Stock Code: 8039

TAIFLEX Scientific Co., Ltd.

2018 Annual Report

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

Published on March 31, 2019

Notice to readers

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: Jheng-Chu Chen and Fang-Wen Li

   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

Contents

I. Letter to Shareholders

1. 2018 Operating Results

Net revenue of the Company amounted to NT$9.64 billion in 2018, a decrease of 13.85% from NT$11.19 billion in 2017. Net income attributable to shareholders of the parent came to NT$672 million, down 8.48% year-over-year. Earnings per share was NT$3.22. The fire at Taiflex Scientific (Kunshan) on January 25, 2018, and the new energy policy announced by the Chinese government on May 31 to slash subsidies for solar energy drove the Company to make strategic adjustments on our energy business, which in turn led to the relatively significant decrease in revenue.

As for our electronic materials business unit, even though the supply of international raw materials was tight in 2018, the unit managed to maintained double-digit growth rate during the year through successful supply chain integration and prompt adjustments on internal resources.

The one-off fire damage and adjustments in energy business resulted in a lower net income in 2018, comparing to 2017. Nevertheless, as we improve our overall operational structure and refocus our strategic directions, we are confident that we can continuously enhance our core competitiveness and regain our growth momentum.

Our electronic materials business unit generated net revenue of NT$8.23 billion in 2018, an increase of 12.2% comparing to 2017. Growth momentum primarily benefited from the following factors: a) our quick responses concerning supply chain allowed us to fulfill customers' demand under the tight supply of international raw materials and boosted our revenue, b) enhancement in technical capabilities, and collaboration and integration within the supply chain broadened our product application ranges and allowed us to enjoy business opportunities associated with the use of new materials, and c) with our advantages in economies of scale, we became business partners to reputable global companies and are able to gain higher market shares on the current stable customer base to achieve revenue growth.

Our energy materials business unit generated net revenue of NT$1.18 billion in 2018, a year-over-year decrease of 68%. In response to China's 531 policy and the fire at our Kunshan factory, we adjusted our strategies to lower the overall operational risks and reallocated resources to more promising business units. Consequently, the energy materials business unit suffered a significant drop in revenue comparing to 2017.

(1) Consolidated revenue and net income

(In Thousands of New Taiwan Dollars)

	2018	2017	Change (in Dollar Amount)	Change (in Percentage)
Net revenue	9,643,051	11,192,892	(1,549,841)	(13.85%)
Gross profit	1,993,044	2,134,482	(141,438)	(6.63%)
Net income	679,474	746,545	(67,071)	(8.98%)

(2) Profitability analysis

	2018	2017
Net profit margin	7.04%	6.66%
Return on assets	6.08%	6.81%
Return on equity	9.29%	10.66%

(3) Directions of research and development

With the persistent trend for compact and energy-efficient electronic devices and 5G applications warming up, the demand for materials featuring high frequency, high speed, high dimensional stability, and fine circuit applications will continue to expand and relevant applications will gradually become clear. The Company has invested resources and proactively carries out supply chain integration in order to develop products which meet consumers' requirements and applied core formula capabilities to provide customers with total solutions. On top of that, we actively utilize those core formulas and our production capabilities to diversify our products. Among which, as the key component in the electric vehicle development, lithium-ion batteries have a promising future. Moreover, the barrier to entry for batteries is high, which effectively reduces the number of competitors. We choose to enter the market through protective packaging materials for lithium-ion batteries, and have successfully developed a series of products which we are now promoting to our customers.

2. Overview of 2019 Business Plan

(1) Business policy

The macroeconomic environment in 2019 is unpredictable. Important economic events, such as China-US trade war, Brexit, and balance sheet reduction policy of Federal Reserve, all have profound impacts on the growth momentum of global economy. In addition, the global economic recovery has passed its peak and the growth in most regions starts to slow down. The slowdown has been significant in China, in particular, due to the trade war. Consequently, we need to exercise extreme caution in 2019.

From the industry perspective, the smartphone market might experience zero growth as there is a lack of innovations and an increase in replacement cycle. When the total demand remains stagnant, upstream material suppliers can no longer expect to derive growth momentum from the sales growth of end user devices. Instead, they shall rely on opportunities stemming from new designs and applications as those are the sources of growth momentum. For continuous growth in operation, the Company needs to be fully aware of the new design and application trends.

At present, 5G applications, surface phones, and Internet of Things will all 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 business opportunities created by new designs and applications.

Furthermore, 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. Environmental issue is also a key concern for modern-day corporations. Benefiting from being a long-term industry leader, we have the resources to invest abundantly in eco-friendly equipment. Other than to fulfill our corporate social responsibilities, we can rest assured that we will be able to pass all inspections conducted by the competent authorities and avoid any production interruptions.

Our Rudong production base at Nantong City, Jiangsu Province will complete its mass production preparation in 2019. When the economy recovers, it will be ready to add to our existing production and satisfy the growth demand.

(2) Sales forecast and basis

Electronic materials: the sales in 2019 is expected to grow 0 to 5% comparing to 2018

Basis:

A. We expect to see a slow or even negative growth in the overall smartphone market as the industry has reached its peak and the economic conditions are far from optimistic. Although new applications such as 5G are emerging, they are still at an early stage and cannot drive the shipment growth of materials. Thus, the Company expects to see a flat or small decline in the 2019 market shipment.

B. Facing the challenge of a slowing smartphone growth, the Company will take the initiative to meet customers' demand and promptly provide materials which satisfy the needs of their new applications in order to increase our market share. This combines with our comprehensive product lines, quality assurance, and economies of scale will give us more cost competitiveness as demand diminishes.

C. In summary, the Company expects the 2019 shipment to remain flat or show a small increase comparing to 2018.

(3) Key production and marketing policies

A. The Rudong production base will complete its mass production preparation in 2019 to support the increasing customers' demand.

B. Build customer VMI warehouses and regional hubs for the vast sales region in China in order to accelerate the inventory flows and reduce the overall transportation costs.

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 and pricing strategy. Products with different grades shall have different prices. Profitability shall be improved, while satisfying customers' demand.

3. Strategies for Future Developments

(1) Expand existing material formulas and precision manufacturing technology and explore market opportunities to develop new business in pursue of the Company's long-term growth. We are actively involved in the protective packaging materials for lithium-ion batteries.

(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 systematize and rationalize workflows 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. Quick changes in customers' 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.

C. Emerging industries with growth potential have a large number of new competitors, including large-scaled conglomerates, which add to the challenges of diversification.

D. Being the dominant producer of FCCL 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 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 opportunities.

(2) Regulatory compliance

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

B. The new tax laws in China and the worldwide enhanced tax information flows will impact on enterprises' cross-strait strategies and the design of global value chain framework.

(3) Macro-environment

A. Tariff costs and economic downturn risks brought on by the China-US trade war lead to conservative spending behaviors, and the market demand will in turn plunge.

B. Beside affecting the global economy, Federal Reserve's balance sheet reduction policy will amplify the risks of exchange rate volatility and interest rate hikes, and result in increasing operation costs for enterprise.

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 2018, the global demand experienced drastic volatilities from the price hikes of raw materials due to a tightened global supply chain at the beginning of the year and the China-US trade war in second half of 2018. Those facts combined with the fire at our Kunshan factory and China's sharp cut in solar subsidies brought us to make strategic adjustments on our energy business. Even during such a difficult time, 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, aiming to build a long-term, competitive and sustainable operation model.

We will persistently strengthen our core competitiveness, invest research and development resources in advanced flexible electronic materials and protective packaging materials for lithium-ion batteries, and work towards producing 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 - 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 - 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 - 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.
May, 2018	Received Administration-Enthusiastic Prize of Public Welfare from Export Processing Zone Administration, Ministry of Economic Affairs, R.O.C.

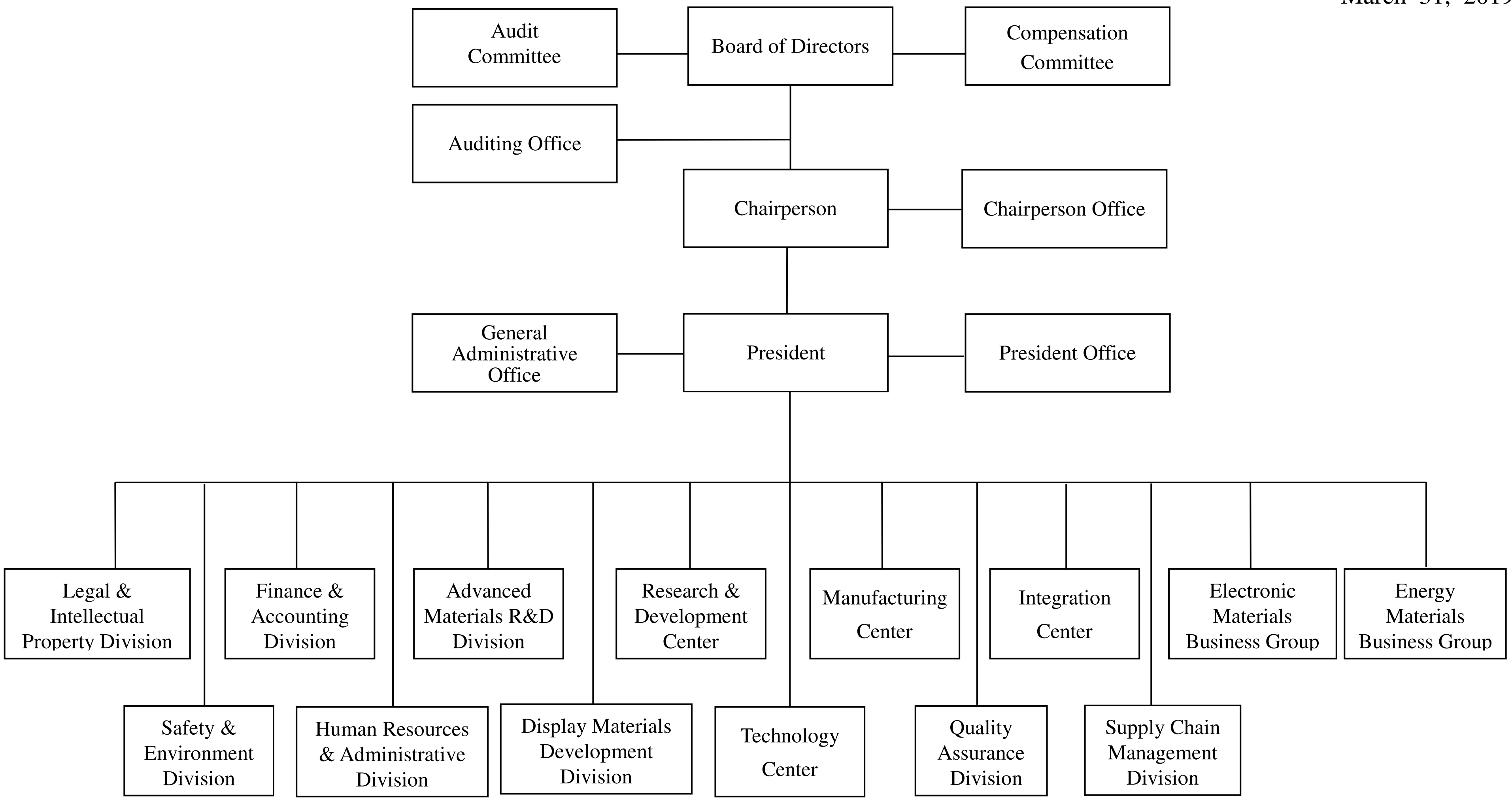
Year	Milestones
August, 2018	Ranked 31st in the CommonWealth Magazine's Corporate Citizenship Awards - Large-Scale Enterprises.
October, 2018	Received “Sports Corporation” certificate from Sports Administration, Ministry of Education

III. Corporate Governance

1. Organization

(1) Organizational Structure

March 31, 2019



(2) Functions

Departments	Functions
Auditing Office	1. To review and assess the reliability and effectiveness of the internal control system and made recommendations for an effective operation 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 Administrative 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. To formulate workplace safety and health management plans, and supervise the execution of safety and health management measures and matters pertaining to the planning and monitoring of workplace environmental protection 2. In charge of public safety, environmental health management, and employee well-being
Human Resources & Administrative Division	1. In charge of policies for the organization, human resource management, training and development, general affairs, and asset management 2. To plan and execute corporate social responsibilities and maintain a sound corporate image
Finance & Accounting Division	1. In charge of financial planning, accounting, and tax management
Advanced Materials R&D Division	1. In charge of developing new industrial materials within core technology 2. Marketing and promotion of new industrial products
Display Materials Development Division	1. To develop product applications, promote new material applications, and integrate product processes with equipment 2. To solve customers' technical issues concerning material applications and take corrective actions

Departments	Functions
Research & Development Center	1. To research and develop new products and launch products on time with joint efforts from every business groups and marketing firms in line with the Company's directions 2. In charge of product and technical service capabilities at market and application ends
Technology Center	1. To set conditions for pilot runs and mass production 2. To develop, evaluate, test and introduce new processes and equipment 3. To set up equipment at each factories of the Group, enhance their functions and assist with relocation
Manufacturing Center	1. In charge of product manufacturing and the maintenance, upkeep, repair, and automation enhancement of manufacturing equipment 2. Mass production, transfer, and adoption of new products
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 with technical consultation to customers
Integration Center	1. To plan production capacity based on sales and purchase strategies of each division; and to obtain, allocate and integrate the management of raw materials and finished goods levels to meet the sales and cost targets 2. In charge of allocation and warehouse management of raw materials, supplies and equipment 3. To maintain and control software and hardware, including computers and IT system
Supply Chain Management Division	1. To formulate purchase strategies based on the marketing strategies of each business division in order to meet the sales and cost targets 2. In charge of bonding and customs
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
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 aluminum plastic film products

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, 2019 (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	15,713,729	7.51	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	195,444	0.09	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. Director of Taiflex Scientific (Kunshan) Co., Ltd. (Note 1) Chairperson of Rudong Fuzhan Scientific Co., Ltd. (Note 1) Supervisor of BIONET Corp. Independent Director of Advanced Ceramic X Corp. Director of SciVision Biotech Inc. Director of Enli Technology Co., Ltd. Executive Director of Puren Youth Care Foundation Honorary President of Youth Career Development Association Headquarters, R.O.C.	-	-	-

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
Representative of Corporate Director	Taiwan	Jun-Yan Jiang	Male	2017.05	3 years	2011.08	446,047	0.21	90,047	0.04	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) 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	4,699,282	2.25	642,313	0.31	0	0	Master of Business Administration, National Chengchi University	Vice Chairperson of Taiflex Scientific Co., Ltd. Chairperson of LandMark Optoelectronics Corporation 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 Century Venture Capital Co., Ltd. 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, USA Former Senior	Senior R&D Director of Taiflex Scientific Co., Ltd. Chairperson of Koatech Technology Corporation	-	-	-

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
															Engineer of Vishay General Semiconductor Taiwan Ltd. Former Analyst of Material Research Laboratories, Industrial Technology Research Institute				
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. Corporate Director (Representative) of Launch Technologies Co., Ltd. Corporate supervisor representative of Advanced International Multitech Co. Ltd. Corporate Director (Representative) of Taiflex Scientific Co., Ltd. Director of Arctek (Shanghai)	-	-	-

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
																Co., Ltd. Director of Allegion Fu Hsing Limited Director of Fu Hsing Americas, Inc. Corporate Director (Representative) of DeZhiMei International Enterprise Co., Ltd.			
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 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. Corporate Director (Representative) of Te Quan 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	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
															University 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 and Remuneration Committee member of Allied Biotech Corporation Remuneration Committee member of ADO Optronics Corporation Corporate Director (Representative) of Gemtek Technology Co., Ltd. Corporate Director (Representative) of ZhongDa Optical Fiber communication Co., Ltd. Director of YouShu Co. Ltd. Corporate supervisor representative of AMPAK Technology Inc. Corporate supervisor representative of REC Technology 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.	-	-	-

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

(a) Major shareholders of corporate shareholders

As of March 31, 2019

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.	41.96
	Hongcheng Investment Co., Ltd.	16.77
	ShengYou Investment Co., Ltd.	10.43
	LianYu Investment Development Co., Ltd.	7.86
	DeLi International Investment Co., Ltd.	7.32
	LianQuang Investment Co., Ltd.	3.66
	Jian-Kun Chen	2.63
	Zi-Yang Lin	2.14
	Yi-Xin Wu	1.79
	Zi-Xuan Lin	1.43

(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
	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			Independence Status (Note 1)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	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	1	2	3	4	5	6	7	8	9	10	
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	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Chein-Ming Hsu	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Wen-I Lo	No	Yes	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Shi-Chern Yen	Yes	Yes	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

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 ranks in the top five in holdings.
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.

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

As of March 31, 2019 (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	2017.08	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) Director of Taiflex Scientific (Kunshan) Co., Ltd. (Note 1) Director of Rudong Fuzhan Scientific 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	140,200	0.07	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	17,420	0.01	0	0	0	0	Dual Bachelor Degrees in International Business and Law, National Taiwan University Candidate for Ph.D. in Economic Law,	Director of Rudong Fuzhan Scientific 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
											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	President of Taiflex Scientific (Kunshan) Co., Ltd. (Note 1) President of Rudong Fuzhan Scientific Co., Ltd. (Notes 1 & 3)	-	-	-
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	60,573	0.03	0	0	0	0	Master of Biomedical Science and Engineering, National Yang-Ming University	-	-	-	-
Senior Assistant Vice President	Taiwan	Ji-Ren Huang	Male	2019.02	0	0	0	0	0	0	Master of Civil and Hydraulic Engineering, Feng Chia University Former Chairperson and President of ALPHA Optical Co., Ltd.	-	-	-	-
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	2,000	0.00	0	0	0	0	Master of Materials Science and Engineering, I-Shou University Former 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)	-	-	-
Assistant Vice President	Taiwan	Zheng-Hao Hou	Male	2018.06	0	0	65	0	0	0	Department of International Business, Soochow University	-	-	-	-
Assistant Vice President	Taiwan	Sheng-Xu Yang	Male	2018.08	0	0	0	0	0	0	Bachelor of International Business and Trade, Shu-Te University	Vice President 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 Rudong Fuzhan Scientific Co., Ltd. (Note 1) Supervisor of Koatech Technology Corporation	-	-	-
Internal Audit Supervisor	Taiwan	Shu-Zhen Guo	Female	2002.09	108	0.00	0	0	0	0	Bachelor of Business Management-Accounting, National Sun Yat-Sen University	-	-	-	-

Note 1: Taiflex Scientific (Kunshan) Co., Ltd., Shenzhen Taiflex Electronic Co., Ltd., Rudong Fuzhan Scientific 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.

Note 3: Rudong Fuzhan Scientific Co., Ltd. was established on January 12, 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, 2018 (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 2018 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 2018 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 3)</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 4)</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="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">19,834</td><td rowspan="9">19,834</td><td rowspan="9">275</td><td rowspan="9">293</td><td rowspan="9">2.99</td><td rowspan="9">2.99</td><td rowspan="9">10,957</td><td rowspan="9">11,574</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">3,894</td><td rowspan="9">0</td><td rowspan="9">3,894</td><td rowspan="9">0</td><td rowspan="9">5.20</td><td rowspan="9">5.29</td><td rowspan="9">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>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 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 2018: 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: 2018 compensation to Directors approved in the Board of Directors' meeting on February 20, 2019.

Note 4: 2018 employee compensation earned by Directors for concurrently serving as an employee of Taiflex and approved in the Board of Directors' meeting on February 20, 2019.

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, 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, 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, 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, Corporate Directors of Fuding Investment Co., Ltd. Representative: Re-Zhang Lin
NT$ 2,000,000 ~ NT$ 4,999,999	-	-	Fu-Le Lin Corporate Directors of Qiao Mei Development Corporation Representatives: Jun-Yan Jiang	Fu-Le Lin Corporate Directors of Qiao Mei Development Corporation Representatives: Jun-Yan Jiang
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	Corporate Directors of Qiao Mei Development Corporation Representatives: Ta-Wen Sun
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	9	9	9	9

(2) Compensation Paid to President and Vice Presidents

As of December 31, 2018 (In Thousands of New Taiwan Dollars; Thousands of Shares; %)

Title	Name	Salary (A)		Severance Pay and Pensions (B)		Bonus and Allowance (C)		Employee Compensation (D)				Total of A, B, C and D as a % of 2018 Net Income		Compensation from Non-Consolidated Affiliates
		From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	From Taiflex	From All Consolidated Entities	From Taiflex		From All Consolidated Entities		From Taiflex	From All Consolidated Entities	
								Cash	Stock	Cash	Stock			
Chairperson and CEO of Reinvestment	Ta-Wen Sun	10,834	13,720	0	0	10,464	10,464	8,916	0	8,916	0	4.49	4.92	0
President	Zhi-Ming Yen													
Vice President	Zong-Han Jiang													
Senior R&D Director	Fu-Le Lin													
Project Vice President	Jiang-Zhi Zhao													

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		
NT$ 2,000,000 ~ NT$ 4,999,999	Zong-Han Jiang, Fu-Le Lin, Jiang-Zhi Zhao	Zong-Han Jiang, Fu-Le Lin, Jiang-Zhi Zhao
NT$ 5,000,000 ~ NT$ 9,999,999	Ta-Wen Sun, Zhi-Ming Yen	Ta-Wen Sun, Zhi-Ming Yen
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	5	5

(3) Employee Compensation Granted to Managers

As of December 31, 2018 (In Thousands of New Taiwan Dollars)

	Title	Name	Stock	Cash	Total	Total as a % of 2018 Net Income
Managers	Chairperson and CEO of Reinvestment	Ta-Wen Sun	0	16,660	16,660	2.48
	President	Zhi-Ming Yen				
	Vice President	Zong-Han Jiang				
	Senior R&D Director	Fu-Le Lin				
	Project Vice President	Jiang-Zhi Zhao				
	Senior Assistant Vice President	Zhen Lin				
	Chief Financial Officer	Fang-I Hsieh				
	Chief Legal Officer	Jin-Cheng Zhang				
	Senior Assistant Vice President	Guo-Xiong Xia				
	Assistant Vice President	Zi-Kang Yang				
	Senior Assistant Vice President	Chong-Chen Liu				
	Assistant Vice President	Sheng-Ying Lin				
	Assistant Vice President	Bing-Xun Zhang				
	Assistant Vice President	Jing-Wen Lu				
	Assistant Vice President	Sheng-Xu Yang				
	Assistant Vice President	Zheng-Hao Hou				

(4) Analysis of remuneration and compensation paid to Directors, President and Vice Presidents by the Company and all consolidated entities in 2017 and 2018 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 2017 and 2018 as a percentage of net income in the parent company only or individual financial statements:

(In %)

Item \ Year	2018		2017	
	Taiflex	All Consolidated Entities	Taiflex	All Consolidated Entities
Directors	5.20	5.29	5.47	5.80
President and Vice Presidents	4.49	4.92	6.83	7.73

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: 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 five (A) Board meetings in 2018. 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	5	0	100%	Elected on May 26, 2017; Current member

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A)	Remark
Director	Qiao Mei Development Corporation Representative: Jun-Yan Jiang	5	0	100%	Elected on May 26, 2017; Current member
Director	Ching-Yi Chang	5	0	100%	Elected on May 26, 2017; Current member
Director	Fu-Le Lin	5	0	100%	Elected on May 26, 2017; Current member
Director	Fuding Investment Co., Ltd. Representative: Re-Zhang Lin	4	1	80%	Elected on May 26, 2017; Current member
Director	Chun-Chi Lin	5	0	100%	Elected on May 26, 2017; Current member
Independent Director	Chein-Ming Hsu	5	0	100%	Elected on May 26, 2017; Current member
Independent Director	Wen-I Lo	5	0	100%	Elected on May 26, 2017; Current member
Independent Director	Shi-Chern Yen	5	0	100%	Elected on May 26, 2017; Current member

For the Board meetings in 2018, the number of attendance available was 45 times and the attendance in person was 44 time. The attendance rate of the Board as a whole was 97.78%.

