2017.08.01	Taiwan Securities Association	Reading of Financial Statements and Operations of the Board	3 hours
Director: Fu-Le Lin	2017.07.07	Securities & Futures Institute	Seminar of Legal Compliance on Insider Trading	3 hours
	2017.11.17	Securities & Futures Institute	2017 Insider Trading and Corporate Social Responsibility Forum	3 hours
Director: Chun-Chi Lin	2017.08.04	Securities & Futures Institute	Seminar of Legal Compliance on Insider Trading	3 hours
	2017.08.28	Taiwan Corporate Governance Association	Corporate Governance and Securities Regulations	3 hours
	2017.09.11	Taiwan Academy of Banking and Finance	Corporate Governance Forum – Enterprise Sustainable Development	3 hours
Representative of corporate director: Re-Zhang Lin	2017.04.24	Taiwan Academy of Banking and Finance	Corporate Governance Forum – Succession Planning for Family Business	3 hours
	2017.05.05	Securities & Futures Institute	2017 Insider Trading and Corporate Social Responsibility Forum – 5/5	3 hours
Independent Director: Chein-Ming Hsu	2017.06.27	Securities & Futures Institute	Workshop for (Independent) Directors and Supervisors - Taipei	12 hours
	2017.07.07	Securities & Futures Institute	Seminar of Legal Compliance on Insider Trading	3 hours
	2017.07.15	Taiwan Academy of Banking and Finance	Training Seminar on Corporate Credit Risk Evaluation	6 hours
Independent Director: Wen-I Lo	2017.07.14	Securities & Futures Institute	Seminar of Legal Compliance on Insider Trading	3 hours
	2017.08.25	Taiwan Corporate Governance Association	Seminar on the Responsibilities and Risk Management of Directors and Supervisors	3 hours
Independent Director: Shi-Chern Yen	2017.07.07	Securities & Futures Institute	Seminar of Legal Compliance on Insider Trading	3 hours
	2017.11.17	Securities & Futures Institute	2017 Insider Trading and Corporate Social Responsibility Forum	3 hours

(4) The composition, duties and operations of the Compensation Committee

A. The Board has appointed Independent Directors, Chein-Ming Hsu, Wen-I Lo and Shi-Chern Yen, to form the third-term Compensation Committee.

Members of Compensation Committee

Title (Note 1)	Condition / Name	Over Five Years of Work Experience and the Following Professional Qualifications: An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, CPA, or Other Professional or Technical Specialist Who has Passed a National Examination with a Certificate in a Profession Necessary for the Business of the Company	With Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	Independence Status (Note 2): 1	2	3	4	5	6	7	8	Number of Other Public Companies in Which the Individual is Concurrently Serving in the Compensation Committee	Remark (Note 3)
Independent Director	Chein-Ming Hsu	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	0	Yes
Independent Director	Wen-I Lo	No	Yes	Yes	✓	✓	✓	✓	✓	✓	✓	✓	2	Yes
Independent Director	Shi-Chern Yen	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	2	Yes

Note 1: Please fill in with director, independent director or other.

Note 2: Please tick the corresponding boxes if members have met any of the following conditions during the two years prior to being elected or during the term of office:

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary, as appointed in accordance with the laws of Taiwan or with the laws of the country of the parent company or subsidiary.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by nominee arrangement, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranks in the top ten in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that ranks in the top five shareholding.
6. Not a director, supervisor, manager, or shareholder with 5% or more of the shareholding of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not being a person of any conditions defined in Article 30 of the Company Act.

Note 3: For member who is also a director, please specified if he/she has the identities specified in paragraph 5, article 6 of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded over the Counter".

B. The primary duty of Compensation Committee is to evaluate the Company's overall salary and welfare policies and the remuneration policy of Directors, Supervisors and Management of the Company from a professional, objective standpoint. It shall make recommendations to the Board for decision-making purpose.

C. Compensation Committee:

(a) The Company's Compensation Committee comprises three members.

(b) Term: May 26, 2017 to May 25, 2020. The Compensation Committee held five (A) meetings in 2017. The attendance status is as follows:

Title	Name	Attendance in Person (B)	In Proxy	Attendance Rate (%) (B/A) (Note)	Remark
Independent Director (Convener)	Chein-Ming Hsu	4	0	100%	New (Election on May 26, 2017)
Independent Director	Wen-I Lo	4	0	100%	New (Election on May 26, 2017)
Independent Director	Shi-Chern Yen	4	0	100%	New (Election on May 26, 2017)
Independent Director	Ming-Tung Kuo	1	0	100%	Predecessor (Election on May 26, 2017)
Independent Director	Po-Hsun Chen	1	0	100%	Predecessor (Election on May 26, 2017)
Member	Pu-Shan Xu	1	0	100%	Predecessor (Election on May 26, 2017)

Annotation:

1. If the Board of Directors decline to adopt or modify a recommendation of the Compensation Committee, the date and session of the Board meeting, contents of motions, resolution and actions taken by the Company regarding the Committee's opinions shall be specified (if the compensation package approved by the Board is better than the recommendation made by the Committee, please specify the discrepancy and its reason): None.
2. As to the resolution of the Compensation Committee, if a member expresses any objection or reservation, either by recorded statement or in writing, the date and session of the committee meeting, contents of motions, all members' opinions and actions taken regarding the opinions shall be specified: None.

(5) Corporate Social Responsibility and Non-compliance with "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies"and Reasons

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
1. Implementation of corporate governance (1) Does the Company establish a corporate social responsibility policy and evaluate its implementation? (2) Does the Company hold training sessions for CSR? (3) Does the Company have an exclusively (or concurrently) dedicated CSR unit with senior management being authorized by the Board to handle relevant issues and report to the Board? (4) Does the Company have a reasonable compensation policy which incorporates employees' performance review with CSR policy and a specific and effective disciplinary system?	V V V V		(1) The Company has established "Corporate Social Responsibility Best Practice Principles" to implement corporate social responsibility (CSR). The Principles are divided into "Caring for Employees", "Caring for Customers", "Commitment to Shareholders", "Preserving Public Welfare", and "Fostering a Sustainable Environment". The Principles would be reviewed and modified based on actual practice. (2) The Company holds CSR training sessions and promotes relevant policies through posters or internal booklets. All employees are required to attend those sessions or participate on-line. Their participation is incorporated in to their performance review. (3) The Company has established "Corporate Social Responsibility Committee". Human Resource & Administrative Division is the dedicated unit in charge of CSR activities and representatives from every department are Committee members. Each member shall report the operation status to the chairperson of the committee. (4) The Company has established "Code of Ethical Conduct" where the ethics and responsibilities for business transactions conducted by Directors, Supervisors, management and all employees are specified along with the reward-disciplinary mechanism. New recruits are informed of annual performance evaluation and reward-disciplinary rules and their connections with ethical conducts. Directors and Supervisors shall attend relevant sessions for their external continuing education.	None
2. Sustainable environment development (1) Is the Company committed to improving resources utilization and the use of renewable materials?	V		(1) To enhance the utilization of resources, promote the concept of recycling and reduce the adverse impacts on the environment, the Company takes the following actions: A. Waste solvent recovery rate: 137,477 Kg was processed in 2017 and generated 23,235 Kg.	

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
			Recycling saves energy, diminishes adverse impacts on the environment and avoids wastage. B. The Company adopts the concept of 3R (Reduce, Reuse and Recycle) in recycling. Total volume processed was 487,556 Kg. This mitigates the impact of incineration on the environment. C. Packaging materials of raw materials are returned to vendors for reuse to avoid waste on resources. 8,360 Kg were returned in 2017.	None
(2) Does the Company establish environmental management system designed to industry characteristics?	V		(2) The Company obtained ISO14001 Environmental Management Systems certification in October, 2004; IECQ-QC080000 HSPM certification in January, 2007; and CNS15506 Taiwan Occupational Safety and Health Management System and OHSAS18001 Occupational Health and Safety Management Systems certification in October, 2008. In September, 2014, it expanded ISO14001 Environmental Management Systems and received OHSAS18001 Occupational Health and Safety Management Systems certification (for Kunshan fab). In addition, it received Excellent Prize for Excellence in Labor Safety and Health in 2011 and Golden Award for Co-Prosperity from supplier, Unimicron in 2014. The Company strives to provide a safe work environment to employees.	
(3) Does the Company track the impact of climate change on operations, carry out greenhouse gas inventories, and set energy conservation and greenhouse gas reduction strategy?	V		(3) The Company was re-verified and passed the ISO14064 Greenhouse Gas Accounting and Verification in August, 2017. Strategies to reduce greenhouse gas and carbon footprints were established based on the Company's emission level to diminish the negative impact on the environment. A. In 2017, the Company purchased 678,076 kWh of green solar power, which reduced CO2e emission by 19.87 million Kg. Green power refers to electricity which has zero or close to zero CO2 emission during the production process. B. Factory Two is expected to have rotors in place by 2018. Processing condensed VOCs through RRTO reduces fuel consumption. It is estimated to save natural gas of 40,000	

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
			cubic meter/year and reduce CO_2 emission by 116,000 Kg/year.	
3. Promotion of social welfare (1) Does the Company comply with relevant labor regulations and respect internationally recognized human right principles, including protection of employees' rights and interest and adoption of equal employment policy, and set up appropriate means and procedures for management purpose? Please specify the execution status. (2) Has the Company established complaint mechanism and channels for employees and appropriately managed relevant issues? (3) Does the Company provide a safe and healthy work environment and periodic safety and health training? (4) Has the Company established a mechanism for regular communication with employees and use reasonable measures to notify employees of operational changes which may cause significant impact to employees?	V V V V		(1) The Company has established "Code of Conduct". The rights and obligations of employees and management are in conformity with labor regulations and internationally recognized human right principles. Equal opportunity is provided to all, regardless of gender, age, group and religion. (2) The Company has set up President Mailbox and HR hotline and email at each factory. Auditing Office will soon establish a whistleblowing system to prevent unethical behavior or misconduct. (3) Pursuant to "Procedures for Safety, Health and Environment Protection Training" in Taiflex's occupational safety and health management system, employees are taught of dangerous machinery and equipment and "Regulations for Occupation Safety and Health Education and Training". With regards to employees' health, relevant caring facilities and management are in place. Measures taken include semi-annual environment monitoring, above-standard health check-up, and annual special health examination. Outcome of these examinations are analyzed to provide improvement schemes and guidance is given to employees with unfavorable outcomes. Health-related seminars are available to employees. (4) The Company periodically holds management-labor meetings to facilitate the communication between both parties. The meeting minutes would be announced to all employees. In addition, there are on-line discussion forums for employees to voice their thoughts and ask work or system-related questions, which would be answered by dedicated personnel. Surveys on employee	None

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
			satisfaction are conducted annually to improve the less favorable aspects in management and services.	None
(5) Has the Company established effective career development training plans?	V		(5) The Company has introduced performance and career interview system in March 2015 to personalize employee career development training.	
(6) Has the Company set policies and consumer appeal procedures in its R&D, purchasing, production, operations, and service processes?	V		(6) The Company places a great deal of importance on consumer rights and interests and the satisfactory level of each service rendered. Thus, a stakeholder section is created in the official website to receive instant feedbacks and take actions accordingly.	
(7) Does the Company follow regulations and international standards in the marketing and labeling of products and services?	V		(7) Taiflex actively obtains various international safety certifications due to market globalization to ensure the quality, safety and reliability of its products. <u>Underwriter Laboratories Inc. (UL)</u> UL is an U.S. non-profit organization which aims to ascertain the safety level of products by inspecting and classifying samples from raw materials, components, system, structure, process and conditions of usage and conducting follow-up tests. The ultimate goal is to ensure the safety of users' life and property. Certification logos are issued for identification purpose. <u>Japan Electrical Safety & Environment Technology Laboratories (JET)</u> JET is a laboratory designated by Japanese government to inspect factories manufacturing electrical products and test the outputs. It issues certification logos to electrical products which meet the safety standards stipulated by Japanese government. According to Japanese DENTORL, safety certifications are required for 498 types of products before entering the Japan market. TUV Rheinland (TUV): German safety certification institution. It provides certification services for product safety, quality and management system.	
(8) Does the Company evaluate environmental and social track records before engaging with potential suppliers?	V		(8) The Company would conduct a social and environmental responsibility audit on key suppliers and contractors with environmental and social risks to ensure their compliance with	

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
(9) Do the Company's contracts with major suppliers include termination clauses if they violate CSR policy and cause significant environmental and social impact?	V		Electronic Industry Code of Conduct or local regulations. Besides fulfilling the CSR, the Company would like our suppliers to join us in improving the sustainable management capability and enhancing the eco-performance of the value chain. (9) The Company is entitled to terminate the contract if the counterparty has a serious breach of CSR policy.	None
4. Enhancement on information disclosure (1) Does the Company disclose relevant and reliable CSR information on official website or MOPS?	V		(1) The Company's official website, www.taiflex.com.tw, has CSR section where relevant and reliable information, including quality policy, environmental policy and charity activities, is disclosed.	None
5. If the Company has established its CSR principles according to "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies", please describe the operational status and difference: The Company has established "Guidelines on Corporate Social Responsibility" providing guidance on topics of environmental protection, community participation, contribution to society, service to society, social and public interests, consumer rights and interests, human rights and safety and health, etc. Information can be downloaded from the website. Please refer to Corporate Social Responsibility under Corporate Governance (page 42 to 47) or CSR report for details.				
6. Other important information to facilitate better understanding of the Company's CSR practices (e.g., systems and measures that the company has adopted with respect to environmental protection, community participation, contribution to society, service to society, social and public interests, consumer rights and interests, human rights, safety and health, other corporate social responsibilities and activities, and the status of implementation.): (1) System and measures taken for environmental protection and safety and health and the implementation status: Taiflex applies ISO14001: Plan-Do-Check-Act (PDCA) cycle to improve its environmental protection management policies. Resource is recycled based on the concept of 3R (Reduce, Reuse and Recycle). The total processed volume is 487,556Kg. Packaging materials are reused to reduce waste and cost. The Company aims at zero waste for recycled resources. Other than compliance with national environmental protection policies and regulations, the Company also spends an enormous amount on improvement of environmental protection and green research. Optimal prevention equipment is applied to achieve process efficiency of 98% and above. In addition, the Company adopts the framework of Taiwan Occupational Safety and Health Management System CNS15506 for the risk assessment and management strategies and regulation identification under OHSAS 18001 Occupational Health and Safety Management System in order to comply with changes in regulatory requirement and reduce hazardous risks. The goal is to control risks and eliminate potential disaster. On top of persistently improving work environment for an enhanced comfort and safety level at work, Taiflex attaches great importance to employee health and continuously launches health promotion projects and health management measures. The goal is to fulfill the Company's responsibilities concerning social environment and safety.				

<table>
<tr><th rowspan="2">Assessment Items</th><th colspan="3">Status</th><th rowspan="2">Non-compliance and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td colspan="5">(2) Community participation, contribution to society, service to society, social and public interests:
Taiflex establishes charity clubs, i.e. Taiflex Youth Care Association and Taiflex Volunteers, to organize fund-raising events. In addition, they provide voluntary services to the community and disadvantaged teenagers.
The Company has been sponsoring outstanding student clubs at remote areas, such as Chinese Orchestra at MeiLun Junior High School, for a long period of time. Children would have sufficient resources to develop their potentials and courage to realize their dreams, and could enjoy different perspectives and experience. The Company also participates in blood donation and charity events held by schools or welfare organizations in Kaohsiung as ways to enhance its community participation and contributions.
Social activities took place in 2017 are summarized as follows:
May 2017 Sponsored the painting event of Siao Gang Senior High School’s charity foundation
Jun. 2017 Invited students of Siao Gang Senior High School’s charity foundation to watch movies at Cinemark
Jun. 2017 Provided internship to 10 students from National Kaohsiung First University of Science and Technology, National Kaohsiung University of Applied Sciences, Kao Yuan University, Cheng Shiu University, Shih Chien University, Chung Yuan Christian University, etc.
Aug. 2017 Hosted the Taiflex Youth Care Concert
Aug. 2017 Co-organized the Summer Camp of Puren Youth Care Foundation in Kaohsiung
Aug. 2017 Donated secondhand items to the Good Shepherd Social Welfare Foundation
Aug. 2017 Invited the Syin-Lu Social Welfare Foundation and the Good Shepherd Social Welfare Foundation to participate in the 20th anniversary charity sale of Taiflex
Sep. 2017 Sponsored the scholarship programs of Kaohsiung United Charity Association
Oct. 2017 Sponsored the 2017 donation program organized by cnYes.
Oct. 2017 Hosted charity basketball games with Siao Gang Senior High School
Dec. 2017 Hosted the study tours of Puren Youth Care Foundation in Kaohsiung
Dec. 2017 Assisted Kaohsiung United Charity Association to organize items for food bank
(3) Consumer rights and interests:
The Company performs its contractual obligations to protect the rights of the Company and consumers.
(4) Human rights:
The Company provides equal opportunities for employment to all individuals, regardless of gender, religion and political affiliation. It also establishes a safe environment to protect employees from discrimination and harassment.
(5) Safety and Health:
The Company complies with the Occupational Safety and Health Act and establishes safety and health management organization and dedicated unit accordingly to draft, plan, promote and monitor the implementation of various safety and health measures.</td></tr>
<tr><td colspan="5">7. Other information regarding CSR report which is verified by certification bodies: None.</td></tr>
</table>

(6) Guidelines on Ethical Management and Non-compliance with "Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies" and Reasons

<table>
<tr><th rowspan="2">Assessment Items</th><th colspan="3">Status</th><th rowspan="2">Non-compliance and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td>1. Establishment of ethical management policies and implementation measures
(1) Does the Company clearly express in the Company's internal policies and external documents of ethical management policies and the Board and management's commitment to implement those policies?
(2) Does the Company establish policies to prevent unethical conduct, stipulate relevant procedures, guidelines, disciplinary measures and compliant system in those policies and thoroughly execute them?
(3) Does the Company establish preventive measures for the business activities prescribed in Paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and any other such activities associated with high risk of unethical conduct?</td><td>V
V
V</td><td></td><td>(1) The Company has established the "Principles of Business Ethics" and publicly announced to all personnel. Both the Board of Directors and management team are committed to its execution.
(2) The Company has established "Procedures and Guidelines of Business Ethics" to encourage internal and external parties to report unethical behaviors or misconducts. Based on the degree of misconduct, whistleblowers could receive a citation of merit pursuant to the Company's reward and discipline policy. Internal personnel making false accusation or malicious claims will be disciplined. Serious offense can lead to termination of employment. The Company will create and announce an internal, independent whistleblowing mailbox or hotline for internal and external personnel of the Company.
(3) The Company has established measures to prevent operating activities involving higher risk of unethical conduct, which include:
A. Offering and acceptance of bribes
B. Provision of illegal political contribution
C. Improper charitable donations or sponsorship
D. Offering or acceptance of unreasonable gifts, hospitality or other improper benefits
E. Infringement of trade secrets, trademarks, patents, copyrights and other intellectual property rights
F. Unfair competition
G. Maliciously and gravely jeopardize the rights, health and safety of consumers or other stakeholders during the process of research and development, purchase, manufacture, rendering or sale of products and services</td><td>None</td></tr>
</table>

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
2. Implementation of ethical management				None
(1) Does the Company review the counterparty's history of ethical conduct and include the compliance of business ethics as a clause in the contract?	V		(1) Personnel of the Company shall avoid engaging in business with unethical agents, suppliers, customers or other business counterparties. Once we are aware of the counterparty's misconduct, we will terminate all business dealings and blacklist the counterparty for future dealings to meet our requirement for business ethics.	
(2) Has the Company established an exclusively or concurrently dedicated department under the Board to promote ethical conducts and report to the Board of Directors periodically?	V		(2) The Company appoints a dedicated division to be in charge of formulating and monitoring the execution of ethics policies and preventive actions. The division shall communicate to the Board of Directors whenever they deem necessary.	
(3) Has the Company established policies to prevent conflicts of interest, provide appropriate communication channels and thoroughly implement the policies?	V		(3) Before signing contracts, the Company and its subsidiaries shall fully understand the degree of business ethics of the counterparty and include the compliance of business ethics as a clause in the contract. Once a party becomes aware of any violation of contractual terms on prohibition of commission, rebates or other benefits, it shall promptly inform the other party of the violator's identity, method of provision, promise, request, or acceptance of improper benefits, amount or other benefits and provide relevant evident to assist with investigation. The Company and its subsidiaries are entitled to make a claim to the other party for any detriment suffered as a result. The claims can be deducted from our payables if this clause was explicitly stated in the contract. Moreover, in order to thoroughly implement the rules regarding conflict of interest and prevent damage to the Company, the Auditing Office will soon establish a whistleblowing system as a proper complaint channel to avoid any conflict of interest.	
(4) Has the Company established effective accounting and internal control systems for the implementation of ethics policies and appointed internal auditors or CPAs to audit such execution and compliance?	V		(4) The Company has established Auditing Office, which reports directly to the Board. Each year, the Auditing Office carries out audits according to the Annual Audit Plan, monitors corrective actions for deficiencies and regularly submits audit reports to the Board for management to understand the effectiveness of internal control system.	

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
(5) Has the Company regularly held internal and external training sessions of business ethics?	V		(5) The Company conveys the importance of business ethics at orientation programs, regular meetings and corporate ethics sessions. Ethics is one of the indicators in performance review.	
3. Implementation of whistleblowing system (1) Has the Company established specific whistleblowing and reward systems, set up conveniently accessible complaint channels, and designated responsible individuals to handle the complaint received? (2) Has the Company established standard operating procedures for investigating the complaints received and ensuring such complaints are handled in a confidential manner? (3) Has the Company established measures to protect whistleblowers from retaliation?	V V V		(1) The Company has provided proper channels for reporting any unethical conducts. It would keep the identity and complaint of the whistleblower confidential. The Company has designated responsible individuals to investigate the complaint. (2) The Company follows standard operating procedures and relevant mechanism to maintain the confidentiality of case details when conducting investigations. (3) The Company follows standard operating procedures and relevant mechanism to protect the whistleblowers from retaliation.	None
4. Enhancement on Information disclosure (1) Does the Company disclose its principles of business ethics and information about implementation of such guidelines on its website and MOPS?	V		(1) The Company has disclosed the "Principles of Business Ethics" on the corporate website, www.taiflex.com.tw. Relevant information is also disclosed in this annual report.	None
5. If the Company has established ethical conduct policies based on "Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies", please specify any discrepancy between the policies and their implementation: The Company upholds the principles of fairness, honesty, trustworthiness and transparency in all business transactions. Principles of Business Ethics are established in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies" for all employees to follow.				
6. Other important information to facilitate better understanding of the Company's ethical conduct practices (e.g. the Company reviews and revises its Principles of Business Ethics, etc.): The Company follows ethical guidelines for all business transactions and encourages business partners to follow suit.				

(7) For companies with guidelines and regulations on corporate governance, access shall be disclosed:

A. Guidelines and regulations on corporate governance: The Company has Code of Ethical Conduct, Principles of Business Ethics, Internal Control System, Procedures for Acquisition or Disposal of Assets, Procedures for Endorsement and Guarantee, Procedures for Lending Funds to Other Parties, Rules of Procedure for Board of Directors' Meeting, Charter for Compensation Committee and Guidelines on Corporate Governance, Procedures and Guidelines of Business Ethics, etc.

B. Please refer to the Company website (http://www.taiflex.com.tw) and the http://mops.twse.com.tw for more details on the Company's guidelines and regulations on corporate governance.

(8) Other important information to facilitate better understanding of the Company's corporate governance:

A. Procedures for internal material information: The Company has established "Procedures for Prevention of Insider Trading" for Directors, management and employees to follow. The Procedures specify that the Company's Directors, management and employees shall not violate laws, regulations and orders regarding insider trading. Please refer to the official website (http://www.taiflex.com.tw) for more details.

B. For details on Independent Directors' nomination and election method, nomination process, (qualified) candidates profile, election process and outcome, please refer to the Company website (http://www.taiflex.com.tw) and http://mops.twse.com.tw.

(9) Internal Control System Execution Status:

A. Statement of Internal Control System

TAIFLEX Scientific Co., Ltd.
Statement of Internal Control System

February 27, 2018

Based on the findings of a self-assessment, Taiflex Scientific Co., Ltd. (Taiflex) states the following with regard to its internal control system during the year 2017:

1. Taiflex's Board of Directors and management are responsible for establishing, implementing, and maintaining an adequate internal control system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operations (including profitability, performance, and safeguarding of assets); reliability, timeliness and transparency of our financial reporting; and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three objectives mentioned above. Moreover, the effectiveness of an internal control system may be subject to changes of environment or circumstances. Nevertheless, our internal control system contains self-monitoring mechanisms, and Taiflex takes immediate remedial actions in response to any deficiencies identified.
3. Taiflex evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five key components of internal control based on the process of management: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several items. Please refer to the Regulations for details.
4. Taiflex has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, Taiflex believes that, as of December 31, 2017, its internal control system (including its supervision of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency; reliability, timeliness and transparency of financial reporting; and compliance with applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-mentioned objectives.
6. This Statement will be an essential content of the Taiflex's Annual Report for the year 2017 and Prospectus, and will be publicly disclosed. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchanged Act.
7. This Statement has been passed by the Board of Directors in their meeting held on February 27, 2018, with 0 of the 9 attending Directors expressing objectives, and the remainder all affirming the content of this Statement.

TAIFLEX Scientific Co., Ltd.
Chairperson: Ta-Wen Sun
President: Zhi-Ming Yen

B. Where CPAs are retained to audit the internal control system, please disclose the CPAs' audit report: None.

(10) Any penalties imposed upon the Company or internal personnel by laws, or punishment imposed by the Company or internal personnel for violation of the Company's internal control system regulations, and the major defects and corrective action thereof in 2017 and as of the date of this annual report: None.

