Stock Code: 8039

TAIFLEX Scientific Co., Ltd.

2019 Annual Report

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

Published on March 30, 2020

<u>Notice to readers</u>

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

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

   Spokesperson: Fang-I Hsieh

   Title: Chief Financial Officer

   Telephone Number: (07)813-9989

   E-mail address: shieh@taiflex.com.tw

   Deputy Spokesperson: Qi-Xun Zhang

   Title: Project Manager

   Telephone Number: (07)813-9989 ext. 52818

   E-mail address: charles_chang@taiflex.com.tw

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

   Taiflex 1: No. 4, S. 3rd Rd., KEPZ, Qianzhen Dist., Kaohsiung City 806, Taiwan (R.O.C.)

   Taiflex 2 (Headquarters): No.1, Huanqu 3rd Rd., KEPZ, Qianzhen Dist., Kaohsiung City 806, Taiwan (R.O.C.)

   Taiflex 3: No. 3, S. 2nd Rd., KEPZ, Qianzhen Dist., Kaohsiung City 806, Taiwan (R.O.C.)

   Taiflex 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

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I. Letter to Shareholders

1. 2019 Operating Results

Net revenue of the Company amounted to NT$7.58 billion in 2019, a decrease of 21.4% from NT$9.64 billion in 2018. Net income attributable to shareholders of the parent came to NT$631 million, down 6.2% year-over-year. Earnings per share was NT$3.02. However, the Company strove to lower production cost, improve production yield, enhance output efficiency and exercise strict control over expenses. As a result, gross profit rose significantly from 20.67% to 22.93% and the improved profitability mitigated the impact of decline in revenue. The drop in revenue was mainly caused by two factors. Firstly, the US-China trade war and measures implemented by the U.S. on certain Chinese enterprises influenced the final demand. In response to the situation, we executed stricter credit management policy to secure a stable cash level for carrying us through the time of uncertainty, which ultimately impacted on some customer orders. Secondly, in response to the solar industry's increasing operational risks and low potential returns, we made strategic adjustments on our PV backsheet business and terminated our involvement in the industry. These two factors contributed to the significant decrease in revenue on a year-over-year basis.

Confronted by market uncertainties and adverse foreign exchange trends for exporters, we see a promising growth in high-frequency, high-speed transmission materials from 5G application expansion. The overall operation is expected to return to growth.

(1) Consolidated revenue and net income

(In Thousands of New Taiwan Dollars)

Item	2019	2018	Change (in Dollar Amount)	Change (in Percentage)
Net revenue	7,583,654	9,643,051	(2,059,397)	(21.36%)
Gross profit	1,739,138	1,993,044	(259,906)	(12.74%)
Net income	618,282	679,474	(61,192)	(9.01%)

(2) Profitability analysis

Item	2019	2018
Net profit margin	8.15%	7.04%
Return on assets	5.43%	6.08%
Return on shareholders' equity	8.39%	9.29%

(3) Directions of research and development: heading towards high added-value material industry

A. High-frequency materials

With persistent trend for compact and energy-efficient electronic devices along with the warming-up of 5G applications, the demand for materials featuring high frequency, high speed, high dimensional stability, high heat dissipation and fine line applications continues to expand while relevant applications gradually come to light. The Company has invested resources and proactively carries out supply chain integration in order to develop products which meet consumers' requirements, and applies core formula capabilities to provide customers with total solutions.

B. Heat dissipation materials

While continuing to cultivate the electronic materials business, the Company utilizes existing core formulas and production capabilities to proactively diversify the product lines and actively invests in heat dissipation materials in light of relevant demand brought about by 5G devices. We also look for ways to apply our self-developed heat dissipation materials in the automotive market in order to mitigate the uncertainties in the highly volatile electronic industry.

C. Display materials

With years of experience in polyimide formula capability, we advance on flexible display materials which have enormous growth potential in the future. We develop polyimide optical materials and transparent polyimide cover lens for flexible displays while actively participate in accredited collaboration with world-renowned firms. We aim to enter another fast-growing industry with our advantages in formula to reinforce our long-term operational growth momentum and technical strength.

2. Overview of 2020 Business Plan

(1) Business policy

The global economy still faces many uncertain factors in 2020. Even though the first-stage trade deal of the US-China trade war is concluded and the whole trade negotiation presents a positive way forward, the COVID-19 pandemic has brought on serious impact to major economies including China, Europe, Japan and U.S. As governments implement measures to contain the outbreak, people movements rapidly diminish, resulting in an enormous setback on global consumption. It even creates worldwide supply chain disruptions where small and medium enterprises with unsound operational performances are confronted by tremendous pressure. This may lead to numerous business shutdowns and high unemployment rates, which in turn increase the pressure on global economic growth. Meanwhile, each nation’s central bank adopts extreme or even unlimited quantitative easing policy in hope to maintain market liquidity. The global financial market experiences huge swings as a result, further increasing the volatilities in interest rates and exchange rates. Consequently, enterprises encounter soaring variable risks in operation. Therefore, we shall tread carefully in 2020 and abide by the two principles: risk first and flexible management. We will maintain sufficient cash and dynamically deploy group resources in response to changes in the economic environment and mitigate the adverse effect of crises.

In terms of the consumption market as a whole, the smartphone sector might experience zero growth or recession due to a lack of innovations and an extended replacement cycle. As the growth in overall demand becomes stagnant, the applications of new materials for 5G and surface phones bring about new high added-value growth opportunities to upstream material vendors. Only companies in command of opportunities stemming from new designs and applications can sustain growth momentum. We are recognized by international companies for our sustainable operating capacity and maintain long-term partnerships. We continue to work closely with them in the research and development of new materials in hope to seize the business opportunities created by new applications.