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:

   (1) Matters specified in Article 14-3 of the Securities and Exchange Act

Date of Board Meeting	Session	Contents of Motions	Independent Directors' Opinions	Actions Taken
2018.01.17	7th meeting of the 8th term	1. To approve the capital expenditure budget for 2018	Approved	N/A
		2. To provide endorsement and guarantee to subsidiaries	Approved	N/A
		3. To approve the provision of Letter of Support for investee, Taiflex Scientific (Kunshan) Co., Ltd.	Approved	N/A
2018.02.27	8th meeting of the 8th term	1. To approve 2017 business report and financial statements	Approved	N/A
		2. To appoint CPAs for 2018 and assess their independence	Approved	N/A
		3. To assess the effectiveness of internal control system for 2017 and issue the Statement of Internal Control System	Approved	N/A

Date of Board Meeting	Session	Contents of Motions	Independent Directors' Opinions	Actions Taken
2018.04.17	9th meeting of the 8th term	1. To approve 2017 earnings distribution	Approved	N/A
		2. To approve consolidated financial statements for the three months ended March 31, 2018	Approved	N/A
		3. To reduce the endorsement and guarantee to subsidiaries	Approved	N/A
		4. To approve the provision of Letter of Support for investee, Koatech Technology Corporation	Approved	N/A
2018.07.24	10th meeting of the 8th term	1. To approve consolidated financial statements for the six months ended June 30, 2018	Approved	N/A
		2. To provide endorsement and guarantee to subsidiaries	Approved	N/A
		3. To approve the provision of Letter of Support for investees, Taiflex Scientific (Kunshan) Co., Ltd. and Koatech Technology Corporation	Approved	N/A
2018.10.23	11th meeting of the 8th term	1. To approve consolidated financial statements for the nine months ended September 30, 2018	Approved	N/A
		2. To provide endorsement and guarantee to subsidiaries	Approved	N/A
		3. To approve the limit for loans to subsidiaries	Approved	N/A
		4. To approve the provision of Letter of Support for investee, Taiflex Scientific (Kunshan) Co., Ltd.	Approved	N/A
		5. To approve 2019 annual audit plan of auditing office	Approved	N/A
		6. To determine the dates for 2019 Audit Committee meetings	Approved	N/A

(2) Except for items specified above, other resolutions on which an independent director expresses objection or reservation, either by recorded statement or in writing: 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
2018.01.17	Ta-Wen Sun Fu-Le Lin	1. The 2017 compensation to employees and remuneration to Directors 2. To discuss the 2017 year-end net income bonus to managers 3. To approve managerial personnel changes, and details and amount of compensation to managers	Being the managers in the motion	Except for these two Directors who recused themselves from the voting due to conflict of interest, the motion was approved by the remaining seven Directors in attendance.

2018.07.24	Ta-Wen Sun Fu-Le Lin	1. To review the distribution of 2017 remuneration to Directors and Supervisors and compensation to managerial employees.	Being the managers in the motion	Except for these two Directors who recused themselves from the voting due to conflict of interest, the motion was approved by the remaining seven 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:
   (1) 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.
   (2) 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.
   (3) 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 42 for details.

(2) Operations of Audit Committee:

The summary of tasks completed by and operations of Audit Committee in 2018 are as follows:

A. The Company’s Audit Committee comprises three independent directors. Its function is to supervise the fair presentation of the Company’s financial statements, the appointment (discharge), independence and performance of the Company’s CPAs, the effective implementation of internal control, regulatory compliance, and control over existing or potential risks of the Company. Its main responsibilities are listed as follows:

   (a) To formulate or amend internal control system pursuant to Article 14-1 of the Securities and Exchange Act.

   (b) To assess the effectiveness of the internal control system.

   (c) To formulate or amend procedures for significant financial or business activities pursuant to Article 36-1 of the Securities and Exchange Act; for example, acquisition or disposal of assets, derivatives transactions, lending funds to other parties, and provision of endorsements or guarantees to other parties.

   (d) Matters involving Directors’ personal interests.

   (e) Material asset or derivative instrument transactions.

   (f) Material loans to others or provision of endorsement or guarantees.

   (g) Offering, issuance, or private placement of equity-type marketable securities.

   (h) Appointment, discharge of CPAs or their compensation.

   (i) Appointment or discharge of a financial, accounting, or internal audit officer.

   (j) Annual and semi-annual financial reports.

(k) Other material matters governed by the Company or the competent authority.

B. Review financial reports

The Board of Directors has prepared the Company's 2018 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, Jheng-Chu Chen and Fang-Wen Li, 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.

C. Assess the effectiveness of internal control

The Audit Committee has assessed the internal control system of the Company as of December 31, 2018 (including its supervision and management over subsidiaries). The assessment covers the effectiveness and efficiency of our operations; the reliability, timeliness and transparency of our financial reporting; and compliance with applicable laws and regulations. The design and execution of internal control systems are found to be effective. Moreover, the internal control system contains self-monitoring mechanisms, and Taiflex takes immediate remedial actions in response to any deficiencies identified.

D. CPAs

Audit Committee is responsible for assessing the independence of the Company's accounting firm to ensure the impartiality of financial reports. Except for tax-related services or items with special approval, the accounting firm cannot provide other services to the Company. Services provided by the accounting firm shall all be approved by the Audit Committee.

To ensure the independence of the accounting firm, Audit Committee formulates independence assessment procedures in accordance with Article 47 of the Certified Public Accountant Act and Bulletin No. 10, "Integrity, Objectivity and Independence", of the Norm of Professional Ethics for Certified Public Accountants. CPAs are assessed for their independence, professionalism and competence, and whether they are related parties to the Company or have business or financial interests in the Company.

In the sixth meeting of the first-term Audit Committee on February 27, 2018 and the eighth meeting of the eighth-term Board of Directors on February 27, 2018, the independence of CPAs, Jheng-Chu Chen and Fang-Wen Li, from Ernst & Young was assessed. As they both met the Company's standards for independence, they were qualified to be the Company's CPAs for financial statement and tax compliance audits in 2018.

E. The Company has established the Audit Committee on May 26, 2017. Mr. Wen-I Lo, convener of the Committee, convened five (A) meetings in 2018. 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	5	0	100%	Elected on May 26, 2017; Current member
Member	Chein-Ming Hsu	5	0	100%	
Member	Shi-Chern Yen	5	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.
   (1) Matters specified in Article 14-5 of the Securities and Exchange Act

Date of Board Meeting	Session	Contents of Motions	Committee Resolution	Actions Taken
2018.01.17	7th meeting of the 8th term	1. To approve the capital expenditure budget for 2018	Approved	N/A
		2. To provide endorsement and guarantee to subsidiaries	Approved	N/A
		3. To approve the provision of Letter of Support for investee, Taiflex Scientific (Kunshan) Co., Ltd.	Approved	N/A
2018.02.27	8th meeting of the 8th term	1. To approve 2017 business report and financial statements	Approved	N/A
		2. To appoint CPAs for 2018 and assess their independence	Approved	N/A
		3. To assess the effectiveness of internal control system for 2017 and issue the Statement of Internal Control System	Approved	N/A
2018.04.17	9th meeting of the 8th term	1. To approve 2017 earnings distribution	Approved	N/A
		2. To approve consolidated financial statements for the three months ended March 31, 2018	Approved	N/A
		3. To reduce the endorsement and guarantee to subsidiaries	Approved	N/A
		4. To approve the provision of Letter of Support for investee, Koatech Technology Corporation	Approved	N/A
2018.07.24	10th meeting of the 8th term	1. To approve consolidated financial statements for the six months ended June 30, 2018	Approved	N/A
		2. To provide endorsement and guarantee to subsidiaries	Approved	N/A
		3. To approve the provision of Letter of Support for investees, Taiflex Scientific (Kunshan) Co., Ltd. and Koatech Technology Corporation	Approved	N/A
2018.10.23	11th meeting of the 8th term	1. To approve consolidated financial statements for the nine months ended September 30, 2018	Approved	N/A
		2. To provide endorsement and guarantee to subsidiaries	Approved	N/A
		3. To approve the limit for loans to subsidiaries	Approved	N/A
		4. To approve the provision of Letter of Support for investee, Taiflex Scientific (Kunshan) Co., Ltd.	Approved	N/A
		5. To approve 2019 annual audit plan of auditing office	Approved	N/A
		6. To determine the dates for 2019 Audit Committee meetings	Approved	N/A

   (2) 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 2018: 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:

Date of Board Meeting	Name of Independent Directors	Contents of Motions	Causes for Recusal	Participation in Voting
2018.04.17	Wen-I Lo	To reduce the endorsement and guarantee to subsidiaries	He was an interested party to the manager of Shenzhen Branch, Hua Nan Commercial Bank involved in the case	Except for one independent director who recused himself from the voting due to conflict of interest, the motion was approved by the remaining two independent directors in attendance.

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).
   (1) Besides submitting audit and follow-up reports to independent directors on a monthly basis, the Company's internal audit supervisor presented audit items, audit findings and follow-up status to them during the quarterly Audit Committee meetings.
   (2) The independent directors and audit supervisor all attended the Board meetings convened by the Company each quarter, and the audit supervisor presented internal audit items at each Board meeting.
   (3) When reviewing the annual financial reports, CPAs attended the Audit Committee meeting to present the audit results, key audit matters, significant subsequent events, and updates on relevant laws and regulations; and communicated fully with independent directors. CPAs also attended the Board meetings to provide explanations and communicate with Directors.
   (4) When issues needed to be discussed between the audit supervisor, CPAs and independent directors, they would contact each other directly. The communication channels between them have worked well.
   (5) Communications between independent directors and internal auditors are summarized as follows:

Meetings Attended by Internal Audit Supervisor and Dates	Communications	Outcome
2018.01.17 Audit Committee meeting	1. Internal audit items from September to December 2017	1. Reported at the Audit Committee meeting and then the Board meeting
2018.02.27 Audit Committee meeting	1. Internal audit items for January 2018 2. Assessment on the effectiveness of internal control system for 2017 3. 2017 "Statement of Internal Control System"	1. Reported at the Audit Committee meeting and then the Board meeting 2. Submitted to the Board once approved 3. Submitted to the Board once approved
2018.04.17 Audit Committee meeting	1. Internal audit items from February to March 2018	1. Reported at the Audit Committee meeting and then the Board meeting
2018.07.24 Audit Committee meeting	1. Internal audit items from April to June 2018	1. Reported at the Audit Committee meeting and then the Board meeting
2018.10.23 Audit Committee meeting	1. Internal audit items from July to October 2018 2. 2019 audit plan	1. Reported at the Audit Committee meeting and then the Board meeting 2. Submitted to the Board once approved

(6) Communications between independent directors and CPAs are summarized as follows:

Meetings Attended by CPAs and Dates	Communications	Outcome
2018.02.27 Audit Committee meeting and Board meeting	1. Assessment on the independence of CPAs 2. Explanations on 2017 parent company only and consolidated financial statements 3. Impact of amendments to IFRSs on the Company	1. CPAs attended and reported at the Audit Committee and Board meetings, and communicated and discussed with independent directors. Once reviewed in the Audit Committee meeting, these items were submitted to and approved in the Board meeting.

(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

Assessment Item	Status: Yes	Status: No	Status: Description	Non-compliance and Reasons
3. Composition and duties of the Board of Directors				
(1) Has the Company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly?	V		(1) Members of the Board are diversified, with different professional backgrounds and genders, to form a well-balanced structure. Diversity in the Board:	None

Directors (Diverse core items)		Gender	Operation Judgement	Accounting and Financial Analysis	Manage-ment	Crisis Management	Industrial Knowledge	International Perspective	Leadership	Decision -Making
Chairperson	Qiao Mei Development Corporation Representative: Ta-Wen Sun	M	V	V	V	V	V	V	V	V
Director	Qiao Mei Development Corporation Representative: Jun-Yan Jiang	M	V	V	V	V	V	V	V	V
Director	Ching-Yi Chang	M	V	V	V	V	V	V	V	V
Director	Fuding Investment Co., Ltd. Representative: Re-Zhang Lin	M	V	V	V	V	V	V	V	V
Director	Chun-Chi Lin	M	V	V	V	V	V	V	V	V
Director	Fu-Le Lin	M	V		V	V	V	V	V	V
Independent Director	Chein-Ming Hsu	M	V	V	V	V	V	V	V	V
Independent Director	Wen-I Lo	M	V	V	V	V	V	V	V	V
Independent Director	Shi-Chern Yen	M	V			V	V	V		V

Assessment Item	Yes	No	Description	Non-compliance and Reasons
(2) Other than Compensation and Audit Committees which are required by law, does the Company plan to set up other functional Committees?	V		(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.	
(3) Has the Company established methods to evaluate the performance of its Board of Directors annually?	V		(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.	
(4) Has the Company periodically evaluate the independence of its CPAs?	V		(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	

<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, Jheng-Chu Chen and Fang-Wen Li, from Ernst & Young on February 20, 2019. As they both met the Company's standards for independence, they were qualified to be its CPAs.</td><td>None</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>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.)?</td><td>V</td><td></td><td>The Company has concurrently dedicated corporate governance personnel from finance, shareholder service and legal & intellectual property 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.</td><td>None</td></tr>
<tr><td>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?</td><td>V</td><td></td><td>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.</td><td>None</td></tr>
<tr><td>6. Has the Company appointed a professional registrar to organize the Shareholders' Meetings?</td><td>V</td><td></td><td>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.</td><td>None</td></tr>
<tr><td>7. Information disclosure
(1) Has the Company established a corporate website to disclose information regarding the Company's financials, business and corporate governance status?</td><td>V</td><td></td><td>(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.</td><td>None</td></tr>
</table>

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 at the corporate website)?	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 investors 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 91 to 96) 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 complaint 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 2018" for details. (6) The implementation of risk management policies and risk evaluation measures: Please refer to "Risk Analysis and Assessment" (page 109 to 113) 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 provide on-time delivery and after-sale services.	None

Assessment Item	Status			Non-compliance and Reasons
	Yes	No	Description	
			(8) Insurance for Directors and Supervisors provided by the Company: The Company provides liability insurance for Directors 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 ranked in the top 6% to 20% in 2017 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 2018 for the 2017 Corporate Governance Evaluation: Independent directors' opinions on material proposals in the Board meetings and actions taken by the Company in connection with those opinions are disclosed in detail in the annual report. The Company has established a diversification policy for the composition of Board members and disclosed the policy implementation status in the annual report and corporate website. The amount and nature of non-audit fees paid to CPAs and affiliates of the CPA's accounting firms are disclosed in the annual report. The names, and numbers and percentages of shares held by major shareholders, including shareholders with holdings exceeding 5% or top ten shareholders, are disclosed in the annual report and corporate website.

(3) Pending issues with high priority

A. To strengthen the structure and operation of the Board

(a) The Company shall propose a succession plan for its Board members and senior management.

(b) The Company shall set up a position for corporate governance supervisor to handle matters pertaining to corporate governance. The supervisor's job function, main focuses of the year and continuing education shall be disclosed in the annual report and corporate website.

(c) The Company will establish a framework for information security risk management and draw up information security policies and specific management schemes. All information will be disclosed in the annual report and corporate website.

B. To enhance information transparency

(a) To upload the English translation of annual financial reports (including the financial statements and notes) to the corporate and MOPS websites.

C. To fulfill corporate social responsibilities

(a) To formulate human rights protection policies and specific management schemes based on the International Bill of Human Rights and disclose relevant details in the annual report and corporate website.

(4) The Company performed self-assessment based on 2018 Corporate Governance Evaluation in January 2019. The outcome will be reviewed to determine the performance improvement plans.

Continuing education of Directors in 2018 is as follows:

Personnel	Date	Host	Class	Duration
Representative of corporate director: Ta-Wen Sun	2018.04.25	Taiwan Academy of Banking and Finance	Corporate Governance and Sustainability Workshop	3 hours
	2018.04.27	Securities & Futures Institute	2018 Insider Trading Prevention Seminar	3 hours
Representative of corporate director: Jun-Yan Jiang	2018.03.16	Taiwan Corporate Governance Association	Understanding of Key Audit Matters and Countermeasures of the Board	3 hours
	2018.04.20	Taiwan Corporate Governance Association	Developments and Important Norms Concerning Anti-Money Laundering and Counter Terrorism Financing.	3 hours
Director Ching-Yi Chang	2018.06.01	Taiwan Securities Association	Functions of the Board - from the Corporate Governance Perspective	3 hours
	2018.07.10	Securities & Futures Institute	Seminar of Compliance with Equity Trading Regulations for Insiders in Listed and Unlisted Public Companies	3 hours
	2018.08.07	Fubon Securities Co., Ltd.	Seminar of Compliance with Securities Regulations for Insiders	3 hours
Director Fu-Le Lin	2018.04.11	Taiwan Academy of Banking and Finance	Corporate Governance and Sustainability Workshop	3 hours
	2018.07.27	Securities & Futures Institute	Seminar of Compliance with Equity Trading Regulations for Insiders in Listed and Unlisted Public Companies	3 hours
Director Chun-Chi Lin	2018.05.24	Taiwan Corporate Governance Association	Corporate Governance and Securities Regulations	3 hours
	2018.10.05	Taiwan Academy of Banking and Finance	Corporate Governance and Sustainability Workshop	3 hours
	2018.10.16	Taiwan Corporate Governance Association	Responsibilities of Directors and Supervisors and Corporate Governance	3 hours
	2018.10.16	Taiwan Corporate Governance Association	Action Plans in Response to US-China Trade War and Updates on Accounting and Tax Regulations	3 hours
Representative of corporate director Re-Zhang Lin	2018.04.25	Taiwan Academy of Banking and Finance	Corporate Governance and Sustainability Workshop	3 hours
	2018.04.27	Securities & Futures Institute	2018 Insider Trading Prevention Seminar	3 hours
Independent Director Chein-Ming Hsu	2018.04.11	Taiwan Academy of Banking and Finance	Corporate Governance and Sustainability Workshop	3 hours
	2018.05.08	Taiwan Stock Exchange Corporation	Summit of New Corporate Governance Blueprint for Listed Companies	3 hours
Independent Director Wen-I Lo	2018.05.08	Taiwan Stock Exchange Corporation	Summit of New Corporate Governance Blueprint for Listed Companies	3 hours
	2018.06.21	Taiwan Securities Association	Interpretation and Case Study on New Anti-Money Laundering Regulations	3 hours
Independent Director Shi-Chern Yen	2018.04.24	Taiwan Corporate Governance Association	Board Performance and Effectiveness Evaluation - From Directors and Supervisors’ Level	3 hours
	2018.07.17	Securities & Futures Institute	Corporate Corruption Trends and Prevention – From Corporate Governance Perspective	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			Independence Status (Note 2)								Number of Other Public Companies in Which the Individual is Concurrently Serving in the Compensation Committee	Remark
		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	1	2	3	4	5	6	7	8		
Independent Director	Chein-Ming Hsu	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	0	Note 3
Independent Director	Wen-I Lo	No	Yes	Yes	✓	✓	✓	✓	✓	✓	✓	✓	2	Note 3
Independent Director	Shi-Chern Yen	Yes	Yes	Yes	✓	✓	✓	✓	✓	✓	✓	✓	1	Note 3

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 ranks in the top five in holdings.
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:

Compensation Committee shall exercise due care of a good administrator and duly carry out the following responsibilities:

(1) Review the Charter regularly and propose recommendations.

(2) Formulate and regularly review the annual and long-term performance targets, and the compensation policies, systems, standards and structures of Directors and managers.

(3) Regularly assess Directors' and managers' achievement rates concerning the performance targets and set out details and amount of individual's compensation. Recommendations made shall be submitted to the Board for discussion.

B. Compensation Committee:

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

(b) Term: May 26, 2017 to May 25, 2020. The Compensation Committee held two (A) meetings in 2018. 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	2	0	100%	Elected on May 26, 2017; Current member
Independent Director	Wen-I Lo	2	0	100%	Elected on May 26, 2017; Current member
Independent Director	Shi-Chern Yen	2	0	100%	Elected on May 26, 2017; Current member

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.
3. The date and session of the Compensation Committee meetings in 2018, contents of motions, the Committee's resolutions and actions taken by the Company regarding the Committee's opinions are as follows:

Date of Compensation Committee Meeting	Session	Contents of Motions	Committee Resolutions	Actions Taken
2018.01.17	5th meeting of the 3rd term	1. To review the distribution of 2017 compensation to employees and remuneration to Directors	Approved	N/A
		2. To review the 2017 year-end net income bonus to managers	Approved	N/A
2018.07.16	6th meeting of the 3rd term	1. To review 2017 remuneration to Directors and Supervisors and compensation to managerial employees	Approved	N/A
		2. To review the details and amount of compensation to existing and new managers	Approved	N/A

(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, 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 shall attend relevant sessions for their external continuing education.	None
2. Sustainable environment development (1) Is the Company committed to improving the efficiency of various resources and utilizing renewable materials that have low environmental impact?	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:	

Assessment Items	Status: Yes	Status: No	Status: Description	Non-compliance and Reasons
			A. Waste solvent recycling rate: 155,370 Kg was processed which generated 43,325 Kg in 2018. 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 107,476 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. 9,380 Kg were returned in 2018.	
(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.	None
(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 2018, the Company purchased 653,379 kWh of green solar power, which reduced CO2e emission by 34 thousand Kg. Green power refers to electricity which has zero or close to zero CO2 emission during the production process.	

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
			B. Rotors at Factory Two are scheduled to go through trial runs in 2019. Processing condensed VOCs through RRTO reduces fuel consumption. It is estimated to save natural gas of 40,000 cubic meter/year and reduce CO2 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	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 and safety, the Company provides continuing care and management. There are above-standard health check-ups, annual special health examinations, semi-annual environment monitoring, etc. Outcome of these examinations are analyzed in order to organize relevant health promotion activities. Guidance and health education services are provided to employees with unfavorable outcomes and there are health-related seminars available to employees. (4) The Company periodically holds management-labor meetings to facilitate the communication between both parties. The meeting	None

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
and used reasonable measures to notify employees of operational changes which may cause significant impact to employees?			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 satisfaction are conducted annually to improve the less favorable aspects in management and services.	
(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 stakeholders' 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. Underwriter Laboratories Inc. (UL) 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. Japan Electrical Safety & Environment Technology Laboratories (JET) 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.	None

<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>(8) Does the Company evaluate environmental and social track records before engaging with potential suppliers?

(9) Do the Company’s contracts with major suppliers include termination clauses if they violate CSR policy and cause significant environmental and social impact?</td><td>V

V</td><td></td><td>(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 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 “Code of Practice for CSR”.</td><td>None</td></tr>
<tr><td>4. Enhancement on information disclosure
(1) Does the Company disclose relevant and reliable CSR information on official website or MOPS?</td><td>V</td><td></td><td>(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.</td><td>None</td></tr>
<tr><td colspan="5">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 “Code of Practice for 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 44 to 50) or CSR report for details.</td></tr>
<tr><td colspan="5">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 107,476Kg. 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.</td></tr>
</table>

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	

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.

(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 also sponsored outstanding clubs at schools, such as the dancing club and orchestra at Siao Gang Senior High School. Children would have sufficient resources to develop their potentials and courage to realize their dreams, and could enjoy different perspectives and experience. In addition, the Company 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 2018 are summarized as follows:

Feb. 2018	Organized blood donation activities with Kaohsiung Export Processing Zone
Feb. ~ Oct. 2018	Provided internship to 10 students from National Kaohsiung First University of Science and Technology, National Kaohsiung University of Science and Technology, Tunghai University, Shih Chien University, etc.
Mar. 2018	Sponsored uniforms for Siao Gang Senior High School's basketball team
Mar. 2018	Invited teachers and students from universities to visit the Company: National Cheng Kung University in March, National Kaohsiung Normal University in May and Shih Chien University in November
May 2018	Invited students of Siao Gang Senior High School's charity foundation to watch movies at Cinemark
Jul. 2018	Sponsored Siao Gang Senior High School's karate team
Aug. 2018	Sponsored the copper letter casting and marble monument of Siao Gang Senior High School's student activity center
Aug. 2018	Co-organized the Summer Camp of Puren Youth Care Foundation in Kaohsiung
Sep. 2018	Sponsored Siao Gang Senior High School's dancing club
Sep. 2018	Sponsored Siao Gang Senior High School's orchestra
Sep. 2018	Sponsored the scholarship programs of Kaohsiung United Charity Association
Oct. 2018	Sponsored the charity activity for elders organized by cnYes
Oct. 2018	Hosted charity basketball games with Siao Gang Senior High School
Dec. 2018	Hosted the study tours and homestay programs of Puren Youth Care Foundation in Kaohsiung
Dec. 2018	Assisted Kaohsiung United Charity Association with food bank activity

(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:

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
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.				
7. Other information regarding CSR report which is verified by certification bodies: None.				

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

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
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?	 V V V		(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 has organized internal, independent whistleblowing mailbox and 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,	None

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
			manufacture, rendering or sale of products and services	
2. Implementation of ethical management (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? (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? (3) Has the Company established policies to prevent conflicts of interest, provide appropriate communication channels and thoroughly implement the policies? (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 V V 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) 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) 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) 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	None

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
(5) Has the Company regularly held internal and external training sessions on business ethics?	V		control system. (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, Methods for Evaluating Board of Directors' Performance, Charter for Compensation Committee, Charter for Audit 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 20, 2019

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 2018:

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, 2018, 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 2018 Annual Report 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 20, 2019, 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 2018 and as of the date of this annual report: None.