(11) Major resolutions of the Shareholders' Meetings and Board of Directors' meetings in 2017 and as of the date of this annual report:

A. Major resolutions of Shareholders' Meetings and Board of Directors' meetings are summarized as follows:

Shareholders / Board Meetings	Date	Major Resolutions
Shareholders' Meeting	2017.05.26	1. Approving amendments to "Articles of Incorporation" 2. Approving the audited 2016 financial statements 3. Approving the 2016 earnings distribution 4. Approving amendments to "Rules of Procedure for Shareholders' Meeting" 5. Approving amendments to "Director and Supervisor Election Procedures" 6. Approving amendments to "Procedures for Acquisition or Disposal of Assets" 7. Approving amendments to "Procedures for Endorsement and Guarantee" 8. Approving amendments to "Procedures for Lending Funds to Other Parties" 9. Approving the release of new Directors from non-compete restrictions 10. Completing the election of Directors across the board
Board of Directors' Meeting	2017.01.19	1. Approving the changes in organizational structure and personnel 2. Reviews by Compensation Committee on the details and amount of compensation to new managers 3. Approving the operation plan and capital expenditure budget for 2017 4. Proposing to provide endorsement and guarantee to subsidiaries 5. Applying for contract renewal with corresponding banks to meet the Company's needs 6. Approving the provision of Letter of Support for investee, Taiflex Scientific (Kunshan) Co., Ltd.
Board of Directors' Meeting	2017.02.23	1. Approving the 2017 operation plan 2. Approving the 2016 business report and financial statements 3. Approving the 2016 earnings distribution 4. Assessing the independence of CPAs for 2017 5. Approving amendments to "Articles of Incorporation" 6. Approving amendments to "Rules of Procedure for Shareholders' Meeting" 7. Approving amendments to "Director and Supervisor Election Procedures" 8. Approving amendments to "Rules of Procedure for Board of Directors' Meetings" 9. Approving amendments to "Procedures for Acquisition or Disposal of Assets" 10. Approving amendments to "Procedures for Endorsement and Guarantee" 11. Approving amendments to "Procedures for Lending Funds to Other Parties"

Shareholders / Board Meetings	Date	Major Resolutions
		12. Approving amendments to "Code of Ethical Conduct" 13. Approving amendments to "Principles of Business Ethics" 14. Approving amendments to "Procedures and Guidelines of Business Ethics" 15. Approving the election of Directors across the board 16. Approving the release of new Directors from non-compete restrictions 17. Formulating plans associated with agenda of the 2017 Annual Shareholders' Meeting
Board of Directors' Meeting	2017.04.11	1. Approving the reviewed list of Director candidates 2. Formulating the Charter for Audit Committee
Board of Directors' Meeting	2017.04.27	1. Providing endorsement and guarantee to subsidiaries 2. Applying for an increase in transaction limit and contract renewal with corresponding banks to meet the Company's needs 3. Approving the provision of Letter of Comfort for investees, Taiflex Scientific (Kunshan) Co., Ltd. and Koatech Technology Corporation 4. Setting a record date in the first quarter of 2017 for employee stock options
Board of Directors' Meeting	2017.05.26	1. Nominating the Chairperson and Vice Chairperson for the 8th term
Board of Directors' Meeting	2017.06.13	1. Appointing the 3rd term Compensation Committee members
Board of Directors' Meeting	2017.07.27	1. Appointing a new President for the Company 2. Approving the changes in organizational structure and personnel 3. Reviewing the details and amount of compensation to managers 4. Reviews on the payment of remuneration to Directors and Supervisors and compensation to managers and employees for 2016 5. Approving an additional investment of US$9,500 thousand in Shenzhen Taiflex Electronic Co., Ltd. for operational needs 6. Providing endorsement and guarantee to subsidiaries 7. Approving the cap increase for loans to subsidiaries 8. Applying for an increase in transaction limit and contract renewal with corresponding banks to meet the Company's needs 9. Providing Letter of Comfort for investee, Taiflex Scientific (Kunshan) Co., Ltd. 10. Approving matters relating to the ex-dividend scheme for 2017 11. Setting a record date in the second quarter of 2017 for employee stock options
Board of Directors' Meeting	2017.08.22	The Company proposed to transfer all buyback shares to employees of the Company.
Board of Directors' Meeting	2017.10.26	1. Approving the personnel changes 2. Reviewing the rules governing the payment of remuneration to Directors and bonus to managers 3. Approving the increase in capital expenditure 4. Providing endorsement and guarantee to subsidiaries 5. Approving the cap increase for loans to subsidiaries 6. Applying for an increase in transaction limit and contract renewal with corresponding banks to meet the Company's needs 7. Providing Letter of Support for investee, Taiflex Scientific (Kunshan) Co., Ltd.

Shareholders / Board Meetings	Date	Major Resolutions
		8. Setting a record date in the third quarter of 2017 for employee stock options 9. Approving 2018 annual audit plan of auditing office 10. Determining the dates for 2018 Board meetings
Board of Directors' Meeting	2017.12.05	For business needs in China, the Company proposed to set up a subsidiary in China through an overseas holding company.
Board of Directors' Meeting	2018.01.17	1. Approving the distribution of 2017 compensation to employees and remuneration to Directors 2. Approving the 2017 year-end net income bonus to managers 3. Approving the personnel changes in managers and reviewing the details and amount of compensation to managers 4. Approving the operation plan and capital expenditure budget for 2018
Board of Directors' Meeting	2018.02.27	1. Approving the 2017 business report and financial statements 2. Approving the 2018 operation plan 3. Appointing CPAs for 2018 and assessing their independence 4. Approving amendments to "Rules of Procedure for Board of Directors' Meetings" 5. Approving amendments to "Charter for Audit Committee" 6. Approving amendments to " Charter for Compensation Committee" 7. Approving amendments to "Procedures for Prevention of Insider Trading" 8. Assessing the effectiveness of internal control system for 2017 and issuing the Statement of Internal Control System 9. Formulating plans associated with agenda of the 2018 Annual Shareholders' Meeting 10. Approving plans associated with shareholders' right to propose in the 2018 Annual Shareholders' Meeting

B. Execution of resolutions of 2017 Annual Shareholders' Meeting:

(a) Approving amendments to "Articles of Incorporation"

Execution: It had been approved and registered by the Ministry of Economic Affairs on June 14, 2017 and published on the Company's website.

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
135,936,248	130,760,801	4,107	5,171,340
100.00%	96.19%	0.00%	3.81%

(b) Approving the audited 2016 financial statements

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
135,400,201	130,760,833	4,075	4,635,293
100.00%	96.57%	0.00%	3.43%

(c) Approving the 2016 earnings distribution

Execution: The record date was set to be August 23, 2017 and the payment date September 8, 2017. (Cash dividend of NT$2 per share.)

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
135,400,201	130,760,830	4,078	4,635,293
100.00%	96.57%	0.00%	3.43%

(d) Approving amendments to “Rules of Procedure for Shareholders’ Meeting”

Execution: The amended Rules have been complied with and published on the Company’s website.

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
135,936,248	130,760,800	4,108	5,171,340
100.00%	96.19%	0.00%	3.81%

(e) Approving amendments to “Director and Supervisor Election Procedures”

Execution: The amended Procedures have been complied with.

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
135,936,248	130,760,800	4,108	5,171,340
100.00%	96.19%	0.00%	3.81%

(f) Approving amendments to “Procedures for Acquisition or Disposal of Assets”

Execution: The amended Procedures had been complied with and published on the Company’s website.

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
135,936,248	130,760,797	4,111	5,171,340
100.00%	96.19%	0.00%	3.81%

(g) Approving amendments to “Procedures for Endorsement and Guarantee”

Execution: The amended Procedures had been complied with and published on the Company’s website.

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
135,936,248	130,760,799	4,109	5,171,340
100.00%	96.19%	0.00%	3.81%

(h) Approving amendments to “Procedures for Lending Funds to Other Parties”

Execution: The amended Procedures had been complied with and published on the Company’s website.

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
135,936,248	130,760,799	4,109	5,171,340
100.00%	96.19%	0.00%	3.81%

(i) Approving "the release of new directors from non-compete restrictions"
Execution: The Company has complied with the resolution.
Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
135,936,248	130,544,835	9,122	5,382,291
100.00%	96.03%	0.01%	3.97%

(12) Where Directors or Supervisors expressed different opinions regarding major resolutions, either by recorded statement or in writing, in 2017 and as of the date of this annual report, please disclose the details: None.

(13) Resignation or discharge of Chairperson, President and Supervisors of Accounting, Finance, Internal Audit and Research and Development in 2017 and as of the date of this annual report:

March 31, 2018

Title	Name	On-Board Date	Resignation Date	Reasons for Resignations or Dismissals
President	Jun-Yan Jiang	2008.11.01	2017.03.01	He was released from his concurrent position to be the Chairperson of Taiflex Scientific (Kunshan) Co., Ltd. (a 100%-owned subsidiary of the Company) to create greater value for the subsidiary.

Note: The said relevant personnel of the company refers to chairperson, president and supervisors of accounting, finance, internal audit and research and development.

5. Audit Fees for CPA

(In Thousands of New Taiwan Dollars)

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Audit Period	Note
			System Design	Company Registration	Human Resource	Others (Note)	Sub-Total		
Ernst & Young	Fang-Wen Li Jheng-Chu Chen	3,140		75		684	759	2017	Others mainly consist of audit on transfer pricing of NT$280 thousand, audit of physical inventory on bonded goods of NT$100 thousand and money advanced of NT$304 thousand.

(1) Non-audit fees paid to CPAs, CPA's accounting firms and their affiliates exceeding 25% of the audit fees: None.
(2) Change of accounting firms with audit fee paid in the year of change being less than the previous year: None.
(3) Over 15% decrease in audit fee on a year-to-year basis: None.

6. Change of CPA:

(1) Former CPA

<table>
<tr><td>Date</td><td colspan="5">January 16, 2017</td></tr>
<tr><td>Reasons for Change and Explanation</td><td colspan="5">Due to internal organizational changes in Ernst & Young, Fang-Wen Li and Hong-Guang Lin were replace by Fang-Wen Li and Jheng-Chu Chen as CPAs of the Company.</td></tr>
<tr><td rowspan="3">Explain whether the Company ended the engagement or CPA declined further engagement</td><td colspan="3">Parties
Cases</td><td>CPA</td><td>The Company</td></tr>
<tr><td colspan="3">Voluntarily Termination of Engagement</td><td colspan="2" rowspan="2">N/A</td></tr>
<tr><td colspan="3">Decline (Terminate) Further Engagement</td></tr>
<tr><td>Opinions and reasons for the former CPA to issue an audit report expressing other than an unqualified opinion during the two most recent years</td><td colspan="5">None</td></tr>
<tr><td rowspan="6">Disagreement with the Company</td><td rowspan="4">Yes</td><td></td><td colspan="3">Accounting principle or practice</td></tr>
<tr><td></td><td colspan="3">Financial report disclosure</td></tr>
<tr><td></td><td colspan="3">Auditing scope or procedure</td></tr>
<tr><td></td><td colspan="3">Others</td></tr>
<tr><td>No</td><td colspan="4">V</td></tr>
<tr><td colspan="5">Explanation: None</td></tr>
</table>

(2) Successor CPA

CPA Firm	Ernst & Young
CPAs	Fang-Wen Li and Jheng-Chu Chen
Date of Engagement	January 16, 2017
Consultation on accounting treatment of or application of accounting principles to a specified transaction, or the type of audit opinion that might be rendered prior to the engagement	None
Written opinions from successor CPA regarding disagreeable items of the former CPA	None

(3) Response by mail from the former CPA regarding items in Article 10-6-1 and 10-6-2-3: None.

7. Any of the Company's Chairperson, President, or Managers in Charge of Finance or Accounting Held a Position in the CPA's Firm or Its Affiliates in 2017: None.

8. Changes in Shareholding and Shares Pledged by Directors, Supervisors, Managers and Shareholders with 10% Shareholdings or More in 2017 and as of the Date of this Annual Report

(1) Changes in Shareholding and Shares Pledged by Directors, Supervisors, Managers and Shareholders with 10% Shareholdings or More:

(In Shares)

Title	Name	2017		By March 31, 2018	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Corporate Director	Qiao Mei Development Corporation	1,580,000	0	0	0
Representative of Corporate Director and Chairperson (Note 1)	Ta-Wen Sun	0	0	0	0
Representative of Corporate Director and President (Note 1)	Jun-Yan Jiang	(458,000)	0	(10,000)	0
Director	Ching-Yi Chang	200,000	0	0	0
Corporate Director	Fuding Investment Co., Ltd.	0	0	0	0
Representative of Corporate Director	Re-Zhang Lin	0	0	0	0
Director	Chun-Chi Lin	0	0	0	0
Director and Senior R&D Director	Fu-Le Lin	(67,000)	0	40,000	0
Independent Director	Chein-Ming Hsu	0	0	0	0
Independent Director	Wen-I Lo	0	0	0	0
Independent Director	Shi-Chern Yen	0	0	0	0
President (Note 2)	Zhi-Ming Yen	0	255,000	0	0
Vice President	Zong-Han Jiang	0	0	(102,000)	0
Project Vice President	Jiang-Zhi Zhao	0	0	70,000	0
Chief Legal Officer	Jin-Cheng Zhang	0	0	(3,000)	0
Senior Assistant Vice President	Zhen Lin	(54,000)	0	0	0
Senior Assistant Vice President	Chong-Chen Liu	24,000	0	0	0
Senior Assistant Vice President	Guo-Xiong Xia	40,000	0	0	0
Vice President	Zi-Kang Yang	0	0	0	0
Vice President	Yu-Cheng Qiu	0	0	0	0
Vice President	Jing-Wen Lu	0	0	0	0
Vice President	Sheng-Ying Lin	20,000	0	0	0
Vice President	Bing-Xun Zhang	0	0	0	0
Chief Financial Officer	Fang-I Hsieh	10,000	0	0	0

Note 1: The former President, Mr. Jun-Yan Jiang, was released from his concurrent position as the Company's President to serve exclusively as the Chairperson of Taiflex Scientific (Kunshan) Co., Ltd. (a 100%-owned subsidiary of the Company) in order to carry out future strategies and create greater value for the subsidiary. The adjustment was resolved in the Company's Board meeting on February 23, 2017. The Chairperson of Taiflex Scientific Co., Ltd. has served as the President concurrently starting March 1, 2017.

Note 2: The Company's Board meeting on July 27, 2017 resolved to appoint Mr. Zhi-Ming Yen as the President starting August 1, 2017.

(2) Stock Transfer

Directors, Supervisors, Managers and Shareholders with 10% shareholdings or more did not transfer stocks to related parties.

(3) Share Pledged

As of March 31, 2018 (In Shares, %, New Taiwan Dollars)

Name	Reasons for Changes in Pledge	Date of Change	Counterparty	Relationship between the Counterparty and the Company, Directors, Supervisors, and Shareholders with 10% Shareholdings or More	Number of Shares	Share holding %	Pledge %	Amount of Pledge (Redemption)
Qiao Mei Development Corporation	Pledge	2016.03.23	Chinatrust Commercial Bank	None	4,800,000	7.28	31.55	97,000,000
Zhi-Ming Yen	Pledge	2017.12.08	Yuanta Securities	None	255,000	0.19	63.11	6,000,000
Chong-Chen Liu	Pledge	2011.12.02	Chinatrust Commercial Bank	None	50,000	0.05	49.72	500,000

9. Top 10 Shareholders Who are Related Parties, Spouses, or within Second-Degree of Kinship to Each Other

Relationship between Top 10 Shareholders

As of March 30, 2018; (In Shares; %)

Name	Shareholding		Spouses, Minor Children		Nominee Arrangement		Names and Relationship of Top 10 Shareholders who are Related Parties, Spouses or within Second-Degree of Kinship to Each Other		Remark
	Shares	%	Shares	%	Shares	%	Name	Relation	
Qiao Mei Development Corporation Representative: Ta-Wen Sun	15,213,729	7.28	0	0	0	0	-	-	-
BaoJie Funds in custody of Standard Chartered Bank	13,622,320	6.51	0	0	0	0	-	-	-
Ching-Yi Chang	4,599,282	2.20	442,313	0.21	0	0	-	-	-
Huasheng International Investment Corp. Representative: Zhi-Cheng Zhang	4,596,945	2.20	0	0	0	0	-	-	-
Taiwan Life Insurance Co., Ltd. Representative: Yin-Bao Ling	3,981,600	1.90	0	0	0	0	-	-	-
Morgan Stanley & Co. International Limited in custody of HSBC Bank (Taiwan) Limited	3,708,715	1.77	0	0	0	0	-	-	-
Norges Bank in custody of Citibank Taiwan	3,031,195	1.45	0	0	0	0	-	-	-
Shun-Kai Lu	2,974,200	1.42	0	0	0	0	-	-	-

Name	Shareholding		Spouses, Minor Children		Nominee Arrangement		Names and Relationship of Top 10 Shareholders who are Related Parties, Spouses or within Second-Degree of Kinship to Each Other		Remark
	Shares	%	Shares	%	Shares	%	Name	Relation	
LSV Emerging Markets Equity Fund LP in custody of Bank of Taiwan	2,931,480	1.40	0	0	0	0	-	-	-
Vanguard Emerging Market Fund in custody of JPMorgan Chase Bank N.A. Taipei Branch	2,698,920	1.29	0	0	0	0	-	-	-

10. Number of Shares Held and Shareholding Percentage of the Company, the Company's Directors, Supervisors, Managers and Directly or Indirectly Controlled Entities on the Same Investee

Shareholding Percentage

(In Thousands of Shares; %)

Investee (Note 1)	Investment by the Company		Investment by Directors, Supervisors, Managers and Directly or Indirectly Controlled Entities		Total	
	Shares	%	Shares	%	Shares	%
Taistar Co., Ltd.	25,665	100.00	0	0	25,665	100.00
LEADMAX Limited	10	100.00	0	0	10	100.00
Koatech Technology Corporation	27,400	53.86	1,505	2.96	28,905	56.82
Innovision FlexTech Corp.	3,611	15.67	8	0.03	3,611	15.70
TFS Co., Ltd.	15,520	100.00	0	0	15,520	100.00
Taiflex Scientific Japan Co., Ltd.	6	100.00	0	0	6	100.00
TSC International Ltd.	0	0	25,010	100.00	25,010	100.00
Kunshan Taiflex Electronic Material Co., Ltd. (Note 2)	0	0	0	100.00	0	100.00
Taiflex Scientific (Kunshan) Co., Ltd. (Note 2)	0	0	0	100.00	0	100.00
Richstar Co., Ltd.	0	0	15,510	100.00	15,510	100.00
Shenzhen Taiflex Electronic Co., Ltd. (Note 2)	0	0	0	100.00	0	100.00
Taiflex USA Corporation	1	100.00	0	0	1	100.00

Note 1: Long-term investment of the Company as of March 31, 2018

Note 2: Investment in companies in China through reinvestment of a company established in the third area

IV. Capital Overview

1. Capital and Shares

(1) Source of Capital:

A. History

As of March 31, 2018 (In Shares; NT$)

Month / Year	Issue Price	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount	Shares	Amount	Source	Capital Increase by Assets Other than Cash	Others
2017.05	10	300,000,000	3,000,000,000	208,445,192	2,084,451,920	Employee stock options	None	By Jing-Jia-Shou-Gao-Zi No. 10640010920 on 2017.05.15
2017.08	10	300,000,000	3,000,000,000	208,450,692	2,084,506,920	Employee stock options	None	By Jing-Jia-Shou-Gao-Zi No. 10640011590 on 2017.08.10
2017.11	10	300,000,000	3,000,000,000	208,780,192	2,087,801,920	Employee stock options	None	By Jing-Jia-Shou-Gao-Zi No. 10640012080 on 2017.11.10
2018.02	10	300,000,000	3,000,000,000	208,846,692	2,088,466,920	Employee stock options	None	By Jing-Jia-Shou-Gao-Zi No. 10740010230 on 2018.02.13
2018.03	10	300,000,000	3,000,000,000	209,119,692	2,091,196,920	Employee stock options	None	Amendment registration is not yet initiated

B. Type of shares

As of March 31, 2018; (In Shares)

Shares / Type	Authorized Capital			Remark
	Outstanding	Unissued Shares	Total	
Listed Common Shares	209,119,692	90,880,308	300,000,000	None.

C. Shelf Registration: None.

(2) Shareholder Composition

As of March 30, 2018 (In Shares; %)

Type / Quantities	Government Agencies	Financial Institutions	Other Juridical Persons	Nature Persons	Foreign Institutions and Nature Persons	Total
Number of Shareholders	3	14	195	28,355	138	28,705
Shares	1,862,440	6,592,692	30,824,954	115,603,349	54,236,257	209,119,692
%	0.89%	3.15%	14.74%	55.28%	25.94%	100.00%

(3) Shareholding Distribution

A. Common share:

As of March 30, 2018 (In Shares; %)

Shareholding			Number of Shareholders	Shares	%
1	~	999	15,068	833,348	0.40%
1,000	~	5,000	10,076	20,232,638	9.67%
5,001	~	10,000	1,745	12,901,401	6.17%
10,001	~	15,000	608	7,336,983	3.51%
15,001	~	20,000	305	5,540,049	2.65%
20,001	~	30,000	322	7,949,598	3.80%
30,001	~	50,000	225	8,942,836	4.28%
50,001	~	100,000	159	11,482,947	5.49%
100,001	~	200,000	71	9,764,018	4.67%
200,001	~	400,000	58	16,453,278	7.87%
400,001	~	600,000	25	12,389,584	5.92%
600,001	~	800,000	8	5,688,386	2.72%
800,001	~	1,000,000	10	8,879,780	4.25%
Over 1,000,001			25	80,724,846	38.60%
Total			28,705	209,119,692	100.00%

B. Preference share: None.

(4) Major Shareholders

The name, number of shares and shareholding percentage of shareholders with holdings equal to or exceed 5% or the top 10 shareholders:

As of March 30, 2018 (In Shares; %)

Shareholding / Major Shareholders	Shares	%
Qiao Mei Development Corporation	15,213,729	7.28%
BaoJie Funds in custody of Standard Chartered Bank	13,622,320	6.51%
Ching-Yi Chang	4,599,282	2.20%
Huasheng International Investment Corp.	4,596,945	2.20%
Taiwan Life Insurance Co., Ltd.	3,981,600	1.90%
Morgan Stanley & Co. International Limited in custody of HSBC Bank (Taiwan) Limited	3,708,715	1.77%
Norges Bank in custody of Citibank Taiwan	3,031,195	1.45%
Shun-Kai Lu	2,974,200	1.42%
LSV Emerging Markets Equity Fund LP in custody of Bank of Taiwan	2,931,480	1.40%
Vanguard Emerging Market Fund in custody of JPMorgan Chase Bank N.A. Taipei Branch	2,698,920	1.29%

(5) Market Price, Net Worth, Earnings and Dividends Per Share for 2016 and 2017

(In NT$)

Item	Year		2016	2017	01/01/2018 to 03/31/2018 (Note 5)
Market Price per Share	Highest		39.80	64.90	63.90
	Lowest		28.95	33.85	42.90
	Average		34.41	43.22	53.96
Net Worth per Share (Note 1)	Before Distribution		31.99	34.12	-
	After Distribution		30.01	Note 6	-
Earnings per Share	Weighted Average Shares (in thousands of shares)		206,007	206,938	-
	Earnings per Share (Note 3)		2.81	3.55	-
Dividends per Share	Cash Dividends		2.00	Note 6	
	Stock Dividends	Earnings	-	Note 6	-
		Capital Surplus	-	Note 6	-
	Accumulated Undistributed Dividend		-	-	-
Return on Investment	Price/Earnings Ratio (Note 2)		12.25	12.17	-
	Price/Dividend Ratio (Note 3)		17.21	Note 6	-
	Cash Dividend Yield (Note 4)		5.81%	Note 6	-

Note 1: The numbers are based on the number of shares outstanding at the end of year and the distribution plan approved by the following year's Shareholders' Meeting.
Note 2: Price/Earnings Ratio = Average Closing Price for the Year / Adjusted Earnings per Share
Note 3: Price/Dividend Ratio = Average Closing Price for the Year / Cash Dividends per Share
Note 4: Cash Dividend Yield = Cash Dividends per Share / Average Closing Price for the Year
Note 5: As of the date of this annual report, data is not yet reviewed by CPAs.
Note 6: As of March 31, 2018, earnings distribution for 2017 is pending for approvals from the Shareholders' Meeting.

(6) Dividend Policy and Its Execution Status

A. The dividend policy is stipulated in the Articles of Incorporation as follows:

Article 28 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 the directors shall not be higher than four percent of the balance.

The compensation can be made in the form of stock or cash based on the Board resolution. Parties eligible to receive the said compensation shall include employees in affiliated companies who met certain conditions set by the Board. The distribution plan of compensation to employees and remuneration to the directors shall be submitted to the shareholders' meeting.

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 the directors based on the above-mentioned ratios.

Article 28-1 Current year's earnings of the Company, 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 of the Company

(d) Special capital reserve appropriated or reversed as stipulated by relevant laws and regulations or competent securities authority

(e) For the remaining profits, if any, the Board of Directors shall draft a proposal for the distribution of bonus to shareholders and submit it to the shareholders' meeting for resolution

Article 29 After taking into account the environment and development stage of the Company, the needs of capital in the future, long-term financial planning and shareholders' demand for cash, the Board of Directors shall draw up an earnings distribution proposal according to the distributable earnings calculated pursuant to Article 28-1 and submit it to the shareholders' meeting for approval. At least forty percent of the distributable earnings calculated shall be appropriated as shareholders' dividends. The cash dividend shall not be lower than ten percent of the total dividends and shall be capped at one hundred percent.

B. Earnings distribution proposal (approved by the Board of Directors and pending for approvals from the Shareholders' Meeting)

The 2017 earnings distribution plan pending to be approved by the Board of Directors' meeting in April 2018 is as follows:

(a) Cash dividend: NT$522,799 thousand from 2017 earnings. Dividend per share is NT$2.5. The Board of Directors is authorized to set the record date after the proposal is approved by the Shareholders' Meeting.

C. Explanation on expected significant changes in dividend policy: None.

(7) Impact of Stock Dividends on Operation Performance and Earnings per Share: Not applicable.

(8) Compensation to Employees, Directors and Supervisors

A. The percentage or range of compensation to employees and remuneration to directors in the Articles of Incorporation is as follows:

Article 22 The Compensation Committee would evaluate the involvement of directors (including the independent directors) in the business operation of the Company and their contributions to the Company, and make recommendations to the Board concerning their remuneration. The Board of Directors has been delegated to determine the remuneration based on the recommendations from the Compensation Committee with reference to the remuneration standard of the industry.

Article 28 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 the directors shall not be higher than four percent of the balance.

The compensation can be made in the form of stock or cash based on the Board resolution. Parties eligible to receive the said compensation shall include employees in affiliated companies who met certain conditions set by the Board. The distribution plan of compensation to employees and remuneration to the directors shall be submitted to the shareholders' meeting.

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 the directors based on the above-mentioned ratios.

B. The estimation basis of compensation to employees and remuneration to directors, calculation basis for number of shares distributed as employee compensation and accounting treatments for difference between estimated and actual payment amount:

(a) Please refer to (8)A for the estimation basis of compensation to employees and remuneration to directors.