(11) Major resolutions of Shareholders' Meetings and Board of Directors' meetings in 2018 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	2018.05.29	1. Approving the audited 2017 financial statements 2. Approving the 2017 earnings distribution
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 5. Setting a record date in the fourth quarter of 2017 for employee stock options.
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
Board of Directors' Meeting	2018.04.17	1. Approving the 2017 earnings distribution 2. Setting a record date in the first quarter of 2018 for employee stock options.
Board of Directors' Meeting	2018.07.24	1. Approving the distribution of remuneration to Directors and Supervisors and compensation to managers and employees for 2017 2. Approving the details and amount of compensation to existing and new managers 3. Approving the increase in capital expenditure 4. Provision of endorsement and guarantee by subsidiaries 5. Approving matters relating to the ex-dividend scheme for 2018
Board of Directors' Meeting	2018.10.23	1. Approving the establishment of "Methods for Evaluating Board of Directors' Performance" 2. Provision of endorsement and guarantee by subsidiaries 3. Approving the limit for loans to subsidiaries 4. Approving 2019 annual audit plan of auditing office

B. Execution of resolutions of 2018 Annual Shareholders' Meeting:

(a) Approving the audited 2017 financial statements

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
151,876,856	141,718,278	162,613	9,995,965
100.00%	93.31%	0.11%	6.58%

(b) Approving the 2017 earnings distribution

Execution: The record date was set to be August 17, 2018 and the payment date September 6, 2018. (Cash dividend of NT$2.5 per share.)

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
151,876,856	141,975,037	168,839	9,732,980
100.00%	93.48%	0.11%	6.41%

(12) Different opinions expressed by Directors or Supervisors regarding major resolutions, either by recorded statement or in writing, in 2018 and as of the date of this annual report: None.

(13) Resignation or discharge of Chairperson, President and Supervisors of Accounting, Finance, Internal Audit and Research and Development in 2018 and as of the date of this annual report: None.

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	Jheng-Chu Chen Fang-Wen Li	3,140	0	0	0	335	335	2018	Others mainly consist of audit of physical inventory on bonded goods of NT$100 thousand and money advanced of NT$235 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="4">March 8, 2018</td></tr>
<tr><td>Reasons for Change and Explanation</td><td colspan="4">Due to internal organizational changes in Ernst & Young, Fang-Wen Li and Jheng-Chu Chen were replaced by Jheng-Chu Chen and Fang-Wen Li 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>Parties
Cases</td><td colspan="2">CPA</td><td>The Company</td></tr>
<tr><td>Voluntarily Termination of Engagement</td><td colspan="3" rowspan="2">N/A</td></tr>
<tr><td>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="4">None</td></tr>
<tr><td rowspan="6">Disagreement with the Company</td><td rowspan="4">Yes</td><td></td><td colspan="2">Accounting principle or practice</td></tr>
<tr><td></td><td colspan="2">Financial report disclosure</td></tr>
<tr><td></td><td colspan="2">Auditing scope or procedure</td></tr>
<tr><td></td><td colspan="2">Others</td></tr>
<tr><td>No</td><td colspan="3">V</td></tr>
<tr><td colspan="4">Explanation: None</td></tr>
</table>

(2) Successor CPA

CPA Firm	Ernst & Young
CPAs	Jheng-Chu Chen and Fang-Wen Li
Date of Engagement	March 8, 2018
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 2018: None.

8. Changes in Shareholding and Shares Pledged by Directors, Supervisors, Managers and Shareholders with 10% Shareholdings or More in 2018 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	2018		By March 31, 2019	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Corporate Director	Qiao Mei Development Corporation	500,000	0	0	0
Representative of Corporate Director and Chairperson	Ta-Wen Sun	0	0	0	0
Representative of Corporate Director	Jun-Yan Jiang	(10,000)	0	(70,000)	0
Director	Ching-Yi Chang	100,000	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	40,000	0	0	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	Zhi-Ming Yen	0	0	0	0
Vice President	Zong-Han Jiang	(102,000)	0	0	0
Project Vice President	Jiang-Zhi Zhao	28,000	0	0	0
Chief Legal Officer	Jin-Cheng Zhang	(3,000)	0	(1,000)	0
Senior Assistant Vice President	Zhen Lin	0	0	0	0
Senior Assistant Vice President	Chong-Chen Liu	0	(50,000)	0	0
Senior Assistant Vice President	Guo-Xiong Xia	20,000	0	0	0
Senior Assistant Vice President	Ji-Ren Huang	0	0	0	0
Vice President	Jing-Wen Lu	0	0	0	0
Vice President	Sheng-Ying Lin	(18,000)	0	0	0
Vice President	Bing-Xun Zhang	0	0	0	0
Vice President	Zheng-Hao Hou	0	0	0	0
Vice President	Sheng-Xu Yang	0	0	0	0
Chief Financial Officer	Fang-I Hsieh	0	0	0	0

(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, 2019 (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	7.51	30.55	97,000,000
Zhi-Ming Yen	Pledge	2017.12.08	Yuanta Securities	None	255,000	0.19	63.11	6,000,000

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 31, 2019; (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	15,713,729	7.51	0	0	0	0	-	-	-
BaoJie Funds in custody of Standard Chartered Bank Main Branch	14,700,320	7.03	0	0	0	0	-	-	-
Ching-Yi Chang	4,699,282	2.25	642,313	0.31	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: Si-Guo Huang	4,327,600	2.07	0	0	0	0	-	-	-
Shun-Kai Lu	3,904,200	1.87	0	0	0	0	-	-	-
Chang Wah Electromaterials Inc. Representative: Canon Huang	3,651,000	1.75	0	0	0	0	-	-	-
LSV Emerging Markets Equity Fund LP in custody of Bank of Taiwan	2,931,480	1.40	0	0	0	0	-	-	-
Vanguard Emerging Markets Stock Index Fund Managed by Vanguard Group in custody of JPMorgan Chase Bank N.A. Taipei Branch	2,698,920	1.29	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	
Vanguard Total International Stock Index Fund Managed under Vanguard Star Funds in custody of JPMorgan Chase Bank N.A. Taipei Branch	2,593,549	1.24	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.	21,825	100.00	0	0	21,825	100.00
LEADMAX Limited	10	100.00	0	0	10	100.00
Koatech Technology Corporation	13,700	53.86	1,038	4.08	14,738	57.94
Innovision FlexTech Corp.	3,611	15.07	17	0.07	3,628	15.14
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	21,170	100.00	25,010	100.00
Taiflex Scientific (Kunshan) Co., Ltd. (Note 2)	0	0	0	100.00	0	100.00
Richstar Co., Ltd.	17,500	53.01	15,510	46.99	33,010	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
Rudong Fuzhan Scientific Co., Ltd. (Note 2)	0	0	0	100.00	0	100.00
Geckostc Scientific Co., Ltd	1,000	35.17	0	0	1,000	35.71

Note 1: Long-term investment of the Company as of March 31, 2019

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, 2019 (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	By Jing-Jia-Shou-Gao-Zi No. 10740010820 on 2018.04.27

B. Type of shares

As of March 31, 2019; (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 31, 2019 (In Shares; %)

Type / Quantities	Government Agencies	Financial Institutions	Other Juridical Persons	Natural Persons	Foreign Institutions and Natural Persons	Total
Number of Shareholders	2	6	218	32,246	92	32,564
Shares	289,000	4,635,692	38,149,577	124,483,892	41,561,531	209,119,692
%	0.14%	2.22%	18.24%	59.53%	19.87%	100%

(3) Shareholding Distribution

A. Common share:

As of March 31, 2019 (In Shares; %)

Shareholding			Number of Shareholders	Shares	%
1	~	999	16,161	767,269	0.37%
1,000	~	5,000	12,283	25,237,931	12.07%
5,001	~	10,000	2,166	16,407,592	7.85%
10,001	~	15,000	655	7,915,115	3.78%
15,001	~	20,000	385	7,011,256	3.35%
20,001	~	30,000	349	8,645,214	4.13%
30,001	~	40,000	148	5,267,996	2.52%
40,001	~	50,000	89	4,085,658	1.95%
50,001	~	100,000	158	11,134,326	5.32%
100,001	~	200,000	72	9,690,187	4.63%
200,001	~	400,000	47	13,330,143	6.37%
400,001	~	600,000	11	5,633,434	2.69%
600,001	~	800,000	10	7,170,803	3.43%
800,001	~	1,000,000	5	4,244,370	2.03%
Over 1,000,001			25	82,578,398	39.49%
Total			32,564	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 31, 2019 (In Shares; %)

Shareholding / Major Shareholders	Shares	%
Qiao Mei Development Corporation	15,713,729	7.51
BaoJie Funds in custody of Standard Chartered Bank Main Branch	14,700,320	7.03
Ching-Yi Chang	4,699,282	2.25
Huasheng International Investment Corp.	4,596,945	2.20
Taiwan Life Insurance Co., Ltd.	4,327,600	2.07
Shun-Kai Lu	3,904,200	1.87
Chang Wah Electromaterials Inc.	3,651,000	1.75
LSV Emerging Markets Equity Fund LP in custody of Bank of Taiwan	2,931,480	1.40
Vanguard Emerging Markets Stock Index Fund Managed by Vanguard Group in custody of JPMorgan Chase Bank N.A. Taipei Branch	2,698,920	1.29
Vanguard Total International Stock Index Fund Managed under Vanguard Star Funds in custody of JPMorgan Chase Bank N.A. Taipei Branch	2,593,549	1.24

(5) Market Price, Net Worth, Earnings and Dividends Per Share for 2017 and 2018

(In NT$)

Item		Year	2017	2018	01/01/2019 to 03/31/2019 (Note 5)
Market Price per Share	Highest		64.90	64.90	40.20
	Lowest		33.85	28.80	34.15
	Average		43.22	41.78	37.29
Net Worth per Share (Note 1)	Before Distribution		34.12	34.73	-
	After Distribution		31.62	Note 6	-
Earnings per Share	Weighted Average Shares (in thousands of shares)		206,938	209,084	-
	Earnings per Share		3.55	3.22	-
Dividends per Share	Cash Dividends		2.50	Note 6	-
	Stock Dividends	Earnings	-	Note 6	-
		Capital Surplus	-	Note 6	-
	Accumulated Undistributed Dividend		-	-	-
Return on Investment	Price/Earnings Ratio (Note 2)		12.17	12.98	-
	Price/Dividend Ratio (Note 3)		17.29	Note 6	-
	Cash Dividend Yield (Note 4)		5.78%	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 / 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, 2019, earnings distribution for 2018 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 2018 earnings distribution plan pending to be approved by the Board of Directors' meeting on February 20, 2019 is as follows:

(a) Cash dividend: NT$418,239 thousand from 2018 earnings, i.e. NT$2.0 per share; and NT$104,560 thousand from capital surplus related to share issued at a premium, i.e. NT$0.5 per share. 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 2018, 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 2018. Difference between the estimated amount and the resolution of Shareholders' Meeting will be recognized in profit or loss of 2019.

C. Proposed compensation approved by the Board

With regard to compensation to employees and remuneration to directors, the proposed 2018 earnings distribution plan approved by the Board of Directors' meeting held on February 20, 2019 is as follows:

(a) The proposed compensation to employees of NT$72,534,740 (in cash) and remuneration to directors of NT$19,833,930 approved in the Board of Directors' meeting were of the same amount as the expenses recognized in 2018.

(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 (2018.05.29)	Difference	Cause of Difference
Remuneration to Directors (in Cash)	20,393,030	20,393,030	0	None
Compensation to Employees (in Cash)	74,579,425	74,579,425	0	None

(9) Buyback of Common Shares:

March 31, 2019

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:

The Company has no unexpired employee stock options. Thus, there is no impact on shareholders' equity.

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

A. Third Employee Stock Option

As of March 31, 2019

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

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, 2019: 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, 2019: 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	2017		2018	
	Net Revenue	Ratio (%)	Net Revenue	Ratio (%)
Electronic Materials	7,337,544	65.56	8,273,030	85.79
PV Backsheets	3,710,492	33.15	1,176,124	12.20
Others	144,856	1.29	193,897	2.01
Total	11,192,892	100.00	9,643,051	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

Due to changes in strategies, Taiflex no longer invests resources in products associated with PV backsheets. Instead, the Company actively engages in the development of a comprehensive product line for aluminum plastic films which are the packaging materials for lithium batteries. Those films will initially be used in 3C applications, and later in vehicles and niche segments when the opportunities arise.

(c) Semiconductor Products

(i) To develop high-thermal resistance and chemical resistant laser release layers which are primarily used as temporary adhesive materials in the advanced packaging process.

(ii) To develop photosensitive dielectric resin, a key organic insulating material in the packaging process. It can be applied to passivation layer, stress buffer layer, α-Particle barrier, protection layer for IC components, interlayer dielectrics, etc.

(2) Industry Overview

A. Industry Status and Development

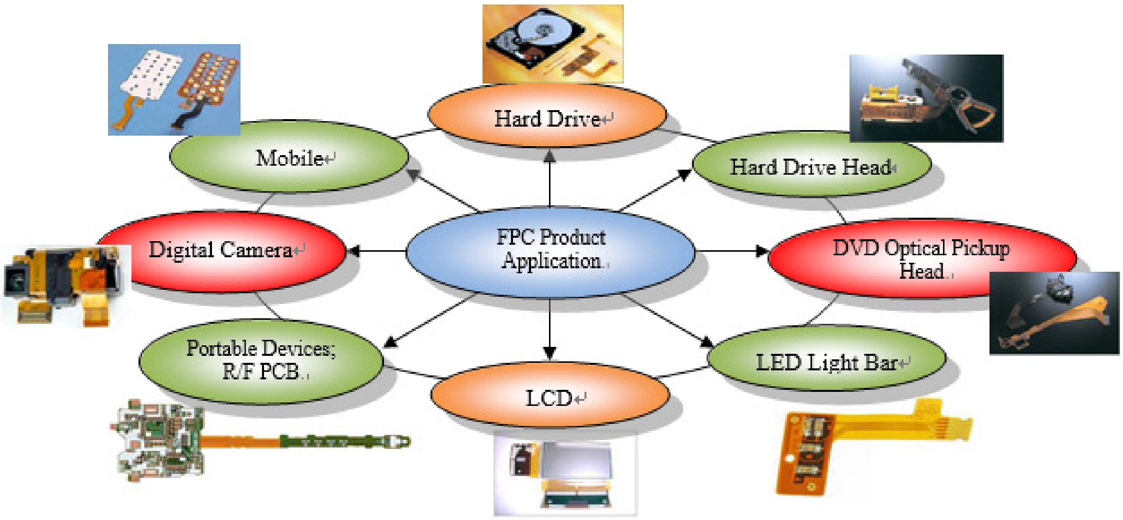
(a) FPC industry

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. During the same period of time, Taiwan and Korean suppliers focus on advancing technology and increasing production scale and market share. At present, Japanese, Taiwanese and Korean FPC suppliers are the three key players in the industry.

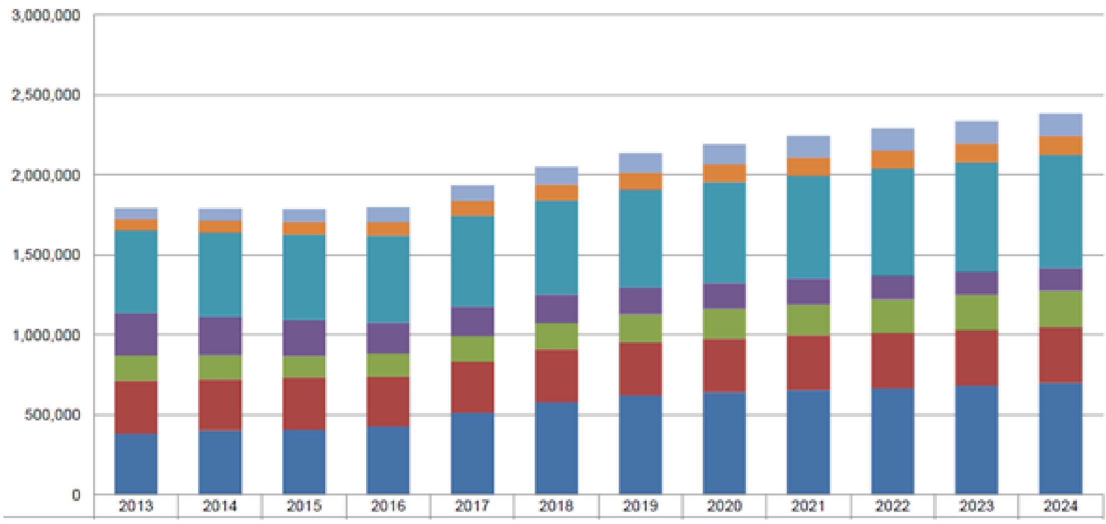
Since the explosive growth of mobile devices in 2010 triggers an enomous increase in FPC production, penetration of smartphones and tablets PCs continues to climb and contributes significantly to the overall grwoth of FPC industry. However, as the market penetration of smartphones and tablets is already at a high level, the FPC industry is expected to enjoy a relatively moderate grwoth rate. JMS expects a continued increase in the annual compounded growth rate of FPC materials from

2013 to 2024; however, the growth rate will be less than 6%.

The future growth momentum of FPC lies in the new applications of 5G high-frequency materials. The schedule of 5G commercial operation announced by nations worldwide generally fall between 2019 to 2020, indicating the world is entering the 5G generation. Even though the initial application of 5G focuses on internet of things, several mobile phone companies have gradually released 5G mobile phones, warming up to the coming 5G era and initiating new challenges and opportunities for the FPC industry. Because the transmission speed of 5G is 20 to 40 times faster than that of 4G, there are relatively strict requirements for high-frequency, high-speed transmission and high-stability characteristics in a product. The future challenge for each FPC company is to enhance their product functions to meet the standards of high frequency, low loss, high stability for 5G. Also, companies are expecting the enormous business opportunities brought on by mobile phone replacement demand in the future.

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.

After the announcement which takes effect on June 1, 2018, Chinese government initiates the first group of subsidy-free solar demonstration projects and cuts down significant non-technological costs, such as land expenses, which account for more than 20% of the investment. The market demand takes a steep dive and both Chinese and Taiwanese companies face huge operational challenges. If the construction starts on the first group of projects, it would indicate that the two major trends of the China’s solar market have emerged, i.e. grid parity and non-subsidy. Assuming China succeeds in realizing grid parity next year, the market demands are expected to surge, which in turn could bring a new wave of growth to the solar industry.

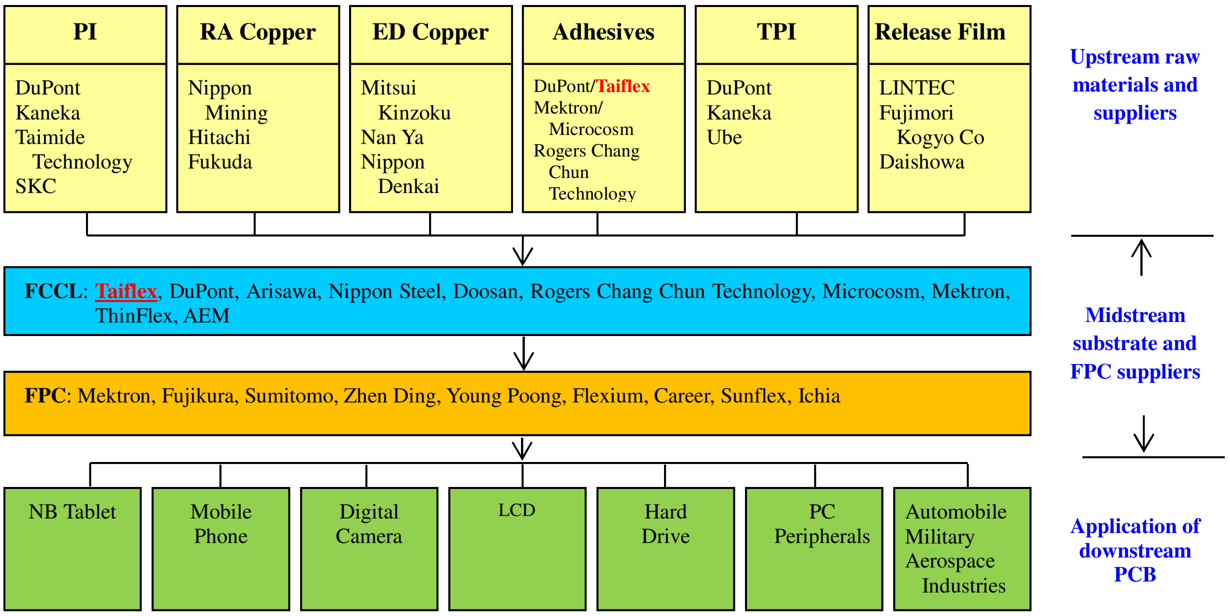
Looking forward, with increasing global warming and pollution from energy production, environmental awareness will continue to drive the development of alternative energy. With expansion of production lines in raw materials and modules and the development of new technologies, solar cell efficiency would 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



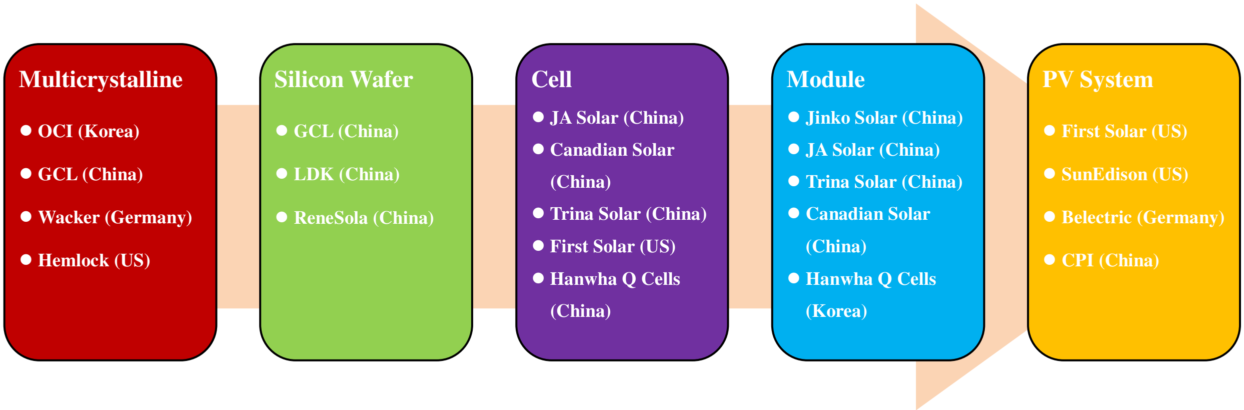
Source: ITIS, Company data

(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. However, the PCB industry in China has grown rapidly with help from the government, and a complete industry cluster, which includes copper foil plants, CCL plants, and assmebly factories, is taking shape. Meanwhile, there are peers entering the FCCL market. For instance, ITEQ and Shengyi Technology have been actively switching from CCL to FCCL recently. Consequently, the competition has become more complicated. With the impending 5G commercial deployment, competitiors will fight aggressively to position themselves in the lead in order to increase their influence. Therefore, the next two years are are extremely critial.

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, 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 that in turn positions Taiflex in a more advantageous position in terms of consolidation of production cost and flexibility.

(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 flexible material specialist.

B. Education Level of Research and Development Personnel

(In number of people)

Year / Education	2016	2017	2018
Ph.D. and Master's Degree	43	41	52
Bachelor's Degree/College	20	25	27
Senior High School	0	2	2
Total	63	68	81

C. Research and Development Expenses from 2014 to 2018

(In Thousands of New Taiwan Dollars)

Year	2014	2015	2016	2017	2018
R&D Expenses	189,228	218,559	217,559	257,468	264,278
Net Revenue	10,127,720	10,267,868	10,283,979	11,192,892	9,643,051
Percentage of Revenue (%)	1.87	2.13	2.12	2.30	2.74

Source: Audited financial statements from 2014 to 2018

D. Technology or Product Developed from 2014 to 2018

Year	Item	Result
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°C
	Novel type of thermal conductive backsheets	The average temperature of modules reduces by 2.5°C
	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
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

Year	Item	Result
	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°C/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.
2018	Research of 5G millimeter wave materials	Developed polyimide and bonding sheet with low-df and moisture absorption rate. When used in the antenna boards and build-up boards of mobile transmission interface under 5G system, they can lower transmission loss and interference, and

Year	Item	Result
		control characteristic impedance.
	Development of wireless charging materials for hand held devices	Developed adhesiveless FCCL with different thickness based on customers' demands in order to streamline their process and satisfy the demand for wireless charging at the end-market.
	Research of dielectric materials for semiconductor packaging	Mainly relied on PI resin modification to improve dielectric properties so that materials can reduce signal loss at higher-frequency transmission. Electronic products can thus transmit data precisely and lower energy consumption during high-speed transmission.
	Development of aluminum plastic films for lithium batteries	Developed aluminum plastic films, the packaging material for lithium batteries

(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	2017		2018	
	Amount	Ratio (%)	Amount	Ratio (%)
Taiwan	2,108,157	18.84	1,931,443	20.03
China	8,713,945	77.85	7,364,249	76.37
Others	370,790	3.31	347,359	3.60
Total	11,192,892	100.00	9,643,051	100.00

B. Market Share

(a) FCCL and CL: Based on the JMS market survey, the market share of Taiflex was estimated to be around 10% to 15% in 2018.