(b) The calculation basis for number of shares distributed as employee compensation: The Company did not distribute shares as employee compensation in 2017, thus, this is not applicable.

(c) Accounting treatments for difference between estimates and actual payment amount: Amount resolved to be distributed by the Board of Directors was recognized as operating expense in 2017. Difference between the estimated amount and the resolution of Shareholders' Meeting will be recognized in profit or loss of 2018.

C. Proposed compensation approved by the Board

With regard to compensation to employees and remuneration to directors, the proposed 2017 earnings distribution plan approved by the Board of Directors' meeting held on January 17, 2018 is as follows:

(a) The proposed compensation to employees of NT$74,579,425 (in cash) and remuneration to directors of NT$20,393,030 approved in the Board of Directors' meeting were of the same amount as the expenses recognized in 2017.

(b) Amount of stock distributed as employee compensation and as a percentage to net income of parent company only or individual financial statements and aggregate compensation to employees: Not applicable.

D. Actual payment of compensation to employees and remuneration to directors and supervisors in the previous fiscal year

(In NT$)

Item	Estimates	Amount Resolved at Shareholders' Meeting (2017.05.26)	Difference	Cause of Difference
Remuneration to Directors and Supervisors (in Cash)	16,184,849	16,184,849	0	None
Compensation to Employees (in Cash)	53,949,497	53,949,497	0	None

(9) Buyback of Common Shares:

March 31, 2018

Batch Number	First	Second	Third
Purpose	Shares transferred to employees	Shares transferred to employees	Shares transferred to employees
Period	2008/08/22~2008/09/18	2008/12/25~2009/02/03	2014/10/16~2014/12/15
Estimated Price Range	NT$25.00~40.00	NT$10.00~15.00	NT$30.00~60.00
Type and Number of Shares	569,000 common shares	758,000 common shares	2,318,000 common shares
Amount	NT$15,245,683	NT$9,276,788	NT$98,744,333
Number of Shares Cancelled and Transferred	569,000 common shares	758,000 common shares	2,318,000 common shares
Cumulative Number of Company Shares Held	0	0	0
Cumulative Number of Company Shares Held to Total Number of Shares Outstanding (%)	0.00%	0.00%	0.00%

2. Corporate Bonds: None.

3. Preferred Shares: None.

4. Global Depositary Shares: None.

5. Employee Stock Options:

(1) Employee Stock Options and Impacts on Shareholders' Equity:

As of March 31, 2018

Employee Stock Options Granted	Third Grant
Approval Date by The Authority	March 19, 2010
Issue Date	April 30, 2010
Number of Options Granted	2,355 units

Employee Stock Options Granted	Third Grant
Percentage of Shares Exercisable to Outstanding Common Shares	1.15%
Option Duration	8 years
Source of Option Shares	New Common Shares
Vesting Schedule and %	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%
Shares Exercised	1,626,000 shares
Value of Shares Exercised	NT$65,623,950
Shares Unexercised	0 units
Exercise Price Per Share of Shares Unexercised	NT$35.1
Percentage of Shares Unexercised to Outstanding Common Shares	0%
Effects on Shareholders' Equity	The optionee may exercise the options in accordance with certain schedules as prescribed by the option plan 2 years from the date of grant. Thus, there is no significant effect on shareholders' equity.

Note: Employee stock options include stock options by public offering and private placement. Employee stock options by public offering are ones approved to be effective by the FSC. Employee stock options by private placement refer to the ones passed in the Board meetings.

(2) Details of Employee Stock Option Granted to Management Team and Top 10 Employees:

A. Third Employee Stock Option

As of March 31, 2018

<table>
<tr><th rowspan="2">Title</th><th rowspan="2">Name</th><th rowspan="2">Number of Options Granted (In Thousands of Shares)</th><th rowspan="2">As a % to Outstanding Common Shares</th><th colspan="4">Exercised</th><th colspan="4">Unexercised</th></tr>
<tr><th>Shares Exercised (In Thousands of Shares)</th><th>Exercise Price Per Share</th><th>Value of Shares Exercised (In Thousands of NT$)</th><th>As a % to Outstanding Common Shares</th><th>Shares Unexercised (In Thousands of Shares)</th><th>Grant Price Per Share</th><th>Value of Shares Unexercised (In Thousands of NT$)</th><th>As a % to Outstanding Common Shares</th></tr>
<tr><td>President</td><td>Zhi-Ming Yen</td><td rowspan="10">570</td><td rowspan="10">0.27</td><td rowspan="10">570</td><td rowspan="10">35.10 ~ 45.30</td><td rowspan="10">41,486</td><td rowspan="10">0.27</td><td rowspan="10">0</td><td rowspan="10">-</td><td rowspan="10">0</td><td rowspan="10">0</td></tr>
<tr><td>Senior R&D Director</td><td>Fu-Le Lin</td></tr>
<tr><td>Project Vice President</td><td>Jiang-Zhi Zhao</td></tr>
<tr><td>Assistant Vice President</td><td>Chong-Chen Liu</td></tr>
<tr><td>Assistant Vice President</td><td>Fang-I Hsieh</td></tr>
<tr><td>Assistant Vice President</td><td>Guo-Xiong Xia</td></tr>
<tr><td>Assistant Vice President</td><td>Bing-Xun Zhang</td></tr>
<tr><td>Assistant Vice President</td><td>Jing-Wen Lu</td></tr>
<tr><td>Director</td><td>Guo-Liang Jiang</td></tr>
<tr><td>Director</td><td>Ren-Kai Huang</td></tr>
</table>

Note: The list includes top 10 employees.

6. Status of Employee Restricted Stock: None.

7. Status of New Share Issuance in Connection with Mergers and Acquisitions:
None.

8. Execution of Financing Plans:

(1) Plan details of previous issuance or private placement of securities not yet completed or completed in the past three years with benefits yet to be shown as of March 31, 2018: None.

(2) Implementation status of previous issuance or private placement of securities not yet completed or plans completed in the past three years with benefits yet to be shown as of March 31, 2018: None.

V. Operational Highlights

1. Business

(1) Business Scope

A. Major Products/Services

(a) CC01080 electronic parts and components manufacturing

(b) F119010 wholesale of electronic materials

(c) F219010 retail of electronic materials

(d) ZZ99999 other businesses which are not prohibited or restricted by the laws, in addition to business approved

B. Major Products as a Percentage to Revenue

(In Thousands of New Taiwan Dollars; %)

Main Products	2016		2017	
	Net Revenue	Ratio (%)	Net Revenue	Ratio (%)
Electronic Materials	6,454,826	62.77	7,318,181	65.38
PV Backsheets	3,645,521	35.45	3,710,493	33.15
Others	183,632	1.78	164,218	1.47
Total	10,283,979	100.00	11,192,892	100.00

C. Major Products/Services

The Company mainly engages in the researching, developing, manufacturing and selling of Flexible Copper Clad Laminate (FCCL), Coverlay (CL) and Backsheets of PV (PV).

D. Development of New Products

The Company will allocate more resources to product development and expedite the process of introducing new products to the market. By using the existing core technology, Taiflex would strengthen its capability in R&D through industry-academia collaboration and integration of resources in order to develop the following products:

(a) Electronic Materials:

The design of electronic materials moves in two directions. One is the quest for thin, light, high frequency, high speed and high thermal conductivity products, namely mobile and wearable devices. The other is the demand for high weatherability and stability which can be applied in healthcare, automobile and server markets. With polarized demands, forefront material designs shall also meet the needs of ultimate products. Taiflex develops thin, light, high frequency, high speed, high thermal conductivity and high stability copper clad laminates aiming to satisfy both mainstream trends.

(b) Energy Materials

The Company has long been engaged in developing green energy products. We develop high-reflectivity and high heat-dissipation PV backsheets with exclusively-licensed adhesive formula and quality materials capable of resisting exposure to the weather to enhance the efficiency and extend the lifespan of PV modules and further improve the cost effectiveness of solar power in hope to promote the development of green energy.

(2) Industry Overview

A. Industry Status and Development

(a) FPC industry

Flexible Print Circuit (FPC) refers to flexible copper clad laminates processed through photolithographic technology into a conductor for data transmission in electronic devices. FPC composes mainly of insulating materials, bonding adhesive and copper foil conductors. A cover layer (CL) is applied once the flexible circuit is completed to avoid oxidation of copper wires and to protect the circuit from heat and moisture.

Flexible Copper Clad Laminate (FCCL), the primary product of Taiflex, is composed of copper foil and PI resin. It is an essential raw material for FPC. FCCL is categorized into two groups: the traditional 3L-FCCL and 2L-FCCL. The latter has become the mainstream due to demands for thinner and lighter mobile devices.

FPC is more flexible, thinner and lighter. Those characteristics satisfy the needs of data transmission and telecommunication products to be compact. Thus, consumer electronics industry is the primary market for FPC and accounts for approximately 80% to 90% of its sales. A traditional mobile phone uses 3 to 6 FPCs mainly for connecting screen, camera module, keypads and memory card slot with the mainboard. A Notebook (NB) uses 5 to 6 FPCs to connect panels, Hinge, DVD player and NB Cam with the mainboard. It is apparent that FPC was traditionally used to connect external components with the mainboard. However, its application has now broadened to be an extension of the printed circuit board design following the trend for lighter and thinner electronic devices. A wider range of applications is expected under the continuous demand for lighter, thinner and multifunctional electronic devices in the future, e.g. smartphones with new features such as 3D facial recognition and wireless charging functions would stimulate the FPC demand. A smartphone uses 6 to 8 FPCs on average, a touch-screen device needs 1 to 2 more FPCs, and a tablet requires 8 to 12 FPCs. The growth in mobile devices would continue to drive the growth in FPC industry.

Applications of FCCL

The first wave of growth in FPC took place around year 2000 with booming development in NB and the second one was brought about by high-growth in the demand for mobile devices, such as smartphones and tablets, since 2008. The market is also driven by international corporations allocating significant resources into developing multifunctional compact mobile devices to meet consumer needs and to meet the rapid growth in emerging markets. In the past few years, the FPC industry outgrows the overall PCB industry. Looking into the future, the trend for lighter and thinner electronic devices and the continuous demand for products such as smartphones, tablets, and wearable devices, combine with the growth in emerging markets, such as China, India and Africa, will drive the growth in FPC industry.

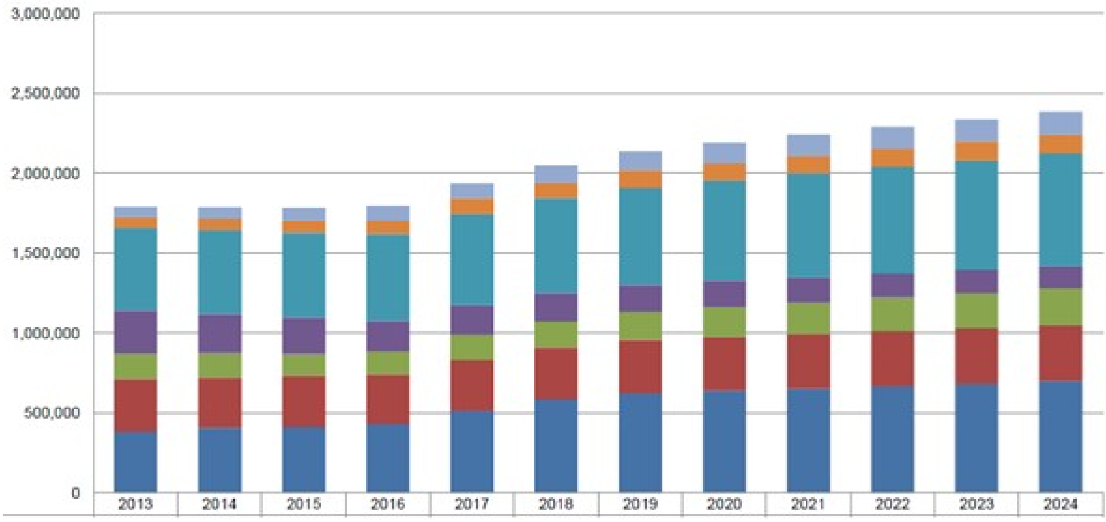
FPC is a highly concentrated industry. The main producers are located in Japan, Taiwan and Korea. The top 10 producers contribute to more than 70% of the global output and Japanese suppliers alone account for approximately 40%. Even though Japanese producers enjoy superior technology and larger scale, profits are limited by higher production costs. They are forced out of markets with lower technology barrier and profitability, such as single-sided circuit and some double-sided circuit markets. Instead, those orders are fulfilled by Taiwanese, Korean and Chinese suppliers. In Taiwan and Korea, the continual advancement in FPC technology creates fierce competition in the multi-layer circuit market. This drives Japanese producers to expand their capacity in Southeast Asia, mainly Thailand, in order to lower the production costs.

Japanese FPC suppliers (especially Fujikura) suffered massive damage at Thailand floods in 2011. Thus, they started to expand the production lines across Vietnam and Malaysia. Under Abenomics monetary policy, significant depreciation in Japanese yen boosts price competitiveness of Japanese suppliers. During the same period of time, Taiwan and Korean suppliers focus on advancing technology and increasing production scale and market share. Competitions between Japanese, Taiwanese and Korean FPC suppliers will intensify in the future.

Besides the boom in mobile devices in 2010, increasing penetration of smartphones and tablets PCs also boosts the FPC industry, which has enjoyed a double-digit growth rate in recent years. However, majority of future demands relies on emerging markets, new products and replacement as the market penetration of smartphones and tablets is already at a high level. JMS expects a continued increase in the annual compounded growth rate of FCP materials from 2013 to 2024. However, the growth rate will be less than 6%.

Market Size Forecast of FPC Materials

(In thousands of US dollars)



Source: JMS (2017)

(b) Solar Industry

The supply of crude oil increases significantly due to the development in shale oil extraction. Moreover, the middle-east countries refuse to cut down their production in fear of losing market shares. Thus, the price of crude oil continues to fall. However, oil generates only 40% of electricity. Even though the plummeting oil price helps to restrain the electricity price, it is not the sole factor.

In addition, the problem of global warming caused by the emission of carbon dioxide is not mitigated. Issues such as extreme weather and air pollution continue to deteriorate. The smog problem highlighted in the recent documentary in China, Under the Dome, reinforces the nations' determination to control air pollution. Since it is difficult to replace oil for transportation and industrial uses, using alternative energy to generate electricity becomes attractive. Therefore, the overall growth momentum of alternative energy is still promising. This is evident from the fact that alternative energy is always present in the blueprint of each nation's energy policy. Among the various sources, solar power is one of the key options and we expect it to demonstrate a positive growth rate in the future.

Photovoltaic Cell (or Solar Cell) is a semiconductor device which can be grouped by appearance into two types: wafer-based and thin-film. To further differentiate solar cells by manufacturing materials, wafer-based cells can be sub-divided into silicon-based, such as monocrystalline silicon and polycrystalline silicon; and III-V compound-based HCPV, such as GaAs. As for thin-film cells, they can be sub-divided into 3 major groups, i.e. silicon, chemical compounds and organic semiconductors.

Due to limited resources and distinct operation characteristics, most solar energy producers are inclined to concentrate in its own specialized fields, e.g. crystalline silicon as upstream raw materials, Ag/Al paste for midstream cells and EVA, PV backsheet and glass for PV module producers. Even though some system integrators adopt vertical integration, overall, solar industry can be divided into polycrystalline silicon and silicon wafer in the upstream, solar cells and modules in the midstream, and system suppliers in the downstream. The backsheets manufactured by the Company protect the back surface of PV modules. Its primary function is to keep moisture out and avoid damages from outdoor weather conditions.

In 2009, immense supply of polycrystalline silicon and massive capacity expansion across China led to an oversupply in PV industry and drastic decline in solar module prices. Moreover, the major market player, Europe, cut solar energy subsidies due to European Sovereign Debt Crisis, which further weakened market demands and consequently the module prices. From downstream upwards, lower prices placed enormous pressure upon the production cost of entire solar supply chain. Consequently, there was a shift in manufacturing locations towards low-cost regions, where Chinese producers dominates. At present, majority of the world’s top ten producers are in China.

The top runner program launched by the Chinese government encourages and awards the use of PV module systems with higher conversion efficiency and spurs significant growth in the demand for high-efficient mono modules. On top of that, China actively promotes distributed solar power plants to improve solar power efficiency and avoid the occurrence of abandoned solar energy and energy curtailment. It also urges companies in the relevant industry to move towards the same directions by adjusting its electricity subsidies. PV backsheets applications are developed in line with changes in end-user demands.

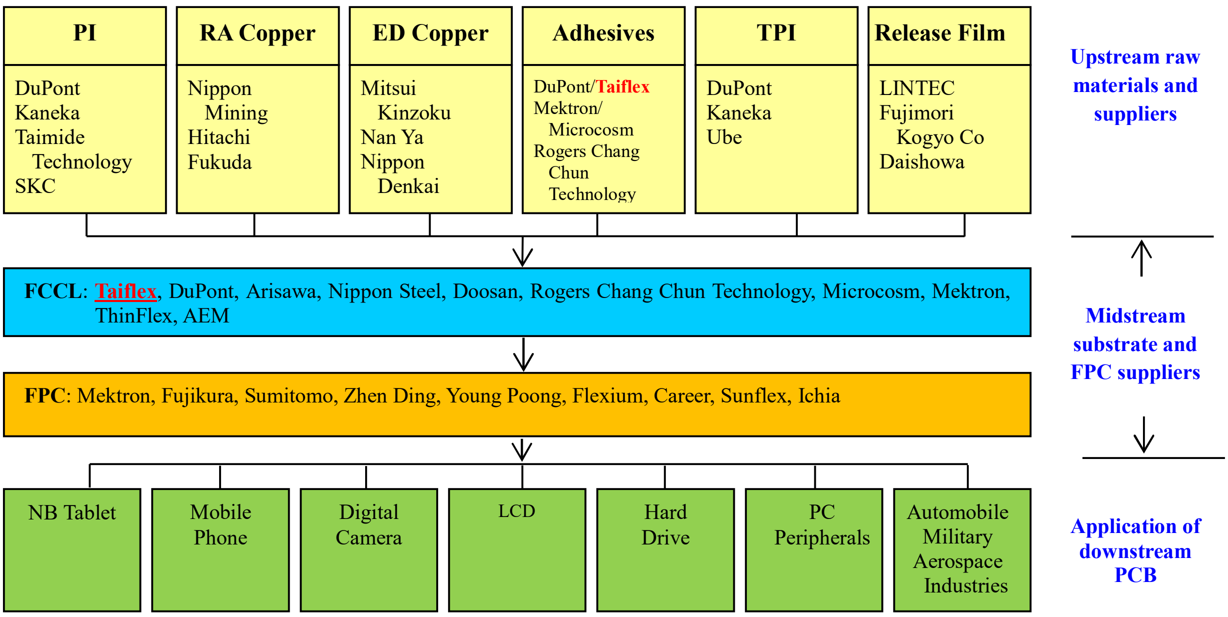
Looking forward, with increasing global warming and pollution from energy production, environmental awareness will continue to drive the development of alternative energy. Combined with expansion of production lines in raw materials and modules and development of new technologies, solar cell efficiency would continue to be enhanced. In contrast to high pollution or controversial ways of power generation, solar energy demonstrates cost-effectiveness with immense cost reduction. Even with the presence of extracting technologies for new energy (e.g. shale oil), solar energy remains irreplaceable given it virtually has no environmental impact. Thus, solar industry continues to show long-term momentum in growth.

B. Supply Chain

(a) FPC industry

Raw materials in the upstream of FPC industry include PI film, copper foil and adhesive. Midstream material, FCCL, is the primary product of the Company. Major producers include Taiflex, AEM, ThinFlex, DuPont, Microcosm, Rogers Chang Chun Technology, Mektron, NSC, Doosan, Toray, and Arisawa. Downstream suppliers are FPC producers, for instance, Mektron, Career, Ichia, Sunflex, Flexium and Zhen Ding, etc.

Supply Chain of FPC industry

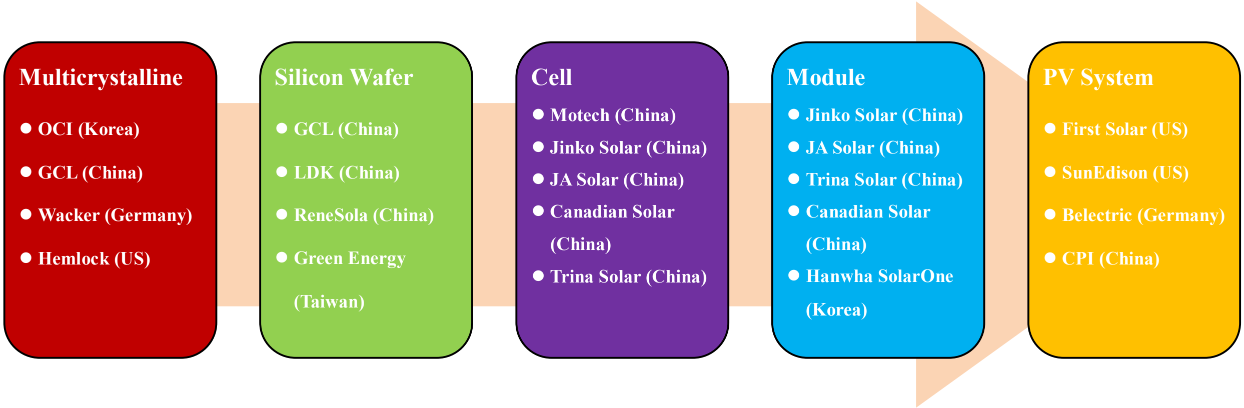


Source: ITIS, Company data

(b) Solar Industry

Backsheets produced by the Company comprise Tedlar, PET and adhesive. The major supplier of Tedlar is DuPont. The product has been applied to the PV backsheet for decades. It meets customers' demand for durability and stability (the ultimate customers of PV modules require 20 to 25 years of warranty), therefore, it is one of the key components in PV module backsheets.

PV backsheets produced by the Company belong to the midstream of solar industry and is one of the key components of both wafer-based and thin-film PV cells. Its main function is to provide protection against moisture to ensure the durability of modules. The existing major suppliers include Taiflex, Jolywood, Cybrid Technology, Crown Advanced Material, Lucky Film, Isovolta, SFC and Toyal.



Supply Chain of Solar Industry

Source: Company data

C. Macro-economy and Industry Development Trend

(a) FPC industry

CCL product and technology development are driven by downstream demands. Following the trend for compact, reliable and multifunctional electronic products, the needs for high frequency, high speed and anti-electromagnetic interference products are increasing, which brought along development of related products by the FCCL industry.

The use of electronic materials stresses on reducing pollution given the rising awareness in maintaining a green environment. Thus, suppliers intensify their efforts in the research and development of eco-friendly materials. Under European Union RoHS regulations, electronic industry converts to the use of halogen-free materials, which initiates an evolution in materials adopted by CCL industry. At present, smartphone manufacturers gradually utilize eco-friendly substrates. With increasing discussion over environmental issues, eco-friendly materials will become the basic requirement of products.

Among the various demands, the quest for compact devices remains unchanged. Thus, 2L-FCCL, with its advantage of being thinner, officially replaces 3L-FCCL to become the mainstream specification in the market. Its penetration rate continues to rise and drives the major FPC producers to aggressively expand their production capacity. Thus, 2L-FCCL-related materials and technology development will be the main themes for research and development.

(b) Solar industry

The focus in the development of solar products and technology has always been the improvement of conversion efficiency. Higher efficiency means replacing conventional energy with solar energy becomes more feasible and a greater rate of return. The two main methods for enhancing the efficiency rate are as follows:

(i) Improving production process to enhance conversion efficiency, and

(ii) Improving packaging process to reduce energy loss

The latest back-contact module technology belongs to the latter. To conform to the improvements of packaging process, various aspects, such as product structure and materials, shall be studied to reduce the energy loss of modules.

Another key element in the development of PV technology is government regulations. PV system specifications shall conform to government regulations to ensure the system's safety and eligibility for government subsidies. Recently, the residential rooftop PV system develops rapidly. To ensure safety in residence, the flammability requirements would be stricter. Consequently, PV backsheet shall enhance its flame-retardant feature. Without compromising the weatherability and stability of the product, material and adhesive shall also be improved.

With needs for higher conversion efficiency and regulatory compliance, PV backsheet suppliers shall strengthen their research and development on materials and adhesive and continue to improve product structure in order to provide safer and more efficient PV products comparing to the conventional power sources.

D. Product Competition

(a) Electronic materials

The global supply of FCCL is dominated by Japan, Taiwan and Korea. The main competitors include Nippon Steel and Arisawa at Japan, Doosan at Korea and ThinFlex and AEM at Taiwan. At present, suppliers in China are relatively insignificant due to small economy of scale. However, as CCL suppliers, such as ITEQ and Shengyi Technology, aggressively participate in the production of FCCL, the competitions turn fierce. Since those emerging competitors enter the market at a later time, their sources of key materials are not as steady as existing players. Their impacts would be minimal in the short-term.

In addition, in recent years, numerous system integrators shift their production lines to China. China PCB industry achieved tremendous growth as FPC companies also moved to China to stay close to customers. Taiflex has established complete production line and a well-structured distribution channel to meet customers' demands. In whole, Taiflex is in the leading position regarding capacity, revenue, customer portfolio and profitability and remains highly competitive in the FPC industry.

(b) PV backsheets

The Company's major PV backsheet competitors include Jolywood, Cybrid, Crown Advanced Material, Lucky Film, Isovolta, SFC and Toyal. Competitors in Europe and U.S.fail to compete with the Company in delivery schedule, service and prices for Asian customers, and China in particular. As a result, Chinese suppliers, such as Jolywood and Cybrid, expand rapidly and local PV backsheet providers have now become market leaders.

The Company maintains its advantageous position by understading the needs of key customers, differentiating itself from competitors via capacity and services and forging strong strategic alliances with major customers. In addition, the Company enjoys competitive advantages from diversified products. The human resources, machinery and equipment for solar products can also be used for FPC products and create more advantages from consolidation of production cost and flexibility. Consequently, Taiflex is at a dominant position in the PV backsheet competition.

(3) Technology and Research and Development

A. Technology and R&D

The Company's R&D division was established when Taiflex was founded in August, 1997. In the early stage, the division focused on the research and development of Polymer film (Coverlay) and copper clad laminate. In 1999, Taiflex signed the "Adhesiveless FPC Material Technology Transfer Agreement" and collaborated on the development of substrate packaging materials with ITRI. In 2000, Arisawa MFG Co., Ltd. transferred FCCL and coverlay process inspection technology to the Company. Those technologies are the foundation of Taiflex's development. In addition to the existing FPC and Solar products, the Company actively researches and develops new products to expand the business scope. Besides independent research and development, the Company improves technical capability by cooperating with other players in the industry; for example, it works with DuPont to develop PV module products and cooperates with ITRI and domestic universities in research and integration. Those efforts transform the Company into a world-class high-precision coating specialist.

B. Education Level of Research and Development Personnel

(In number of people)

Year / Education	2015	2016	2017
Ph.D. and Master's Degree	51	43	41
Bachelor's Degree/College	25	20	25
Senior High School	0	0	2
Total	76	63	68

C. Research and Development Expenses from 2013 to 2017

(In Thousands of New Taiwan Dollars)

Year	2013	2014	2015	2016	2017
R&D Expenses	158,711	189,228	218,559	217,559	257,468
Net Revenue	10,138,227	10,127,720	10,267,868	10,283,979	11,192,892
Percentage of Revenue (%)	1.57	1.87	2.13	2.12	2.30

Source: Audited financial statements from 2013 to 2017

D. Technology or Product Developed from 2013 to 2017

Year	Item	Result
2013	Heat curing type solder resist ink	High flexural endurance and low-k
	Photoimageable (PI) solder resist ink	Thickness of 50um. Enhance flexuosity of solder resist ink. Thermal resistant for 300℃
	Development of thin copper product	Thickness of 9um and 6um
	Development of thick copper product	Thickness of 70um
	Second-generation white CVL	Enhanced uniform Illumination of LED
2014	Research and development of high frequency materials	Introduction of high-frequency CL and bonding sheet (Dk<2.9) to pilot production
	Research and development of PIC products	Thickness of 50um. Enhance flexuosity of solder resist ink. Thermal resistant for 300℃
	Novel type of thermal conductive backsheets	The average temperature of modules reduces by 2.5℃
	Research of thermal management composite material	Thermal conductive Bond ply Thermal transmittance: >1w/m-K
	Research of fused laminate composite material	Developed FFC for high speed transmission Dk:2.3 Df:0.003 @10GHz

Year	Item	Result
2015	Research and development of high frequency materials	Low Dk product (Dk:2.7, Df:0.004)
	Research and development of transparent materials	UL94V0
	Research of fused laminate composite material	Developed FFC for high speed transmission Dk:2.3 Df:0.003 @10GHz
	Research and development of EMI materials	EMI SE>40dB (KEC 1000MHz)
	Low gloss white CVL	Gloss(60o) ≦ 30 GU, Reflectance>85%(550nm)
	Research and development of high dimensional stability materials	+- 0.04%
2016	Research and development of high frequency materials	Low Dk product (Dk:2.7, Df:0.004)
	Research and development of transparent materials	UL94V0
	Research of fused laminate composite material	Developed FFC for high speed transmission Dk:2.3 Df:0.003 @10GHz
	Development of PIF material	Solder (288°C,30s), Flame Retardants-UL94 (Lab. Test)
	Development of asymmetric copper clad laminate	For wireless charging
	Development of laminated single-sided FPC	PI thickness of 12.5um to 50um
	Development of pre-laminated double-sided FPC	Combine two single-sided FPC by pre-lamination and separate those two after FPC is made to enhance the production capacity of FPC customers
	Development of Anti-migration Adhesive	Develop adhesive for protective film which can withstand 85℃/85%RH/100V/1000hr
	Development of quality anti-scratch white protective film	Develop formula for anti-scratch white protective film to reduce damages to the film surface caused by external force during the FPC manufacturing process
2017	Development of ultra-thin white one-layer CVL	Thinner product (overall thickness ≤ 25um). Reflectivity > 85% (550nm)
	Development of PI Base bonding sheet (for laser drilling)	Bonding sheet for multilayer laser drilling. The shrinkage after drilling is ≤ 5um
	Development of 2-layer single/double-sided FPC for fine circuits	Coat self-made TPI on PI films for single and double-side pressing. Copper thickness can range from 1.5um (fine-circuits) ~ 2Oz. PI thickness ranges from 1 mil. ~ 5 mil. Excellent dimensional stability.
	Research and development of high frequency materials, polyimide	Low Df product (Dk: 3.2, Df: 0.004). Can be used in 5G antenna board. The testing done by customers demonstrates an equivalent quality to Dupont TA type high-frequency FPC.
	Development of high-frequency FFC materials	Developed FFC for high-speed transmission (LCP Type) Dk: 2.7 Df: 0.0018 @10GHz. Can be used in high-speed transmission cables, e.g. 8k, Intel Thunderbolt 3.0 and high-end Server Cable. PET Type is in small production.

(4) Business Development Plan

A. Long-term Business Development Plan

(a) Marketing strategy

(i) Establish regional marketing offices and logistic centers to enhance the competitiveness

(ii) Identify niche markets, diversify product profile to diminish the impacts of business cycle on operation

(iii) Segment target markets precisely and establish appropriate strategies to increase market share

(iv) Form strategic alliances, maintain long-term supply chain relationships and pursue sustained cooperative development.

(b) Production strategy

(i) Establish domestic and overseas production sites to stay close to customers and set up global logistic centers to lower logistic costs

(ii) Identify specific function for each equipment to enhance production efficiency, yield and outputs

(iii) Simplify manufacturing process and identify cost elements to improve production efficiency and reduce unnecessary waste

(c) Product development strategy

(i) Introduce advance materials and technology through cooperation with international companies to develop cutting edge products

(ii) Strengthen industry-academia collaboration to found the basis for material and technology

(iii) Purchase from domestic vendors in compliance with government policies

(iv) Expedite the development and launches of new products through supply chain integration

(d) Scale of operation and financing

Through diversification and internationalization, Taiflex expands its markets to increase operation scale. The Company also utilizes various financial instruments and international fund-raising tools to supplement operating capital, lower finance costs and build global presence to achieve business goals and sustainability.

B. Short-term Business Development Plan

(a) Marketing strategy

(i) Increase the market share in the Greater China Region and Southeast Asia, support the product designs of the market and customers, strengthen customer services, establish good relationships with customers and build customer trust to achieve higher customer satisfaction

(ii) Understand customers' product design and the use of major materials and convey the information to R&D, production and quality assurance divisions to increase customer loyalty

(iii) Develop overseas markets and customers proactively and cooperate with more overseas agents to boost export sales and overall revenues

(iv) Attend overseas seminars, trade shows and product launches to enhance company's presence and identify potential customers

(v) Establish and develop product application database for product promotion

(b) Production strategy

(i) Enhance production flexibility to cope with temporary volatility in orders

(ii) Improve supply-chain management to shorten the delivery of raw material, decrease lead time, expedite product delivery and improve accuracy to enhance customer satisfaction and lower inventory costs

(iii) Identify the optimal cost-efficient material suppliers, taking into accounts the price, service and capability factors, to obtain the lowest costs possible and minimize the overall cost through strategic alliance in supply chain

(c) Product development strategy

(i) Improve the quality of existing products and expand product applications

(ii) Improve manufacturing process and yield, lower product costs and enhance product competitiveness

(d) Operation and financial strategy

Structure ideal fund-raising channels using various financing tools to supplement short-term operating capital and lower the cost of short-term financing. Implement control systems to enhance company identity and attract talented personnel to strengthen management performance and corporate health.

2. Market and Sales Overview

(1) Market Analysis

A. Sales Distribution by Region

(In Thousands of New Taiwan Dollars; %)

Region \ Year	2016		2017	
	Amount	Ratio (%)	Amount	Ratio (%)
Taiwan	1,526,724	14.85	2,014,537	18.00
China	8,318,051	80.88	8,764,543	78.30
Others	439,204	4.27	413,812	3.70
Total	10,283,979	100.00	11,192,892	100.00

B. Market Share

(a) FCCL and CL: According to JMS market survey, the market share of Taiflex was around 10% to 15% in 2017.

(b) PV backsheet: According to IHS report, the market share of Taiflex was around 5% to 8% in 2017.

C. Future Supply and Demand and Market Growth

(a) FPC Industry

FCCL and CL produced by the Company are the primary upstream raw materials in FPC industry. The main applications of FPC include portable electronic devices, PC/NBs, panels and digital cameras. Fuji Chimera estimates a global FPC market of 1.33 trillion Yen in 2013 and 1.55 trillion Yen by 2018, a compound annual growth rate of 3.8%. The major drivers include smartphones, tablets, and emerging applications in automobile industry, Internet of Things and wearable devices.

Smartphone and tablet industries are summarized as follows:

(i) Smartphones

Ever since Apple launches iPhone which creates a wave of demand for smartphone, the smartphone industry has flourished. However, the high smartphone penetration at mature markets in U.S. and western Europe and the close-to-saturation China market drive the growth rate down to a single digit for the first time in 2015. The future growth is expected to slow down.

TrendForce, a worldwide market research company, reports global mobile phone shipment of 1.46 billion units in 2017, an annual growth rate of 6.5%. Emerging markets, such as China, Southeast Asia, India and Latin America, are the key drivers. The focus of smartphone has expanded from the existing markets to the emerging ones, where every smartphone maker exploits aggressively to maintain growth momentum. On top of that, the spec of each model continue to improve in order to enhance competitiveness. As those factors put pressure on profitability, cost competitiveness would be vital in the foreseeable future.

Compared to traditional mobile phone, smartphone requires more FPCs as it provides multi-functions. The addition of various external components, including touch panel, side keys, and antennas, are connected to the mainboard through FPC, leading to the surge in demand. Moreover, FPC gradually becomes the base material for circuit design following the trend for thinner and lighter mobile phone. In general, a traditional mobile phone uses 3 to 6 FPCs whereas a smartphone could use 6 to 8 FPCs. As functions increase, some models might consume 20 FPCs. The continuous growth in smartphone shall warrant a similar growth for FPC industry.

■ Production Volume and Market Share of Top 6 Smartphone Brands in 2017 and 2018

Rankings	2017 Company	Market Share	2018(F) Company	Market Share
1	SAMSUNG	21.9%	SAMSUNG	20.3%
2	APPLE	15.2%	APPLE	15.7%
3	HUAWEI	10.8%	HUAWEI	11.6%
4	OPPO	7.6%	XIAOMI	7.1%
5	VIVO	6.6%	OPPO	7.0%
6	XIAOMI	6.4%	VIVOI	6.1%
	Others	31.6%	Others	32.2%
Total Global Production Volume (Unit: M)	1,457.5		1,498.3	

Source: TrendForce, 2018/Feb.

(ii) Tablet

Other than the robust growth due to smartphone, tablet consumes the most FPC within the consumer electronic devices in recent years. For desktops, FPC is primarily used for components, such as LCDs and hard drive heads, which consume relatively small quantity. The main growth of FPC comes from NB application, which utilizes 5 to 8 FPCs per set (excluding the screen).

TrendForce statistics show global Tablet shipment of 148.9 million sets in 2017, an annual decline rate of 5.4%, and the 2018 shipment is estimated to be 149.3 million sets, representing a slight increase of 0.3% year-over-year. Tablet shipment gradually increase in recent years due to the growth in IoT spending and education.

■ Shipment Estimates of Top 5 Tablet Brands in 2017 and 2018

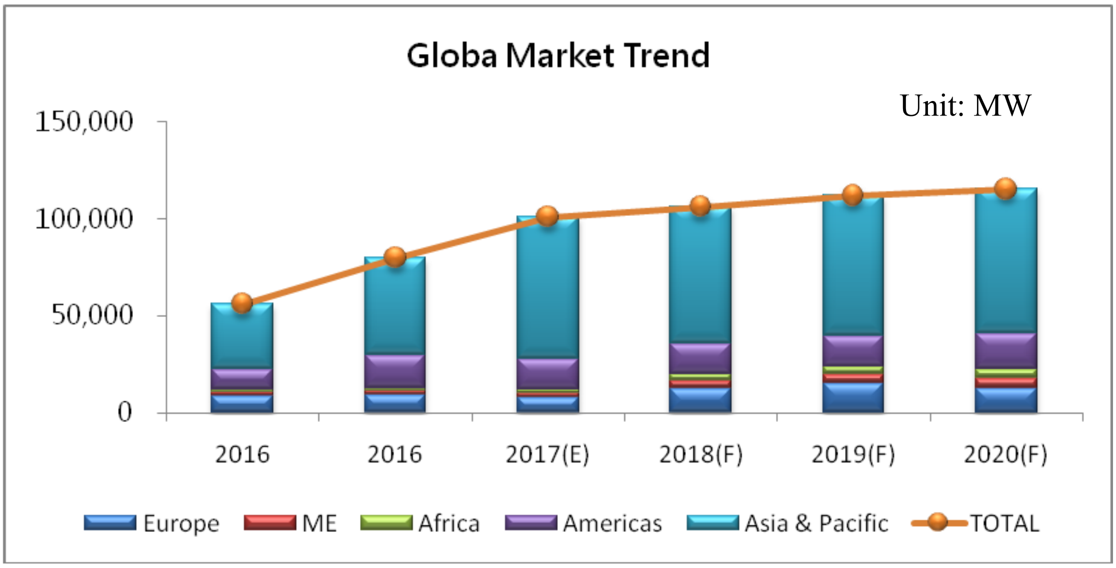
Brand	2017(E)	2018(F)	YoY
APPLE	42.2	42.0	-0.6%
SAMSUNG	24.2	24.0	-0.8%
AMAZON	12.7	13.5	6.7%
HUAWEI	10.4	12.5	20.2%
LENOVO	9.5	9.0	-5.3%
Others	49.9	48.3	-3.1%
Shipment Volume (Unit:M)	148.9	149.3	0.3%

Source: TrendForce, 2017/Nov.

(b) Solar Industry

PV backsheet produced by the Company is used in the midstream of solar industry supply chain. It is one of the key components in PV module. End-users include large-scale solar power stations or small power generators (e.g. rooftop application).

In 2014, the solar industry continued to be influenced by the anti-dumping and countervailing investigations of Europe and US. Chinese government invested enormous resources to subsidize solar industry in hope to support domestic solar industry and curb haze resulting from air pollution. As a result, China became the largest PV market in the world. Chinese officials have set a definite target to reduce the CO2 emissions per unit of GDP by 2020 compared to the 2005 level. To combat exhaust gas, China National Energy Administration specified the installation standards for solar and wind power devices in 2014 and proposed detailed allocation plans in 2015. The government plans to install 100GW and 200GW of solar and wind power, respectively, by 2020. 2017 is expected to be the first year where the global solar market surpasses 100GW. The main growth drive is the robust development in China. From 2018 to 2020, the European market recovery will be the major force for global market expansion. Other major markets, such as U.S. and India, also released various subsidy policies. Those factors continue to drive the growth of solar industry. With increasing demands and continuous restructuring of the solar industry, long-term growth momentum is expected.



Source: Energy Trend (2017/Q4); Company data

D. Competitive Advantage

(a) Widespread and stable source of orders to diversify operational risk

Taiflex is a material supplier specializing in FCCL and PV backsheet. Diversified product lines bring large group of customers, including world-renowned corporations. Well-planned diversification protects the Company from concentration risk and improves operation stability.

(b) Proximity to the market to expedite services

The Company has established comprehensive production lines and well-structured distribution channels in the Greater China Region, the largest production and consumer market in the world. Geographical advantages allow the Company to respond to customers promptly and offer highly flexible supply capability and reasonable prices. It also helps customers to cut down costs which in turn facilitates our long-term strategic cooperation with major customers.

(c) Stable supply of raw materials

Some of the key components for FCCL and PV backsheet are highly oligopolized; therefore, supply chain management and stable supply of raw materials are vital elements in the industry competition. As one of the industry leaders, Taiflex has competitive advantages in purchasing volume and customer portfolio and forms long-term strategic alliances with key raw material suppliers on this basis. Consequently, the Company enjoys greater advantages in obtaining key materials.

(d) Strong research and development capabilities

As a professional supplier of electronic materials, the Company's research and development capabilities are acknowledged by international corporations. Fine adhesives are developed according to customer requirements using the core technology of chemical synthesis. Moreover, long-term relationships with key raw material suppliers facilitate collaborations to satisfy customers' needs for new technology and materials. The Company's research and development team receives positive reviews among peers.

(e) Leading automatic high-precision coating technology

In addition to chemical synthesis technology, Taiflex possesses high-precision coating and pressing technology. The complete range of products can be mass produced using the auto high-precision coating machines. Fine technology in coating and pressing ensures products are of excellent quality and have a wide range of application; for instance, they can be used in FPC, PV backsheet, semiconductor and optical industries. The Company can diversify risks and enhance competitiveness.

(f) Bright future for the industry

Communication devices, tablets and NBs, with their advantages in size, portability and multi-functionality and the development of peripheral devices and software, gradually replace desktops to become the mainstream in PC industry. This factor combines with robust development in communication industry stimulate growth in the related supply chains. FPC is one of the industries that benefits from the progress.

As for the solar market, it has maintained high growth rate in the past decade. Even though the market plunged in recent years due to global financial crisis, with the increasing awareness of anti-nuclear and environmental protection, governments continue to support the solar energy. The industry now shows signs of recovery and potential for long-term growth.

E. Favorable and unfavorable factors for long-term development

(a) Favorable factors:

(i) New innovative applications for FPC guarantee growth momentum

FPCs are traditionally used in NB to connect panels to the mainboard and in CD/DVD-ROMs. However, the demand for thinner and lighter mobile devices in communication and computer markets leads to a surge in smartphones and tablets sales. As smartphones are driven to provide multi-functions, various external components, including touch panels, side keys, and antennas, are added and the number of FPCs used are several times greater than ones consumed by conventional mobile phones. In addition to smartphones and tablets which still demonstrate strong growth potential in the next few years, flat-panel TVs and new mobile devices also use a large quantity of FPCs with the launch of new models. Thus, FPC, along with FCCL, continue to show sustainable growth.

(ii) Good relationships with suppliers

As one of the leading FCCL suppliers, purchasing volume and liquidity of the Company are superior to others. Taiflex also forms strategic alliance with suppliers of key materials to ensure stable supply, which is another competitive advantage over peers. As for the key component of PV backsheet, Tedlar, Taiflex is one of the few companies with sources of supply. The strong strategic alliance provides Taiflex with supports from key suppliers as the industry continues to grow and a competitive edge.

(iii) With governments' continuous support on the development of alternative energy and gradual stabilization in the solar industry, profit margins of large-scaled PV companies are increasing

As prices continue to fall in the solar industry because of aggressive capacity expansion by Chinese competitors and European Sovereign Debt Crisis, the ranking of players is reshuffled. Majority of top 10 players are located in China where the cost of production is low. The industry is moving towards being dominated by large-scale companies.

After adjustments in the past few years, PV industry begins to show signs of positive growth and profitability of international module plants starts to improve. In addition, nations in the Paris climate summit demonstrate their determination in supporting the development of alternative energy. Thus, the overall PV market continues to have a bright future.

As the major supplier of PV backsheet in the Greater China Region with production lines in China, Taiflex possesses advantages in manufacturing costs, delivery time and service quality and becomes one of the key suppliers to Chinese solar companies. With unparalleled advantages in economy of scale and robust market growth, China will be a vital PV market and Chinese solar companies are expected to dominate the industry. Taiflex intends to grow with customers and maintains the competitive edge.

(b) Unfavorable factors:

(i) Key raw materials are concentrated on few vendors

As some of the key materials for FCCL and PV backsheet (primary products of the Company) have high technology barriers to entry, qualified suppliers are mostly international corporations in Japan and US. Key materials for FCCL include Polyimide (PI) from DuPont and Taimide Technology, rolled annealed Copper foil (RA Copper) from Nippon Mining in Taiwan, and electrodeposited copper foil (ED copper) from Mitsui Kinzoku. Tedlar, the key material for PV backsheet, is primarily provided by DuPont. The said purchase policy is determined based on stability of products and customer requests. The supply of key raw materials is concentrated on a few international corporations.

<u>Countermeasures:</u>

① To maintain good relationship with other vendors as a secondary source of supply to ensure competitive prices and sufficient supply

② To build a sound feedback mechanism. Opinions from customers of the Company would be summarized and communicated to suppliers to facility relevant testing, improve product quality and strengthen the relationships.

(ii) Rapid price erosion

With fierce competitions in the consumer electronics and solar industries, gross profit is eroded and customers continuously ask for price cuts. Those factors combine with price competitions from peers result in enormous pressure to lower the prices.

<u>Countermeasures:</u>

① To expand market share with superior quality and solid relationship with customers to enhance equipment efficiency and product yield, and effectively lower the product cost.

② To improve bargaining power with large volume purchases to lower material costs

③ To forge strategic alliance with international corporations to secure orders and strengthen technology.

(2) Main applications and production procedures for key products

A. Main application for key products

Key products of the Company include Coverlay, FCCL and PV backsheet. Their main applications are as follows:

- Coverlay: Protect FPC against oxidation
- FCCL: Connect external components to the mainboard and extend circuit wirings. Widely used in electronic products, including NB, mobile phone, hard drive, CD/DVD-ROM, calculator, V8 camera, stereo, DVD player, Optoelectronic Display, IC substrate and LCD
- PV backsheet: Seal the back surfaces of PV modules against air and water, and protect those modules against damages from outdoor weather

B. Production procedures

Product				
Process Flow	Coverlay	3L-FCCL	2L-FCCL	PV Backsheet
	Adhesive mixing	Adhesive mixing	Mixing	Mixing
	Filtering	Filtering	Coating	Coating
	Coating	Coating	Curing	Curing
	Drying	Drying	Thermal Imidization	Slitting
	Laminating	Laminating	Slitting	Packaging
	Rolling	Rolling	Packaging	Warehousing
	Slitting	Re-rolling	Warehousing	-
	Packaging	Setting	-	-
	Warehousing	Slitting	-	-
	-	Packaging	-	-
	-	Warehousing	-	-

(3) Supply of key raw materials

Raw Material	Main Source	Supply
PI Film	Japan, U.S., Taiwan	Good
Copper foil	Japan	Good
PET Film	Taiwan, China	Good
Release film	Japan	Good
Tedlar	U.S.	Good

Given the advanced technologies and economy of scale possessed by Japanese and U.S. suppliers, they provide majority of upstream materials. To maintain product stability and meet customers' requests, the Company purchases materials from a small number of major material suppliers abroad. However, the Company also maintains strong relationship with other vendors of the same products to ensure price competitiveness and sufficient supply of materials to diminish the risk of purchase concentration. In whole, Taiflex maintains solid relationships with raw material suppliers. There has been no shortage or interruption of supply and the quality and delivery schedule have been normal.

(4) Suppliers/Customers account for 10% or more of the Company's total purchase/ revenue in 2016 and 2017:

A. Key suppliers in 2016 and 2017

(In Thousands of New Taiwan Dollars)

	2016				2017			
Item	Name	Amount	Percentage to Annual Net Purchase (%)	Relationship with the Company	Name	Amount	Percentage to Annual Net Purchase (%)	Relationship with the Company
1	Supplier A	2,026,698	26.75	None	Supplier A	2,131,576	26.69	None
2	Supplier B	967,973	12.77	None	Supplier B	1,202,572	15.06	None
3	Others	4,582,613	60.48	None	Others	4,652,813	58.25	None
	Net Purchase	7,577,284	100.00		Net Purchase	7,986,961	100.00	

Note: Net purchase includes processing fee.

Variance Analysis:

The Company's suppliers of key raw materials are long-term business partners with a steady supply of quality products. Other than small changes due to requests from customers, there is no significant change in supplier ranking.

B. Key customers in 2016 and 2017

In 2016 and 2017, no customer accounts for 10% or more of the Company and its subsidiaries' total revenue.

(5) Production in 2016 and 2017

(In Thousands of New Taiwan Dollars; Thousands of M^2)

Year	2016			2017		
Product / Production	Capacity (Note 1)	Output	Amount	Capacity (Note 1)	Output	Amount
Electronic Materials	-	36,993	5,855,227	-	41,611	6,022,442
PV Backsheet	-	24,253	3,188,240	-	29,980	3,499,148
Others	-	3,707	158,167	-	3,884	121,079
Total	80,431	64,953	9,201,634	80,431	75,475	9,642,669

Note 1: The same machinery and equipment can be used for different products; therefore, capacity is calculated on an aggregate basis.

Note 2: Capacity refers to production quantity generated by existing machinery and equipment under normal operation after incorporating factors such as necessary shutdown and holidays.

(6) Shipments and Sales in 2016 and 2017

(In Thousands of New Taiwan Dollars; Thousands of M^2)

Year	2016				2017			
Shipment/ Sales Product	Domestic		Overseas		Domestic		Overseas	
	Shipment	Sales	Shipment	Sales	Shipment	Sales	Shipment	Sales
Electronic Materials	12,382	1,397,064	17,448	5,057,985	18,698	1,928,076	18,732	5,390,105
PV Backsheet	684	64,414	24,027	3,581,115	483	39,408	28,604	3,671,084
Others	1,264	67,574	2,556	115,827	930	38,752	3,021	125,467
Total	14,330	1,529,052	44,031	8,754,927	20,110	2,006,236	50,356	9,186,656

3. Human Resources in the past two years and as of the Date of this Annual Report

(No. of people; %)

Item / Year		2016	2017	As of March 31, 2018
No. of Employees	Direct	527	607	609
	Indirect	595	619	615
	Total	1,122	1,226	1,224
Average Age		34.31	35.66	36.96
Average Year of Service		4.69	4.56	4.62
Education	Ph.D.	1.07	0.90	0.90
	Master’s Degree	12.85	11.91	11.93
	Bachelor’s Degree	54.51	53.35	52.86
	Senior High School	30.06	32.38	33.00
	Below Senior High School	1.51	1.46	1.31

Note: Number of employees is calculated based on personnel at work.

4. Expenditure Related to Environmental Protection

(1) In the past two years and as of the date of this annual report, the aggregate amount of loss (including indemnity) and punishment as a result of pollution: None.

(2) Action plans (including improvement measures) and expected spending: None.

5. Industrial Relations

(1) Employees' welfare, education, training and pension, employee relations and protection of employees' rights:

A. Employee Welfare

(a) Medical treatment and insurance coverage:

(i) Group and life insurances: Based on the nature of their work, employees are entitled to life insurance, total and permanent disability insurance, critical illness insurance, occupational injury insurance, accidental injury insurance, cancer insurance, etc. Premiums are paid by the Company. Employees' family dependents can participate in the insurance scheme at a discounted rate.

(ii) Periodic health check-up:

① New employee: New employees are entitled to physical examination

② Employees: Comprehensive health check-ups for all employees and specific ones for personnel engaging in special operations are conducted annually

(b) Profit sharing:

Employee bonus and stock options are distributed in accordance with laws and regulations, Articles of Incorporation and relevant Procedures.