(b) PV backsheet: The market share of Taiflex was estimated to be approximately 1% in 2018.

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, digital cameras, etc. 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) <u>Smartphones</u>

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.

IDC, a worldwide market research company, reports global mobile phone shipment of 1.4 billion units in 2018, a decrease of 4.1% year-over-year. The growth momentum has slowed down significantly. Therefore, smartphone makers aggresively explore opportunities at the emerging markets to maintain growth momentum. On top of that, the continous improvement on the spec of each model to enhance competitiveness put pressure on makers' profitability. Under those circumstances, the market is hoping that the future 5G applications will bring a new wave of growth to smarphones.

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 and Market Share Ranking of Top 5 Smartphone Brands in 2017 and 2018

Top Five Smartphone Vendors, Shipments, Market Share and Year-Over-Year Growth, Calendar Year 2018 Preliminary Data (shipments in Millions)					
Vendor	**2018 Shipment Volumes**	**2018 Market Share**	**2017 Shipment Volumes**	**2017 Market Share**	**Year-Over-Year Change**
Samsung	292.3	20.80%	317.7	21.70%	-8.00%
Apple	208.8	14.90%	215.8	14.70%	-3.20%
Huawei	206.0	14.70%	154.2	10.50%	33.60%
OPPO	122.6	8.70%	92.7	6.30%	32.20%
Xiaomi	113.1	8.10%	111.7	7.60%	1.30%
Others	462.0	32.90%	573.4	39.10%	-19.40%
Total	1,404.9	100.00%	1,465.5	100.00%	-4.10%

Source: IDC Worldwide Quarterly Mobile Phone Tracker, Company data

(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 146 million sets in 2018, an annual decline rate of 4.3%, and the 2019 shipment is estimated to be 140 million sets, representing a decrease of 4% year-over-year. Due to the growth in IoT spending and education in recent year, Tablet shipment is expected to remain stable.

- Market Share and Shipment Estimates of Top 5 Tablet Brands in 2018 and 2019

Brand	2018(E)		2019(F)	
	Ranking	Market Share	Ranking	Market Share
APPLE	1	29.6%	1	29.6%
SAMSUNG	2	15.1%	2	14.9%
HUAWEI	3	9.8%	3	11.3%
AMAZON	4	9.2%	4	9.3%
LENOVO	5	7.1%	5	7.5%
Others		29.2%		27.4%
Shipment Volume (Unit:M)	145.5		139.6	

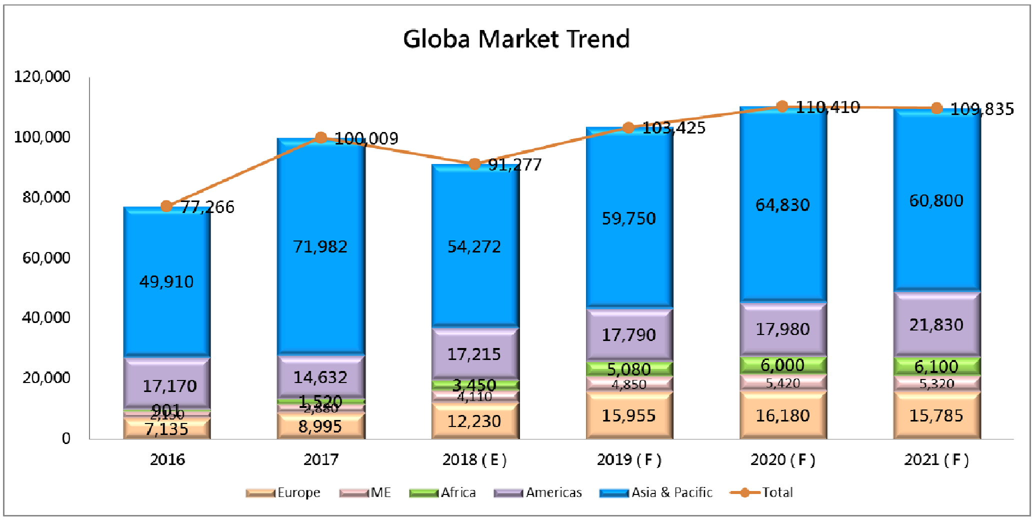
Source: TrendForce, November 2018

The market share shifts of smartphones and tablets in the tables above indicate the rising of Chinese brands. Therefore, the key to maintain growth in the slowing market is to be aware of the demands from the supply chain in China.

(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. 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 (Q2/2018); Company data

However, even though the end demand continues to grow, the profit margins in every segment of the solar industry has been squeezed endlessly. Therefore, the reason of resource effectiveness, Taiflex decides to gradually exit the PV market and transfers resources to a more productive area.

D. Competitive Advantage

(a) 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. Moreover, having production bases in both China and Taiwan gives the Company flexibility in supply under the trade war shadow.

(b) Stable supply of raw materials

Some of the key components for FCCL 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.

(c) 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.

(d) 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.

(e) Bright future for the industry

With the arrival of 5G era, high-frequency and high-speed transmission will bring brand new product applications and growth momentum. Being a long-term partner in the main supply chain, Taiflex is deeply aware of the demands for new products and will be able to welcome the growth momentum brought on by 5G with our customers.

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. Furthermore, the subsequent growth in 5G will bring new growth momentum. Thus, continous mateiral revolutions keep the industry on a healthy growth path.

(ii) A sound relationship throughout the supply chain

As one of the leading FCCL suppliers, Taiflex forms strategic alliances with end customers and maintains a sound relationship. From material sampling to production plans, the Company works closely with customers and consequently builds an invisible barrier to entry. Moreover, Taiflex is supeiror to peers in term of purchasing volume and liquidity and forms strategic alliance with suppliers of key materials to ensure stable supply. As flexible materials are highly oligopolized, this is one area where it is difficult for competitors to compete. Being able to enjoy supports from key suppliers while the industry expands has been one of Taiflex's absolute advantages.

(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. 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.

Countermeasures:

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 industry, 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.

Countermeasures:

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				
	Coverlay	3L-FCCL	2L-FCCL	PV Backsheet
Process Flow	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 2017 and 2018:

A. Key suppliers in 2017 and 2018

(In Thousands of New Taiwan Dollars)

	2017				2018			
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	2,131,576	26.69	None	Supplier B	1,819,018	29.12	None
2	Supplier B	1,202,572	15.06	None	Supplier C	916,304	14.67	None
3	Others	4,652,813	58.25	None	Others	3,511,256	56.21	None
	Net Purchase	7,986,961	100.00		Net Purchase	6,246,578	100.00	

Note: Net purchase includes processing fee.

<u>Variance Analysis</u>:

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 and adjustments on the Group's operational strategies, there is no significant change in supplier ranking.

B. Key customers in 2017 and 2018

(In Thousands of New Taiwan Dollars)

	2017				2018			
Item	Name	Amount	Percentage to Annual Net Revenue (%)	Relationship with the Company	Name	Amount	Percentage to Annual Net Revenue (%)	Relationship with the Company
1	Customer A	1,550,537	13.85	None	Customer A	1,608,965	16.69	None
2	Customer B	1,181,091	10.55	None	Customer C	1,161,924	12.05	None
3	Others	8,461,264	75.60	None	Others	6,872,162	71.26	None
	Net Revenue	11,192,892	100.00		Net Revenue	9,643,051	100.00	

<u>Variance Analysis</u>:

As demand from end customers increased in 2018, Customer C placed more orders to the Company, and thus its percentage to annual net revenue increased, comparing to 2017.

(5) Production in 2017 and 2018

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

Year	2017			2018		
Production / Product	Capacity (Note 1)	Output	Amount	Capacity (Note 1)	Output	Amount
Electronic Materials	-	41,611	6,022,442	-	41,709	6,370,750
PV Backsheet	-	29,980	3,499,148	-	10,838	1,226,508
Others	-	3,884	121,079	-	2,497	85,504
Total	80,431	75,475	9,642,669	80,431	55,044	7,682,762

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 2017 and 2018

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

Year	2017				2018			
Shipment/ Sales \ Product	Domestic		Overseas		Domestic		Overseas	
	Shipment	Sales	Shipment	Sales	Shipment	Sales	Shipment	Sales
Electronic Materials	18,698	1,928,076	18,732	5,390,105	16,614	1,936,113	19,483	6,294,041
PV Backsheet	483	39,408	28,604	3,671,084	266	22,304	11,729	1,153,821
Others	930	38,752	3,021	125,467	686	48,460	2,785	188,312
Total	20,110	2,006,236	50,356	9,186,656	17,566	2,006,877	33,997	7,636,174

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

(No. of people; %)

Item \ Year		2017	2018	As of March 31, 2019
No. of Employees	Direct	607	494	460
	Indirect	619	533	508
	Total	1,226	1,027	968
Average Age		35.66	36.23	29.96
Average Year of Service		4.56	5.22	5.84
Education	Ph.D.	0.90	0.88	1.03
	Master’s Degree	11.91	13.24	13.33
	Bachelor’s Degree	53.35	56.67	57.95
	Senior High School	32.38	27.85	26.14
	Below Senior High School	1.46	1.36	1.55

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:

Environmental protection work has been actively promoted at Kaohsiung in recent years and total quantity control measure is adopted to impose stricter requirements. To fulfill our social responsibilities and for sustainable developments, we employ the latest ISO 14001: 2015 - Environmental management systems: Plan → Do → Check → Action for continuing improvements. Furthermore, we take into account the life cycle of raw material - extraction, manufacturing, distribution and waste, in the discussion of internal and external issues, and uphold our environment, safety and health policies of legal compliance, green development, waste reduction & recycling, full participation, workplace safety, risk control, energy conservation & carbon reduction, and continuing improvements to reduce the risk of occupational disasters and impact on the environment. Expenditure related to environmental protection is as follow:

Summary of expenditure Related to Environmental Protection

2018	
Item	Details
1. Environmental protection expenditure	(1) Pollution control (regulatory fees and charges: e.g. air pollution emission fee, etc.)
	(2) Eco-projects to reduce environmental impact (e.g. improvements on the waste air treatment system)
	(3) Industrial waste disposal charge
	(4) Industrial waste recycling charge (reuse)
	(5) Environmental management fee (the maintenance and certification of ISO 14001 management system)
	Total spending: NT$30,652 thousand
2. Environmental efficiency	(1) Savings on pollution control and reduction measures (NMP, natural gas, etc.)
	(2) Savings on reduction, recycling and reuse of industrial waste
	(3) Savings on resource recycling
	Total savings: NT$65,593 thousand
3. Items to be improved	(1) Reduce air pollution (reduce air pollutant emissions) (2) Cut down resource consumption (e.g. natural gas) (3) Improve the efficiency of control facilities (4) Reuse waste
4. Impact upon improvement	(1) Reduce environmental impact and realize corporate social responsibilities and sustainability (2) Improve control facilities and reduce resource consumption and CO2 emission (3) Acquire pollutant emission volume for subsidiaries to use during expansion (4) Improve eco-measures to enhance competitiveness and meet the goal of sustainability

Improvement schemes for stationary pollution sources and industrial waste are as follows:

A. Air pollution source:

The Company conducts factory-wide inspections to improve emission source and waste air flows. Waste air is collected via enclosed, negative-pressure operation and there are measures adopted to better the processing of waste air generated from manufacturing. Rotors are installed to condense VOCs, which is then processed via RRTO. This improvement measure reduces the emission of VOCs, cuts down natural gas consumption, diminishes secondary pollutants, and enhances the processing efficiency of RRTO.

B. Industrial wastes:

We engage waste management professionals certified by the Environmental Protection Administration to handle the waste. We select qualified vendors prudently, and conduct annual assessments on vendors processing hazardous industrial waste to prevent environmental pollution due to their negligence or violation of laws. With regard to the management of hazardous industrial waste, we have waste solvent recycling system in place. Recycling saves energy, avoids unnecessary losses and waste, and diminishes the adverse impacts of waste on the environment. We seek the best solutions and set zero pollution as our ultimate goal.

Vacuum pumps are installed to the solvent recycling machine to reduce the solvents' boiling point for distillation and minimize electricity consumed by heaters. As distillation in a vacuum state prevents waste air from emission, the waste air is collected via enclosed, negative-pressure operation to be processed in air pollution control equipment.

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, 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, mountaineering, badminton, shrimp fishing, golf, yoga, 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$3,200 thousand in 2018. Classes are summarized as follows:

Category	Duration (Hours)
Training of New Recruits	1,466.5
Language Training	3,179.0
Quality Control Circle	708.0
Internal Training	2,865.5
Manners	761.5
Production Management	3,968.0
Engineering Technology	1,671.0
Marketing and Sales	25.0
Human Resource	235.5
Research and Development	279.0
Finance and Purchase	139.0
Quality System	410.0
Project Management	315.0
Operational Management	485.0

Category	Duration (Hours)
Administrative Management	25.0
Occupational and Environmental Safety	1,963.5
Internal Audit and Control	69.0
Information Technology	538.5
Legal Knowledge	199.5
Use and Teaching of Computer Data	601.5
Seminar	181.0
Production Technology	81.0
Others	244.5
Total	20,411.5

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

C. 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 two percent of the employees' total salaries and wages to six percent 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 six percent of the monthly wages of employees subject to the plan.

Expenses under defined contribution plan were NT$26,303 thousand and NT$23,878 thousand for the years ended December 31, 2018 and 2017, 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) Labor-management meetings, afternoon teas and meetings of employee welfare committee: Employees can communicate with management regarding welfares and improve the relationship through those meetings. 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 Rules for Factory Access 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 2018 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 and for employees’ personal safety:

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 Security guards are situated in Factory One and Three at all times, and in Factory Two at night time 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 Ergonomic hazard prevention, 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: Set up means to file complaints and establish rules on penalties.
Management of Contractor Operations and Other Operators	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, and cancer treatment 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	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 2014 to 2018

(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 2014 to 2018				
		2014	2015	2016	2017	2018
Current Assets		9,392,639	8,856,609	8,683,857	8,532,677	8,425,059
Property, Plant and Equipment		2,422,737	2,694,435	2,789,520	2,876,458	3,020,888
Intangible Assets		117,086	119,480	113,598	121,378	114,708
Other Assets (Note 1)		250,322	208,183	210,679	202,723	381,235
Total Assets		12,182,784	11,878,707	11,797,654	11,733,236	11,941,890
Current Liabilities	Before Distribution	3,837,299	3,866,032	3,939,432	3,920,097	3,959,460
	After Distribution	4,443,149	4,269,968	4,351,686	4,442,896	(Note 2)
Non-Current Liabilities		1,589,799	1,193,398	1,092,863	574,076	600,981
Total Liabilities	Before Distribution	5,427,098	5,059,430	5,032,295	4,494,173	4,560,441
	After Distribution	6,032,948	5,463,366	5,444,549	5,016,972	(Note 2)
Equity Attributable to Shareholders of the Parent		6,598,919	6,685,184	6,665,049	7,126,851	7,262,238
Capital		2,042,678	2,042,858	2,083,252	2,088,467	2,091,197
Capital Surplus		1,447,619	1,447,952	1,407,558	1,441,339	1,446,639
Retained Earnings	Before Distribution	3,126,822	3,231,743	3,347,656	3,690,019	3,890,519
	After Distribution	2,520,972	2,827,807	2,935,402	3,167,220	(Note 2)
Other Components of Equity		80,544	61,375	(74,673)	(92,974)	(166,117)
Treasury Shares		(98,744)	(98,744)	(98,744)	-	-
Non-controlling Interests		156,767	134,093	100,310	112,212	119,211
Total Equity	Before Distribution	6,755,686	6,819,277	6,765,359	7,239,063	7,381,449
	After Distribution	6,149,836	6,415,341	6,353,105	6,716,264	(Note 2)

Note 1: Other Assets are non-current assets excluding Property, Plant and Equipment and Intangible Assets.
Note 2: As of March 31, 2019, earnings for 2018 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 2014 to 2018				
	2014	2015	2016	2017	2018
Net Revenue	10,127,720	10,267,868	10,283,979	11,192,892	9,643,051
Gross Profit, Net	2,256,436	2,164,720	1,895,651	2,134,482	1,993,044
Operating Income	1,009,918	1,049,120	954,586	988,890	968,965
Non-operating Income and Expenses	97,265	(181,850)	(271,188)	(29,792)	(100,423)
Income Before Income Tax	1,107,183	867,270	683,398	959,098	868,542
Net Income of Continuing Operations	884,979	707,308	546,610	746,545	679,474
Loss from Discontinued Operations	-	-	-	-	-
Net Income	884,979	707,308	546,610	746,545	679,474
Other Comprehensive Income, Net of Tax	61,445	(38,381)	(196,592)	1,673	(22,319)
Total Comprehensive Income	946,424	668,927	350,018	748,218	657,155
Net Income Attributable to Shareholders of the Parent	882,421	729,856	579,678	734,589	672,309
Net Income Attributable to Non-controlling Interests	2,558	(22,548)	(33,068)	11,956	7,165
Total Comprehensive Income Attributable to Shareholders of the Parent	943,310	691,601	383,801	736,316	650,156
Total Comprehensive Income Attributable to Non-controlling Interests	3,114	(22,674)	(33,783)	11,902	6,999
Earnings per Share	4.24	3.54	2.81	3.55	3.22

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 2014 to 2018				
		2014	2015	2016	2017	2018
Current Assets		7,135,898	6,309,771	5,312,441	5,201,413	6,654,636
Property, Plant and Equipment		1,353,023	1,725,671	1,936,821	2,039,184	2,122,285
Intangible Assets		27,916	32,560	36,897	45,372	39,142
Other Assets (Note 1)		2,259,551	2,354,510	2,205,832	2,624,700	2,597,206
Total Assets		10,776,388	10,422,512	9,491,991	9,910,669	11,413,269
Current Liabilities	Before Distribution	2,891,113	2,833,355	1,936,230	2,304,309	3,589,858
	After Distribution	3,496,963	3,237,291	2,348,484	2,827,108	(Note 2)
Non-Current Liabilities		1,286,356	903,973	890,712	479,509	561,173
Total Liabilities	Before Distribution	4,177,469	3,737,328	2,826,942	2,783,818	4,151,031
	After Distribution	4,783,319	4,141,264	3,239,196	3,306,617	(Note 2)
Equity Attributable to Shareholders of the Parent		6,598,919	6,685,184	6,665,049	7,126,851	7,262,238
Capital		2,042,678	2,042,858	2,083,252	2,088,467	2,091,197
Capital Surplus		1,447,619	1,447,952	1,407,558	1,441,339	1,446,639
Retained Earnings	Before Distribution	3,126,822	3,231,743	3,347,656	3,690,019	3,890,519
	After Distribution	2,520,972	2,827,807	2,935,402	3,167,220	(Note 2)
Other Components of Equity		80,544	61,375	(74,673)	(92,974)	(166,117)
Treasury Shares		(98,744)	(98,744)	(98,744)	-	-
Non-controlling Interests		-	-	-	-	-
Total Equity	Before Distribution	6,598,919	6,685,184	6,665,049	7,126,851	7,262,238
	After Distribution	5,993,069	6,281,248	6,252,795	6,604,052	(Note 2)

Note 1: Other Assets are non-current assets excluding Property, Plant and Equipment and Intangible Assets.
Note 2: As of March 31, 2019, earnings for 2018 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 2014 to 2018				
	2014	2015	2016	2017	2018
Net Revenue	7,411,756	6,528,844	6,712,397	7,383,077	7,633,620
Gross Profit, Net	1,519,169	1,510,128	1,307,674	1,507,384	1,698,366
Operating Income	610,701	785,719	710,292	772,238	1,011,455
Non-operating Income and Expenses	469,907	90,634	12,785	130,980	(140,266)
Income Before Income Tax	1,080,608	876,353	723,077	903,218	871,189
Net Income of Continuing Operations	882,421	729,856	579,678	734,589	672,309
Loss from Discontinued Operations	-	-	-	-	-
Net Income	882,421	729,856	579,678	734,589	672,309
Other Comprehensive Income, Net of Tax	60,889	(38,255)	(195,877)	1,727	(22,153)
Total Comprehensive Income	943,310	691,601	383,801	736,316	650,156
Earnings per Share	4.24	3.54	2.81	3.55	3.22

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 2014 to 2018:

Year	CPAs	CPA Firm	Audit Opinion	Remark
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
2018	Jheng-Chu Chen Fang-Wen Li	Ernst & Young	An Unqualified Opinion	Change of CPA due to administrative adjustment within the accounting firm

2. Financial Analysis from 2014 to 2018

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

Item		Financial Analysis from 2014 to 2018 (Year)				
		2014	2015	2016	2017	2018
Financial Structure %	Debt Ratio	44.55	42.59	42.65	38.30	38.18
	Long-term Fund to Property, Plant and Equipment Ratio	344.47	297.38	281.70	271.62	264.24
Liquidity Analysis %	Current Ratio	244.77	229.09	220.43	217.66	212.78
	Quick Ratio	217.70	198.27	189.11	173.73	173.63
	Times Interest Earned	1,746	1,357	839	1,549	1,851
Operating Performance	Average Collection Turnover (Times)	2.28	2.23	2.32	2.45	1.99
	Days Sales Outstanding	160	164	157	149	183
	Inventory Turnover (Times)	8.36	7.93	7.46	6.56	4.95
	Average Payment Turnover (Times)	4.74	4.27	3.93	3.83	3.68
	Average Inventory Turnover Days	44	46	49	56	74
	Property, Plant and Equipment Turnover (Times)	4.23	4.01	3.75	3.95	3.27
	Total Assets Turnover (Times)	0.85	0.85	0.86	0.95	0.81
Profitability	Return on Total Assets (%)	7.91	6.36	5.26	6.81	6.08
	Return on Equity (%)	13.78	10.42	8.04	10.66	9.29
	Net Income before Income Tax to Paid-in Capital Ratio (%)	54.20	42.45	32.80	45.93	41.53
	Net Margin (%)	8.74	6.88	5.31	6.66	7.04
	Earnings per Share (NT$)	4.24	3.54	2.81	3.55	3.22
Cash Flow	Cash Flow Ratio (%)	26.30	25.11	37.97	10.82	6.92
	Cash Flow Adequacy Ratio (%)	81.06	72.32	116.18	96.45	80.35
	Cash Flow Reinvestment Ratio (%)	4.89	3.60	10.72	0.11	-2.30
Leverage	Operating Leverage	2.74	2.92	2.92	3.00	2.85
	Financial Leverage	1.07	1.07	1.10	1.07	1.05

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 2017 to 2018 are as follows:

A. Liquidity Analysis
- Increase in Times Interest Earned: Primarily due to a decrease in interest expense comparing to 2017.

B. Operating Performance
- Days Sales Outstanding increased from 149 days to 183 days, Average Inventory Turnover Days increased from 56 days to 74 days, and Inventory Turnover decreased from 6.56 times to 4.95 times. All of which were caused by decreases in revenue and costs of solar industry comparing to 2017.

C. Cash Flow
- Decrease in Cash Flow and Cash Flow Reinvestment Ratios: Primarily due to a decrease in net cash generated by operating activities comparing to 2017.