(c) Cash gifts:

Cash gifts for important festivals, birthday, wedding and new babies, subsidies for hospitalization and education of employees' children

(d) Activities:

Welfare committee would organize activities such as trips, family day, year-end party, free movies, various ball games and fun contests, etc.

(e) Facilities:

Cafeterias, coffee machines, dormitory, parking lots, reading area, nursery room, fridges reserved for nursing mothers, sports field, official vehicles, electric vehicles, bicycles, exercise equipment, blind massage sessions, shower rooms, etc.

(f) Clubs:

Clubs of charity, bicycle, running, softball, basketball, hiking, badminton, shrimp fishing, etc.

(g) Employee of the year:

3-day official leave, exclusive business card and parking space, travel fund, lunch with the President in a 5-star restaurant

B. Employee education and training

(a) Training sessions:

(i) For long-term development of the Company and enhancement of employee quality, the budget for education and training is set to be 3% of overall salary in the previous year. The amount is divided into the following categories:

① Internal training: to have qualified consulting firms or professional lecturers to hold various sessions in the Company

② External training: employees would attend sessions held at training institutions based on specific job requirement.

③ License: hours of training on professional qualification requested by competent authorities

④ Language: subsidies to employees learning languages due to personal interest or job requirement

(ii) Work environment and safety training for employees:

① New recruits: We provide safety and health trainings, such as general knowledge on safety and health, special safety and health training, firefighting drill and chemical disaster response procedures, to new recruits

② Employees: Based on actual job requirements, the Company provides trainings on safety and health and certification to enhance employees' knowledge and capabilities in emergency situations.

③ Contractor: Besides submitting relevant application documents, contractors shall be informed of safety precautions and preventive measures before commencement of work and contractor management system shall be implemented to ensure the safety of contractors and employees.

(b) The Company arranges training sessions based on job and professional requirements, aiming to enhance employees' knowledge and quality in order to improve operational performance.

Employee education and training expenses amounted to NT$4,853 thousand in 2017. Classes are summarized as follows:

Category	Duration (Hours)
Training of New Recruits	2,797.0
Language Training	100.0
Quality Control Circle	1,092.5
Internal Training	363.0
Manners	1,036.5
Production Management	965.0
Engineering Technology	3,390.0
Marketing and Sales	246.0
Human Resource	172.0
Research and Development	782.0
Finance and Purchase	204.5
Quality System	1,437.0
Project Management	750.5
Operational Management	311.0
Administrative Management	471.0
Occupational and Environmental Safety	3,127.0
Internal Audit and Control	379.0
Information Technology	325.0
Use and Teaching of Computer Data	742.0

Category	Duration (Hours)
Seminar	970.5
Others	1,312.0
Total	20,973.5

(Note) Duration is calculated based on sessions, attendance and class hours. It combines internal and external sessions.

C. Employee retirement system:

Pension Policy of the Company is established based on the Labor Standards Act. For statutory compliance, the Company has increased its contribution from an amount equivalent to 2% of the employees’ total salaries and wages to 6% on a monthly basis to the pension fund managed by the administered pension fund committee since August, 2015.

The Labor Pension Act took effect on July 1, 2005 and adopted a defined contribution plan. Employees can choose the pension systems under the Labor Standards Act or the one under the Labor Pension Act and retain prior seniority. For the defined contribution plan, the Company will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan.

Expenses under defined contribution plan were NT$23,878 thousand and NT$21,900 thousand for the years ended December 31, 2017 and 2016, respectively.

D. Industrial relations and employee welfare:

The Company has maintained a good industrial relation. Frequent communication and coordination facilitate the Company and employees in reaching consensus and smooth the work flow.

(a) Monthly employee meetings: Meetings are held as a channel for communication, training and promotion of policies. Agenda include performance of the Company, quality goal, environmental policy, eco-concepts, public safety, knowledge or concepts in disaster prevention and other work-related issues. Those meetings help to cultivate fine traditions and provide a co-learning environment for employees and Company.

(b) Department meetings: Meetings are served as a channel for communication, problem-finding and policy promotion, so that employees can fully understand the technical, safety and health and quality control aspects of the production process and to voice their thoughts in order to reach consensus.

(c) Employees can communicate with management regarding welfares and improve the relationship through labor-management meetings, afternoon teas and meetings of employee welfare committee. Recommendations from those meetings would be used as reference for administrative management.

(d) The Company has established Code of Conduct for employees to follow.

(e) The Company has established Procedures for Management of Vendor Working Permits to ensure the safety of employees and work environment.

(f) The Company has established Rules for Occupational Safety and Health and a dedicated unit (Safety & Environment Division) pursuant to the Occupational Safety and Health Act. The division reports directly to the President. Occupational Safety and Health Committee is also established for employees to participate in the planning and organizing of safety, health promotion and environmental protection events and proactively take parts in relevant activities to ensure their safety and health and prevent occupational disasters.

(2) Loss incurred due to industrial disputes, estimated amount at present or in the future and actions taken in 2017 and as of the date of this annual report:

There has been no industrial dispute in the history of Taiflex. The Company strives to implement various employees' benefits to avoid losses from the disputes.

(3) Code of Conduct or Ethics:

The Company has established Code of Conduct for employees to follow.

Extracts from the Code of Conduct are as follows:

Article 24: Permissions of direct supervisors shall be obtained before temporary leave during office hour.

Article 25: No visitors are allowed except for recess periods, unless prior approvals from supervisors are obtained due to special circumstances.

Article 137: Bribe, corruption, blackmail or embezzlement

Bribe, corruption, blackmail and embezzlement are strictly forbidden. All employees are prohibited to participate in any forms of bribe, corruption, blackmail or embezzlement. Violation of rule could result in termination of employment and prosecution.

Article 138: Information disclosure

The Company shall comply with relevant laws and regulations and industry practice when disclosing information of labor, health and safety, environmental protection, commercial activities, organization and structures, financial status and sales. The status and practice of supply chain shall not be forged nor falsely stated.

Article 139: Illegal profit is prohibited

The Company shall not offer or receive bribes or obtain illegal profits through any means.

Article 140: Fair trade, advertisement and competition

The Company shall follow the principle of fair trade in advertisement, sales and competition.

Article 141: Protection of whistleblowers and anonymous complaints

The Company shall establish mechanism or communication procedures to protect the confidentiality of the Company and the whistleblower. Revenge on employees participating in the scheme in good-faith or rejecting orders from vendors in violation of the Code is prohibited. Means shall be provided for employees to file work place complaints anonymously pursuant to local laws and regulations without being fearful of retaliation.

Article 142: Community participation

The Company encourages every employee to participate in community activities to support social and economic development and contribute to the sustainability of the community where the Company located.

Article 156: All employees shall endeavor to protect "confidential information" obtained or held during the employment and follow the regulations or instructions of the Company with regard to the information. Other than during normal course of business, employees shall not disclose, inform, deliver or in any means transfer or provide the "confidential information" to a third-party company, nor shall them make public announcement or utilize the information for their own or any third-party's benefit without prior written consent. Upon termination or discharge of employment, employees agree to abide by the rules until the information was made public or no longer confidential.

(4) Safety measures at work place:

Category	Details
Access Security	1 The Company has established "Regulations Governing Fab Access", "Procedures for Security Guards on Duty", etc. to specify the routes for personnel entering the factory premises in order to maintain the safety of factories and all personnel. 2 Stringent surveillance on all exterior and major interior entrances and exits using security camera or access security system. 3 Each factory has security guards to assist with securing the premises. 4 Quarterly inspection and maintenance on security camera and access security systems. 5 All factories have security systems with on-line connection to the security firm. 6 Monthly education and training sessions for security guards, simulating all possible scenarios and carrying out security drills.
Equipment Maintenance	1 Annual public safety inspection by specialized company in accordance with Regulations for Inspecting and Reporting Buildings Public Security. 2 In accordance with the Fire Services Act, annual fire safety inspection shall be conducted by external parties and periodic maintenance and inspection of fire safety equipment shall be performed. 3 Pursuant to the Regulations for Management of Occupational Safety and Health, periodic maintenance and inspection on high/low pressure electrical equipment, dangerous equipment/machineries, ventilation systems, drinking fountains…etc. shall be performed.
Disaster Prevention and Response	1 The Company has stipulated "Rules for Occupational Safety and Health", "Emergency Procedures", "Regulations for Emergency Management Services and Investigations"…etc. to clearly define individual's responsibilities and tasks in major events such as fire and floods. Sessions on preventive measures and drills are held regularly. 2 The Company invites local fire department to hold lectures on fire drills and safety annually, and participates in local fire unions to maintain operation safety in the neighborhood. 3 The Company establishes a first-class, professional safety and health department, the Safety & Environment Division, to promote safety and health related activities.

Category	Details
Physical Health	1 Health checkup: New recruits are required to take pre-employment health checkups. Present employees are entitled to periodic health screenings at a shorter interval than what is required by laws. Based on the test results, specialized personnel will make recommendations on relevant health management plans. 2 Work environment: Periodic disinfection and cleaning of the premises by specialized personnel. 3 Sessions of health education and massage, and subsidies to sports clubs to enhance employees' health knowledge and for them to enjoy a healthy life style. 4 Prevention of musculoskeletal disorders, control measures for labor overload, and health protection guidelines for female employees.
Mental Health	1 Education and training: Provide lectures of stress relief and communication techniques to assist employees with mental adjustment. 2 Feedback: Set up suggestion boxes in all factories and employee discussion forum on the company website to provide an outlet for employees to express ideas and thoughts. 3 Prevention of violence and sexual harassment at work place: Set up means to file complaints and establish rules on penalties.
Management of Contractor Operations	The Company establishes "Rules Governing the Management of Contractors' Workplace and Safety and Health" to prevent occupational hazard, protect the safety and well-being of contractors and Company employees, and define contractors' rights and responsibilities regarding safety and health issues. The Rules are served as the basis for managing contractors.
Insurance and Medical Relief	The Company participates in employee's labor insurance and national health insurance in compliance with relevant regulations. Pursuant to the Labor Insurance Act and Enforcement Rules of the Labor Insurance Act issued by the Ministry of Labor, the Company assists employees in apply for insurance benefit payments from the Bureau of Labor in instances of child birth, injury, illness, disability, seniority and death. In addition, the Company also provides group insurances paid by the Company. The insurance policy covers life insurance, critical illness insurance, accidental injury insurance, accidental medical and hospitalization cover, cancer treatment insurance and outpatient surgery insurance. Employees' family dependents can participate in the insurance scheme at their own expenses at a special rate. Employees are also entitled to cash gifts for new babies and reliefs for hospitalization.

6. Material Contracts

Nature	Counterparty	Duration	Description	Covenant
Land Lease	Kaohsiung Export Process Zone Administration, Ministry of Economic Affairs	2008.03.05 - 2018.02.28	Land lease	No sub-lease, transfer or sub-lent
Land Lease	Kaohsiung Export Process Zone Administration, Ministry of Economic Affairs	2018.03.01 - 2028.02.28	Land lease	No sub-lease, transfer or sub-lent
Long-term loans	Bank of Taiwan and others	2015.03.21 - 2017.03.21	Syndicated Loan	Syndicated loan agreement
Long-term loans	Bank of Taiwan and others	2016.06.15 - 2021.06.15	Syndicated Loan	Syndicated loan agreement

VI. Financial Highlights

1. Condensed Balance Sheet, Statement of Comprehensive Income and Auditors' Opinions from 2013 to 2017

(1) Condensed Balance Sheet and Statement of Comprehensive Income - International Financial Reporting Standards:

Condensed Balance Sheet (Consolidated)

(In Thousands of New Taiwan Dollars)

Item \ Year		Highlights from 2013 to 2017				
		2013	2014	2015	2016	2017
Current Assets		8,916,609	9,392,639	8,856,609	8,683,857	8,532,677
Property, Plant and Equipment		2,367,002	2,422,737	2,694,435	2,789,520	2,876,458
Intangible Assets		119,595	117,086	119,480	113,598	121,378
Other Assets (Note 1)		191,574	250,322	208,183	210,679	202,723
Total Assets		11,594,780	12,182,784	11,878,707	11,797,654	11,733,236
Current Liabilities	Before Distribution	3,281,520	3,837,299	3,866,032	3,939,432	3,920,097
	After Distribution	3,791,461	4,443,149	4,269,968	4,351,686	(Note 2)
Non-Current Liabilities		1,909,508	1,589,799	1,193,398	1,092,863	574,076
Total Liabilities	Before Distribution	5,191,028	5,427,098	5,059,430	5,032,295	4,494,173
	After Distribution	5,700,969	6,032,948	5,463,366	5,444,549	(Note 2)
Equity Attributable to Shareholders of the Parent		6,250,099	6,598,919	6,685,184	6,665,049	7,126,851
Capital		2,039,254	2,042,678	2,042,858	2,083,252	2,088,467
Capital Surplus		1,436,848	1,447,619	1,447,952	1,407,558	1,441,339
Retained Earnings	Before Distribution	2,756,079	3,126,822	3,231,743	3,347,656	3,690,019
	After Distribution	2,246,138	2,520,972	2,827,807	2,935,402	(Note 2)
Other Components of Equity		17,918	80,544	61,375	(74,673)	(92,974)
Treasury Shares		-	(98,744)	(98,744)	(98,744)	-
Non-controlling Interests		153,653	156,767	134,093	100,310	112,212
Total Equity	Before Distribution	6,403,752	6,755,686	6,819,277	6,765,359	7,239,063
	After Distribution	5,893,811	6,149,836	6,415,341	6,353,105	(Note 2)

Note 1: Other Assets are non-current assets excluding Property, Plant and Equipment and Intangible Assets.
Note 2: As of March 31, 2018, earnings for 2017 are pending for approvals from Shareholders' Meeting.
Note 3: As of the date of this annual report, CPA-audited or reviewed financial information of the latest period is not available; therefore, it is not disclosed.

Condensed Statement of Comprehensive Income (Consolidated)

(In Thousands of New Taiwan Dollars)

Item \ Year	Highlights from 2013 to 2017				
	2013	2014	2015	2016	2017
Net Revenue	10,138,227	10,127,720	10,267,868	10,283,979	11,192,892
Gross Profit, Net	2,169,433	2,256,436	2,164,720	1,895,651	2,134,482
Operating Income	1,112,458	1,009,918	1,049,120	954,586	988,890
Non-operating Income and Expenses	166,219	97,265	(181,850)	(271,188)	(29,792)
Income Before Income Tax	1,278,677	1,107,183	867,270	683,398	959,098
Net Income of Continuing Operations	1,025,446	884,979	707,308	546,610	746,545
Loss from Discontinued Operations	-	-	-	-	-
Net Income	1,025,446	884,979	707,308	546,610	746,545
Other Comprehensive Income, Net of Tax	64,957	61,445	(38,381)	(196,592)	1,673
Total Comprehensive Income	1,090,403	946,424	668,927	350,018	748,218
Net Income Attributable to Shareholders of the Parent	1,005,346	882,421	729,856	579,678	734,589
Net Income Attributable to Non-controlling Interests	20,100	2,558	(22,548)	(33,068)	11,956
Total Comprehensive Income Attributable to Shareholders of the Parent	1,070,303	943,310	691,601	383,801	736,316
Total Comprehensive Income Attributable to Non-controlling Interests	20,100	3,114	(22,674)	(33,783)	11,902
Earnings per Share	4.86	4.24	3.54	2.81	3.55

Note: As of the date of this annual report, CPA-audited or reviewed financial information of the latest period is not available; therefore, it is not disclosed.

Condensed Balance Sheet (Parent Company Only)

(In Thousands of New Taiwan Dollars)

Item \ Year		Highlights from 2013 to 2017				
		2013	2014	2015	2016	2017
Current Assets		7,671,206	7,135,898	6,309,771	5,312,441	5,201,413
Property, Plant and Equipment		1,261,925	1,353,023	1,725,671	1,936,821	2,039,184
Intangible Assets		24,724	27,916	32,560	36,897	45,372
Other Assets (Note 1)		2,009,369	2,259,551	2,354,510	2,205,832	2,624,700
Total Assets		10,967,224	10,776,388	10,422,512	9,491,991	9,910,669
Current Liabilities	Before Distribution	2,922,380	2,891,113	2,833,355	1,936,230	2,304,309
	After Distribution	3,432,321	3,496,963	3,237,291	2,348,484	(Note 2)
Non-Current Liabilities		1,794,745	1,286,356	903,973	890,712	479,509
Total Liabilities	Before Distribution	4,717,125	4,177,469	3,737,328	2,826,942	2,783,818
	After Distribution	5,227,066	4,783,319	4,141,264	3,239,196	(Note 2)
Equity Attributable to Shareholders of the Parent		6,250,099	6,598,919	6,685,184	6,665,049	7,126,851
Capital		2,039,254	2,042,678	2,042,858	2,083,252	2,088,467
Capital Surplus		1,436,848	1,447,619	1,447,952	1,407,558	1,441,339
Retained Earnings	Before Distribution	2,756,079	3,126,822	3,231,743	3,347,656	3,690,019
	After Distribution	2,246,138	2,520,972	2,827,807	2,935,402	(Note 2)
Other Components of Equity		17,918	80,544	61,375	(74,673)	(92,974)
Treasury Shares		-	(98,744)	(98,744)	(98,744)	-
Non-controlling Interests		-	-	-	-	-
Total Equity	Before Distribution	6,250,099	6,598,919	6,685,184	6,665,049	7,126,851
	After Distribution	5,740,158	5,993,069	6,281,248	6,252,795	(Note 2)

Note 1: Other Assets are non-current assets excluding Property, Plant and Equipment and Intangible Assets.
Note 2: As of March 31, 2018, earnings for 2017 are pending for approvals from Shareholders' Meeting.
Note 3: As of the date of this annual report, CPA-audited or reviewed financial information of the latest period is not available; therefore, it is not disclosed.

Condensed Statement of Comprehensive Income (Parent Company Only)

(In Thousands of New Taiwan Dollars)

Item \ Year	Highlights from 2013 to 2017				
	2013	2014	2015	2016	2017
Net Revenue	8,000,478	7,411,756	6,528,844	6,712,397	7,383,077
Gross Profit, Net	1,377,649	1,519,169	1,510,128	1,307,674	1,507,384
Operating Income	648,871	610,701	785,719	710,292	772,238
Non-operating Income and Expenses	588,998	469,907	90,634	12,785	130,980
Income Before Income Tax	1,237,869	1,080,608	876,353	723,077	903,218
Net Income of Continuing Operations	1,005,346	882,421	729,856	579,678	734,589
Loss from Discontinued Operations	-	-	-	-	-
Net Income	1,005,346	882,421	729,856	579,678	734,589
Other Comprehensive Income, Net of Tax	64,957	60,889	(38,255)	(195,877)	1,727
Total Comprehensive Income	1,070,303	943,310	691,601	383,801	736,316
Earnings per Share	4.86	4.24	3.54	2.81	3.55

Note: As of the date of this annual report, CPA-audited or reviewed financial information of the latest period is not available; therefore, it is not disclosed.

(2) Names and opinions of independent auditors from 2013 to 2017:

Year	CPAs	CPA Firm	Audit Opinion	Remark
2013	Zheng-Chu Chen Hong-Guang Lin	Ernst & Young	An Unqualified Opinion	-
2014	Zheng-Chu Chen Hong-Guang Lin	Ernst & Young	An Unqualified Opinion	-
2015	Fang-Wen Li Hong-Guang Lin	Ernst & Young	An Unqualified Opinion	Change of CPA due to administrative adjustment within the accounting firm
2016	Fang-Wen Li Hong-Guang Lin	Ernst & Young	An Unqualified Opinion	-
2017	Fang-Wen Li Jheng-Chu Chen	Ernst & Young	An Unqualified Opinion	Change of CPA due to administrative adjustment within the accounting firm

2. Financial Analysis from 2013 to 2017

(1) Financial Analysis (Consolidated) - International Financial Reporting Standards

Item	Year	Financial Analysis from 2013 to 2017				
		2013	2014	2015	2016	2017
Financial Structure %	Debt Ratio	44.77	44.55	42.59	42.65	38.30
	Long-term Fund to Property, Plant and Equipment Ratio	344.72	344.47	297.38	281.70	271.62
Liquidity Analysis %	Current Ratio	271.72	244.77	229.09	220.43	217.66
	Quick Ratio	239.27	217.70	198.27	189.11	173.73
	Times Interest Earned	3,073	1,746	1,357	839	1,549
Operating Performance	Average Collection Turnover (Times)	2.82	2.28	2.23	2.32	2.45
	Days Sales Outstanding	130	160	164	157	149
	Inventory Turnover (Times)	7.99	8.36	7.93	7.46	6.56
	Average Payment Turnover (Times)	6.32	4.74	4.27	3.93	3.83
	Average Inventory Turnover Days	46	44	46	49	56
	Property, Plant and Equipment Turnover (Times)	4.48	4.23	4.01	3.75	3.95
	Total Assets Turnover (Times)	0.96	0.85	0.85	0.86	0.95
Profitability	Return on Total Assets (%)	10.08	7.91	6.36	5.26	6.81
	Return on Equity (%)	17.58	13.78	10.42	8.04	10.66
	Net Income before Income Tax to Paid-in Capital Ratio (%)	62.70	54.20	42.45	32.80	45.93
	Net Margin (%)	10.11	8.74	6.88	5.31	6.66
	Earnings per Share (NT$)	4.86	4.24	3.54	2.81	3.55
Cash Flow	Cash Flow Ratio (%)	26.83	26.30	25.11	37.97	10.82
	Cash Flow Adequacy Ratio (%)	77.06	81.06	72.32	116.18	96.45
	Cash Flow Reinvestment Ratio (%)	5.77	4.89	3.60	10.72	0.11
Leverage	Operating Leverage	2.37	2.74	2.92	2.92	3.00
	Financial Leverage	1.04	1.07	1.07	1.10	1.07

Note: As of the date of this annual report, CPA-audited or reviewed financial information of the latest period is not available; therefore, it is not disclosed.

Explanations for ratios varying by over 20% from 2016 to 2017 are as follows:

A. Liquidity Analysis

- Increase in Times Interest Earned: Primarily due to an increase of 40% in income before income taxes comparing to 2016.

B. Profitability

- Increase in Return on Total Assets, Return on Equity, Net Income before Income Tax to Paid-in Capital Ratio, Net Margin and Earnings per Share: Primarily due to a 37% increase in net income comparing to 2016.

C. Cash Flow

- Decrease in Cash Flow, Cash Flow Adequacy and Cash Flow Reinvestment Ratios: Primarily due to a decrease in net cash generated by operating activities comparing to 2016.

(2) Financial Analysis (Parent Company Only) - International Financial Reporting Standards

Item	Year	Financial Analysis from 2013 to 2017				
		2013	2014	2015	2016	2017
Financial Structure %	Debt Ratio	43.01	38.77	35.86	29.78	28.08
	Long-term Fund to Property, Plant and Equipment Ratio	637.51	582.79	439.78	390.11	373.00
Liquidity Analysis %	Current Ratio	262.50	246.82	222.70	274.37	225.72
	Quick Ratio	247.58	228.34	200.53	246.04	191.83
	Times Interest Earned	6,214	3,316	3,257	3,572	5,283
Operating Performance	Average Collection Turnover (Times)	4.11	3.33	3.38	4.12	4.12
	Days Sales Outstanding	89	109	108	89	89
	Inventory Turnover (Times)	15.11	13.11	9.06	9.56	9.24
	Average Payment Turnover (Times)	4.48	3.10	2.60	3.35	3.92
	Average Inventory Turnover Days	24	28	40	38	40
	Property, Plant and Equipment Turnover (Times)	7.14	5.67	4.24	3.66	3.71
	Total Assets Turnover (Times)	0.85	0.68	0.62	0.67	0.76
Profitability	Return on Total Assets (%)	10.82	8.37	7.10	5.99	7.72
	Return on Equity (%)	17.23	13.74	10.99	8.68	10.65
	Net Income before Income Tax to Paid-in Capital Ratio (%)	60.70	52.90	42.90	34.70	43.26
	Net Margin (%)	12.57	11.91	11.18	8.63	9.94
	Earnings per Share (NT$)	4.86	4.24	3.54	2.81	3.55
Cash Flow	Cash Flow Ratio (%)	1.60	46.92	39.81	82.30	-
	Cash Flow Adequacy Ratio (%)	107.95	114.55	100.40	116.11	94.56
	Cash Flow Reinvestment Ratio (%)	-	9.21	5.80	13.04	-
Leverage	Operating Leverage	2.83	3.22	2.52	2.51	2.72
	Financial Leverage	1.03	1.05	1.04	1.03	1.02

Note: As of the date of this annual report, CPA-audited or reviewed financial information of the latest period is not available; therefore, it is not disclosed.

Explanations for ratios varying by over 20% from 2016 to 2017 are as follows:

A. Liquidity Analysis

- Decrease in Quick Ratio and increase in Times Interest Earned: The decrease in Quick Ratio was primarily due to an increased level of raw materials on hand in response to the rising cost of raw materials. The quick assets were reduced as a result. The increase in Times Interest Earned was due to a 25% increase in net income before income tax comparing to 2016.

B. Profitability

- Increase in Return on Total Assets, Return on Equity, Net Income before Income Tax to Paid-in Capital Ratio and Earnings per Share: Primarily due to a 27% increase in net income comparing to 2016.

C. Cash Flow

- Cash Flow and Cash Flow Reinvestment Ratios were not calculated as the increase in inventory resulted in cash outflow from operating activities.

Financial Analysis is based on the following formulas:

A. Financial Structure
   (a) Debt Ratio = Total Liabilities / Total Assets
   (b) Long-term Fund to Property, Plant and Equipment Ratio = (Equity + Non-current Liabilities) / Net Property, Plant and Equipment

B. Liquidity Analysis
   (a) Current Ratio = Current Assets / Current Liabilities
   (b) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
   (c) Times Interest Earned = Income before Interest and Taxes / Interest Expenses

C. Operating Performance
   (a) Average Collection Turnover = Net Revenue / Average Trade Receivables (includes accounts receivable and notes receivable from operations)
   (b) Days Sales Outstanding = 365 / Average Collection Turnover
   (c) Inventory Turnover = Cost of Revenue / Average Inventory
   (d) Average Payment Turnover = Cost of Revenue / Average Trade Payables (includes accounts payable and notes payable from operations)
   (e) Average Inventory Turnover Days = 365 / Inventory Turnover
   (f) Property, Plant and Equipment Turnover = Net Revenue / Average Net Property, Plant and Equipment
   (g) Total Assets Turnover = Net Sales / Average Total Assets

D. Profitability Analysis
   (a) Return on Total Assets = (Net Income (Loss) + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets
   (b) Return on Equity = Net Income (Loss) / Average Equity
   (c) Net Margin = Net Income (Loss) / Net Revenue
   (d) Earnings Per Share = (Net income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding
   (e) Earnings Per Share = (Net income attributable to Shareholders of the Parent - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

E. Cash Flow
   (a) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
   (b) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
   (c) Cash Flow Reinvestment Ratio = (Net Cash Provided by Operating Activities - Cash Dividends) / (Gross Fixed Assets + Long-term Investments + Other Assets + Working Capital)
   (d) Cash Flow Reinvestment Ratio = (Net Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant and Equipment + Long-term Investments + Other Non-current Assets + Working Capital)

F. Leverage
   (a) Operating Leverage = (Net Revenue - Variable Cost) / Operating Income
   (b) Financial Leverage = Operating Income / (Operating Income - Interest Expenses)

3. Audit Committee's Review Report for 2017

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2017 operation report, consolidated and parent company only financial statements and earnings distribution proposal. The consolidated and parent company only financial statements were audited by independent auditors, Fang-Wen Li and Jheng-Chu Chen, of Ernst & Young with independent auditors' reports issued.

The above-mentioned operation report, consolidated and parent company only financial statements and earnings distribution proposal have been reviewed and determined to be accurate by the Audit Committee. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this report.

Taiflex Scientific Co., Ltd.

Convener of the Audit Committee: Wen-I Lo

February 27, 2018

4. Audited Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016

Please refer to page 118 to 192.

5. Audited Parent Company Only Financial Statements for the Years Ended December 31, 2017 and 2016

Please refer to page 193 to 258.

6. The Company Should Disclose the Financial Impact to the Company if the Company and Its Affiliate Have Incurred any Financial or Cash Flow Difficulties in 2017 and as of the Date of this Annual Report

The Company and its affiliates did not incur any financial or cash flow difficulties in 2017 and as of March 31, 2018.

VII. Review and Analysis of Financial Position and Performance and Associated Risks

1. Financial Position

(1) Reasons and Impact of Significant Changes in Asset, Liability and Equity

(In Thousands of New Taiwan Dollars)

Item \ Year	2017	2016	Difference: Increase (Decrease)	Difference: %
Current Assets	8,532,677	8,683,857	(151,180)	(1.74)
Long-term Investment	0	0	0	0.00
Property, Plant and Equipment	2,876,458	2,789,520	86,938	3.12
Intangible Assets	121,378	113,598	7,780	6.85
Deferred Income Tax Assets	130,697	129,825	872	0.67
Other Non-current Assets	72,026	80,854	(8,828)	(10.92)
Total Assets	11,733,236	11,797,654	(64,418)	(0.55)
Current Liabilities	3,920,097	3,939,432	(19,335)	(0.49)
Non-current Liabilities	574,076	1,092,863	(518,787)	(47.47)
Total Liabilities	4,494,173	5,032,295	(538,122)	(10.69)
Total Capital	2,088,467	2,083,252	5,215	0.25
Capital Surplus	1,441,339	1,407,558	33,781	2.40
Retained Earnings	3,690,019	3,347,656	342,363	10.23
Other Components of Equity	(92,974)	(173,417)	80,443	46.39
Non-controlling Interests	112,212	100,310	11,902	11.87
Total equity	7,239,063	6,765,359	473,704	7.00

Significant variance:

A. The decrease in Non-current Liabilities was mainly due to the repayment of long-term loans.

B. The increase in Other Components of Equity was mainly due to the transfer of treasury stocks to employees in 2017 and exchange differences on translation of foreign operations.

2. Financial Performance

(1) Reasons for Significant Changes in Revenue, Operating Income and Income before Income Tax:

(In Thousands of New Taiwan Dollars)

Item \ Year	2017	2016	Difference	
			Increase (Decrease)	%
Net Revenue	11,192,892	10,283,979	908,913	8.84
Cost of Revenue	9,058,410	8,388,328	670,082	7.99
Gross Profit, Net	2,134,482	1,895,651	238,831	12.60
Operating Expenses	1,145,592	941,065	204,527	21.73
Operating Income	988,890	954,586	34,304	3.59
Non-operating Income and Expenses	(29,792)	(271,188)	241,396	89.01
Income before Income Tax	959,098	683,398	275,700	40.34
Less: Income Tax Expense	212,553	136,788	75,765	55.39
Net Income	746,545	546,610	199,935	36.58

Significant variance:

A. The increase in Operating Expenses was mainly due to an increase in sales and marketing expenses.

B. The decrease in Non-operating Expenses was the result of an increase in net foreign exchange gain.

C. The increase in Income before Income Tax, Income Tax Expense and Net Income was due to the increases in Operating Income and foreign exchange gain.

(2) Expected Sales Volume in 2018 with Basis and Its Impact on the Company’s Finance and Business:

Based on factors including expected growth potential of end market, competition in the industry, capacity planning of customers and advancement in technology, the Company expects a slight increase in 2018 sales. It would have a positive impact on the Company’s finance and business.

(3) Industry-specific Key Performance Indicator (KPI):

KPIs can be set for finance, customer relation, process, and organizational growth and education aspects. Based on those four aspects, KPIs are developed in accordance with the Company’s philosophy and strategies.

Finance KPIs of the Company include debt ratio, operating cycle (days sales outstanding + days inventory outstanding - days payable outstanding), property, plant and equipment turnover, return on equity and net margin. In addition to periodic review of finance KPIs, there are non-finance KPIs in place, such as market shares, yields, sales percentage of major customers, and productivity of employees. The Company manages peer competitions and comprehends the dynamics of industry through data collection and analysis.

3. Cash Flows

(1) Variance Analysis of Cash Flows in 2017:

(In Thousands of New Taiwan Dollars)

Cash, Beginning of Year	Net Cash Provided by Operating Activities	Net Increase in Cash	Cash, End of Year	Remedies for Cash Shortage	
				Investment Plans	Financing Plans
2,982,208	424,401	(1,047,932)	1,934,276	-	-

Analysis of variance:
A. Operating Activities: Cash generated from operating activities comes from revenue and net income growth.
B. Investing Activities: Mainly due to investments in equipment.
C. Financing Activities: Mainly due to the repayment of bank loans and distribution of cash dividends.

(2) Liquidity Analysis for 2018:

Cash, Beginning of Year	Net Cash Provided by Operating Activities	Net Increase in Cash	Cash, End of Year	Remedies for Cash Shortage	
				Investment Plans	Financing Plans
1,934,276	1,442,599	398,673	2,332,949	-	-

Analysis: We do not expect any cash shortage in 2018.

4. Major Capital Expenditures in 2017 and Their Impacts on the Company's Finance and Business

On the consolidated basis, the Company paid NT$358 million for the acquisition of fixed assets in 2017. This amount was equivalent to 3.20% of net revenue and had no significant impact on the Company's finance and business.

5. 2017 Reinvestment Policies, Main Reasons for Investment Gains or Losses, Improvement Plans and 2018 Investment Plans

The Company's reinvestment policies stress the importance of operation strategy and industry trends for long-term investment. Profits from investments under equity method increased to NT$161,428 thousand for the year ended December 31, 2017 (NT$0 thousand on the consolidated basis), as profitability of investees improved. We will continue to focus on strategic investments in relation to our core business and prudently review future reinvestment plans based on operational demands and development strategy.

6. Risk Analysis and Assessment:

(1) Impacts of fluctuations in interest rates and foreign exchange rates and inflation on the Company's profitability and associated action plans

A. Impacts of interest rate fluctuations in 2017 on the Company's profitability and associated action plans:

(In Thousands of New Taiwan Dollars)

Item	2017
Net Interest Income (Expense) (1)	(48,454)
Net Revenue (2)	11,192,892
Operating Income (3)	988,890
(1)/(2)	(0.43%)
(1)/(3)	(4.90%)

The Company incurred interest expense of NT$48,454 thousand in 2017, which was 0.43% and 4.90% of revenue and operating income, respectively, for the same period. The percentages decreased comparing to 2016 as the short and long-term loans were reduced in response to higher interest rates. 1% increase in the market interest rate would increase the Company's annual interest expense by NT$10,220 thousand. To hedge the interest rate risk, the Company adopts the following actions:

(a) To establish a sound financial structure: The Company would increase capital by cash to meet the demands from operation and funding in order to reduce its dependency on bank financing.

(b) To increase the means for financing: The Company would assess the possibility of issuing convertible corporate bonds to increase direct financing and reduce the cost of funds.

(c) To use banking facilities flexibly: The Company would review banks' lending rates periodically and increase the transaction volume with banks in order to obtain a better borrowing rate than the market average.

B. Impacts of foreign exchange rate fluctuations in 2017 on the Company's profitability and associated action plans:

(In Thousands of New Taiwan Dollars)

Item	2017
Net Foreign Exchange Gain (Loss) (1)	53,774
Net Revenue (2)	11,192,892
Operating Income (3)	988,890
(1)/(2)	0.48%
(1)/(3)	5.44%

Foreign exchange gain amounted to NT$53,774 thousand in 2017, which was 0.48% and 5.44% of 2017 revenue and operating income, respectively. The gain was mainly due to a larger appreciation in RMB against U.S. dollar than that of New Taiwan Dollar against U.S. dollar during the year.

Even though revenue and cost of revenue are mainly denominated in U.S. dollars and RMB, natural hedging does not take place as foreign-currency revenues are greater than foreign-currency purchases. Thus, exchange rates fluctuations in U.S. dollars and RMB would impact on the Company's revenue and profits. The Company would keep a close watch on the exchange rates and carry out the following actions:

(a) In addition to natural hedging from sales and purchases, the Finance & Accounting Division would take into account the exchange market data and future movement of the currencies before entering forward exchange contracts to eliminate foreign currency risk.

(b) The Company would work with its main banks to monitor the exchange rates and provide relevant data for management to take appropriate actions and as a reference for price quotes.

C. Impacts of inflation on the Company's profitability and associated action plans:

The domestic inflation rate is within a reasonable range and the prices of our raw materials are stable. Thus, short-term inflation does not have a significant impact on the Company's profitability.

(2) The policies, main causes of gain or loss and action plans with respect to high-risk, highly-leveraged investment, lending funds to other parties, endorsement and guarantee and derivative trading:

A. In 2017 and as of the date of this annual report, the Company did not engage in high-risk, high-leveraged investments. Lending between the Company and its subsidiaries is proceeded in accordance with "Procedures for Lending Funds to Other Parties". Endorsement and guarantees provided by the Company are for 100%-owned investees to receive credit lines and are processed in accordance with "Procedures for Endorsement and Guarantee".

B. The Company engages in derivative trading mainly to hedge its currency exposure from foreign-currency assets and liabilities by utilizing forward contracts. Transactions are conducted in accordance with "Procedures for Acquisition or Disposal of Assets".

(3) Future Research and Development Plans and Estimated Expenses:

A. Future research and development plans:

(a) Product research and development for electronic materials: Having high-frequency polyimide core technology as the foundation, we will move towards existing FPC applications through collaboration with downstream customers. We will also develop materials for high-frequency cables.

(i) High-frequency single/double-sided FPC and bonding sheet: The objective is to develop polyimide and bonding sheet with low-df and moisture absorption rate. They will be used in the antenna boards and build-up boards of mobile transmission interface under 5G system to lower transmission loss and interference, and control characteristic impedance.

(ii) Insulating materials for high-frequency FFC Cable: The development of low-k materials mainly relies on Polyolefin modification to improve dielectric properties so that these materials can reduce signal loss at higher-frequency transmission. Electronic products can thus transmit data precisely and lower energy consumption. They will be used at 4k/8k TV Thunderbolt 3.0 and server transmission.

(iii) PI Base bonding sheet: To meet the future demand for compact and fine-pitch products, the applications for small-aperture through holes from laser drilling would increase. In response, we develop PI Base bonding sheet where the shrinkage after drilling is < 5um. It can be used where the through holes are less than 100 um.

(iv) Ultra-thin white reflective coverlay: In response to thinner backlight modules, we develop ultra-thin white reflective coverlay with no PI film. The product is 30% thinner than the original white coverlay while still maintaining a reflectance above 85%.

(v) Development of 2-layer single/double-sided FPC for fine circuits: Applying the existing coating and pressing techniques, self-made TPI formula adjustment and 2um copper from suppliers to develop fine-pitch copper clad laminate using the semi-additive process. The product has better adhesive strength than sputtered FCCL.

(b) Product research and development for semiconductor: We will extend the models and possibilities of polyimide applications based on existing polyimide synthesis core technology through industry-academic collaboration and cooperation with downstream customers. The current FPC applications are extended to advanced packaging process applications. The key materials for semiconductor packaging are provided by large raw material suppliers in U.S. or Japan, whereas Taiwanese companies have not invested in the research and development of this field. This R&D plan can build a local supply chain for the semiconductor industry in Taiwan.

(i) Development of transparent material with high thermal resistant: To be used in the flexible display industry. We offer customers transparent materials capable of enduring 250°C with stable CTE as substitutes for glass.

(ii) Polymer materials which can endure 350°C without degradation and are amenable to laser debonding: As the packaging industry caters to the compact mobile device market and integrates more functions in IC packaging, it needs materials which can endure high temperature and are amenable to temporary bonding as relevant processes involved are conducted in temperature above 300°C with complicated steps. Through formula design, we can add laser debonding function to our existing polyimide resin and provide a temporary bonding solution which withstands high temperature and allows laser bonding.

(iii) Photosensitive insulating materials for advanced FPCs or substrate processes: For compact products, the conductive path between circuits needs to be microminiaturized. In the past, drilling is done via laser or mechanical means. However, the former is expensive and the latter cannot provide a less-than-50um aperture. Through photoresponse mechanism in exposure and development process, this material can easily deliver a less-than-50um aperture. It can be used by advanced FPC makers to enhance product performance and microminiaturize products.

(iv) Development of low-k materials: Enhance the dielectric properties of polyimide resin through modification to reduce signal losses during higher-frequency transmission. Electronic products can transmit data precisely with lower energy consumption under high-speed transmission.

(c) Product research and development for energy products: Based on existing core technology, relevant technology are integrated through industry-academia collaboration and applied to the development of green products, such as high humidity-resistance, highly reflective black and transparent PV backsheets.

(i) High humidity-resistance backsheet: To lower the moisture permeability in order to extend the lifespan of PV in high humidity environment, e.g. coastal area.

(ii) Highly reflective black backsheet: Improve the reflectivity of black backsheet at infrared area to control cell temperature and thus enhance its efficiency.

(iii) Transparent backsheet: It can be applied to bifacial solar cells to effectively enhance their efficiency. Also, it is light-weighted and can be used to replace glass.

B. Estimated expenses:

The Company would continue its efforts in research and development. The R&D expense is estimated to be NT$270,000 thousand in 2018, a 2.2% to 2.5% of the 2018 revenue.

(4) Impacts of Changes in Major Domestic and Overseas Policies and Regulations on Company's Finance and Business and Associated Action Plans:

Impacts of changes in major policies and regulations on the Company's finance and business were minimal in 2017. Asia region is the Company's major market and the sales in China are growing rapidly. The Company has established plants in Kunshan to capture timely market information and adapt to future changes in policies and regulations to minimize adverse impacts on the Company.

(5) Impacts of Changes in Technology and Industry on Company's Finance and Business and Associated Action Plans:

The rapid decline in the prices of electronic consumables due to short lifespans and price competitions from peers had significant impacts on the Company's gross margin. Therefore, the Company would timely adjust the development of product and apply our core technology of precision coating in other industry for sustainable growth.

(6) Impacts of Changes in Corporate Image on Corporate Risk Management and Associated Action Plans:

With excellent performance and a positive corporate image, the impacts of changes in corporate image on the Company's risk management were minimal.

(7) Expected Benefits and Risks Relating to Merger and Acquisition and Associated Action Plans:

The Company has no plans to merge or acquire other companies in the near future.

(8) Expected Benefits and Risks Relating to Plant Expansion and Associated Action Plans:

Plant expansion increases our production capacity and the room to take on more orders, which benefit our revenue and profitability and strengthen our position in the industry. Moreover, once we reach economies of scale, product costs can be reduced significantly. However, electronic consumables have short lifespans and market demands often change considerably. When market faces downturn, capacity would turn idle and depreciation expenses of those plant equipment would weigh heavily on the Company's profitability. Therefore, we thoroughly review our capital expenditure plans by considering the industry growth and actual orders from customers in order to optimize the use of our capital.

(9) Risks of Concentrated Sources of Sales or Purchases and Associated Action Plans:

Sales of the Company are not concentrated on certain customers. Purchases of critical raw materials, such as copper-clad and PI, are concentrated on certain foreign vendors mainly due to quality control and customer specification. However, the Company maintains good relationships with other vendors providing similar components to ensure competitive purchase prices and adequate supplies and minimize the risk of single-source supplier. Overall, the Company has a good relationship with suppliers. The quality and delivery time of materials have been normal and there has been no shortage or delay in supply of materials.

(10) Impact and Risk of Sale or Transfer of Significant Number of Shares by the Directors, Supervisors or Shareholders with Over 10% of Shareholding and Associated Action Plans:

There was no sale or transfer of significant number of shares by the Directors, Supervisors and shareholders with over 10% of shareholding in 2017.

(11) Impact and Risk of Change in Management and Associated Action Plans:

The major shareholders and Directors of the Company have a steady ownership base and there is no foreseeable plan to change the management.

(12) For Major Litigations, Non-litigations, or Administrative Disputes in 2017 and as of the Date of This Annual Report which Involve the Company, Directors, Supervisors, President, De Facto Responsible Person, Major Shareholders with Over 10% of Shareholding and Affiliates and Have Significant Impacts on the Interests of Shareholders or Share Prices, the Facts, Amount in Dispute, Commencement Date, Major Parties Involved, and the Status Shall be Disclosed: None.

(13) Other Significant Risks and Associated Action Plans: None.

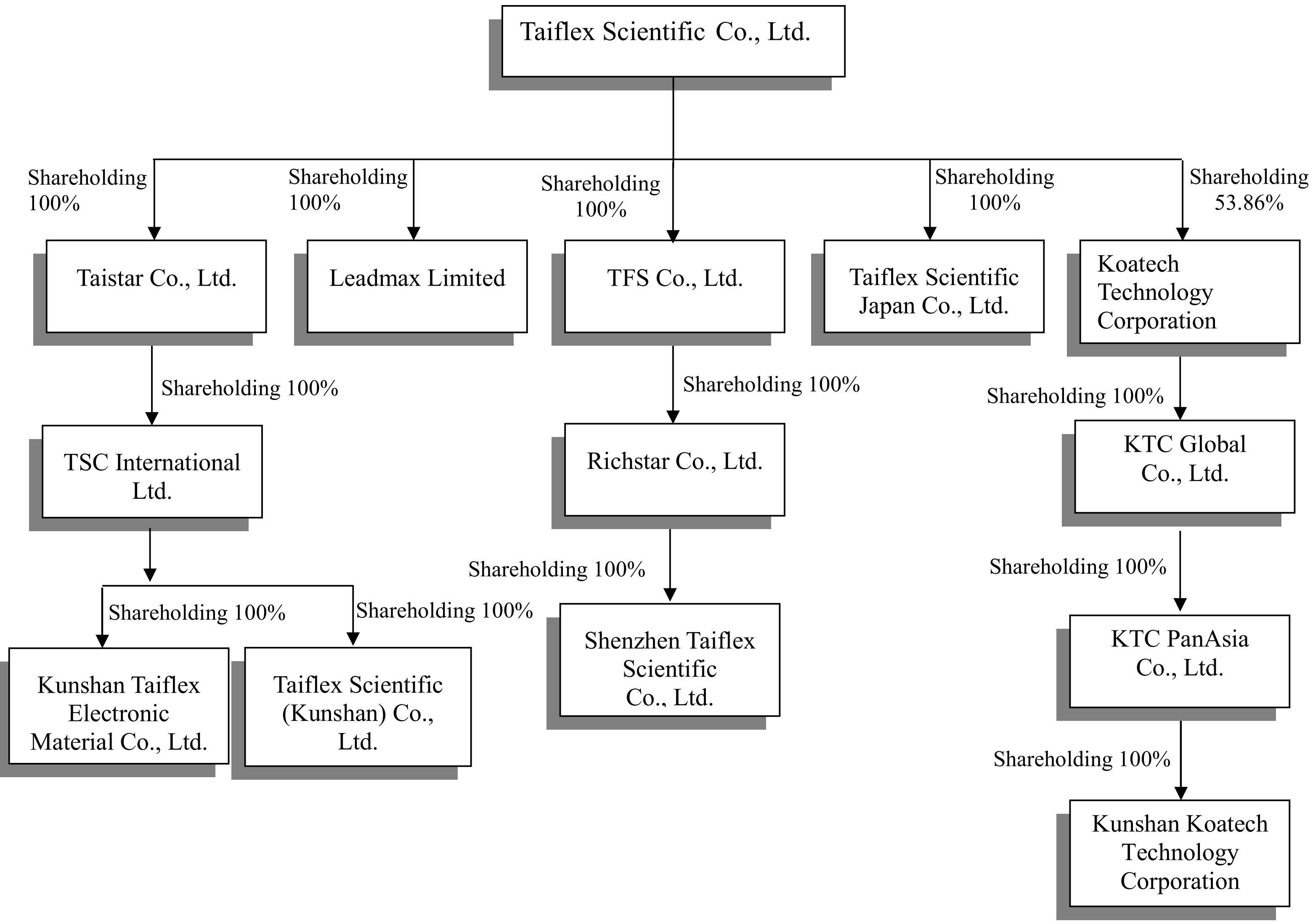
7. **Other Significant Matters:** None.

VIII. Special Notes

1. Affiliates

(1) Consolidated Business Report of the Affiliates

A. Chart of affiliates (as of December 31, 2017)



B. Basic information on affiliates

As of December 31, 2017 (In Thousands of New Taiwan Dollars)

Name	Date of Incorporation	Address	Paid-in Capital	Main Business / Products
Taistar Co., Ltd.	2001.03	60 Market Square, PO Box 364, Belize City, Belize	822,194	Investment holding company
TSC International Ltd.	2005.02	P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KYI-1205, Cayman Islands	801,604	Investment holding company
Kunshan Taiflex Electronic Material Co., Ltd.	2002.04	No. 1, Taihong Rd., Yushan Township, Kunshan City, Jiangsu Province, China	184,126	Trading of coating materials for high polymer film and copper foil
Taiflex Scientific (Kunshan) Co., Ltd.	2004.05	No. 1, Taihong Rd., Yushan Township, Kunshan City, Jiangsu Province, China	767,141	Manufacturing and selling of coating materials for high polymer film and copper foil
Leadmax Limited	2005.05	Ground Floor NPF Building, Beach Road, Apia, Samoa	337	Trading of electronic materials
Koatech Technology Corporation	2006.06	No.79, Guangfu Rd., Hsinchu Industrial Park, Hukou Township, Hsinchu County, Taiwan	508,760	Manufacturing and selling of electronic materials and components
KTC Global Co., Ltd.	2013.03	Offshore Chambers, P.O. Box 217, Apia, Samoa	28,649	Investment holding company
KTC PanAsia Co., Ltd.	2013.03	Offshore Chambers, P.O. Box 217, Apia, Samoa	28,500	Investment holding company
Kunshan Koatech Technology Corporation	2014.06	Room 12, No. 1, Taihong Rd., Yushan Township, Kunshan City, Jiangsu Province, China	28,351	Wholesale and act as a commission agent of electronic materials and components
TFS Co., Ltd.	2013.09	Ground Floor 3½ Miles Philip S.W. Goldson Highway, Belize City, Belize	478,797	Investment holding company
Richstar Co., Ltd.	2013.09	Ground Floor NPF Building, Beach Road, Apia, Samoa	478,563	Investment holding company
Shenzhen Taiflex Electronic Co., Ltd.	2015.05	Unit 102, 1st floor and Unit 906, 9th floor, Building B, ZhongHengCheng High-tech Industrial Park, No. 3, Xinyu Road, Shajing Sub-district, Baoan District, Shenzhen City, Guangdong Province, China	479,160	Trading of coating materials for high polymer film and copper foil
Taiflex Scientific Japan Co., Ltd.	2016.01	9th floor Sotetsu KS Building, 1-11-5 Kitasaiwai, Nishi-ku, Yokohama 220-0004, Japan	16,260	Trading of electronic materials and technical support

C. Shareholders in common of Taiflex and its affiliates with deemed control and subordination: None.

D. Industries in which the affiliates operate: Electronic manufacturing industry.

E. Names and shareholding or capital contribution of the Directors, Supervisors and Presidents of the Affiliates:

As of December 31, 2017 (In Shares; %)

<table>
<tr><th rowspan="2">Company</th><th rowspan="2">Title</th><th rowspan="2">Name or Representative</th><th colspan="2">Shareholding</th></tr>
<tr><th>Shares</th><th>%</th></tr>
<tr><td>Taistar Co., Ltd.</td><td>Chairperson</td><td>Taiflex Scientific Co., Ltd.
Representative: Ta-Wen Sun</td><td>25,665,000</td><td>100</td></tr>
<tr><td>TSC International Ltd.</td><td>Chairperson</td><td>Taistar Co., Ltd.
Representative: Ta-Wen Sun</td><td>25,010,000</td><td>100</td></tr>
<tr><td rowspan="3">Kunshan Taiflex Electronic Material Co., Ltd.</td><td>Chairperson</td><td>TSC International Ltd.
Representative: Ta-Wen Sun</td><td rowspan="2">(Note)</td><td rowspan="2">100</td></tr>
<tr><td>Director</td><td>TSC International Ltd.
Representative: Jun-Yan Jiang</td></tr>
<tr><td>President</td><td>TSC International Ltd.
Representative: Zhi-Ming Yen</td><td>-</td><td>-</td></tr>
<tr><td rowspan="6">Taiflex Scientific (Kunshan) Co., Ltd.</td><td>Chairperson</td><td>TSC International Ltd.
Representative: Jun-Yan Jiang</td><td rowspan="4">(Note 1)</td><td rowspan="4">100</td></tr>
<tr><td rowspan="3">Director</td><td>TSC International Ltd.
Representative: Ta-Wen Sun</td></tr>
<tr><td>TSC International Ltd.
Representative: Zhi-Ming Yen</td></tr>
<tr><td>TSC International Ltd.
Representative: Yung-Mao Yeh</td></tr>
<tr><td>Director and President</td><td>TSC International Ltd.
Representative: Xing-Ze Liu (Note 2)</td><td>-</td><td>-</td></tr>
<tr><td>Supervisor</td><td>Fang-I Hsieh</td><td>-</td><td>-</td></tr>
<tr><td>Leadmax Limited</td><td>Chairperson</td><td>Taiflex Scientific Co., Ltd.
Representative: Ta-Wen Sun</td><td>10,000</td><td>100</td></tr>
<tr><td rowspan="7">Koatech Technology Corporation</td><td>Chairperson</td><td>Taiflex Scientific Co., Ltd.
Representative: Fu-Le Lin</td><td rowspan="4">27,400,252</td><td rowspan="4">53.86</td></tr>
<tr><td>Director</td><td>Taiflex Scientific Co., Ltd.
Representative: Zhi-Ming Yen</td></tr>
<tr><td>Director and President</td><td>Taiflex Scientific Co., Ltd.
Representative: Xiao-Zhong Hu</td></tr>
<tr><td>Director</td><td>Taiflex Scientific Co., Ltd.
Representative: Zong-Ru Shen</td></tr>
<tr><td>Director</td><td>Xin-Han Cai</td><td>-</td><td>-</td></tr>
<tr><td>Supervisor</td><td>Mei-Xian Su</td><td>-</td><td>-</td></tr>
<tr><td>Supervisor</td><td>Fang-I Hsieh</td><td>60,000</td><td>0.12</td></tr>
<tr><td>KTC Global Co., Ltd.</td><td>Chairperson</td><td>Koatech Technology Corporation
Representative: Fu-Le Lin</td><td>960,000</td><td>100</td></tr>
<tr><td>KTC PanAsia Co., Ltd.</td><td>Chairperson</td><td>KTC Global Co., Ltd.
Representative: Fu-Le Lin</td><td>955,000</td><td>100</td></tr>
<tr><td>Kunshan Koatech Technology Corporation</td><td>Chairperson</td><td>KTC PanAsia Co., Ltd.
Representative: Fu-Le Lin</td><td>(Note 1)</td><td>100</td></tr>
<tr><td>TFS Co., Ltd.</td><td>Chairperson</td><td>Taiflex Scientific Co., Ltd.
Representative: Ta-Wen Sun</td><td>15,520,000</td><td>100</td></tr>
</table>

Company	Title	Name or Representative	Shareholding	
			Shares	%
Richstar Co., Ltd.	Chairperson	Taiflex Scientific Co., Ltd. Representative: Ta-Wen Sun	15,510,000	100
Shenzhen Taiflex Electronic Co., Ltd.	Chairperson	Richstar Co., Ltd. Representative: Zhi-Ming Yen	(Note 1)	100
	Director	Richstar Co., Ltd. Representative: Zong-Han Jiang		
	Director	Richstar Co., Ltd. Representative: Bing-Xun Zhang		
	President	Jiang-Yun Yang	-	-
	Supervisor	Liang-Jun Chen	-	-
Taiflex Scientific Japan Co., Ltd.	Chairperson	Taiflex Scientific Co., Ltd. Representative: Zong-Han Jiang	6,000	100

Note: 1. Those limited companies do not issue shares.
2. He was released from his position as the President on March 30, 2018 due to personnel adjustment.