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

Item		Financial Analysis from 2014 to 2018 (Year)				
		2014	2015	2016	2017	2018
Financial Structure %	Debt Ratio	38.77	35.86	29.78	28.08	36.37
	Long-term Fund to Property, Plant and Equipment Ratio	582.79	439.78	390.11	373.00	368.63
Liquidity Analysis %	Current Ratio	246.82	222.70	274.37	225.72	185.37
	Quick Ratio	228.34	200.53	246.04	191.83	160.87
	Times Interest Earned	3,316	3,257	3,572	5,283	5,063
Operating Performance	Average Collection Turnover (Times)	3.33	3.38	4.12	4.12	2.80
	Days Sales Outstanding	109	108	89	89	130
	Inventory Turnover (Times)	13.11	9.06	9.56	9.24	7.39
	Average Payment Turnover (Times)	3.10	2.60	3.35	3.92	3.61
	Average Inventory Turnover Days	28	40	38	40	49
	Property, Plant and Equipment Turnover (Times)	5.67	4.24	3.66	3.71	3.66
	Total Assets Turnover (Times)	0.68	0.62	0.67	0.76	0.71
Profitability	Return on Total Assets (%)	8.37	7.10	5.99	7.72	6.44
	Return on Equity (%)	13.74	10.99	8.68	10.65	9.34
	Net Income before Income Tax to Paid-in Capital Ratio (%)	52.90	42.90	34.70	43.26	41.65
	Net Margin (%)	11.91	11.18	8.63	9.94	8.80
	Earnings per Share (NT$)	4.24	3.54	2.81	3.55	3.22
Cash Flow	Cash Flow Ratio (%)	46.92	39.81	82.30	-2.36	-6.83
	Cash Flow Adequacy Ratio (%)	114.55	100.40	116.11	94.56	81.38
	Cash Flow Reinvestment Ratio (%)	9.21	5.80	13.04	-4.98	-7.86
Leverage	Operating Leverage	3.22	2.52	2.51	2.72	2.30
	Financial Leverage	1.05	1.04	1.03	1.02	1.01

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 2017 to 2018 are as follows:

A. Financial Structure
- Increase in Debt Ratio: Primarily due to an increase in short-term loans.

B. Operating Performance
- Decreases in Average Collection Turnover and Inventory Turnover, and increases in Days Sales Outstanding and Average Inventory Turnover Days: Primarily due to increases in average accounts receivables and average inventories at the end of period comparing to 2017.

C. Cash Flow
- Cash Flow and Cash Flow Reinvestment Ratios were not calculated as the increase in accounts receivables 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 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 2018

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2018 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, Jheng-Chu Chen and Fang-Wen Li, 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 20, 2019

4. Audited Consolidated Financial Statements for the Years Ended December 31, 2018 and 2017

Please refer to page 119 to 191.

5. Audited Parent Company Only Financial Statements for the Years Ended December 31, 2018 and 2017

Please refer to page 192 to 257.

6. Financial Difficulties Experienced by the Company and Its Affiliates in 2018 and as of the Date of this Annual Report, and Their Impact on the Company's Financial Position

The Company and its affiliates did not incur any financial or cash flow difficulties in 2018 and as of March 31, 2019.

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	2018	2017	Difference	
			Increase (Decrease)	%
Current Assets	8,425,059	8,532,677	(107,618)	(1.26)
Investments Accounted for under the Equity Method	51,470	0	51,470	-
Property, Plant and Equipment	3,020,888	2,876,458	144,430	5.02
Intangible Assets	114,708	121,378	(6,670)	(5.50)
Other Non-current Assets	329,765	202,723	127,042	62.67
Total Assets	11,941,890	11,733,236	208,654	1.78
Current Liabilities	3,959,460	3,920,097	39,363	1.00
Non-current Liabilities	600,981	574,076	26,905	4.69
Total Liabilities	4,560,441	4,494,173	66,268	1.47
Total Capital	2,091,197	2,088,467	2,730	0.13
Capital Surplus	1,446,639	1,441,339	5,300	0.37
Retained Earnings	3,890,519	3,690,019	200,500	5.43
Other Components of Equity	(166,117)	(92,974)	(73,143)	(78.67)
Non-controlling Interests	119,211	112,212	6,999	6.24
Total equity	7,381,449	7,239,063	142,386	1.97

Significant variance:

A. The increase in Other Non-current Assets was mainly due to increases in deferred income tax assets and long-term prepaid rent – land use rights.

B. The decrease in Other Components of Equity was mainly due to the 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	2018	2017	Difference	
			Increase (Decrease)	%
Net Revenue	9,643,051	11,192,892	(1,549,841)	(13.85)
Cost of Revenue	7,650,007	9,058,410	(1,408,403)	(15.55)
Gross Profit, Net	1,993,044	2,134,482	(141,438)	(6.63)
Operating Expenses	1,024,079	1,145,592	(121,513)	(10.61)
Operating Income	968,965	988,890	(19,925)	(2.01)
Non-operating Income and Expenses	(100,423)	(29,792)	(70,631)	(237.08)
Income before Income Tax	868,542	959,098	(90,556)	(9.44)
Less: Income Tax Expense	189,068	212,553	(23,485)	(11.05)
Net Income	679,474	746,545	(67,071)	(8.98)
Significant variance: A. The increase in Non-operating Expenses was mainly due to an increase in net foreign exchange losses and disaster loss.				

(2) Expected Sales Volume in 2019 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 flat or slight increase in 2019 sales. However, as the Company will maintain its competitive position in the industry, a slight change in sales volume does not have a significant 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 2018:

(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
1,934,276	274,120	(71,690)	1,862,586	-	-

Analysis of variance:

A. Net cash generated by operating activities: Mainly due to the cash-in of notes receivables.

B. Net cash used in investing activities: Mainly due to investments in equipment.

C. Net cash generated by financing activities: Mainly due to an increase in short-term loans to meet operational need.

(2) Liquidity Analysis for 2019:

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
1,862,586	1,200,697	168,513	2,031,099	-	-

Analysis: We do not expect any cash shortage in 2019.

4. Major Capital Expenditures in 2018 and Their Impacts on the Company's Finance and Operation

On the consolidated basis, the Company paid NT$464 million for the acquisition of equipment in 2018. This amount was equivalent to 4.82% of net revenue and had no significant impact on the Company's finance and business.

5. Reinvestment Policies of 2018, Main Reasons for Investment Gains or Losses, Improvement Plans, and Investment Plans of 2019

The Company's reinvestment policies stress the importance of operation strategy and industry trends for long-term investment. Losses from investments under equity method amounted to NT$235,459 thousand in the parent company only financial statements for the year ended December 31, 2018 due to the fire at our Kunshan factory, which was an investee, and China's energy policy announced on May 31, 2018. Both events dragged down revenue and profit in 2018. 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 2018 on the Company's profitability and associated action plans:

(In Thousands of New Taiwan Dollars)

Item	2018
Net Interest Income (Expense) (1)	(29,055)
Net Revenue (2)	9,643,051
Operating Income (3)	968,965
(1)/(2)	(0.30%)
(1)/(3)	(3.00%)

The Company incurred interest expense of NT$29,055 thousand in 2018, which was 0.30% and 3.00% of revenue and operating income, respectively, for the same period. The percentages decreased comparing to 2017 as loans denominated in U.S. dollars and factoring 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$1,590 thousand. To hedge the interest rate risk, the Company adopts the following measures:

(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 2018 on the Company's profitability and associated action plans:

(In Thousands of New Taiwan Dollars)

Item	2018
Net Foreign Exchange Gain (Loss) (1)	(51,256)
Net Revenue (2)	9,643,051
Operating Income (3)	968,965
(1)/(2)	(0.53%)
(1)/(3)	(5.29%)

Foreign exchange loss amounted to NT$51,256 thousand in 2018, which was 0.53% and 5.29% of 2018 revenue and operating income, respectively. The loss was mainly due to a larger depreciation 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 2018 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) Anti-ion migration coverlay: The product is developed to meet the future demand for compact and fine-pitch products, and avoid losses due to ion migration. It passes the long-term reliability test (85/85, 1000 hours) with 25/25 fine circuit.

(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) 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.

(ii) 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.

(c) Product research and development for energy products: Based on existing core technology, relevant technologies are integrated through industry-academia collaboration for the development of aluminum plastic films which are the packaging materials for lithium batteries.

(i) Development of 88 and 113um aluminum plastic films: Use precision coating and bonding sheet formula technologies to improve the electrolyte resistance. The films can be used in 3Cs and lithium batteries for mobile phones.

(ii) Development of aluminum plastic films with a surface that can resist electrolyte contamination: Use materials that can resist electrolyte erosion. The films can be used in lithium car batteries.

B. Estimated expenses:

The Company would continue its efforts in research and development. The R&D

expense is estimated to be NT$260,000 thousand in 2019, which is equivalent to 2.5% to 2.9% of the 2019 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 2018. Asia region is the Company's major market and the percentage of sales in China remains relatively high. 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 2018.

(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 2018 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:

Details on the Company's information security risk assessment and analysis are as follows:

The Company has several comprehensive safety systems in place for networks, data and computers; such as, anti-virus systems, data encryption systems, anti-hacking systems, firewalls, spam prevention systems, etc. Those systems are employed to control information security risk, prevent trade secrets from leaking, and maintain the Company's key functions, including manufacturing and operations.

Nevertheless, as information technology and techniques constantly evolve, Taiflex cannot guarantee that all of its computer systems and networks are completely free from cyberattacks, which may lead to system shutdowns. Those attacks invade the internal networks and computer systems to destroy or damage the Company's goodwill or steal confidential information. The Company might loss key information concerning customers or suppliers, and the production lines and operations may be put on hold for an indefinite period of time.

The Company's information security management is based on the structure set out by the Intangible Assets Security Committee. Circular reviews and inspections are conducted periodically pursuant to the ISO 27001 quality system and relevant risk management measures are implemented. The Company also establishes standards of four-tier documentation hierarchy for information security and implementation and compliance rules. All of which are reviewed regularly to ensure their adequacy and effectiveness. Moreover, the Company periodically organizes disaster drills and recovery activities to enhance employees' capabilities in emergency situations, arranges information security trainings, and invites external experts to hold trade secret seminars at the Company. Taiflex obtained ISO27001 Information Security Management certification in November 2016.

Even if the Company draws up a comprehensive risk management structure and follows an effective information security management system, there is no guarantee that Taiflex will not be affected by the latest information technology and new types of cyberattacks amid the ever-changing internet security threats. Cyberattacks might try to steal the Company's trade secrets, intellectual property and confidential information of key customers, e.g. specific data on customers or stakeholders, and employee's personal details. The Company's Intangible Assets Security Committee would regularly review every operational procedure in order to strengthen or supplement measures against information risk and protect the Company's trade secrets from theft. In 2018 and as of the date of this annual report, the Company did not identify any material cyberattacks or security breaches, nor was there any existing or possible material adverse impact on the Company's business and operations.

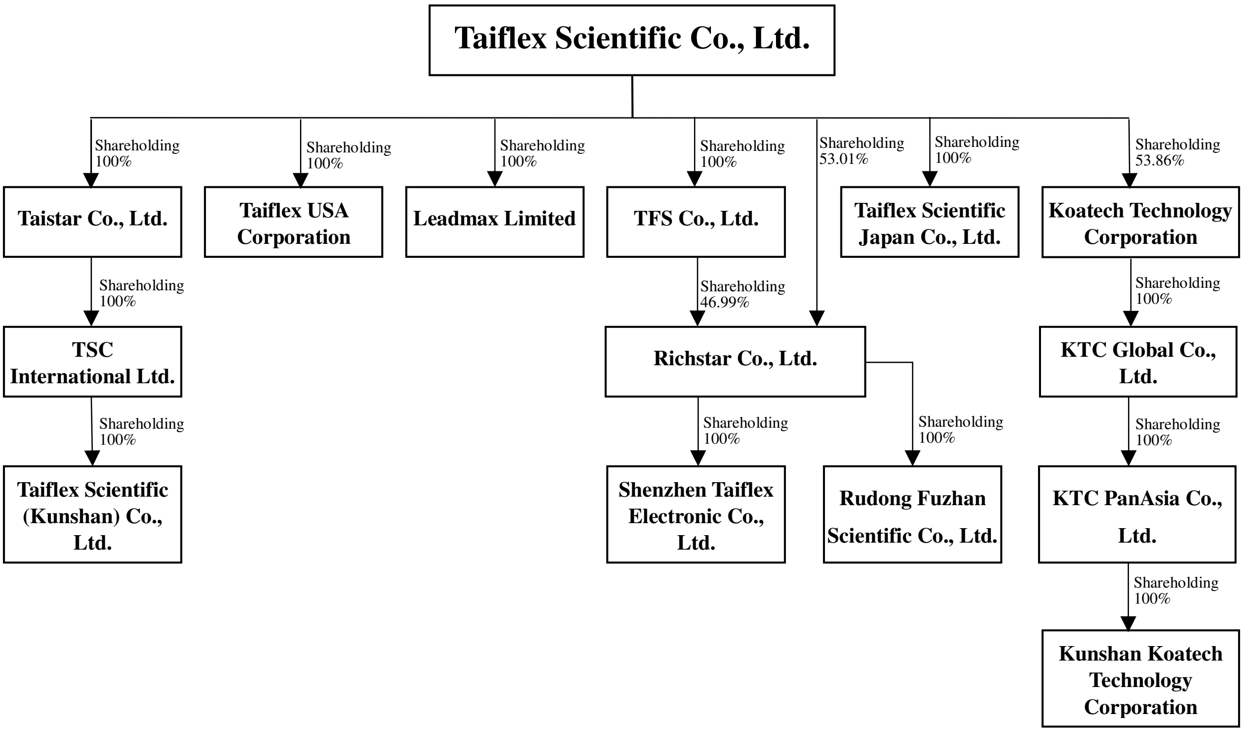
7. Other Significant Matters: None.

VIII. Special Notes

1. Affiliates

(1) Consolidated Business Report of the Affiliates

A. Chart of affiliates (as of December 31, 2018)



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

B. Basic information on affiliates

As of December 31, 2018 (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	704,536	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	683,946	Investment holding company
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	254,380	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	A wholesaler and 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	1,004,296	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 and technical support of electronic materials
Rudong Fuzhan Scientific Co., Ltd.	2018.01	West of Kunlun Rd., South of Fangquan Rd., High-Tech Industrial Development Zone, Rudong County, Nantong City, Jiangsu Province, China	525,733	Manufacturing and selling of electronic materials
Taiflex USA Corporation	2018.01	2033 Gateway Place, Suite 500, San Jose, CA 95110, USA	8,820	Technical support and marketing of electronic materials

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, 2018 (In Shares; %)

Company	Title	Name or Representative	Shareholding	
			Shares	%
Taistar Co., Ltd.	Chairperson	Taiflex Scientific Co., Ltd. Representative: Ta-Wen Sun	21,825,000	100
TSC International Ltd.	Chairperson	Taistar Co., Ltd. Representative: Ta-Wen Sun	21,170,000	100
Taiflex Scientific (Kunshan) Co., Ltd.	Chairperson	TSC International Ltd. Representative: Jun-Yan Jiang	(Note)	100
	Director	TSC International Ltd. Representative: Ta-Wen Sun		
		TSC International Ltd. Representative: Zhi-Ming Yen		
		TSC International Ltd. Representative: Yung-Mao Yeh		
	Director and President	TSC International Ltd. Representative: Zhen Lin		
	Supervisor	Fang-I Hsieh		
Leadmax Limited	Chairperson	Taiflex Scientific Co., Ltd. Representative: Ta-Wen Sun	10,000	100
Koatech Technology Corporation	Chairperson	Taiflex Scientific Co., Ltd. Representative: Fu-Le Lin	13,700,126	53.86
	Director	Taiflex Scientific Co., Ltd. Representative: Zhi-Ming Yen		
	Director and President	Taiflex Scientific Co., Ltd. Representative: Xiao-Zhong Hu		
	Director	Taiflex Scientific Co., Ltd. Representative: Zong-Ru Shen		
	Supervisor	Mei-Xian Su	-	-
	Supervisor	Fang-I Hsieh	30,000	0.12
KTC Global Co., Ltd.	Chairperson	Koatech Technology Corporation Representative: Fu-Le Lin	960,000	100
KTC PanAsia Co., Ltd.	Chairperson	KTC Global Co., Ltd. Representative: Fu-Le Lin	955,000	100
Kunshan Koatech Technology Corporation	Chairperson	KTC PanAsia Co., Ltd. Representative: Fu-Le Lin	(Note)	100
TFS Co., Ltd.	Chairperson	Taiflex Scientific Co., Ltd. Representative: Ta-Wen Sun	15,520,000	100
Richstar Co., Ltd.	Chairperson	Taiflex Scientific Co., Ltd. Representative: Ta-Wen Sun	17,500,000	53.01
		TSC International Ltd. Representative: Ta-Wen Sun	15,510,000	46.99
Shenzhen Taiflex Electronic Co., Ltd.	Chairperson	Richstar Co., Ltd. Representative: Zhi-Ming Yen	(Note)	100
	Director	Richstar Co., Ltd. Representative: Zong-Han Jiang		

Company	Title	Name or Representative	Shareholding	
			Shares	%
	Director	Richstar Co., Ltd. Representative: Bing-Xun Zhang		
	President	Jiang-Yun Yang		
	Supervisor	Richstar Co., Ltd. Representative: Liang-Jun Chen		
Taiflex Scientific Japan Co., Ltd.	Chairperson	Taiflex Scientific Co., Ltd. Representative: Zong-Han Jiang	6,000	100
Rudong Fuzhan Scientific Co., Ltd.	Chairperson	Richstar Co., Ltd. Representative: Ta-Wen Sun	(Note)	100
	Director	Richstar Co., Ltd. Representative: Zhi-Ming Yen		
	Director	Richstar Co., Ltd. Representative: Jin-Cheng Zhang		
	President	Zhen Lin		
	Supervisor	Richstar Co., Ltd. Representative: Fang-I Hsieh		
Taiflex USA Corporation	Chairperson	Taiflex Scientific Co., Ltd. Representative: Zhi-Ming Yen	1,000	100

Note: Those limited companies do not issue shares.

F. Operational highlights of Affiliates:

As of December 31, 2018 (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.	704,536	1,135,397	3,073	1,132,324	0	(20,301)	(314,924)	(14.43)
TSC International Ltd.	683,946	1,111,768	0	1,111,768	0	(225)	(295,253)	(13.95)
Taiflex Scientific (Kunshan) Co., Ltd.	767,141	2,111,897	1,000,235	1,111,662	1,412,358	(150,488)	(332,082)	N/A
Leadmax Limited	337	10,990	0	10,990	0	(5,267)	(5,114)	(511.39)
Koatech Technology Corporation	254,380	386,181	127,693	258,488	259,898	13,885	15,053	0.59
KTC Global Co., Ltd.	28,649	15,384	0	15,384	0	543	(1,584)	(1.65)
KTC PanAsia Co., Ltd.	28,500	15,369	0	15,369	0	0	(2,127)	(2.23)
Kunshan Koatech Technology Corporation	28,351	38,376	23,021	15,355	24,209	(2,165)	(2,127)	N/A
TFS Co., Ltd.	478,797	500,497	0	500,497	0	(70)	50,426	3.25
Richstar Co., Ltd.	1,004,296	1,064,673	0	1,064,673	0	(73)	60,903	1.84
Shenzhen Taiflex Electronic Co., Ltd.	479,160	2,457,616	1,915,490	542,126	2,738,719	92,381	49,564	N/A

Company	Capital	Total Assets	Total Liabilities	Net Worth	Net Revenue	Operating Income (Loss)	Net Income (Loss)	Earnings per Share After-tax (NT$)
Taiflex Scientific Japan Co., Ltd.	16,260	18,761	1,066	17,696	9,596	480	331	55.14
Rudong Fuzhan Scientific Co., Ltd.	525,733	525,196	2,785	522,411	0	(4,870)	11,405	N/A
Taiflex USA Corporation	8,820	9,327	466	8,861	4,914	(348)	(349)	(348.65)

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 119 to 191.

(3) Affiliation Reports: Not applicable

2. Private Placement of Securities in 2018 and as of the Date of this Annual Report: None.

3. The Company's Shares Held or Disposed of by Subsidiaries in 2018 and as of the Date of this Annual Report: None.

4. Other Necessary Supplement: None.

IX. Any Events in 2018 and as of the Date of this Annual Report that had Significant Impacts on Shareholders' Right or Security Prices as Stated in Subparagraph 2 of 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, 2018, under the "Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No. 10. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Therefore, Taiflex Scientific Company Limited does not prepare a separate set of combined financial statements.

Very truly yours,
Taiflex Scientific Company Limited
By

Ta-Wen Sun
Chairperson
February 20, 2019

Independent Auditors' Report

To the Board of Directors and Shareholders of Taiflex Scientific Co., Ltd.

Audit opinion

We have audited the consolidated balance sheets of Taiflex Scientific Co., Ltd. and subsidiaries (hereinafter referred to as Taiflex Group) as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows, and notes to consolidated financial statements (including summary on significant accounting policies) for the years then ended.

In our opinion, the aforementioned consolidated financial statements present fairly, in all material respects, the consolidated financial status of Taiflex Group as of December 31, 2018 and 2017, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed by the Financial Supervisory Commission with effective dates.

Basis for audit opinion

We conducted our audits in accordance with the Regulations Governing the Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our CPAs will further explain the responsibilities auditors shall execute during the audit of consolidated financial statements under the above principles below. We are independent of Taiflex Group in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other responsibilities under the Norm. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our opinion.

Key audit matters

Key audit matters are ones that were of most significance in our audit of the consolidated financial statements of Taiflex Group for the year ended December 31, 2018 based on our professional judgment. These items have been covered during the audit of the overall consolidated financial statements and in forming the audit opinion. We will not express a separate opinion on these items. Key audit matters to be communicated on the independent auditors' report are stated as follows:

1. Impairment of receivables

Net receivables generated from the selling of flexible copper-clad laminate, cover layer and PV module backsheet accounted for 41% of Taiflex Group's consolidated total assets as of December 31, 2018. Hence, it was considered a material item to the Group. Loss allowance for accounts receivables was measured at an amount equal to lifetime expected credit losses. As the measurement of expected credit losses involved judgment, analysis and estimation and the outcome would affect the net accounts receivables, the impairment of receivables was identified as a key audit matter.

Our audit procedures included, but not limited to, the assessment on the appropriateness of expected credit loss rate for receivables, i.e. tests on the effectiveness of internal control established by the management for receivables, random selection of customers for receivable confirmations, and verification of subsequent collections in order to assess the recoverability of receivables. We tested the accuracy of aging, analyzed changes in aging, and assessed the reasonableness of receivables with longer collection terms.

We also considered the appropriateness of disclosures on receivables and associated risks in Notes 5 and 6 to the consolidated financial statements.

2. Inventory valuation

As of December 31, 2018, net inventories of flexible copper-clad laminate, cover layer and PV module backsheet amounted to NT$1,464,307 thousand; thus, it was a significant item to Taiflex Group. Due to uncertainties arising from rapid changes in product technologies, allowance for inventory obsolescence and valuation losses involved significant judgment of management. Hence, it was considered a key audit item.

Our audit procedures included, but not limited to, tests on the effectiveness of internal control established by the management for inventories, such as cost carryover of inventories and assessment on inventory status, evaluation on management's stocktaking plans, and on-site observation of stocktaking at major warehouses to ensure the quantities and conditions of inventories. We assessed the accuracy of inventory aging, analyzed movements in inventory aging, and considered the expected demand and market value of inventories. We evaluated management's analyses and assessments on obsolete inventories, including the estimations on the possibility of inventory realization and net realizable value, and tested whether the allowance for writing down inventories to their net realizable value is adequate.

We also considered the appropriateness of disclosures on inventories in Notes 5 and 6 to the consolidated financial statements.

Emphasis of matter – adoption of new accounting standards

As stated in Note 3 of the consolidated financial statements, Taiflex Group adopted IFRS 9, “Financial Instruments”, and 15, “Revenue from Contracts with Customers”, for annual periods beginning on January 1, 2018 and chose not to restate the consolidated financial statements of the comparative periods. We did not modify our audit conclusions as a result of this.

Responsibilities of management and governance bodies for the consolidated financial statements

The responsibilities of management are to prepare the consolidated financial statements with fair presentation in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, IFRICs, and SICs endorsed by the Financial Supervisory Commission with effective dates, and maintain necessary internal controls associated with the preparation in order to ensure the financial statements are free from material misstatement arising from fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the ability of Taiflex Group in continuing as a going concern, disclosing associated matters and adopting the going concern basis of accounting unless the management intends to liquidate the Taiflex Group or cease the operations, or has no realistic alternative but to do so.

The governance bodies of Taiflex Group (including Audit Committee) are responsible for supervising the financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance on whether the consolidated financial statements as a whole are free from material misstatement arising from fraud or error, and to issue an independent auditors' report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. If those amounts of misstatements, either individually or in the aggregate, could reasonably be expected to influence the economic decisions of financial statements users, they are considered material.

We have utilized our professional judgment and maintained professional doubt when exercising auditing work according to the auditing standards generally accepted in the Republic of China. We also perform the following tasks:

1. Identify and assess the risks of material misstatement arising from fraud or error within the consolidated financial statements; design and execute counter-measures in response to those risks, and obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Therefore, the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error.

2. Understand internal controls relevant to the audit in order to design appropriate audit procedures under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Taiflex Group's internal control.

3. Evaluate the appropriateness of accounting policies adopted and the reasonableness of accounting estimates and relevant disclosures made by management.