F. Operational highlights of Affiliates:

As of December 31, 2017 (In Thousands of New Taiwan Dollars)

Company	Capital	Total Assets	Total Liabilities	Net Worth	Net Revenue	Operating Income (Loss)	Net Income (Loss)	Earnings per Share After-tax (NT$)
Taistar Co., Ltd.	822,194	1,813,742	52,825	1,760,917	0	(14,731)	88,603	3.45
TSC International Ltd.	801,604	1,716,662	0	1,716,662	0	(20)	103,620	4.14
Kunshan Taiflex Electronic Material Co., Ltd.	184,126	246,807	337	246,470	0	(1,133)	1,245	N/A
Taiflex Scientific (Kunshan) Co., Ltd.	767,141	3,915,287	2,445,416	1,469,871	3,718,945	114,067	102,395	N/A
Leadmax Limited	337	15,730	0	15,730	0	(646)	891	89.06
Koatech Technology Corporation	508,760	380,963	137,169	243,794	260,154	31,685	26,508	0.13
KTC Global Co., Ltd.	28,649	17,863	537	17,327	0	505	453	0.47
KTC PanAsia Co., Ltd.	28,500	17,850	0	17,850	0	(43)	(52)	(0.05)
Kunshan Koatech Technology Corporation	28,351	17,837	1	17,836	0	(17)	(10)	N/A
TFS Co., Ltd.	478,797	505,256	15	505,241	0	(58)	63,853	4.11
Richstar Co., Ltd.	478,563	504,993	66	504,927	0	(150)	63,733	4.11
Shenzhen Taiflex Electronic Co., Ltd.	479,160	2,322,127	1,817,398	504,730	2,505,310	80,086	63,883	N/A
Taiflex Scientific Japan Co., Ltd.	16,260	17,315	786	16,529	10,371	(391)	(444)	(74.02)

Note 1: For foreign companies, the capitals are converted into New Taiwan Dollars at the historical exchange rates.
Note 2: For foreign companies, the assets and liabilities are converted into New Taiwan Dollars at the exchange rates as of the reporting date. Net revenue, operating income (loss), net income (loss) and earnings per share are converted into New Taiwan Dollars at the average exchange rates of the year.

(2) Consolidated Financial Statements of Affiliates:

The entities that are required to be included in the consolidated financial statements of affiliates are identical to those included in the consolidated financial statements. Thus, both statements are the same. Please refer to Page 118 to 192.

(3) Affiliation Reports: Not applicable

2. Private Placement of Securities in 2017 and as of the Date of this Annual Report: None.

3. The Company's Shares Held or Disposed of by Subsidiaries in 2017 and as of the Date of this Annual Report: None.

4. Other Necessary Supplement: None.

IX. Any Events in 2017 and as of the Date of this Annual Report that had Significant Impacts on Shareholders' Right or Security Prices as Stated in Subparagraph 2 Paragraph 3 of Article 36 of the Securities and Exchange Act: None.

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, 2017, 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, “Consolidated Financial Statements”. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, 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 27, 2018

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

Assets	Notes	December 31, 2017	December 31, 2016
Current assets			
Cash and cash equivalents	4, 6(1)	$ 1,934,276	$ 2,982,208
Financial assets at fair value through profit or loss, current	4, 6(2)	17,463	36,007
Notes receivable, net	4, 6(3)	2,027,778	1,542,759
Accounts receivable, net	4, 6(4)	2,748,633	2,797,975
Other receivables		55,865	47,260
Inventories, net	4, 6(5)	1,626,286	1,132,399
Prepayments		95,630	101,573
Other current assets	8	26,746	43,676
Total current assets		8,532,677	8,683,857
Non-current assets			
Financial assets carried at cost, non-current	4, 6(6)	-	-
Investments accounted for under the equity method	4, 6(7)	-	-
Property, plant and equipment	4, 6(8)	2,876,458	2,789,520
Intangible assets	4, 6(9)	121,378	113,598
Deferred income tax assets	4, 6(23)	130,697	129,825
Other non-current assets	4, 6(10)	72,026	80,854
Total non-current assets		3,200,559	3,113,797
Total assets		$ 11,733,236	$ 11,797,654

(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, 2017 and 2016
(In Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	December 31, 2017	December 31, 2016
Current liabilities			
Short-term loans	6(12)	$ 656,596	$ 939,783
Financial liabilities at fair value through profit or loss, current	6(13)	13,351	-
Notes payable		324	177,893
Accounts payable		2,416,532	2,133,276
Other payables		666,715	560,381
Current income tax liabilities	4, 6(23)	115,338	84,828
Current portion of long-term loans	6(15)	44,825	27,372
Lease payable - current	6(14)	639	-
Other current liabilities		5,777	15,899
Total current liabilities		3,920,097	3,939,432
Non-current liabilities			
Long-term loans	6(15)	210,871	743,426
Deferred income tax liabilities	4, 6(23)	176,327	159,115
Lease payable – non-current	6(14)	2,499	-
Net defined benefit liabilities, non-current	4, 6(16)	184,124	190,276
Other non-current liabilities	4, 12	255	46
Total non-current liabilities		574,076	1,092,863
Total liabilities		4,494,173	5,032,295
Equity attributable to shareholders of the parent			
Capital	6(17)		
Common stock		2,087,802	2,083,252
Capital collected in advance		665	-
Capital surplus	6(17)	1,441,339	1,407,558
Retained earnings			
Legal capital reserve		742,131	684,163
Special capital reserve		102,158	102,158
Unappropriated earnings		2,845,730	2,561,335
Total retained earnings		3,690,019	3,347,656
Others	4	(92,974)	(74,673)
Treasury stocks	6(17)	-	(98,744)
Total equity attributable to shareholders of the parent		7,126,851	6,665,049
Non-controlling interests	4, 6(17)	112,212	100,310
Total equity		7,239,063	6,765,359
Total liabilities and equity		$ 11,733,236	$ 11,797,654

(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, 2017 and 2016
(In Thousands of New Taiwan Dollars)

	Notes	2017	2016
Net revenue	4, 6(19)	$ 11,192,892	$ 10,283,979
Cost of revenue	4, 6(5), 6(21)	(9,058,315)	(8,388,233)
Gross profit		2,134,577	1,895,746
Unrealized sales profit or loss		(95)	(95)
Gross profit, net		2,134,482	1,895,651
Operating expenses	4, 6(21)		
Sales and marketing expenses		(473,619)	(383,184)
General and administrative expenses		(414,505)	(340,322)
Research and development expenses		(257,468)	(217,559)
Total operating expenses		(1,145,592)	(941,065)
Operating income		988,890	954,586
Non-operating income and expenses	6(22)		
Other income		27,115	25,257
Other gains and losses		9,278	(203,996)
Finance costs		(66,185)	(92,449)
Share of profit or loss of associates under the equity method	4, 6(7)	-	-
Total non-operating income and expenses		(29,792)	(271,188)
Income before income tax		959,098	683,398
Income tax expense	4, 6(23)	(212,553)	(136,788)
Net income of continuing operations		746,545	546,610
Net income		746,545	546,610
Other comprehensive income (loss)	6(22)		
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit obligation		24,130	(72,083)
Income tax related to components of other comprehensive income that will not be reclassified subsequently		(4,102)	12,254
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(22,115)	(164,774)
Income tax related to components of other comprehensive income that may be reclassified subsequently to profit or loss		3,760	28,011
Total other comprehensive income, net of tax		1,673	(196,592)
Total comprehensive income		$ 748,218	$ 350,018
Net income (loss) attributable to:	4, 6(24)		
Shareholders of the parent		$ 734,589	$ 579,678
Non-controlling interests		11,956	(33,068)
		$ 746,545	$ 546,610

(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, 2017 and 2016
(In Thousands of New Taiwan Dollars)

	Notes	2017	2016
Total comprehensive income (loss) attributable to:			
Shareholders of the parent		$ 736,316	$ 383,801
Non-controlling interests		11,902	(33,783)
		$ 748,218	$ 350,018
Earnings per share (NT$)	4, 6(24)		
Earnings per share - basic		$ 3.55	$ 2.81
Earnings per share - diluted		$ 3.53	$ 2.79

(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, 2017 and 2016

(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	Treasury Stocks	Total	Non-Controlling Interests	Total Equity
Balance as of January 1, 2016	$ 2,042,858	$ -	$ 1,447,952	$ 611,177	$ 102,158	$ 2,518,408	$ 61,375	$ (98,744)	$ 6,685,184	$ 134,093	$ 6,819,277
Appropriation and distribution of 2015 earnings											
Legal capital reserve				72,986		(72,986)			-		-
Cash dividends for common shares						(403,936)			(403,936)		(403,936)
Changes in other capital surplus											
Stock dividends from capital surplus	40,394		(40,394)						-		-
Net income for the year ended December 31, 2016						579,678			579,678	(33,068)	546,610
Other comprehensive income (loss) for the year ended December 31, 2016						(59,829)	(136,048)		(195,877)	(715)	(196,592)
Total comprehensive income	-	-	-	-	-	519,849	(136,048)	-	383,801	(33,783)	350,018
Balance as of December 31, 2016	2,083,252	-	1,407,558	684,163	102,158	2,561,335	(74,673)	(98,744)	6,665,049	100,310	6,765,359
Appropriation and distribution of 2016 earnings											
Legal capital reserve				57,968		(57,968)			-		-
Cash dividends for common shares						(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

(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, 2017 and 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from operating activities:		
Income before income tax	$ 959,098	$ 683,398
Adjustments:		
Non-cash income and expense items:		
Depreciation	273,700	267,893
Amortization	27,876	34,547
(Gain on reversal of) bad debt expense	8,967	(100,440)
Net loss (gain) of financial assets (liabilities) at fair value through profit or loss	41,821	(25,515)
Interest expense	66,185	92,449
Interest income	(17,731)	(19,619)
Compensation cost relating to share-based payment	22,647	-
Loss (gain) on disposal of property, plant and equipment	418	(26)
Impairment loss on non-financial assets	-	8,686
Others	40,257	12,959
Changes in operating assets and liabilities:		
(Increase) decrease in financial assets at fair value through profit or loss, current	(9,926)	8,808
Increase in notes receivable	(485,019)	(684,389)
Decrease in accounts receivable	39,320	891,119
(Increase) decrease in other receivables	(9,481)	258,091
Increase in inventories	(534,144)	(29,306)
Decrease (increase) in prepayments	5,943	(26,216)
Decrease in other current assets	542	15,623
Increase in other non-current assets	(4,719)	(8,530)
(Decrease) increase in notes payable	(177,569)	125,997
Increase in accounts payable	283,256	231,655
Increase (decrease) in other payables	97,262	(39,683)
(Decrease) increase in other current liabilities	(10,122)	9,582
Increase in net defined benefit liabilities	17,978	7,185
Increase (decrease) in other non-current liabilities	209	(1)
Cash generated from operations	636,768	1,714,267
Interest received	18,607	21,446
Interest paid	(64,929)	(91,792)
Income tax paid	(166,045)	(148,069)
Net cash generated by operating activities	424,401	1,495,852

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

(Continued)

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

	2017	2016
Cash flows from investing activities:		
Acquisition of property, plant and equipment	$(357,753)	$(451,875)
Disposal of property, plant and equipment	444	832
Increase in refundable deposits	(389)	(6,595)
Acquisition of intangible assets	(22,546)	(18,751)
Decrease in other current assets - other financial assets, current	16,388	109,799
Net cash used in investing activities	(363,856)	(366,590)
Cash flows from financing activities:		
Increase in short-term loans	-	58,605
Decrease in short-term loans	(283,187)	-
Repayment of long-term loans	(515,102)	(420,936)
Decrease in lease payable	(341)	-
Distribution of cash dividends	(412,254)	(403,936)
Exercise of employee stock options	18,653	-
Purchase of treasury stocks by employees	96,440	-
Net cash used in financing activities	(1,095,791)	(766,267)
Effect of exchange rate changes on cash and cash equivalents	(12,686)	(110,022)
Net (decrease) increase in cash and cash equivalents	(1,047,932)	252,973
Cash and cash equivalents at beginning of period	2,982,208	2,729,235
Cash and cash equivalents at end of period	$ 1,934,276	$ 2,982,208

(Concluded)

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

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

1. HISTORY AND ORGANIZATION

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

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiaries ("the Group") for the years ended December 31, 2017 and 2016 were approved and authorized for issue in the Board of Directors' meeting on February 27, 2018.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

(1) The 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, 2017. The newly issued or revised standards and interpretations do not have any material impact on the Group.

(2) 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 International Accounting Standards Board (IASB) and endorsed by FSC, but not yet effective:

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment assessment on financial assets

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

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

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

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

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

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

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

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

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

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

No.	Projects of New, Revised and Amended Standards or Interpretations	Effective Date
IAS 12	Income Taxes	January 1, 2019
IAS 23	Borrowing Costs	January 1, 2019
IAS 19	Employee Benefits	January 1, 2019

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

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

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

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

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

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

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

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

The Group currently assesses the potential effects of the new, revised and amended standards or interpretations in the preceding A to F on the financial status and performance of the Group, which 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, 2017 and 2016 have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, and IFRIC endorsed by FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statements

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)
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 or not 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, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

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

A change in the ownership interest of a subsidiary, without a change 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 (%)	
			2017.12.31	2016.12.31
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%
The Company	Taiflex Scientific Japan Co., Ltd. (Japan Taiflex)	Trading of electronic materials and technical support	100.00%	100.00%
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	100.00%	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	100.00%	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%

(Continued)

Investor	Subsidiary	Main Business	Percentage of Ownership (%)	
			2017.12.31	2016.12.31
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)	Wholesale and act as a commission agent of electronic materials and components	100.00%	100.00%

(Concluded)

(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 rates prevailing at that date; non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined; and non-monetary items measured at historical cost that are denominated in foreign currencies are retranslated using the exchange rates as at the dates of the initial transactions.

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

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

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

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

(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 fixed 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 instrument.

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

A. Financial assets

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

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

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

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

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

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

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

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

(b) Available-for-sale financial assets

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

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

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

(c) Held-to-maturity financial assets

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

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

(d) Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

Derecognition of financial assets

A financial asset is derecognized when:

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

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

B. Financial liabilities and equity instruments

Classification between liabilities or equity

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

Equity instruments

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

Compound instruments

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

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

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

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

Financial liabilities

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

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

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

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

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

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

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

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

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

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

(b) Financial liabilities at amortized cost

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

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

(c) Derecognition of financial liabilities

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

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

C. Offsetting of financial assets and liabilities

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

(8) Derivative financial instrument

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

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

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

(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, but excluding borrowing costs

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

(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 period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(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 on the basis of 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

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

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

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

(18) Post-employment benefits

All regular employees of the Company are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company. Therefore, fund assets are not included in the 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 or not the market or non-vesting condition is satisfied, provided that all other service or performance conditions are satisfied.

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

(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.

Current income tax

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

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

Deferred income tax

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

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

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

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

A. Where the deferred income tax asset is related to the deductible temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
B. Where the deferred income tax asset is related to the deductible temporary differences associated 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 IAS 39 "Financial Instruments: Recognition and Measurement" either in profit or loss or as a change to 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.

(22) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes the transaction takes place in one of the following markets:

A. the principal market for the asset or liability, or
B. in the absence of a principal market, the most advantageous market for the asset or liability. The principal or most advantageous markets shall be the ones that the Group have access to and can transact in.

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

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

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the 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

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

(3) Inventory

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

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

(4) Post-employment benefits

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

(5) Share-based payment transactions

The 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.

(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.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	$ 652	$ 606
Bank deposits	1,933,624	2,981,602
Total	$ 1,934,276	$ 2,982,208

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

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

	December 31, 2017	December 31, 2016
Held for trading:		
Derivative financial instruments not designated in a hedging relationship		
- Forward foreign exchange contracts	$ 214	$ 19,762
- Cross-currency swap contracts	572	-
Non-derivative financial assets - Stocks	16,677	16,245
	$ 17,463	$ 36,007

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

(3) Notes receivable, net

	December 31, 2017	December 31, 2016
Notes receivable, net	$ 2,027,778	$ 1,542,759

The Group's notes receivable were not pledged.

(4) Accounts receivable, net

	December 31, 2017	December 31, 2016
Accounts receivable	$ 2,965,128	$ 3,009,672
Less: allowance for doubtful accounts	(216,495)	(211,697)
Net	$ 2,748,633	$ 2,797,975

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

	December 31, 2017	December 31, 2016
Beginning balance	$ 211,697	$ 331,150
Charge (reversal) for the year	8,967	(35,824)
Write off	(5,224)	(77,984)
Effect of exchange rate changes	1,055	(5,645)
Ending balance	$ 216,495	$ 211,697

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

B. Ageing analysis of net accounts receivable:

	December 31, 2017	December 31, 2016
Neither past due nor impaired	$ 2,053,205	$ 2,511,606
Past due but not impaired		
≤ 120 days	462,019	280,415
121 to 180 days	201,612	17
≥ 181 days	31,797	5,937
Total	$ 2,748,633	$ 2,797,975

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

December 31, 2017

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

December 31, 2016

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

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

(5) Inventories, net

	December 31, 2017	December 31, 2016
Raw materials	$ 585,584	$ 415,099
Inventories in transit	171,759	86,814
Supplies	4,966	5,660
Work in process	52,701	159,755
Finished goods	619,307	312,030
Merchandise	191,969	153,041
Total	$ 1,626,286	$ 1,132,399

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

Expenses or income recognized were as follows:

	Years ended December 31	
	2017	2016
Cost of inventories sold	$ 9,043,138	$ 8,392,217
Write-down of inventory (gain on recovery)	29,753	(15,746)
Loss on inventory write-off	10,504	28,705
Revenue from sale of scraps	(25,080)	(16,943)
Cost of revenue	$ 9,058,315	$ 8,388,233

For the year ended December 31, 2016, gain on inventory value recovery due to a decrease in allowance for inventory valuation losses from price recovery of inventories with allowance for inventory valuation losses at beginning of period, inventories sold or inventories used amounted to NT$ 15,746 thousand.

The aforementioned inventories were not pledged.

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

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

The Group’s financial assets measured at cost were not pledged.

(7) Investments accounted for under the equity method

	December 31, 2017		December 31, 2016	
Investees	Amount	Percentage of ownership	Amount	Percentage of ownership
Investments in associates:				
Innovision FlexTech Corp.	$ 31,518	15.67%	$ 31,518	16.72%
Less: accumulated impairment – Innovision FlexTech Corp.	(31,518)		(31,518)	
Net	$ –		$ –	

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, 2017 and 2016 were as follows:

	Years ended December 31	
Investee	2017	2016
Innovision FlexTech Corp.	$ –	$ –

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

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

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

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

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

(8) Property, plant and equipment

	December 31, 2017	December 31, 2016
Land	$ 100,843	$ 100,843
Buildings	966,217	1,005,451
Machinery and equipment	896,022	969,050
Hydropower equipment	118,143	108,501
Testing equipment	128,173	115,422
Miscellaneous equipment	82,032	67,427
Construction in progress and equipment awaiting inspection	585,028	422,826
Net	$ 2,876,458	$ 2,789,520

	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

(Continued)

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

	As of January 1, 2017	Additions	Disposals	Reclassification	Impairment loss	Effect of exchange rate changes	As of December 31, 2017
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

(Concluded)

	As of January 1, 2016	Additions	Disposals	Reclassification	Impairment loss	Effect of exchange rate changes	As of December 31, 2016
Cost							
Land	$ 100,843	$ －	$ －	$ －	$ －	$ －	$ 100,843
Buildings	1,396,219	8,405	－	54,495	－	(43,639)	1,415,480
Machinery and equipment	2,261,959	61,769	(367)	200,385	－	(35,245)	2,488,501
Hydropower equipment	359,000	9,441	－	13,469	－	(10,971)	370,939
Testing equipment	179,198	22,714	(577)	24,134	－	(1,943)	223,526
Miscellaneous equipment	254,072	15,803	(8,743)	80,391	－	(6,683)	334,840
Total	$ 4,551,291	$ 118,132	$ (9,687)	$ 372,874	$ －	$ (98,481)	$ 4,934,129
Accumulated depreciation and impairment							
Buildings	$ 354,164	$ 66,261	$ －	$ －	$ －	$ (10,396)	$ 410,029
Machinery and equipment	1,441,361	147,696	(288)	(48,897)	－	(20,421)	1,519,451
Hydropower equipment	252,420	16,112	－	－	－	(6,094)	262,438
Testing equipment	95,788	13,906	(567)	280	－	(1,303)	108,104
Miscellaneous equipment	204,828	23,918	(7,634)	48,666	2,519	(4,884)	267,413
Total	$ 2,348,561	$ 267,893	$ (8,489)	$ 49	$ 2,519	$ (43,098)	$ 2,567,435
Construction in progress and equipment awaiting inspection	491,705	308,639	－	(377,394)	－	(124)	422,826
Net	$ 2,694,435						$ 2,789,520

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

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

(9) Intangible assets

	December 31, 2017	December 31, 2016
Trademarks	$ 414	$ 385
Patents	7,780	7,347
Software cost	43,403	36,085
Goodwill	69,781	69,781
Total	$ 121,378	$ 113,598

	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

	As of January 1, 2016	Additions	Reclassification	Effect of exchange rate changes	As of December 31, 2016
Cost					
Trademarks	$ 372	$ 211	$ —	$ —	$ 583
Patents	39,233	2,969	—	—	42,202
Software cost	93,511	15,571	252	(1,040)	108,294
Goodwill	69,781	—	—	—	69,781
Total	$ 202,897	$ 18,751	$ 252	$ (1,040)	$ 220,860
Accumulated amortization and impairment					
Trademarks	$ 151	$ 47	$ —	$ —	$ 198
Patents	22,330	12,525	—	—	34,855
Software cost	60,936	11,922	—	(649)	72,209
Total	83,417	$ 24,494	$ —	$ (649)	107,262
Net	$ 119,480				$ 113,598

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

(10) Other non-current assets

	December 31, 2017	December 31, 2016
Long-term prepaid rent (Land use rights)	$ 20,218	$ 20,997
Refundable deposits	24,100	23,711
Other non-current assets-other	27,708	36,146
Total	$ 72,026	$ 80,854

(11) 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 for relevant products. As a result of the analysis, the Company did not identify any impairment for goodwill of NT$ 69,781 thousand.

Key assumptions used in value-in-use calculations

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.

Sensitivity to changes in assumptions

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.

(12) Short-term loans

	December 31, 2017	December 31, 2016
Unsecured bank loans	$ 656,596	$ 939,783

The interest rates of loans were 1.69% to 4.57% and 0.85% to 4.57% as of December 31, 2017 and 2016, respectively.

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

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

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

	December 31, 2017	December 31, 206
Held for trading:		
Derivative financial instruments not designated in a hedging relationship		
- Forward foreign exchange contracts	$ 13,058	$ —
- Forward exchange swap contracts	224	—
- Cross-currency swap contracts	69	—
	$ 13,351	$ —

(14) Lease payable

Some equipment of the Group were 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, 2017	December 31, 2016
Total minimum lease payments		
Less than 1 year	$ 981	$ —
1 to 5 years (excluding)	2,750	—
	3,731	—
Less: Future finance expense	(593)	—
Present value of minimum lease payments	$ 3,138	$ —
Present value of minimum lease payments		
Less than 1 year	$ 639	$ —
1 to 5 years (excluding)	2,499	—
	$ 3,138	$ —

(15) Long-term loans

	December 31, 2017	December 31, 2016
Secured loans	$ 62,011	$ 76,916
Revolving loans	193,685	504,207
Syndicated loans	-	193,675
Total	255,696	774,798
Less: current portion	(44,825)	(27,372)
Less: unamortized syndicated loan fee	-	(4,000)
Net	$ 210,871	$ 743,426

A. The interest rates of loans were 0.85% to 2.47% and 0.98% to 1.97% as of December 31, 2017 and 2016, respectively.

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

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

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

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

(b) During the loan term, the 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, liability ratio, interest coverage ratio and tangible net value. The Group has abided by those terms.