4. Based on the audit evidence obtained, we conclude on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty exists for events or conditions that may cast significant doubts on Taiflex Group's ability to continue as a going concern. If we are of the opinion that a material uncertainty exists, we shall remind users of the consolidated financial statements to pay attention to relevant disclosures in the notes to those statements within our audit report. If such disclosures are inadequate, we need to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may result in Taiflex Group ceasing to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements (including relevant notes), and whether the consolidated financial statements adequately represent the underlying transactions and events.

6. Obtain sufficient and appropriate audit evidence concerning the financial information of entities within Taiflex Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the audit and the preparation of an audit opinion on the Group.

Matters communicated between us and the governance bodies include the planned scope and timing of the audit, and significant audit findings (including any significant deficiencies in internal control identified during the audit).

We also provide governance bodies with a declaration that we have complied with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China regarding independence, and to communicate with them all relationships and other matters that may possibly be deemed to impair our independence (including relevant preventive measures).

From the matters communicated with governance bodies, we determine the key audit matters within the audit of Taiflex Group's consolidated financial statements for the year ended December 31, 2018. We have clearly indicated such matters in the independent auditors' report. Unless legal regulations prohibit the public disclosure of specific items, or in extremely rare cases, where we decided not to communicate over specific items in the independent auditors' report for it could be reasonably anticipated that the negative effects of such disclosure would be greater than the public interest it brings forth.

Others

Taiflex Scientific Co., Ltd. has also prepared parent company only financial statements for the years ended December 31, 2018 and 2017, which we had audited and issued an unqualified opinion.

Ernst & Young
Approval Number from Competent Authority for the Auditing and
Attestation of Public Companies' Financial Statements by Certified
Public Accountants:
Financial-Supervisory-Securities-VI-0970038990
Financial-Supervisory-Securities-Auditing-1010045851

CPAs: Jheng-Chu Chen
Fang-Wen Li

February 20, 2019

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

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

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

(Continued)

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

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

(Concluded)

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

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

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

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

(Continued)

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

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

(Concluded)

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

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

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

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

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

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

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

(Continued)

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

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

(Concluded)

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

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017
(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, 2018 and 2017 were approved and authorized for issue in the Board of Directors' meeting on February 20, 2019.

3. Newly Issued or Revised Standards and Interpretations

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

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

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

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

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

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

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

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

B. IFRS 9 "Financial Instruments"

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

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

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

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

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

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

(Continued)

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

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

(Concluded)

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

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

The assessment is conducted based on the facts and circumstances that exist as of January 1, 2018. As these investments (equity instruments) are not held-for-trading, the Group chooses to designate them as financial assets at fair value through other comprehensive income. The amount reclassified from available-for-sale financial assets (including ones measured at cost) to financial assets at fair value through other comprehensive income was NT$0 thousand as of January 1, 2018. Other relevant adjustments are as follows:

Impairment loss is recognized fully for the non-listed (OTC) stocks with an initial carrying amount of NT$6,600 thousand that are measured at cost pursuant to IAS 39. However, under IFRS 9, those stocks shall be measured at fair value and the recognition of impairment loss is not required. As the fair value is deemed to be NT$0 thousand as of January 1, 2018, the Group would adjust the carrying amount of financial assets at fair value through other comprehensive income. Retained earnings and other equity (i.e. unrealized gain/loss on financial assets at fair value through other comprehensive income) would also be adjusted by NT$6,600 thousand each.

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

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

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

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

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

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

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

A. IFRS 16 "Leases"

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

B. IFRIC 23 "Uncertainty over Income Tax Treatments"

The interpretation clarifies the application of recognition and measurement requirements under IAS 12 "Income Taxes" when there is uncertainty over income tax treatments.

C. Amendments to IAS 28 "Investments in Associates and Joint Ventures"

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

D. Prepayment Features with Negative Compensation (Amendments to IFRS 9)

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

E. Improvements to IFRS (2015-2017 cycle)

IFRS 3 "Business Combinations"

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

IFRS 11 “Joint Arrangements”

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

IAS 12 “Income Taxes”

The amendments clarify that entities shall recognize income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on how the originating transaction or event that has given rise to the dividends is recognized.

IAS 23 “Borrowing Costs”

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

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

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

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

A. IFRS 16 “Leases”

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

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

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

i. Leases classified as operating leases

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

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

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

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

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

ii. Leases classified as finance leases

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Summary of Significant Accounting Policies

(1) Statement of compliance

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

(2) Basis of preparation

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

(3) Basis of consolidation

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

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

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

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

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

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

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

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

B. rights arising from other contractual arrangements

C. the voting rights and potential voting rights

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

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

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

If the Group loses control of a subsidiary, it:

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

B. derecognizes the carrying amount of any NCI;

C. recognizes the fair value of the consideration received;

D. recognizes the fair value of any investment retained;

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

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

The consolidated entities are listed as follows:

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

(Continued)

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

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

(Concluded)

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

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

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

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

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

A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
B. Foreign currency items within the scope of IFRS 9 "Financial Instruments" (prior to January 1, 2018: IAS 39) are accounted for based on the accounting policies for financial instruments.
C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognized initially in other comprehensive income and reclassified from equity to profit or loss upon disposal of the net investment.

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

In the preparation of consolidated financial statements, the assets and liabilities of foreign operations are translated into New Taiwan Dollars using the closing rates at the reporting date and income and expense items are translated at the average exchange rates for the period. The exchange differences arising on the translation are recognized in other comprehensive income. Upon disposal of the foreign operations, the cumulative exchange differences recognized in other comprehensive income and accumulated in the separate component of equity are reclassified from equity to profit or loss when recognizing the gain or loss on disposal. The partial disposal involving the loss of control of a subsidiary that includes a foreign operation, and the partial disposal of interests in an associate or a joint arrangement that includes a foreign operation while the retained interests are financial assets that include a foreign operation are accounted for as disposals.

On the partial disposal of a subsidiary that includes a foreign operation while retaining control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the NCIs in that foreign operation instead of being recognized in profit or loss. In partial disposal of an associate or a joint arrangement that includes a foreign operation while retaining significant influence or joint control, the proportionate share of the cumulative amount of the exchange differences is reclassified to profit or loss.

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

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

An asset is classified as current when:

A. the Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
B. the Group holds the asset primarily for the purpose of trading
C. the Group expects to realize the asset within twelve months after the reporting period

D. the asset is cash or cash equivalent, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

A. the Group expects to settle the liability in its normal operating cycle

B. the Group holds the liability primarily for the purpose of trading

C. the liability is due to be settled within twelve months after the reporting period

D. the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(6) Cash and cash equivalents

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

(7) Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 “Financial Instruments” (prior to January 1, 2018: IAS 39) are recognized initially at fair value plus or minus, in the case of financial assets and financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial assets or financial liabilities.

A. Recognition and measurement of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

B. Impairment of financial assets

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

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

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

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

(b) the time value of money; and

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

The loss allowance is measured as follows:

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

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

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

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

(8) Derivative financial instrument

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

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

Prior to January 1, 2018, derivatives embedded in host contracts are accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss.

(9) Inventories

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

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

Raw materials	- Actual purchase cost
Work in progress and finished goods	- Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity. Borrowing costs are excluded.

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

(10) Investments accounted for under the equity method

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

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

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

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

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

(11) Property, plant and equipment

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

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

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

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

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

(12) Borrowing costs

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

(13) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, which fail to meet the recognition criteria, are not capitalized. They are recognized in profit or loss as incurred.

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

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

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

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

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

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

A. the technical feasibility of completing the intangible asset so that it will be available for use or sale

B. its intention to complete and its ability to use or sell the asset

C. how the asset will generate future economic benefits

D. the availability of resources to complete the asset

E. the ability to measure reliably the expenditure during development

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

(14) Impairment of non-financial assets

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

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

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

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

(15) Provisions

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

(16) Treasury stocks

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

(17) Revenue recognition

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

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

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

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

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

(18) Post-employment benefit plans

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

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

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

A. when a plan amendment or curtailment occurs; and

B. the date when the Group recognizes any related restructuring costs or termination benefits.

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

(19) Share-based payment transactions

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

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

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

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

(20) Income tax

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

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

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 arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (loss);

B. Where the taxable temporary differences are associated with investments in subsidiaries and associates and the timing of its reversal can be controlled; and it is probable that the temporary differences will not be reversed in the foreseeable future.

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

A. Where the deferred income tax asset is related to the deductible temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

B. Where the deferred income tax asset is related to the deductible temporary differences associated with investments in subsidiaries and associates. The deferred income tax asset is recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

(21) Business combinations and goodwill

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

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

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

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

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

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

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

5. Significant Accounting Judgments and Major Sources of Estimation Uncertainty

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

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

(1) Fair value of financial instruments

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

(2) Receivables – impairment loss estimate

From January 1, 2018

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

(3) Inventories

The estimates of net realizable value for inventory take into account inventory spoilage, total or partial obsolescence or selling price declines. They are based on the most reliable evidence available when those estimates are made. Please refer to Note 6(5) for details.

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

(4) Post-employment benefit plans

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

(5) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments on the grant date. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model, including the expected life of the share option, volatility and dividend yield, and making assumptions about them. The assumptions and models used for estimating the fair value of share-based payment transactions are disclosed in Note 6(19).

(6) Income tax

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

Deferred income tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred income tax assets to be recognized is based upon the likely timing and the level of future taxable income and taxable temporary differences together with future tax planning strategies. Deferred income tax assets unrecognized by the Group as of December 31, 2018 are disclosed in Note 6(25).

6. Details of Significant Accounts

(1) Cash and cash equivalents

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

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

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

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

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

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

(3) Notes receivable, net

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

The Group's notes receivables were not pledged.

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

(4) Accounts receivable, net

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

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

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

B. Ageing analysis of net accounts receivable:

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

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

The Group had no factoring agreements as of December 31, 2018 and factoring transactions as of December 31, 2017 was as follows:

December 31, 2017			
Amount of Accounts Receivable	Amount of Factoring	Condition	Unreceived Amount (Recorded as Other Receivables)
US$ 38,680 thousand	US$ 38,680 thousand	without recourse	-

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

(5) Inventories, net

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

Expenses or income recognized were as follows:

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

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

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

The aforementioned inventories were not pledged.

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

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

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

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

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

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

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

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

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

(8) Investments accounted for under the equity method

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

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

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

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

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

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

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

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

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

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

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

(9) Property, plant and equipment

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

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

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

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

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

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

(10) Intangible assets

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

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

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

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

(11) Other non-current assets

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

(12) Impairment testing of goodwill

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

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.

(13) Short-term loans

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

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

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

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

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

(15) Lease payable

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

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

(16) Long-term loans

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

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

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

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

(17) Post-employment benefit plans

A. Defined contribution plan

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

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

B. Defined benefit plan

Expenses under the defined benefit plan were as follows:

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

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

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

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

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

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

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

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

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

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

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

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

	Pension Plan (%)	
	December 31, 2018	December 31, 2017
Cash	100%	100%

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

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

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

	December 31, 2018	December 31, 2017
Discount rate	1.31%	1.60%
Expected rate of return on plan assets	1.31%	1.60%
Expected rate of salary increases	3.00%	4.50%

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

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

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

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

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

(18) Equity

A. Capital

(a) The Company's authorized capital was NT$3,000,000 thousand, each at a par value of NT$10, divided into 300,000 thousand shares (including 15,000 thousand shares with the amount of NT$150,000 thousand reserved for the exercise of employee stock options, preferred stock with warrants and bond with warrants) as of December 31, 2018 and 2017.

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

B. Capital surplus

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

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

C. Treasury stocks

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

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

Reasons of Repurchase	As of January 1	Increase	Decrease	As of December 31
2018				
Transferred to employees	—	—	—	—
2017				
Transferred to employees	2,318 thousand shares	—	2,318 thousand shares	—

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

D. Appropriation of profits and dividend policies

The Articles of Incorporation state that current year's earnings, if any, shall be distributed in the following order:

(a) Taxes and dues.
(b) Deficit compensation.
(c) 10% of net profit as legal capital reserves. However, this shall not apply when the accumulated legal capital reserve has equaled the total capital.
(d) Special capital reserve appropriated or reversed as stipulated by relevant laws and regulations or the competent securities authorities.
(e) For the remaining profits, if any, the Board of Directors shall draft a proposal for the distribution of bonus to shareholders and submit it to the shareholders' meeting for resolution.

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

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

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

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

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

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

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

E. Non-controlling interests (NCI)

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

(19) Share-based payment plans

On February 25, 2010, the Company resolved at the Board of Directors' meeting to issue employee stock options with a total number of 2,355 units. Each unit entitles an optionee to subscribe to 1,000 shares of the Company's common stock. The chairperson is authorized by the Board to set the actual grant date. If a consensus was not reached regarding all terms and conditions, the grant date would be the date when consensuses for all were reached (April 30, 2010). Settlement upon exercise of the options will be made through issuance of new shares by the Company. An optionee may exercise the options in accordance with certain schedules and percentages prescribed by the plan two years from the grant date. Expense of the compensatory employee stock option plan for the year ended December 31, 2018 was NT$0 thousand.

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

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

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

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

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

(20) Revenue

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

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

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

Contract liabilities - current

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

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

(21) Reversal of expected credit loss

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

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

Please refer to Note 12 for information concerning credit risk.

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

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

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

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

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

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

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

(22) Operating leases

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

Total future minimum lease payments were as follows:

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

Expenses recognized under operating leases were as follows:

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

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

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

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

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

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

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

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

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

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

(24) Non-operating income and expenses

A. Other income

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

B. Other gains and losses

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

C. Finance costs

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

D. Components of other comprehensive income

For the year ended December 31, 2018

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

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

For the year ended December 31, 2017

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plan	$ 24,130	$ －	$ 24,130	$ (4,102)	$ 20,028
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	(22,115)	－	(22,115)	3,760	(18,355)
Total	$ 2,015	$ －	$ 2,015	$ (342)	$ 1,673

(25) Income tax

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

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

Income tax recognized in profit or loss

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

Income tax recognized in other comprehensive income

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

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

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

	Years Ended December 31	
	2018	2017
Income before tax of continuing operations	$ 868,542	$ 959,098
Income tax expense at the statutory rate of the parent company	$ 173,708	$ 163,047
Additional 10% income tax on unappropriated earnings	15,836	4,963
Tax effects of entities at different tax jurisdictions with different tax rates	(13,580)	27,352
Income tax adjustments on prior years	(3,149)	18,364
Tax effects of other tax adjustments	16,253	(1,173)
Income tax expense recognized in profit or loss	$ 189,068	$ 212,553

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

For the year ended December 31, 2018

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

For the year ended December 31, 2017

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Ending balance
Temporary differences					
Exchange gain and loss	$ 5,078	$ (654)	$ －	$ －	$ 4,424

(Continued)

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

(Concluded)

D. Unrecognized deferred income tax assets:

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

E. The assessment of income tax returns:

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

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

(26) Earnings per share

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

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

7. Related Party Transactions

(1) Names and relationships

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

(2) Significant transactions with related parties

A. Other payables – related parties

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

B. Compensation to key management of the Group

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

8. Pledged Assets

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

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

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

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

9. Significant Contingencies and Unrecognized Contract Commitments

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

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

10. Significant Disaster Loss

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

11. Significant Subsequent Events

None.

12. Others

(1) Categories of financial instruments

Financial assets

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

Financial liabilities

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

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

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

(2) Objectives of financial risk management

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

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

(3) Market risk

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

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

A. Foreign currency risk

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

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

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

B. Interest rate risk

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

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

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

C. Equity price risk

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

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

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

For the year ended December 31, 2018

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

For the year ended December 31, 2017

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

(4) Credit risk management

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

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

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

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

(5) Liquidity risk management

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

Non-derivative financial liabilities

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

Derivative financial liabilities

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

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

(6) Reconciliation of liabilities arising from financing activities

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

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

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

(7) Fair values of financial instruments

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

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

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

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

B. Fair value of financial instruments measured at amortized cost

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

C. Information on the fair value hierarchy of financial instruments

Please refer to Note 12(9) for details.

(8) Derivative instruments

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

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

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

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

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

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

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

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

(9) Fair value hierarchy

A. Definition of fair value hierarchy

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

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

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

Level 3 inputs are unobservable inputs for the asset or liability

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

B. Hierarchy of fair value measurement

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

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

(Continued)

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

(Concluded)

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

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

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

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

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

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

(11) Capital management

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

13. Additional Disclosures

(1) Information on significant transactions and investees

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

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

C. Marketable securities held as of December 31, 2018 (excluding investments in subsidiaries, associates and joint ventures): Please refer to Table 3.

D. Individual securities acquired or disposed of with accumulated amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2018: None.

E. Acquisition of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2018: None.

F. Disposal of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2018: None.

G. Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital for the year ended December 31, 2018: Please refer to Table 4.

H. Receivables from related parties of at least NT$100 million or 20 percent of the paid-in capital as of December 31, 2018: Please refer to Table 5.

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

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

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

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

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

14. Operating Segment Information

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

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

The overseas segment owns manufacturing and sales functions.

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

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

(1) Segment income (loss)

For the year ended December 31, 2018

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

Note: Inter-segment revenues were eliminated upon consolidation.

For the year ended December 31, 2017

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

Note: Inter-segment revenues were eliminated upon consolidation.

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

(2) Geographic information

A. Revenue from external customers:

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

Revenue was categorized based on countries where customers are located.

B. Non-current assets:

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

(3) Major customers

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

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

TABLE 1: FINANCING PROVIDED TO OTHERS (In Thousands of New Taiwan Dollars)

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

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

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

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

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

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

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

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

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

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

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

Note 11: This is the ending balance after evaluation.

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

No (Note 1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 3)	Maximum Balance for the Period (Note 4)	Ending Balance (Note 5)	Amount Actually Drawn (Note 6)	Amount of Endorsement/ Guarantee Secured by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Worth per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowed (Note 3)	Endorsement Provided by Parent Company to Subsidiaries (Note 7)	Endorsement Provided by Subsidiaries to Parent Company (Note 7)	Endorsement Provided to Subsidiaries in China (Note 7)
		Name	Relationship (Note 2)										
0	Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	2	$ 3,631,119	$ 123,836	$ 122,888	$ –	$ –	1.69%	$ 3,631,119	Y	N	N
0	Taiflex Scientific Co., Ltd.	Rudong Fuzhan Scientific Co., Ltd.	2	3,631,119	139,316	138,249	94,023	–	1.90%		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	2	3,631,119	1,320,872	1,214,801	57,165	–	16.73%		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	2	3,631,119	1,088,519	441,410	61,444	–	6.08%		Y	N	Y

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

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

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

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

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

Note 6: This is the ending balance after evaluation.

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

TABLE 3: MARKETABLE SECURITIES HELD AS OF DECEMBER 31, 2018 (EXCLUDING INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES)

(In Thousands of New Taiwan Dollars)

Name of Held Company	Type of Marketable Securities (Note 1)	Name of Marketable Securities (Note 1)	Relationship with the Company (Note 2)	Financial Statement Account	December 31, 2018				Note
					Shares (In Thousands)	Carrying Amount (Note 3)	Percentage of Ownership	Fair Value	
Taiflex Scientific Co., Ltd.	Non-listed (OTC) stocks	Exploit Technology Co., Ltd.	–	Financial assets at fair value through other comprehensive income - non-current	25	–	0.30%	–	–
	Non-listed (OTC) stocks	Kyoritsu Optronics Co., Ltd.	–	Financial assets at fair value through other comprehensive income - non-current	741	–	18.10%	–	–
	Listed stocks	Zhen Ding Technology Holding Limited	–	Financial assets at fair value through profit or loss - current	255	$ 20,421	0.03%	$ 20,421	–

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

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

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

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

(In Thousands of New Taiwan Dollars)

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

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

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

(In Thousands of New Taiwan Dollars)

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

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

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

(In Thousands of New Taiwan Dollars)

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

Note 1: Including unrealized gain/loss between affiliates.

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

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

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

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

Note 1: The methods for investment in Mainland China are categorized into the following three types. Please specify the type.

(1) Direct investment in Mainland China.

(2) Investment in Mainland China through companies in the third area.

(3) Others.

Note 2: Significant transactions with the investees in China directly or indirectly through the third area and the relevant prices, payment terms and unrealized gains and losses:

(1) Purchase and ending balance of related payables and their weightings: see Table 4.

(2) Sales and ending balance of related receivables and their weightings: see Tables 4 and 5.

(3) The transaction amount and gain or loss arising from property transactions: N/A.

(4) Ending balance of endorsements/guarantees or collateral provided and the purposes: see Table 2.

(5) Maximum balance, ending balance, interest rate range and total interest of current period from financing provided to others: see Table 1.

(6) Transactions that have significant impact on profit or loss of the current period or the financial position, such as services rendered or received: N/A.

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

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

(In Thousands of New Taiwan Dollars)

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

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

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

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

Note 4: This is the ending balance after evaluation.

Independent Auditors' Report

To the Board of Directors and Shareholders of Taiflex Scientific Co., Ltd.

Audit opinion

We have audited the parent company only balance sheets of Taiflex Scientific Co., Ltd. (hereinafter referred to as Taiflex or the Company) as of December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, changes in equity and cash flows, and notes to parent company only financial statements (including summary on significant accounting policies) for the years then ended.

In our opinion, the aforementioned parent company only financial statements present fairly, in all material respects, the parent company only financial status of Taiflex as of December 31, 2018 and 2017, and its parent company only financial performance and parent company only cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for audit opinion

We conducted our audits in accordance with the Regulations Governing the Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our CPAs will further explain the responsibilities auditors shall execute during the audit of parent company only financial statements under the above principles below. We are independent of Taiflex in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other responsibilities under the Norm. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our opinion.

Key audit matters

Key audit matters are ones that were of most significance in our audit of the parent company only financial statements of Taiflex for the year ended December 31, 2018 based on our professional judgment. These items have been covered during the audit of the overall parent company only financial statements and in forming the audit opinion. We will not express a separate opinion on these items. Key audit matters to be communicated on the independent auditors' report are stated as follows:

1. Impairment of receivables

Net receivables generated from the selling of flexible copper-clad laminate, cover layer and PV module backsheet accounted for 30% of Taiflex's total assets as of December 31, 2018. Hence, it was considered a material item to the Company. Loss allowance for accounts receivables was measured at an amount equal to lifetime expected credit losses. As the measurement of expected credit losses involved judgment, analysis and estimation and the outcome would affect the net accounts receivables, the impairment of receivables was identified as a key audit matter.

Our audit procedures included, but not limited to, the assessment on the appropriateness of expected credit loss rate for receivables, i.e. tests on the effectiveness of internal control established by the management for receivables, random selection of customers for receivable confirmations, and verification of subsequent collections in order to assess the recoverability of receivables. We tested the accuracy of aging, analyzed changes in aging, and assessed the reasonableness of receivables with longer collection terms.

We also considered the appropriateness of disclosures on receivables and associated risks in Notes 5 and 6 to the parent company only financial statements.

2. Inventory valuation

As of December 31, 2018, net inventories of flexible copper-clad laminate, cover layer and PV module backsheet amounted to NT$851,750 thousand; thus, it was a significant item to Taiflex. Due to uncertainties arising from rapid changes in product technologies, allowance for inventory obsolescence and valuation losses involved significant judgment of management. Hence, it was considered a key audit item.

Our audit procedures included, but not limited to, tests on the effectiveness of internal control established by the management for inventories, such as cost carryover of inventories and assessment on inventory status, evaluation on management's stocktaking plans, and on-site observation of stocktaking at major warehouses to ensure the quantities and conditions of inventories. We assessed the accuracy of inventory aging, analyzed movements in inventory aging, and considered the expected demand and market value of inventories. We evaluated management's analyses and assessments on obsolete inventories, including the estimations on the possibility of inventory realization and net realizable value, and tested whether the allowance for writing down inventories to their net realizable value is adequate.

We also considered the appropriateness of disclosures on inventories in Notes 5 and 6 to the parent company only financial statements.

Emphasis of matter – adoption of new accounting standards

As stated in Note 3 of the parent company only financial statements, Taiflex adopted IFRS 9, "Financial Instruments", and 15, "Revenue from Contracts with Customers", for annual periods beginning on January 1, 2018 and chose not to restate the parent company only financial statements of the comparative periods. We did not modify our audit conclusions as a result of this.

Responsibilities of management and governance bodies for the parent company only financial statements

The responsibilities of management are to prepare the parent company only financial statements with fair presentation in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and maintain necessary internal controls associated with the preparation in order to ensure the financial statements are free from material misstatement arising from fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the ability of Taiflex in continuing as a going concern, disclosing associated matters and adopting the going concern basis of accounting unless the management intends to liquidate the Taiflex or cease the operations, or has no realistic alternative but to do so.

The governance bodies of Taiflex (including Audit Committee) are responsible for supervising the financial reporting process.

Auditors' responsibilities for the audit of the parent company only financial statements

1. Identify and assess the risks of material misstatement arising from fraud or error within the parent company only financial statements; design and execute counter-measures in response to those risks, and obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Therefore, the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error.

2. Understand internal controls relevant to the audit in order to design appropriate audit procedures under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Taiflex's internal control.

3. Evaluate the appropriateness of accounting policies adopted and the reasonableness of accounting estimates and relevant disclosures made by management.

4. Based on the audit evidence obtained, we conclude on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty exists for events or conditions that may cast significant doubts on Taiflex's ability to continue as a going concern. If we are of the opinion that a material uncertainty exists, we shall remind users of the parent company only financial statements to pay attention to relevant disclosures in the notes to those statements within our audit report. If such disclosures are inadequate, we need to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may result in Taiflex ceasing to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements (including relevant notes), and whether the parent company only financial statements adequately represent the underlying transactions and events.
6. Obtain sufficient and appropriate audit evidence concerning the financial information of investees accounted for under the equity method to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision, and performance of the audit on those investees and the preparation of an audit opinion on the Company.

Matters communicated between us and the governance bodies include the planned scope and timing of the audit, and significant audit findings (including any significant deficiencies in internal control identified during the audit).

We also provide governance bodies with a declaration that we have complied with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China regarding independence, and to communicate with them all relationships and other matters that may possibly be deemed to impair our independence (including relevant preventive measures).

From the matters communicated with governance bodies, we determine the key audit matters within the audit of Taiflex's parent company only financial statements for the year ended December 31, 2018. We have clearly indicated such matters in the independent auditors' report. Unless legal regulations prohibit the public disclosure of specific items, or in extremely rare cases, where we decided not to communicate over specific items in the independent auditors' report for it could be reasonably anticipated that the negative effects of such disclosure would be greater than the public interest it brings forth.

Ernst & Young

Approval Number from Competent Authority for the Auditing and Attestation of Public Companies' Financial Statements by Certified Public Accountants:

Financial-Supervisory-Securities-VI-0970038990

Financial-Supervisory-Securities-Auditing-1010045851

CPAs: Jheng-Chu Chen

Fang-Wen Li

February 20, 2019

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

Assets	Notes	December 31, 2018	December 31, 2017
Current assets			
Cash and cash equivalents	4, 6(1)	$ 1,065,055	$ 1,230,607
Financial assets at fair value through profit or loss - current	4, 6(2)	20,820	16,721
Notes receivable, net	4, 6(3)	4,826	9,858
Accounts receivable, net	4, 6(4)	2,039,942	498,477
Accounts receivable – related parties	6(4), 7	1,348,288	1,543,450
Other receivables		43,229	39,256
Other receivables – related parties	7	1,229,366	1,057,967
Inventories, net	4, 6(5)	851,750	752,378
Prepayments		27,587	28,674
Other current assets	8	23,773	24,025
Total current assets		6,654,636	5,201,413
Non-current assets			
Financial assets at fair value through other comprehensive income - non-current	4, 6(6)	-	-
Financial assets carried at cost - non-current	4, 6(7)	-	-
Investments accounted for under the equity method	4, 6(8)	2,490,400	2,514,071
Property, plant and equipment	4, 6(9)	2,122,285	2,039,184
Intangible assets	4, 6(10)	39,142	45,372
Deferred income tax assets	4, 6(23)	100,000	99,874
Other non-current assets	4, 6(11)	6,806	10,755
Total non-current assets		4,758,633	4,709,256
Total assets		$ 11,413,269	$ 9,910,669

(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, 2018 and 2017
(In Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	December 31, 2018	December 31, 2017
Current liabilities			
Short-term loans	6(12)	$ 1,165,000	$ -
Financial liabilities at fair value through profit or loss - current	4, 6(13)	2,453	4,036
Notes payable		65,419	-
Accounts payable		1,554,031	1,574,207
Accounts payable – related parties	7	26,934	64,273
Other payables		545,822	533,921
Other payables – related parties	7	31,761	11,880
Current income tax liabilities	4, 6(23)	193,339	94,979
Current portion of long-term loans		-	19,091
Other current liabilities		5,099	1,922
Total current liabilities		3,589,858	2,304,309
Non-current liabilities			
Long-term loans	6(14)	295,000	119,091
Deferred income tax liabilities	4, 6(23)	127,750	176,294
Net defined benefit liabilities - non-current	4, 6(15)	138,423	184,124
Total non-current liabilities		561,173	479,509
Total liabilities		4,151,031	2,783,818
Equity			
Capital	6(16)		
Common stock		2,091,197	2,087,802
Capital collected in advance		-	665
Capital surplus	6(16)	1,446,639	1,441,339
Retained earnings			
Legal capital reserve		815,590	742,131
Special capital reserve		75,546	102,158
Unappropriated earnings		2,999,383	2,845,730
Total retained earnings		3,890,519	3,690,019
Others	4	(166,117)	(92,974)
Treasury stocks	6(16)	-	-
Total equity		7,262,238	7,126,851
Total liabilities and equity		$ 11,413,269	$ 9,910,669

(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, 2018 and 2017
(In Thousands of New Taiwan Dollars)

	Notes	2018	2017
Net revenue	4, 6(18), 7	$ 7,633,620	$ 7,383,077
Cost of revenue	4, 6(5), 6(21), 7	(5,921,108)	(5,884,638)
Gross profit		1,712,512	1,498,439
Unrealized sales profit or loss		(14,146)	-
Realized sales profit or loss		-	8,945
Gross profit, net		1,698,366	1,507,384
Operating expenses	4, 6(21)		
Sales and marketing expenses		(270,209)	(203,557)
General and administrative expenses		(280,017)	(290,052)
Research and development expenses		(244,580)	(241,537)
Reversal of expected credit loss	6(19)	107,895	-
Total operating expenses		(686,911)	(735,146)
Operating income		1,011,455	772,238
Non-operating income and expenses	6(22)		
Other income		70,856	39,164
Other gains and losses		41,892	(52,185)
Finance costs		(17,555)	(17,427)
Share of profit or loss of subsidiaries and associates under the equity method	4, 6(7)	(235,459)	161,428
Total non-operating income and expenses		(140,266)	130,980
Income before income tax		871,189	903,218
Income tax expense	4, 6(23)	(198,880)	(168,629)
Net income of continuing operations		672,309	734,589
Net income		672,309	734,589
Other comprehensive income (loss)	6(22)		
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit plan		55,488	24,130
Income tax related to components of other comprehensive income that will not be reclassified subsequently		(11,098)	(4,102)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(85,854)	(22,050)
Income tax related to components of other comprehensive income that may be reclassified subsequently to profit or loss	6(23)	19,311	3,749
Total other comprehensive income, net of tax		(22,153)	1,727
Total comprehensive income		$ 650,156	$ 736,316
Earnings per share (NT$)	4, 6(24)		
Earnings per share - basic		$ 3.22	$ 3.55
Earnings per share - diluted		$ 3.18	$ 3.53

(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, 2018 and 2017
(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	Unrealized Gain/Loss on Financial Assets at Fair Value through Other Comprehensive Income	Treasury Stocks	Total Equity
Balance as of January 1, 2017	$ 2,083,252	$ -	$1,407,558	$ 684,163	$ 102,158	$ 2,561,335	$ (74,673)	$ -	$ (98,744)	$ 6,665,049
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
Balance as of January 1, 2018	$ 2,087,802	$ 665	$1,441,339	$ 742,131	$ 102,158	$ 2,845,730	$ (92,974)	$ -	$ -	$ 7,126,851
Effect of retrospective application						6,600		(6,600)		-
Adjusted balance as of January 1, 2018	2,087,802	665	1,441,339	742,131	102,158	2,852,330	(92,974)	(6,600)	-	7,126,851
Appropriation and distribution of 2017 earnings										
Legal capital reserve				73,459		(73,459)				-
Cash dividends for common stocks						(522,799)				(522,799)
Changes in other capital surplus										
Changes in associates accounted for under the equity method			(1,553)							(1,553)
Share-based payment	3,395	(665)	6,853							9,583
Reversal of special capital reserve					(26,612)	26,612				-
Net income for the year ended December 31, 2018						672,309				672,309
Other comprehensive income (loss) for the year ended December 31, 2018						44,390	(66,543)			(22,153)
Total comprehensive income	-	-	-	-	-	716,699	(66,543)	-	-	650,156
Balance as of December 31, 2018	$ 2,091,197	$ -	$1,446,639	$ 815,590	$ 75,546	$ 2,999,383	$ (159,517)	$ (6,600)	$ -	$ 7,262,238

(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, 2018 and 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from operating activities:		
Income before income tax	$ 871,189	$ 903,218
Adjustments:		
Non-cash income and expense items:		
Depreciation	206,801	181,007
Amortization	16,403	14,548
Reversal of expected credit loss	(107,895)	(64,274)
Net loss of financial assets (liabilities) at fair value through profit or loss	12,328	11,963
Interest expense	17,555	17,427
Interest income	(29,449)	(24,690)
Compensation cost related to share-based payment	-	22,647
Share of profit or loss of subsidiaries and associates under the equity method	235,459	(161,428)
Gain on reversal of impairment loss for non-financial assets	(31,518)	-
Others	46,020	(5,828)
Changes in operating assets and liabilities:		
Increase in financial assets mandatorily at fair value through profit or loss	(18,010)	(1,846)
Decrease (increase) in notes receivable	5,032	(2,514)
Increase in accounts receivable	(1,433,570)	(26,708)
Decrease (increase) in accounts receivable – related parties	195,162	(431,582)
Increase in other receivables	(2,805)	(1,206)
Increase in other receivables – related parties	(171,399)	(480,706)
Increase in inventories	(145,392)	(225,561)
Decrease (increase) in prepayments	1,087	(1,138)
Decrease (increase) in other current assets	311	(190)
Increase in notes payable	65,419	-
(Decrease) increase in accounts payable	(20,176)	231,542
(Decrease) increase in accounts payable – related parties	(37,339)	48,946
Increase in other payables	27,054	44,123
Increase in other payables – related parties	19,881	6,200
Increase (decrease) in other current liabilities	18,507	(20,510)
Increase in net defined benefit liabilities	9,787	17,978
Cash generated from operations	(249,558)	51,418
Interest received	28,281	25,566
Dividend received	122,078	-
Interest paid	(17,078)	(17,559)
Income tax paid	(129,166)	(113,930)
Net cash used in operating activities	(245,443)	(54,505)

(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, 2018 and 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from investing activities:		
Acquisition of investments accounted for under the equity method	$ (534,553)	$ (286,140)
Return of capital from investee accounted for under the equity method	117,658	-
Acquisition of property, plant and equipment	(305,929)	(276,043)
Disposal of property, plant and equipment	-	27
Increase in refundable deposits	-	(327)
Decrease in refundable deposits	3,949	-
Acquisition of intangible assets	(9,777)	(22,203)
Increase in other current assets - other financial assets - current	(59)	(59)
Net cash used in investing activities	(728,711)	(584,745)
Cash flows from financing activities:		
Increase in short-term loans	1,165,000	-
Decrease in short-term loans	-	(4,287)
Increase in long-term loans	156,818	-
Repayment of long-term loans	-	(403,139)
Distribution of cash dividends	(522,799)	(412,254)
Exercise of employee stock options	9,583	18,653
Purchase of treasury stocks by employees	-	96,440
Net cash generated by (used in) financing activities	808,602	(704,587)
Net decrease in cash and cash equivalents	(165,552)	(1,343,837)
Cash and cash equivalents at beginning of period	1,230,607	2,574,444
Cash and cash equivalents at end of period	$ 1,065,055	$ 1,230,607

(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, 2018 and 2017
(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, 2018 and 2017 were approved and authorized for issue in the Board of Directors' meeting on February 20, 2019.

3. Newly Issued or Revised Standards and Interpretations

   (1) The 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, 2018. The first-time adoption does not have any material impact on the Company except for the following descriptions on the nature and the impact of the newly issued or revised standards and interpretations:

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

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

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

         (b) Prior to January 1, 2018, the Company recognizes revenue from the sale of goods when the products are delivered to the customers. For reporting periods starting on or after January 1, 2018, revenue is recognized when the promised products are transferred to the customers and the performance obligation is satisfied under IFRS 15. The adoption of IFRS 15 does not have any material impact on the Company's recognition of revenue from the sale of goods.

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

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

B. IFRS 9 "Financial Instruments"

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

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

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

IAS 39		IFRS 9	
Measurement Category	Carrying Amount	Measurement Category	Carrying Amount
Fair value through profit or loss (including carried at cost)	$ 16,721	Fair value through profit or loss	$ 16,721
Measured at amortized cost		Measured at amortized cost (including cash and cash equivalents, notes and accounts receivables, financial assets measured at amortized cost and other receivables)	4,399,717
Loans and receivables (including cash and cash equivalents, notes and accounts receivables, other financial assets and other receivables)	4,399,717		
Total	$ 4,416,438	Total	$ 4,416,438

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

IAS 39		IFRS 9			
Account	Carrying Amount	Account	Carrying Amount	Adjustment on Retained Earnings	Adjustment on Other Equity
Financial assets at fair value through profit or loss					
Designated as at fair value through profit or loss	$ 16,721	At fair value through profit or loss	$ 16,721		
Available-for-sale financial assets (including financial assets carried at cost) (Note)	0	At fair value through other comprehensive income – equity instruments	0	$ 6,600	($ 6,600)
Subtotal	$ 16,721				

(Continued)

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

IAS 39		IFRS 9		Adjustment on Retained Earnings	Adjustment on Other Equity
Account	Carrying Amount	Account	Carrying Amount		
Loans and receivables (Note)					
Cash and cash equivalents (excluding cash on hand)	$ 1,230,355	Cash and cash equivalents (excluding cash on hand)	$ 1,230,355		
Other financial assets	20,354	Other financial assets	20,354		
Notes receivable	9,858	Notes receivable	9,858		
Accounts receivable (including related parties)	2,041,927	Accounts receivable (including related parties)	2,041,927		
Other receivables (including related parties)	1,097,223	Other receivables (including related parties)	1,097,223		
Subtotal	$ 4,399,717				
Total	$ 4,416,438	Total	$ 4,416,438	$ 6,600	($ 6,600)

(Concluded)

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

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

The assessment is conducted based on the facts and circumstances that exist as of January 1, 2018. As these investments (equity instruments) are not held-for-trading, the Company chooses to designate them as financial assets at fair value through other comprehensive income. The amount reclassified from available-for-sale financial assets (including ones measured at cost) to financial assets at fair value through other comprehensive income was NT$0 thousand as of January 1, 2018. Other relevant adjustments are as follows:

Impairment loss is recognized fully for the non-listed (OTC) stocks with an initial carrying amount of NT$6,600 thousand that are measured at cost pursuant to IAS 39. However, under IFRS 9, those stocks shall be measured at fair value and the recognition of impairment loss is not required. As the fair value is deemed to be NT$0 thousand as of January 1, 2018, the Company would adjust the carrying amount of financial assets at fair value through other comprehensive income. Retained earnings and other equity (i.e. unrealized gain/loss on financial assets at fair value through other comprehensive income) would also be adjusted by NT$6,600 thousand each.

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

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

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

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

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

(2) 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:

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

A. IFRS 16 "Leases"

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

B. IFRIC 23 "Uncertainty over Income Tax Treatments"

The interpretation clarifies the application of recognition and measurement requirements under IAS 12 "Income Taxes" when there is uncertainty over income tax treatments.

C. Amendments to IAS 28 "Investments in Associates and Joint Ventures"

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

D. Prepayment Features with Negative Compensation (Amendments to IFRS 9)

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

E. Improvements to IFRS (2015-2017 cycle)

IFRS 3 “Business Combinations”

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

IFRS 11 “Joint Arrangements”

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

IAS 12 “Income Taxes”

The amendments clarify that entities shall recognize income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on how the originating transaction or event that has given rise to the dividends is recognized.

IAS 23 “Borrowing Costs”

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

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

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

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

A. IFRS 16 “Leases”

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

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

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

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

Leases classified as operating leases

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

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

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

The Company's right-of-use assets and lease liabilities are expected to increase by NT$261,602 thousand and NT$261,602 thousand, respectively on January 1, 2019.

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

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

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

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

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

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

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

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

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

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

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

The Company currently assesses the potential effects of the new, revised and amended standards or interpretations in the preceding paragraphs on the financial status and performance of the Company. The outcome 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, 2018 and 2017 have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, IFRIC interpretations and SIC interpretations endorsed 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 exchange rates prevailing on the transaction dates. 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 is 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 IFRS 9 "Financial Instruments" (prior to January 1, 2018: IAS 39) are accounted for based on the accounting policies for financial instruments.

C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognized initially in other comprehensive income and reclassified from equity to profit or loss upon disposal of the net investment.

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

In the preparation of parent company only financial statements, the assets and liabilities of foreign operations are translated into New Taiwan Dollars using the closing rates at the reporting date and income and expense items are translated at the average exchange rates for the period. The exchange differences arising on the translation are recognized in other comprehensive income. Upon disposal of the foreign operations, the cumulative exchange differences recognized in other comprehensive income and accumulated in the separate component of equity are reclassified from equity to profit or loss when recognizing the gain or loss on disposal. The partial disposal involving the loss of control of a subsidiary that includes a foreign operation, and the partial disposal of interests in an associate or a joint arrangement that includes a foreign operation while the retained interests are financial assets that include a foreign operation are accounted for as disposals.

On the partial disposal of a subsidiary that includes a foreign operation while retaining control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the NCIs in that foreign operation instead of being recognized in profit or loss. In partial disposal of an associate or a joint arrangement that includes a foreign operation while retaining significant influence or joint control, the proportionate share of the cumulative amount of the exchange differences is reclassified to profit or loss.

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

(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 time 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 instruments.

Financial assets and financial liabilities within the scope of IFRS 9 "Financial Instruments" (prior to January 1, 2018: IAS 39) are recognized initially at fair value plus or minus, in the case of financial assets and financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial assets or financial liabilities.

A. Recognition and measurement of financial assets

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

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

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

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

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

Financial assets measured at amortized cost

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

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

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

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

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

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

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

Financial assets at fair value through other comprehensive income

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

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

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

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

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

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

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

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

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

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

<u>Financial assets at fair value through profit or loss</u>

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

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

B. Impairment of financial assets

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

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

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

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

(b) the time value of money; and

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

The loss allowance is measured as follows:

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

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

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

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

(7) Derivative financial instrument

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

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

Prior to January 1, 2018, derivatives embedded in host contracts are accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss.

(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. Borrowing costs are excluded.

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

(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 profit or loss and other comprehensive income. Earning distributions received from the subsidiary reduce the carrying amount of the investment.

Unrealized gains or 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 interest previously held.

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 profit or loss and other comprehensive income. Earning 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 or 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 interest previously held.

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

(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

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

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

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

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

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

(17) Post-employment benefit plans

All regular employees of the Company are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company. Therefore, fund assets are not included in the 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 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 additional income tax for undistributed earnings is recognized as income tax expense in the year when the distribution proposal is approved in the shareholders' meeting.

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 arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (loss);

B. Where the taxable temporary differences are associated with investments in subsidiaries and associates and the timing of its reversal can be controlled; and it is probable that the temporary differences will not be reversed in the foreseeable future.

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

A. Where the deferred income tax asset is related to the deductible temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

5. Significant Accounting Judgments and Major Sources of Estimation Uncertainty

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

From January 1, 2018

The Company estimates the impairment loss of receivables by measuring the lifetime expected credit losses. Credit loss is calculated as the present value of the difference between contractual cash flows that are due to the Company under contracts (carrying amount) and cash flows the Company expects to receive (assessing the forward-looking information). For short-term receivables, as the discount effect is not significant, credit loss is measured using the undiscounted difference. Less-than-expected future cash flows could result in significant impairment charges. Please refer to Note 6(19) for details.

(3) Inventories

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

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

(4) Post-employment benefit plans

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

(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.

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

6. Details of Significant Accounts

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	$ 333	$ 252
Bank deposits	1,064,722	1,230,355
Total	$ 1,065,055	$ 1,230,607

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

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

	December 31, 2018	December 31, 2017 (Note)
Mandatorily at fair value through profit or loss:		
Derivative instruments not designated in a hedging relationship		
- Forward foreign exchange contracts	$ 399	
Stocks	20,421	
Total	$ 20,820	

	December 31, 2018 (Note)	December 31, 2017
Held for trading:		
Derivative instruments not designated in a hedging relationship		
- Forward foreign exchange contracts		$ 44
Non-derivative financial assets - Stocks		16,677
Total		$ 16,721

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

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

(3) Notes receivable, net

	December 31, 2018	December 31, 2017
Notes receivable, net	$ 4,826	$ 9,858

The Company's notes receivables were not pledged.

The Company adopted IFRS 9 for impairment assessment on January 1, 2018. Please refer to Note 6(19) for details on loss allowance and Note 12 for information concerning credit risk.

(4) Accounts receivable, net

	December 31, 2018	December 31, 2017
Accounts receivable	$ 2,077,747	$ 644,177
Less: loss allowance	(37,805)	(145,700)
Subtotal	2,039,942	498,477
Accounts receivable – related parties	1,348,288	1,543,450
Total	$ 3,388,230	$ 2,041,927

A. The credit terms of accounts receivable are generally set at 60 to 150 days from the end of month. The Company adopted IFRS 9 for impairment assessment on January 1, 2018. Please refer to Note 6(19) for loss allowance for the year ended December 31, 2018. Prior to January 1, 2018, IAS 39 was adopted for impairment assessment. The movements in the allowance for impairment of accounts receivable for the year ended December 31, 2017 were as follows (please refer to Note 12 for credit risk disclosure):

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

	December 31, 2017
Beginning balance	$ 209,974
Reversal for the year	(64,274)
Write off	—
Ending balance	$ 145,700

B. Ageing analysis of net accounts receivable:

	December 31,2017
Neither past due nor impaired	$ 1,833,708
Past due but not impaired	
≤ 120 days	208,198
121 to 180 days	21
≥ 181 days	—
Total	$ 2,041,927

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

The Company had no factoring agreements as of December 31, 2018 and factoring transactions as of December 31, 2017 was as follows:

December 31, 2017			
Amount of Accounts Receivable	Amount of Factoring	Condition	Unreceived Amount (Recorded as Other Receivables)
US$ 38,680 thousand	US$ 38,680 thousand	without recourse	-

The Company's accounts receivables were not pledged.

(5) Inventories, net

	December 31, 2018	December 31, 2017
Raw materials	$ 501,897	$ 357,939
Inventories in transit	34,238	20,873
Supplies	6,094	1,035
Work in process	46,265	19,548
Finished goods	258,606	348,991
Merchandise	4,650	3,992
Total	$ 851,750	$ 752,378

Expenses or income recognized were as follows:

	Years Ended December 31	
	2018	2017
Cost of inventories sold	$ 5,900,625	$ 5,914,573
Write-down (gain on recovery) of inventory	37,396	(8,662)
Loss on inventory write-off	8,624	2,834
Revenue from sale of scraps	(25,537)	(24,107)
Cost of revenue	$ 5,921,108	$ 5,884,638

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

For the year ended December 31, 2017, 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.

The aforementioned inventories were not pledged.