D. 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 draw-down date, i.e. June 2016 to June 2021. The credit term of the agreement was mid-term loans - current. During the loan term, the 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, liability ratio, interest coverage ratio and tangible net value. The Group has abided by those terms.

(16) Post-employment benefits

A. Defined contribution plan

Expenses under the defined contribution plan for the years ended December 31, 2017 and 2016 were NT$ 23,878 thousand and NT$ 21,900 thousand, respectively.

B. Defined benefits plan

Expenses under the defined benefits plan were as follows:

	Years ended December 31	
Financial Statement Account	2017	2016
Operating costs	$ 7,339	$ 5,095
Sales and marketing expenses	1,055	1,286
General and administrative expenses	9,123	2,125
Research and development expenses	3,318	1,610
Total	$ 20,835	$ 10,116

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(17) Equity

A. Capital

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

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

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

B. Capital surplus

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

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

C. Treasury Stocks

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

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

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

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

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

D. Appropriation of profits and dividend policies

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

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

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

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

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

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

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

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

Please refer to Note 6(21) for information about the accrual basis and amounts recognized for compensation to employees and remuneration to directors and supervisors.

E. Non-controlling interests (NCI)

	Years ended December 31	
	2017	2016
Beginning balance	$ 100,310	$ 134,093
Net income (loss) attributable to NCI	11,956	(33,068)
Other comprehensive income (loss) attributable to NCI	(54)	(715)
Ending balance	$ 112,212	$ 100,310

(18) Share-based payment plans

A. The Company issued employee stock options – after January 1, 2008

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

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

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

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

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

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

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

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

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

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

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

(19) Revenue

	Years ended December 31	
	2017	2016
Sale of goods	$ 11,192,892	$ 10,283,979

(20) Operating leases

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

Total future minimum lease payments were as follows:

	2017.12.31	2016.12.31
Less than 1 year	$ 21,634	$ 30,197
More than 1 year but less than 5 years	39,185	55,848
More than 5 years	13,796	18,571
Total	$ 74,615	$104,616

Expenses recognized under operating leases were as follows:

	Years ended December 31	
	2017	2016
Minimum lease payments	$ 42,857	$ 42,009

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

Function / Nature	Years ended December 31					
	2017			2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	466,006	438,083	904,089	424,415	413,788	838,203
Labor and health insurance	42,176	27,232	69,408	38,386	27,081	65,467
Pension	21,871	22,842	44,713	17,474	14,542	32,016
Other employee benefits expense	53,396	34,178	87,574	41,317	26,933	68,250
Depreciation	256,844	16,856	273,700	249,484	18,409	267,893
Amortization	13,397	14,479	27,876	16,987	17,560	34,547

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

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

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

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

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

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

(22) Non-operating income and expenses

A. Other income

	Years ended December 31	
	2017	2016
Interest income	$ 17,731	$ 19,619
Other income	9,384	5,638
Total	$ 27,115	$ 25,257

B. Other gains and losses

	Years ended December 31	
	2017	2016
(Loss) gain on disposal of property, plant and equipment	$ (418)	$ 26
Foreign exchange loss, net	(53,774)	(216,617)
Impairment loss	-	(8,686)

(Continued)

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

	Years ended December 31	
	2017	2016
Gain (loss) of financial assets (liabilities) at fair value through profit or loss, net	$ (41,821)	$ 25,515
Other losses	(2,257)	(4,234)
Total	$ 9,278	$ (203,996)

(Concluded)

C. Finance costs

	Years ended December 31	
	2017	2016
Interest on borrowings from banks	$ (66,046)	$ (92,449)
Interest on finance lease	(139)	-
Total	$ (66,185)	$ (92,449)

D. Components of other comprehensive income

For the year ended December 31, 2017

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plan	$ 24,130	$ –	$ 24,130	$ (4,102)	$ 20,028
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	(22,115)	–	(22,115)	3,760	(18,355)
Total	$ 2,015	$ –	$ 2,015	$ (342)	$ 1,673

For the year ended December 31, 2016

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plan	$ (72,083)	$ –	$ (72,083)	$ 12,254	$ (59,829)

(Continued)

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

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	$ (164,774)	–	$ (164,774)	$ 28,011	$ (136,763)
Total	$ (236,857)	$ –	$ (236,857)	$ 40,265	$ (196,592)

(Concluded)

(23) Income tax

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

Income tax recognized in profit or loss

	Years ended December 31	
	2017	2016
Current income tax expense (benefit):		
Current income tax expense	$ 178,823	$ 138,889
Income tax adjustments on prior years	18,364	(2,518)
Effect of exchange rate changes	(621)	(323)
Deferred income tax expense:		
Deferred income tax benefit relating to origination and reversal of temporary differences	15,987	740
Total income tax expense	$ 212,553	$ 136,788

Income tax recognized in other comprehensive income

	Years ended December 31	
	2017	2016
Deferred income tax expense (benefit):		
Remeasurement of defined benefit plan	$ 4,102	$ (12,254)
Exchange differences arising on translation of foreign operations	(3,760)	(28,011)
Income tax relating to components of other comprehensive income	$ 342	$ (40,265)

(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	
	2017	2016
Income before tax of continuing operations	$ 959,098	$ 683,398
Income tax expense at the statutory rate of the parent company (17%)	$ 163,047	$ 116,178
Additional 10% income tax on unappropriated earnings	4,963	23,385
Tax effects of entities at different tax jurisdictions with different tax rates	27,352	134
Income tax adjustments on prior years	18,364	(2,518)
Tax effects of other tax adjustments	(1,173)	(391)
Income tax expense recognized in profit or loss	$ 212,553	$ 136,788

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

For the year ended December 31, 2017

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Ending balance
Temporary differences					
Exchange gain and loss	$ 5,078	$ (654)	$ —	$ —	$ 4,424
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)
Unrealised 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

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

For the year ended December 31, 2016

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Ending balance
Temporary differences					
Exchange gain and loss	$ (15,156)	$ 20,234	$ −	$ −	$ 5,078
Allowance for inventory valuation and obsolescence loss	12,368	(2,311)	−	−	10,057
Investments accounted for under the equity method	(154,495)	526	28,011	−	(125,958)
Unrealised intra-group profits and losses	10,834	(2,068)	−	−	8,766
Impairment of assets	11,072	1,477	−	−	12,549
Allowance for doubtful accounts	53,177	(18,882)	−	−	34,295
Net defined benefit liabilities	18,871	1,222	12,254	−	32,347
Others	(5,531)	(893)	−	−	(6,424)
Deferred income tax expense		$ (695)	$ 40,265	$ −	
Net deferred income tax assets (liabilities)	$ (68,860)				$ (29,290)
Reflected in balance sheet as follows:					
Deferred income tax assets	$ 125,309				$ 129,825
Deferred income tax liabilities	$ 194,169				$ 159,115

D. Unrecognized deferred income tax assets:

As of December 31, 2017 and 2016, deferred income tax assets that had not been recognized by the Group amounted to NT$ 45,008 thousand and NT$ 49,634 thousand, respectively.

E. Imputation credit information:

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

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

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

G. The assessment of income tax returns:

As of December 31, 2017, the assessment of income tax returns of the Group in ROC was as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2013
Subsidiary- Koatech Technology Corporation	Assessed and approved up to 2015

(24) Earnings per share

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

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

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

7. RELATED PARTY TRANSACTIONS

(1) Names and relationships

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

(2) Significant transactions with related parties

A. Acquisition of property, plant, and equipment

	Acquisition Price	
	December 31, 2017	December 31, 2016
Other related parties	$ -	$ 3,200

B. Compensation to key management

	Years ended December 31	
	2017	2016
Short-term employee benefits	$ 72,798	$ 68,977
Post-employment benefits	6,396	1,392
Total	$ 79,194	$ 70,369

8. PLEDGED ASSETS

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

	Carrying Amount		
	December 31, 2017	December 31, 2016	Purpose of Pledge
Demand deposits (Note)	$ -	$ 16,447	Collateral for short-term loans
Time deposits (Note)	20,354	20,295	Customs Guarantee
Land	86,402	100,843	Collateral for long-term loans
Buildings	104,185	106,496	Letters of credit, collateral for short and long-term loans
Machinery and equipment	14,163	15,813	Collateral for long-term loans
Total	$ 225,104	$ 259,894	

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, 2017 were as follows:

	L / C Amount	
NTD	NT$	13,914
USD	US$	7,932
JPY	JPY	41,156

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

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

(2) Amendments to the Income Tax Act passed the third reading by the Legislative Yuan on January 18, 2018. According to the amended Income Tax Act, profit-seeking enterprise income tax rate would increase from 17% to 20% from January 2018 onwards. The change will result in increases in deferred income tax assets and deferred income tax liabilities of NT$17,587 thousand and NT$31,117 thousand, respectively.

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

12. OTHERS

(1) Categories of financial instruments

Financial assets

	December 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss:		
Derivative financial instruments not designated in a hedging relationship –		
Forward foreign exchange contracts	$ 214	$ 19,762
Cross-currency swap contracts	572	-
Non-derivative financial assets - Stocks	16,677	16,245

(Continued)

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

	December 31, 2017	December 31, 2016
Loans and receivables:		
Cash and cash equivalents (excluding cash on hand)	$ 1,933,624	$ 2,981,602
Receivables	4,832,276	4,387,994
Other financial assets, current	20,354	36,742

(Concluded)

Financial liabilities

	December 31, 2017	December 31, 2016
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments not designated in a hedging relationship –		
Forward foreign exchange contracts	$ 13,058	$ –
Forward exchange swap contracts	224	–
Cross-currency swap contracts	69	–
Financial liabilities at amortized cost:		
Short-term loans	656,596	939,783
Payables	3,083,571	2,871,550
Long-term loans (including current portion)	255,696	770,798

(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 risk.

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

A. Foreign currency risk

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

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

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

B. Interest rate risk

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

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

C. Equity price risk

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

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

For the year ended December 31, 2017

Key risk	Variation	Sensitivity of profit and loss
Foreign currency risk	NTD/USD Foreign currency ＋/－ 1%	－/＋ NT$ 5,120 thousand
	NTD/CNY Foreign currency ＋/－ 1%	－/＋ NT$ 1,741 thousand
Interest rate risk	Market rate ＋/－ 10 basis points	＋/－ NT$ 1,022 thousand

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

For the year ended December 31, 2016

Key risk	Variation	Sensitivity of profit and loss
Foreign currency risk	NTD/USD Foreign currency +/− 1%	−/+ NT$ 9,209 thousand
	NTD/CNY Foreign currency +/− 1%	−/+ NT$ 1,047 thousand
Interest rate risk	Market rate +/− 10 basis points	+/− NT$ 1,272 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).

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

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

(5) Liquidity risk management

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

Non-derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2017					
Borrowings	$ 703,908	$ 165,291	$ 45,580	$ −	$ 914,779
Payables	3,083,571	−	−	−	3,083,571
December 31, 2016					
Borrowings	$ 969,558	$ 687,142	$ −	$ 56,284	$ 1,712,984
Payables	2,871,550	−	−	−	2,871,550

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

Derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2017					
Inflows	$ 1,058,336	$ −	$ −	$ −	$ 1,058,336
Outflows	$ 1,079,765	−	−	−	$ 1,079,765
Net	$ (21,429)	$ −	$ −	$ −	$ (21,429)
December 31, 2016					
Inflows	$ 727,398	$ −	$ −	$ −	$ 727,398
Outflows	735,070	−	−	−	735,070
Net	$ (7,672)	$ −	$ −	$ −	$ (7,672)

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

(6) Fair values of financial instruments

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions are used by the 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(8) for details.

(7) Derivative financial instruments

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

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

Currency	Contract period	Contract amount (in thousands)
2017.12.31		
USD to CNY	2017.05～2018.04	US$ 12,342/CNY 82,813
CNY to NTD	2017.09～2018.04	CNY 126,000/NT$ 566,937

Currency	Contract period	Contract amount (in thousands)
2016.12.31		
USD to CNY	2016.08～2017.06	US$ 14,602/CNY 99,394
CNY to NTD	2016.08～2017.06	CNY 159,020/NT$ 727,398

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)
2017.12.31		
CNY to 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, 2017				
USD to CNY	2017.09~ 2018.11	US$ 3,500/CNY 23,027	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.

(8) Fair value hierarchy

A. Definition of fair value hierarchy

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

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

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 fair value on a recurring basis was disclosed as follows:

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

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	$ —	$ 19,762	$ —	$ 19,762
Stocks	16,245	—	—	16,245
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	—	—	—

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

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

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

	December 31, 2017			December 31, 2016		
	Foreign currencies (in thousands)	Exchange rate	NTD	Foreign currencies (in thousands)	Exchange rate	NTD
Financial assets						
Monetary items						
USD	$ 83,788	29.8300	$ 2,499,396	$ 80,970	32.2790	$ 2,613,631
CNY	38,906	4.5745	177,975	22,363	4.6225	103,373
Financial liabilities						
Monetary items						
USD	$ 66,607	29.8300	$ 1,986,887	$ 52,438	32.2790	$ 1,692,646
JPY	224,995	0.2648	59,579	159,796	0.2757	44,056

The data above was disclosed based on the carrying amounts ~~of~~ 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, 2017 and 2016, the Group's foreign exchange gain (loss) amounted to NT$ 53,774 thousand and NT$ (216,617) thousand, respectively.

(10)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, 2017 (excluding investments in subsidiaries, associates and joint ventures): Please refer to Table 3.

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

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

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

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

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

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

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

K. Others: intercompany relationships and significant intercompany transactions for the year ended December 31, 2017: Please refer to Table 8.

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

14. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organized into operating segments based on each independent utility and has two reportable operating segments 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.

No operating segments have 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.

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

(1) Segment income (loss)

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) (Income before income tax)	$ 929,726	$ 195,496	$ (166,124)	$ 959,098

Note: Inter-segment revenues were eliminated on consolidation.

For the year ended December 31, 2016

	General management	Overseas	Adjustment and elimination (Note)	Consolidated
Revenue				
External customer	$ 4,568,547	$ 5,715,432	$ –	$ 10,283,979
Inter-segment	2,364,042	339,878	(2,703,920)	–
Total revenue	$ 6,932,589	$ 6,055,310	$ (2,703,920)	$ 10,283,979
Segment income (loss) (Income before income tax)	$ 651,406	$ 52,120	$ (20,942)	$ 683,398

Note: Inter-segment revenues were eliminated on consolidation.

(2) Geographic information

A. Revenue from external customers:

	Years ended December 31	
Region	2017	2016
Taiwan	$ 2,108,157	$ 1,622,434
Mainland China	8,713,945	8,253,563
Others	370,790	407,982
Total	$ 11,192,892	$ 10,283,979

Revenue was categorized based on countries where customers are located.

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

B. Non-current assets:

	Years ended December 31	
Region	2017	2016
Taiwan	$ 2,503,588	$ 2,411,227
Mainland China	696,971	702,570
Total	$ 3,200,559	$ 3,113,797

(3) Major customers

Customers accounted for at least 10% of the Group's net revenue for the years ended December 31, 2017 and 2016 were as follows:

	Years ended December 31	
Name	2017	2016
Customer A	$ 1,550,537	$ 1,454,304
Customer B	1,181,091	782,630

TABLE 1: FINANCING PROVIDED TO OTHERS

(In Thousands of New Taiwan Dollars)

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

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

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

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

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

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

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

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

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

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

Note 10: 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	Endorsement Provided by Subsidiaries to Parent Company	Endorsement Provided to Subsidiaries in China
		Name	Nature of Relationship (Note 2)										
0	Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	2	$ 3,563,426	$ 125,440	$ 119,320	$ 44,745	－	1.67%		Y	N	N
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	3	3,563,426	1,249,961	1,241,945	133,370	－	17.43%	$ 3,563,426	Y	N	Y
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	3	3,563,426	1,864,640	1,246,270	182,023	－	17.49%		Y	N	Y

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

Note 2: The relationships between endorsement/guarantee providers and guaranteed parties are categorized into the following six types. Please specify the type.
(1) A company that has a business relationship with Taiflex.
(2) A subsidiary in which Taiflex holds directly over 50% of common equity interest.
(3) An investee in which Taiflex and its subsidiaries jointly hold over 50% of common equity interest.
(4) A parent company that holds directly over 50%, or indirectly over 50% through a subsidiary, of the company's common equity interest.
(5) A company that has provided guarantees to Taiflex, and vice versa, due to contractual requirements.
(6) A company in which Taiflex jointly invests with other shareholders, and for which Taiflex has provided endorsement/guarantee in proportion to its shareholding percentage.

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

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

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

Note 6: This is the ending balance after evaluation.

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

(In Thousands of New Taiwan Dollars)

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

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

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

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

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

(In Thousands of New Taiwan Dollars)

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

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

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

(In Thousands of New Taiwan Dollars)

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

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

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

(In Thousands of New Taiwan Dollars)

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

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

TABLE 7: INFORMATION ON INVESTMENTS IN MAINLAND CHINA

(In Thousands of New Taiwan Dollars)

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

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

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

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

TABLE 8: INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS FOR THE YEAR ENDED DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counterparty	Nature of 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	$ 156,469	General trading terms	1.40%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Accounts receivable	84,857	General trading terms	0.72%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Other receivables	59,004	—	0.50%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Other receivables	899,710	Financing	7.67%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Cost of revenue	211,690	General trading terms	1.89%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Accounts payable	56,985	General trading terms	0.49%
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	1	Purchase on behalf of others	103,063	—	0.92%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Sales revenue	2,183,875	General trading terms	19.51%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Accounts receivable	1,458,593	General trading terms	12.43%

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

Note 4: This is the ending balance after evaluation.

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

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

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

(Continued)

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

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

(Concluded)

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

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

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

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

TAIFLEX SCIENTIFIC COMPANY LIMITED

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2017 and 2016

(In Thousands of New Taiwan Dollars)

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

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

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

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

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

(Continued)

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

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

(Concluded)

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

TAIFLEX SCIENTIFIC COMPANY LIMITED
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016
(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

1. HISTORY AND ORGANIZATION

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

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS

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

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

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

(2) Basis of preparation

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

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

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

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

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

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

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

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

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

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

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

(5) Cash and cash equivalents

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

(6) Financial instruments

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

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

A. Financial assets

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

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

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

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

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

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

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

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

(b) Available-for-sale financial assets

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

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

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

(c) Held-to-maturity financial assets

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

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

(d) Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

Derecognition of financial assets

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

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

B. Financial liabilities and equity instruments

Classification between liabilities or equity

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

Equity instruments

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

Compound instruments

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

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

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

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

Financial liabilities

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

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

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

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

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

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

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

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

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

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

(b) Financial liabilities at amortized cost

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

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

(c) Derecognition of financial liabilities

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

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

C. Offsetting of financial assets and liabilities

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

(7) Derivative financial instrument

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

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

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

(8) Inventories

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

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

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

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

(9) Investments accounted for under the equity method

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

A. Investment in subsidiaries

A subsidiary is an entity controlled by the Company.

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

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

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

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

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

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

B. Investment in associates

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

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

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

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

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

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

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

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

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

(10) Property, plant and equipment

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

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

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

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

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

(11) Borrowing costs

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

(12) Intangible assets

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

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

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

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

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

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

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:

A. the technical feasibility of completing the intangible asset so that it will be available for use or sale
B. its intention to complete and its ability to use or sell the asset
C. how the asset will generate future economic benefits
D. the availability of resources to complete the asset
E. the ability to measure reliably the expenditure during development

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

(13) Impairment of non-financial assets

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

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

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

(14) Provisions

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

(15) Treasury stocks

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

(16) Revenue recognition

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

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

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

(17) Post-employment benefits

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

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

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

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

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

(18) Share-based payment transactions

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

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

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

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

(19) Income tax

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

Current income tax

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

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

Deferred income tax

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

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

Deferred income tax assets are recognized for all deductible temporary differences, any unused tax losses and carryforward of unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:
A. Where the deferred income tax asset is related to the deductible temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
B. Where the deferred income tax asset is related to the deductible temporary differences associated investments in subsidiaries, associates and joint ventures. The deferred income tax asset is recognized only to the extent that it is probable that the temporary differences

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

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

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

(20) Fair value measurement

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

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

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

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

(1) Fair value of financial instruments

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

(2) Receivables – impairment loss estimate

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

(3) Inventory

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

(4) Post-employment benefits

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

(5) Share-based payment transactions

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

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

(6) Income tax

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

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

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

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

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

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

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

(3) Notes receivable, net

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

The Company's notes receivable were not pledged.

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

(4) Accounts receivable, net

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

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

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

B. Ageing analysis of net accounts receivable:

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

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

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

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

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

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

(5) Inventories, net

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

Expenses or income recognized were as follows:

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

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

The aforementioned inventories were not pledged.

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

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

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

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

(7) Investments accounted for under the equity method

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

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

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

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

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

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

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

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

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

(8) Property, plant and equipment

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

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

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

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

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

(9) Intangible assets

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

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

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

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

(10) Other non-current assets

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

(11) Short-term loans

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

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

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

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

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

(13) Long-term loans

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

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

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

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

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

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

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

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

(14) Post-employment benefits

A. Defined contribution plan

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

B. Defined benefits plan

Expenses under the defined benefits plan were as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(15) Equity

A. Capital

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

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

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

B. Capital surplus

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

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

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

C. Treasury Stocks

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

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

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

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

D. Appropriation of profits and dividend policies

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

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

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

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

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

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

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

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

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

(16) Share-based payment plans

A. The Company issued employee stock options – after January 1, 2008

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

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

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

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

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

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

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

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

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

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

(17) Revenue

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

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

(18) Operating lease

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

Total future minimum lease payments were as follows:

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

Expenses recognized under operating leases were as follows:

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

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

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

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

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

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

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

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

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

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

(20) Non-operating income and expenses

A. Other income

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

B. Other gains and losses

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

C. Finance costs

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

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

D. Components of other comprehensive income

For the year ended December 31, 2017

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

For the year ended December 31, 2016

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

(21) Income tax

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

Income tax recognized in profit or loss

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

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

Income tax recognized in other comprehensive income

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

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

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

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

For the year ended December 31, 2017

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

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

For the year ended December 31, 2016

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

D. Unrecognized deferred income tax assets:

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

E. Imputation credit information:

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

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

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

G. The assessment of income tax returns:

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

(22) Earnings per share

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

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

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

7. RELATED PARTY TRANSACTIONS

(1) Names and relationships

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

(2) Significant transactions with related parties

A. Sales

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

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

B. Purchases

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

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

C. Accounts receivable - related parties

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

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

D. Other receivables - related parties

(a) Non-financing

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

(b) Financing

December 31, 2017

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

December 31, 2016

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

E. Accounts payable - related parties

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

F. Other payables – related parties

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

G. Acquisition of property, plant, and equipment

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

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

H. Compensation to key management

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

8. PLEDGED ASSETS

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

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

Note: Those assets were recognized as other current assets.

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

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

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

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

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

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

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

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

12. OTHERS

(1) Categories of financial instruments

Financial assets

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

Financial liabilities

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

(2) Objectives of financial risk management

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

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

(3) Market risk

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

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

A. Foreign currency risk

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

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

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

B. Interest rate risk

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

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

C. Equity price risk

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

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

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

For the year ended December 31, 2017

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

For the year ended December 31, 2016

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

(4) Credit risk management

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

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

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

(5) Liquidity risk management

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

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

Non-derivative financial instruments

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

Derivative financial instruments

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

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

(6) Fair values of financial instruments

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

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

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

B. Fair value of financial instruments measured at amortized cost

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

C. Information on the fair value hierarchy of financial instruments

Please refer to Note 12(8) for details.

(7) Derivative financial instruments

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

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

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

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

(8) Fair value hierarchy

A. Definition of fair value hierarchy

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

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

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

B. Hierarchy of fair value measurement

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

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

(Continued)

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

(Concluded)

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

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

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

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

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

(10)Capital management

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

13. ADDITIONAL DISCLOSURES

(1) Information on significant transactions and investees

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

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

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

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

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

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

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

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

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

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

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

TABLE 1: FINANCING PROVIDED TO OTHERS

(In Thousands of New Taiwan Dollars)

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

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

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

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

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

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

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

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

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

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

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

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

Note 12: This is the ending balance after evaluation.

TABLE 2: ENDORSEMENT/GUARANTEE PROVIDED TO OTHERS

(In Thousands of New Taiwan Dollars)

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

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

Note 2: The relationships between endorsement/guarantee providers and guaranteed parties are categorized into the following six types. Please specify the type.
(1) A company that has a business relationship with Taiflex.
(2) A subsidiary in which Taiflex holds directly over 50% of common equity interest.
(3) An investee in which Taiflex and its subsidiaries jointly hold over 50% of common equity interest.
(4) A parent company that holds directly over 50%, or indirectly over 50% through a subsidiary, of the company's common equity interest.
(5) A company that has provided guarantees to Taiflex, and vice versa, due to contractual requirements.
(6) A company in which Taiflex jointly invests with other shareholders, and for which Taiflex has provided endorsement/guarantee in proportion to its shareholding percentage.

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

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

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

Note 6: This is the ending balance after evaluation.

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

(In Thousands of New Taiwan Dollars)

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

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

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

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

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

(In Thousands of New Taiwan Dollars)

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

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

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

(In Thousands of New Taiwan Dollars)

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

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

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

(In Thousands of New Taiwan Dollars)

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

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

TABLE 7: INFORMATION ON INVESTMENTS IN MAINLAND CHINA

(In Thousands of New Taiwan Dollars)

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

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

Note 1: The methods for investment in Mainland China are divided into the following three types. Please specify the type.

(1) Direct investment in Mainland China.

(2) Investment in Mainland China through companies in the third area.

(3) Others.

Note 2: Significant transactions with the investees in China directly or indirectly through the third area and the relevant prices, payment terms and unrealized gains and losses:

(1) Purchase, ending balance of related payables and their weightings: see Table 4.

(2) Sales, ending balance of related receivables and their weightings: see Tables 4 and 5.

(3) The transaction amount and gain or loss arising from property transactions: N/A.

(4) Ending balance of endorsements/guarantees or collateral provided and the purposes: see Table 2.

(5) Maximum balance, ending balance, interest rate range and total interest of current period from financing provided to others: see Table 1.

(6) Transactions that have significant impact on profit or loss or the financial position of current period, such as services rendered or received: N/A.

TAIFLEX Scientific Co., Ltd.

Chairperson: Ta-Wen Sun