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

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

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

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

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

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

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

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

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

(8) Investments accounted for under the equity method

	December 31, 2018		December 31, 2017	
Investees	Amount	Percentage of Ownership	Amount	Percentage of Ownership
Investments in subsidiaries:				
Taistar Co., Ltd.	$ 1,133,837	100.00%	$ 1,763,948	100.00%
Leadmax Limited	10,990	100.00%	15,730	100.00%
Koatech Technology Corp.	233,440	53.86%	230,964	53.86%
TFS Co., Ltd.	469,677	100.00%	486,900	100.00%
Taiflex Scientific Japan Co., Ltd.	17,696	100.00%	16,529	100.00%
Richstar Co., Ltd.	564,429	53.01%	–	–
Taiflex USA Corporation	8,861	100.00%	–	–
Subtotal	2,438,930		2,514,071	
Investments in associates:				
Innovision FlexTech Corp.	51,470	15.07%	31,518	15.67%
Less: accumulated impairment – Innovision FlexTech Corp.	–		(31,518)	
Subtotal	51,470		–	
Total	$ 2,490,400		$ 2,514,071	

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

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, 2018 and 2017 were as follows:

	Years Ended December 31	
Investee	2018	2017
Taistar Co., Ltd.	$ (313,497)	$ 88,867
Leadmax Limited	(5,114)	890
Innovision FlexTech Corp.	19,666	－
Koatech Technology Corp.	2,669	8,262
TFS Co., Ltd.	50,426	63,853
Taiflex Scientific Japan Co., Ltd.	331	(444)
Richstar Co., Ltd.	10,408	－
Taiflex USA Corporation	(348)	－
Total	$ (235,459)	$ 161,428

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

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

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

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

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

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

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

(9) Property, plant and equipment

	December 31, 2018	December 31, 2017
Buildings	$ 775,683	$ 549,548
Machinery and equipment	764,262	707,518
Hydropower equipment	136,684	61,602
Testing equipment	143,165	121,074
Miscellaneous equipment	75,304	60,828
Construction in progress and equipment awaiting inspection	227,187	538,614
Net	$ 2,122,285	$ 2,039,184

	As of January 1, 2018	Additions	Disposals	Reclassification	As of December 31, 2018
Cost					
Buildings	$ 724,994	$ 5,181	$ (213)	$ 257,927	$ 987,889
Machinery and equipment	2,039,678	55,411	(17,752)	124,453	2,201,790
Hydropower equipment	259,177	5,309	—	81,255	345,741
Testing equipment	228,682	7,360	(1,890)	37,367	271,519
Miscellaneous equipment	153,594	5,412	(4,831)	21,654	175,829
Total	$ 3,406,125	$ 78,673	$ (24,686)	$ 522,656	$ 3,982,768
Accumulated depreciation and impairment					
Buildings	$ 175,446	$ 36,973	$ (213)	$ —	$ 212,206
Machinery and equipment	1,332,160	123,120	(17,752)	—	1,437,528
Hydropower equipment	197,575	11,482	—	—	209,057
Testing equipment	107,608	22,636	(1,890)	—	128,354
Miscellaneous equipment	92,766	12,590	(4,831)	—	100,525
Total	$ 1,905,555	$ 206,801	$ (24,686)	$ —	$ 2,087,670
Construction in progress and equipment awaiting inspection	538,614	211,625	—	(523,052)	227,187
Net	$ 2,039,184				$ 2,122,285

	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

(Continued)

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

	As of January 1, 2017	Additions	Disposals	Reclassification	As of December 31, 2017
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

(Concluded)

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

(10) Intangible assets

	December 31, 2018	December 31, 2017
Trademarks	$ 354	$ 415
Patents	6,848	7,779
Software cost	31,940	37,178
Total	$ 39,142	$ 45,372

	As of January 1, 2018	Additions	Reclassification	As of December 31, 2018
Cost				
Trademarks	$ 672	$ −	$ −	$ 672
Patents	14,881	775	−	15,656
Software cost	107,518	9,002	396	116,916
Total	$ 123,071	$ 9,777	$ 396	$ 133,244
Amortization and impairment				
Trademarks	$ 257	$ 61	$ −	$ 318
Patents	7,102	1,706	−	8,808
Software cost	70,340	14,636	−	84,976
Total	77,699	$ 16,403	$ −	94,102
Net	$ 45,372			$ 39,142

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

	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

(11) Other non-current assets

	December 31, 2018	December 31, 2017
Refundable deposits	$ 6,806	$ 10,755

(12) Short-term loans

	December 31, 2018	December 31, 2017
Unsecured bank loans	$ 1,165,000	$ –

The interest rates of loans were 0.74% to 1.04% as of December 31, 2018.

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

	December 31, 2018	December 31, 2017
Held for trading:		
Derivative financial instruments not designated in a hedging relationship		
- Forward foreign exchange contracts	$ 2,453	$ 4,036

(14) Long-term loans

	December 31, 2018	December 31, 2017
Revolving loans	$ 295,000	$ 138,182
Syndicated loans	–	–
Total	295,000	138,182
Less: current portion	–	(19,091)
Less: unamortized syndicated loan fee	–	–
Net	$ 295,000	$ 119,091

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

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

B. 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 drawdown date, i.e. June 2016 to June 2021. The credit term of the agreement was mid-term loans - current. During the loan term, the 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, debt ratio, interest coverage ratio and tangible net value. The Company has abided by those terms.

(15) Post-employment benefit plans

A. Defined contribution plan

Expenses under the defined contribution plan for the years ended December 31, 2018 and 2017 were NT$23,076 thousand and NT$20,956 thousand, respectively.

B. Defined benefit plan

Expenses under the defined benefit plan were as follows:

	Years Ended December 31	
Financial Statement Account	2018	2017
Operating costs	$ 5,232	$ 7,339
Sales and marketing expenses	598	1,055
General and administrative expenses	3,346	9,026
Research and development expenses	3,415	3,318
Total	$ 12,591	$ 20,738

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

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

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

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

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

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

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

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

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

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

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

	Pension Plan (%)	
	December 31, 2018	December 31, 2017
Cash	100%	100%

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

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

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

	December 31, 2018	December 31, 2017
Discount rate	1.31%	1.60%
Expected rate of return on plan assets	1.31%	1.60%
Expected rate of salary increases	3.00%	4.50%

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

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

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

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

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

(16) Equity

A. Capital

(a) The Company's authorized capital was NT$3,000,000 thousand, each at a par value of NT$10, divided into 300,000 thousand shares (including 15,000 thousand shares with the amount of NT$150,000 thousand reserved for the exercise of employee stock options, preferred stock with warrants and bond with warrants) as of December 31, 2018 and 2017.

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

B. Capital surplus

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

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

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

C. Treasury stocks

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

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

Reasons of Repurchase	As of January 1	Increase	Decrease	As of December 31
2018				
Transferred to employees	—	—	—	—
2017				
Transferred to employees	2,318 thousand shares	—	2,318 thousand shares	—

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

D. Appropriation of profits and dividend policies

The Articles of Incorporation state that current year's earnings, if any, shall be distributed in the following order:

(a) Taxes and dues.
(b) Deficit compensation.
(c) 10% of net profit as legal capital reserves. However, this shall not apply when the accumulated legal capital reserve has equaled the total capital.
(d) Special capital reserve appropriated or reversed as stipulated by relevant laws and regulations or the competent securities authorities.
(e) For the remaining profits, if any, the Board of Directors shall draft a proposal for the distribution of bonus to shareholders and submit it to the shareholders' meeting for resolution.

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

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

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

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

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

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

Please refer to Note 6(21) for information on the accrual basis and the amounts recognized for compensation to employees and remuneration to directors.

(17) Share-based payment plans

On February 25, 2010, the Company resolved at the Board of Directors' meeting to issue employee stock options with a total number of 2,355 units. Each unit entitles an optionee to subscribe to 1,000 shares of the Company's common stock. The chairperson is authorized by the Board to set the actual grant date. If a consensus was not reached regarding all terms and conditions, the grant date would be the date when consensuses for all were reached (April 30, 2010). Settlement upon exercise of the options will be made through issuance of new shares by the Company. An optionee may exercise the options in accordance with certain schedules and percentages prescribed by the plan two years from the grant date. Expense of the compensatory employee stock option plan for the year ended December 31, 2018 was NT$0 thousand.

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

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

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

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

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

(18) Revenue

	Years Ended December 31	
	2018 (Note)	2017
Sale of goods	$ 7,633,620	$ 7,383,077

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

(19) Reversal of expected credit loss

	Years Ended December 31	
	2018	2017 (Note)
Operating expenses – Reversal of expected credit loss		
Accounts receivable	$ (107,895)	

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

Please refer to Note 12 for information concerning credit risk.

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

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

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

	Not Past Due (Note)	Past Due: Within 90 Days	Past Due: 91-180 Days	Past Due: Over 181 Days	Total
Gross carrying amount	$ 3,059,990	$ 365,979	$ —	$ 4,892	$ 3,430,861
Loss ratio	0%~1%	0%~20%	20%~50%	50%~100%	
Lifetime expected credit losses	19,827	13,086	—	4,892	37,805
Subtotal	$ 3,040,163	$ 352,893	$ —	$ —	$ 3,393,056

Note: None of the Company's notes receivables was overdue.

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

	Receivables
Beginning balance	$ 145,700
Reversal in the current period	(107,895)
Write off	—
Ending balance	$ 37,805

(20) Operating leases

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

Total future minimum lease payments were as follows:

	2018.12.31	2017.12.31
Less than 1 year	$ 14,585	$ 15,597
More than 1 year but less than 5 years	35,730	34,126
More than 5 years	18,459	13,796
Total	$ 68,774	$ 63,519

Expenses recognized under operating leases were as follows:

	Years Ended December 31	
	2018	2017
Minimum lease payments	$ 26,039	$ 33,054

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

Function / Nature	Years Ended December 31					
	2018			2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	353,493	280,535	634,028	335,010	297,748	632,758
Labor and health insurance	32,857	18,197	51,054	28,751	18,239	46,990
Pension	20,180	15,487	35,667	20,275	21,419	41,694
Remuneration to directors	—	20,109	20,109	—	20,853	20,853

(Continued)

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

Function / Nature	Years Ended December 31					
	2018			2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Other employee benefits expense	41,107	20,004	61,111	37,719	20,861	58,580
Depreciation	177,307	29,494	206,801	157,356	23,651	181,007
Amortization	3,737	12,666	16,403	4,018	10,530	14,548

(Concluded)

As of December 31, 2018 and 2017, the Company had 759 and 715 employees, respectively. There were 6 Directors who were not employees for both years.

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

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

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

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

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

(22) Non-operating income and expenses

A. Other income

	Years Ended December 31	
	2018	2017
Interest income	$ 29,449	$ 24,690
Other income	41,407	14,474
Total	$ 70,856	$ 39,164

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

B. Other gains and losses

	Years Ended December 31	
	2018	2017
Foreign exchange loss, net	$ 23,902	$ (39,022)
Loss of financial assets (liabilities) at fair value through profit or loss, net	(12,328)	(11,963)
Gain on reversal of impairment loss	31,518	—
Other losses	(1,200)	(1,200)
Total	$ 41,892	$ (52,185)

C. Finance costs

	Years Ended December 31	
	2018	2017
Interest on borrowings from banks	$ (17,555)	$ (17,427)

D. Components of other comprehensive income

For the year ended December 31, 2018

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plan	$ 55,488	$ —	$ 55,488	$ (11,098)	$ 44,390
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	(85,854)	—	(85,854)	19,311	(66,543)
Total	$ (30,366)	$ —	$ (30,366)	$ 8,213	$ (22,153)

For the year ended December 31, 2017

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

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

(23) Income tax

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

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

Income tax recognized in profit or loss

	Years Ended December 31	
	2018	2017
Current income tax expense (benefit):		
Current income tax expense	$ 248,526	$ 113,960
Income tax adjustments on prior years	(7,447)	11,292
Deferred income tax expense:		
Income tax expense relating to origination and reversal of temporary differences	(56,764)	43,377
Adjustments relating to changes in tax rates	14,565	–
Total income tax expense	$ 198,880	$ 168,629

Income tax recognized in other comprehensive income

	Years Ended December 31	
	2018	2017
Deferred income tax expense (benefit):		
Remeasurement of defined benefit plan	$ 11,098	$ 4,102
Exchange differences arising on translation of foreign operations	(19,311)	(3,749)
Income tax relating to components of other comprehensive income	$ (8,213)	$ 353

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

	Years Ended December 31	
	2018	2017
Income before tax of continuing operations	$ 871,189	$ 903,218
Income tax expense at the statutory rate of the Company	$ 174,238	$ 153,547
Additional 10% income tax on unappropriated earnings	15,836	4,963
Income tax adjustments on prior years	(7,447)	11,292
Tax effects of other tax adjustments	16,253	(1,173)
Income tax expense recognized in profit or loss	$ 198,880	$ 168,629

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

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

For the year ended December 31, 2018

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Ending balance
Temporary differences					
Exchange gain and loss	$ 4,457	$ 8,359	$ －	$ －	$ 12,816
Allowance for inventory valuation and obsolescence loss	8,341	8,951	－	－	17,292
Investments accounted for under the equity method	(153,008)	39,960	19,311	(1,742)	(95,479)
Unrealized intra-group profits and losses	3,667	3,840	－	－	7,507
Impairment of assets	6,480	(5,160)	－	－	1,320
Allowance for doubtful accounts	22,419	(20,084)	－	－	2,335
Net defined benefit liabilities	31,301	7,482	(11,098)	－	27,685
Others	(77)	(1,149)	－	－	(1,226)
Deferred income tax benefit (expense)		$ 42,199	$ 8,213	$ (1,742)	
Net deferred income tax assets (liabilities)	$ (76,420)				$ (27,750)
Reflected in balance sheet as follows:					
Deferred income tax assets	$ 99,874				$ 100,000
Deferred income tax liabilities	$ 176,294				$ 127,750

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)
Unrealized 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

D. Unrecognized deferred income tax assets:

As of December 31, 2018 and 2017, the Company had no deferred income tax assets that had not been recognized.

E. The assessment of income tax returns:

As of December 31, 2018, the Company's income tax return was assessed and approved up to 2016.

(24) Earnings per share

	Year Ended December 31, 2018		
	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	$ 672,309	209,084	$ 3.22
Effect of dilutive potential common stocks			
Employee compensation - stock	–	2,142	
Diluted earnings per share			
Net income available to common shareholders of the Company and effect of potential common stocks	$ 672,309	211,226	$ 3.18

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

7. Related Party Transactions

(1) Names and relationships

Name	Relationship
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
Taiflex USA Corporation	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
Shenzhen Taiflex Electronic Co., Ltd. (Shenzhen Taiflex)	100% owned third-tier subsidiary
Rudong Fuzhan Scientific Co., Ltd.	100% owned third-tier subsidiary
Koatech Technology Corporation (Koatech)	53.86% owned subsidiary
Innatech Co., Ltd. (Innatech)	Its chairperson is the Company's chairperson

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

(2) Significant transactions with related parties

A. Sales

	Years Ended December 31 2018	Years Ended December 31 2017
Subsidiaries	$ 2,193,993	$ 2,340,459

The sales prices of related party transactions were determined through mutual agreements based on market conditions. The outstanding balances as of December 31, 2018 and 2017 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 2018	Years Ended December 31 2017
Subsidiaries	$ 110,029	$ 212,207

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

C. Accounts receivable - related parties

	December 31, 2018	December 31, 2017
Subsidiaries	$ 1,348,288	$ 1,543,450

D. Other receivables - related parties

(a) Non-financing

	December 31, 2018	December 31, 2017
Subsidiaries	$ 225,166	$ 65,230

(b) Financing

December 31, 2018

	Maximum Balance	Ending Balance	Amount Actually Drawn	Interest Receivable	Interest Rate	Interest Income
Subsidiaries	$ 1,662,466	$ 1,357,768	$ 998,242	$ 5,958	1.7%～4.0%	$21,487

December 31, 2017

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

E. Accounts payable - related parties

	December 31, 2018	December 31, 2017
Subsidiaries	$ 26,934	$ 64,273

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

F. Other payables – related parties

	December 31, 2018	December 31, 2017
Subsidiaries	$ 31,113	$ 11,439
Other related parties	648	441
Total	$ 31,761	$ 11,880

G. Compensation to key management

	Years Ended December 31	
	2018	2017
Short-term employee benefits	$ 62,701	$ 64,637
Post-employment benefits	509	6,396
Total	$ 63,210	$ 71,033

8. Pledged Assets

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

	Carrying Amount		
	December 31, 2018	December 31, 2017	Purpose of Pledge
Time deposits (Note)	$ 20,413	$ 20,354	Customs guarantee
Buildings	42,277	43,626	Letter of credit and short-term credit facilities
Total	$ 62,690	$ 63,980	

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, 2018 were as follows:

	L / C Balance	
NTD	NT$	6,646 thousand
USD	US$	6,974 thousand
JPY	JPY	44,960 thousand

10. Significant Disaster Loss

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

11. Significant Subsequent Events

None.

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

12. Others

(1) Categories of financial instruments

Financial assets

	December 31, 2018	December 31, 2017
Financial assets at fair value through profit or loss:		
Held for trading	(Note 1)	$ 17,463
Mandatorily at fair value through profit or loss	$ 20,820	(Note 1)
Financial assets at amortized cost:		
Cash and cash equivalents (excluding cash on hand)	1,064,722	(Note 1)
Receivables	4,665,651	(Note 1)
Other financial assets - current	20,413	(Note 1)
Loans and receivables (Note 2)	(Note 1)	3,149,008

Financial liabilities

	December 31, 2018	December 31, 2017
Financial liabilities at fair value through profit or loss:		
Held for trading	$ 2,453	$ 4,036
Financial liabilities at amortized cost:		
Short-term loans	1,165,000	—
Payables	2,223,967	2,184,281
Long-term loans (including current portion)	295,000	138,182

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

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

(2) Objectives of financial risk management

The 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 risks.

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

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

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.

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

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

For the year ended December 31, 2018

Key Risk	Variation	Sensitivity of Profit or Loss
Foreign currency risk	NTD/USD appreciate/depreciate by 1%	－/＋ NT$17,892 thousand
	NTD/CNY appreciate/depreciate by 1%	－/＋ NT$ 67 thousand
Interest rate risk	Market interest rate increase/decrease by 10 basis points	＋/－ NT$ 395 thousand

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

For the year ended December 31, 2017

Key Risk	Variation	Sensitivity of Profit or Loss
Foreign currency risk	NTD/USD appreciate/depreciate by 1%	−/+ NT$10,809 thousand
	NTD/CNY appreciate/depreciate by 1%	−/+ NT$ 1,455 thousand
Interest rate risk	Market interest rate increase/decrease by 10 basis points	+/− NT$ 1,092 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).

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

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

Non-derivative financial liabilities

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2018					
Borrowings	$ 1,165,530	$ 295,000	$ −	$ −	$ 1,460,530
Payables	2,223,967	−	−	−	2,223,967
December 31, 2017					
Borrowings	$ 19,143	$ 119,091	$ −	$ −	$ 138,234
Payables	2,184,281	−	−	−	2,184,281

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

Derivative financial liabilities

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2018					
Inflows	$ 508,174	$ －	$ －	$ －	$ 508,174
Outflows	586,902	－	－	－	586,902
Net	$ (78,728)	$ －	$ －	$ －	$ (78,728)
December 31, 2017					
Inflows	$ 566,937	$ －	$ －	$ －	$ 566,937
Outflows	576,387	－	－	－	576,387
Net	$ (9,450)	$ －	$ －	$ －	$ (9,450)

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

(6) Reconciliation of liabilities arising from financing activities

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

	Short-term Loan	Long-term Loan	Total Liabilities from Financing Activities
As of January 1, 2018	$ －	$ 138,182	$ 138,182
Cash flows	1,165,000	156,818	1,321,818
As of December 31, 2018	$1,165,000	$ 295,000	$1,460,000

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

(7) Fair values of financial instruments

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions are used by the 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.

(8) Derivative instruments

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

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

Currency	Contract Period	Contract Amount (in thousands)
December 31, 2018		
Sell CNY/Buy NTD	2018.11～2019.05	CNY 90,000/NT$ 396,597
Sell USD/Buy NTD	2018.12～2019.03	US$ 6,000/NT$ 183,577
December 31, 2017		
Sell CNY/Buy 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.

(9) Fair value hierarchy

A. Definition of fair value hierarchy

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

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

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

Level 3 inputs are unobservable inputs for the asset or liability

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

B. Hierarchy of fair value measurement

The 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 a recurring basis was disclosed as follows:

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	$ －	$ 399	$ －	$ 399
Stocks	20,421	－	－	20,421

(Continued)

	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	$ —	$ 2,453	$ —	$ 2,453

	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	$ —	$ 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)

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

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

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

	December 31, 2018			December 31, 2017		
	Foreign Currencies (in thousands)	Exchange Rate	NTD	Foreign Currencies (in thousands)	Exchange Rate	NTD
Financial assets						
Monetary items						
USD	$ 96,508	30.7220	$ 2,964,920	$ 82,143	29.8300	$ 2,450,326
CNY	1,615	4.4730	7,226	32,640	4.5745	149,312
Financial liabilities						
Monetary items						
USD	$ 38,265	30.7220	$ 1,175,588	$ 45,871	29.8300	$ 1,368,332
JPY	176,541	0.2781	49,096	222,018	0.2648	58,790

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

As the Company transacts in various currencies, the exchange gain (loss) of monetary financial assets and liabilities cannot be disclosed by currencies of significant influence. For the years ended December 31, 2018 and 2017, the Company's foreign exchange gain (loss) amounted to NT$23,902 thousand and NT$(39,022) thousand, respectively.

(11) 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, 2018 (excluding investments in subsidiaries, associates and joint ventures): Please refer to Table 3.

D. Individual securities acquired or disposed of with accumulated amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2018: None.

E. Acquisition of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2018: None.

F. Disposal of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2018: None.

G. Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital for the year ended December 31, 2018: Please refer to Table 4.

H. Receivables from related parties of at least NT$100 million or 20 percent of the paid-in capital as of December 31, 2018: Please refer to Table 5.

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

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

(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 Short-term Financing (Note 6)	Loss Allowance	Collateral		Financing Limits for Each Borrower	Financing Company's Total Financing Amount Limits	Note
													Item	Value			
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	$ 433,426	$ 430,108	$ 276,498	1.70%~4.00%	2	—	Operating capital	—	—	—	$ 1,452,448	$ 2,904,895	(Note 7)
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Other receivables - related parties	Y	1,229,040	921,660	721,744	1.70%~4.00%	2	—	Operating capital	—	—	—	1,452,448	2,904,895	(Note 7)

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

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

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

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

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

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

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

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

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

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

Note 11: This is the ending balance after evaluation.

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

No (Note 1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 3)	Maximum Balance for the Period (Note 4)	Ending Balance (Note 5)	Amount Actually Drawn (Note 6)	Amount of Endorsement/ Guarantee Secured by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Worth per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowed (Note 3)	Endorsement Provided by Parent Company to Subsidiaries (Note 7)	Endorsement Provided by Subsidiaries to Parent Company (Note 7)	Endorsement Provided to Subsidiaries in China (Note 7)
		Name	Relationship (Note 2)										
0	Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	2	$ 3,631,119	$ 123,836	$ 122,888	$ —	$ —	1.69%	$ 3,631,119	Y	N	N
0	Taiflex Scientific Co., Ltd.	Rudong Fuzhan Scientific Co., Ltd.	2	3,631,119	139,316	138,249	94,023	—	1.90%		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	2	3,631,119	1,320,872	1,214,801	57,165	—	16.73%		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	2	3,631,119	1,088,519	441,410	61,444	—	6.08%		Y	N	Y

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

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

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

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

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

Note 6: This is the ending balance after evaluation.

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

TABLE 3: MARKETABLE SECURITIES HELD AS OF DECEMBER 31, 2018 (EXCLUDING INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES)

(In Thousands of New Taiwan Dollars)

Name of Held Company	Type of Marketable Securities (Note 1)	Name of Marketable Securities (Note 1)	Relationship with the Company (Note 2)	Financial Statement Account	December 31, 2018				Note
					Shares (In Thousands)	Carrying Amount (Note 3)	Percentage of Ownership	Fair Value	
Taiflex Scientific Co., Ltd.	Non-listed (OTC) stocks	Exploit Technology Co., Ltd.	—	Financial assets at fair value through other comprehensive income - non-current	25	—	0.30%	—	—
	Non-listed (OTC) stocks	Kyoritsu Optronics Co., Ltd.	—	Financial assets at fair value through other comprehensive income - non-current	741	—	18.10%	—	—
	Listed stocks	Zhen Ding Technology Holding Limited	—	Financial assets at fair value through profit or loss - current	255	$ 20,421	0.03%	$ 20,421	—

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

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

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

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

(In Thousands of New Taiwan Dollars)

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

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

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

(In Thousands of New Taiwan Dollars)

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

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

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

(In Thousands of New Taiwan Dollars)

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

Note 1: Including unrealized gain/loss between affiliates.

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

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

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

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

Note 1: The methods for investment in Mainland China are categorized into the following three types. Please specify the type.

(1) Direct investment in Mainland China.

(2) Investment in Mainland China through companies in the third area.

(3) Others.

Note 2: Significant transactions with the investees in China directly or indirectly through the third area and the relevant prices, payment terms and unrealized gains and losses:

(1) Purchase and ending balance of related payables and their weightings: see Table 4.

(2) Sales and ending balance of related receivables and their weightings: see Tables 4 and 5.

(3) The transaction amount and gain or loss arising from property transactions: N/A.

(4) Ending balance of endorsements/guarantees or collateral provided and the purposes: see Table 2.

(5) Maximum balance, ending balance, interest rate range and total interest of current period from financing provided to others: see Table 1.

(6) Transactions that have significant impact on profit or loss of the current period or the financial position, such as services rendered or received: N/A.

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

TAIFLEX Scientific Co., Ltd.

Chairperson: Ta-Wen Sun