Furthermore, in contrast to new designs and applications, cost competitiveness will be the deciding factor of competitions in the traditional market. With our advantages in economies of scale and comprehensive supply chain management ability, we can fulfill market demand with competitive cost structures, continue to expand our market share, and secure our leading position in the competition. Environmental issue is also a key concern for modern-day corporations. Benefiting from being a long-term industry leader, we have the resources to make extensive investments in eco-friendly equipment. Besides fulfilling our corporate social responsibilities, we can ensure that we will be able to pass all inspections conducted by the competent authorities and avoid production interruptions. As we have production bases in both mainland China and Taiwan, we can flexibly allocate our production to conform with policy requirements, which grant us a greater competitive edge.

(2) Sales forecast and basis

Electronics materials: the sales in 2020 is expected to stay flat or increase slightly comparing to 2019

Basis:

A. As COVID-19 spreads across the world, we expect a greater degree of decline in global consumption. While the end market going through inventory adjustment due to diminishing consumer spending, the overall demand for upstream material suppliers can be expected to ease.

B. At present, it is difficult to see growth in the overall shipment of smartphone, which results in a flat market demand. However, if we look at a specific market segment, new applications such as 5G and surface phones will remain highly robust. Through active collaboration with major international companies in the field of new materials, we can maintain a certain degree of growth.

C. As for the existing product markets, competitive advantage in cost management will determine if a company can secure its existing market share or even expand it when demand stays flat. We have comprehensive product lines relative to other competitors along with quality assurance and economies of scale, which grant us stronger cost competitiveness to ensure a stable growth in market share.

D. In summary, we expect revenue to increase steadily as we benefit from rush orders and orders transferred in the first half of 2020. However, COVID-19 introduces a hefty dose of uncertainty to the second half of 2020. As of now, the Company forecasts flat or small increase in the overall shipment for the year 2020.

(3) Key production and marketing policies

A. The Rudong production base has completed its mass production preparation and is ready to support the increasing local production demand.

B. Establish safety stock in the face of possible supply chain disruption due to COVID-19 and set up an intelligence center to closely monitor the dynamics of customers and suppliers so as to swiftly adjust inventory level and production volume.

C. Build customer VMI warehouses and regional hubs for the vast sales region in China. Accelerate inventory flows and reduce the overall transportation costs via cost-efficient transportation routes and warehouse planning.

D. Expand the technical service team for end customers, take the lead in understand final demand, and enhance the efficiency of product research and development.

E. Optimize product portfolio and pricing strategy, customize pricing according to product grades, and improve profitability while satisfying customer demand.

3. Strategies for Future Developments

(1) Expand the existing material formulas and precision manufacturing technology, and explore market opportunities to develop new business in pursue of long-term growth. At present, we are actively involved in heat dissipation materials and materials for flexible display.

(2) Combine end customers' participation in design and collaboration in upstream material development with our existing technology and advantages in economies of scale to stabilize and strengthen the overall supply chain connectivity, creating high barriers for competitors to enter the competition.

(3) Through the vast sales network and customer base built by the Company, utilize the advantages of joint purchase and vertical integration for horizontal expansion of products wanted by customers. 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 competitions, regulatory compliance and macro-environment

(1) External competitions

A. The slowing growth momentum of smartphone sales and stagnant growth in demand create potential risk of fiercer price competition in the future.

B. Rapid 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, broader gap between peak and low-season demand brings greater challenge to capacity flexibility and resource allocation capability.

C. Emerging industries with growth potential attract a large number of new competitors including large-scaled conglomerates. The key to success will be the speed of product development.

D. Being the leading 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 our scale, customers' demand can be met in time during 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' desire for new products and assist them to seize 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.

C. Trade barriers enforced by countries bring about many tariff duties and serious challenges to the planning of production regions.

(3) Macro-environment

A. Future developments in US-China trade war and COVID-19's dual effects on consumption and production will bring severe uncertainties to market demand. Consequently, companies in the supply chain will face a high degree of uncertainty in terms of inventory levels and production schedules.

B. Amid the unpredictable global situation, central banks around the world employ substantial monetary policy. The action, however, will amplify the risks of exchange rate volatility and increase operation costs and uncertainty for enterprises.

C. As the trend of China's economy switches to structural adjustment and greater emphasis is placed on environmental issues, the operating costs in China will escalate. Environmental protection will be a crucial competitive edge to the sustainable operation of enterprises.

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

Looking back at 2019, there was constant turmoil among nations where the China-US trade war ranked first in terms of impact level. From the escalating confrontation since the beginning of the year to the first-stage negotiation at the end of the year, the trade war brought havoc to the inventory strategies within the supply chain. The trade war between Japan and South Korea, UK's Brexit and COVID-19 all contributed to the volatility in the global financial market. At the time of high uncertainty, Taiflex aggressively underwent internal structural adjustments. From strategic adjustments including our exit from the PV backsheet market, disposal of Kunshan factory and completion of mass production preparation at the Rudong production base, to implementation of internal management measures such as optimization of product mix and enhancement of production yield and efficiency, we were readying ourselves for the new growth opportunities from 5G. We will continue our pursue of a long-lasting competitive and sustainable operation model in the quest for long-term optimization of shareholders' interests.

We will persistently strengthen our core competitiveness; invest research and development resources in advanced flexible electronics materials, heat dissipation materials and flexible display materials; and work towards producing high-value products. We will also utilize our leading position in flexible materials to collaborate with customers in making innovative progress in order to capture the driving forces of market growth and build the foundation for sustainability.

Wishing all shareholders good health and prosperity!

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 merger 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 TÜ V 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 to be approved by Customs Administration, Ministry of Finance as an 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 Devotion to Social Welfare Award 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 Devotion to Social Welfare Award from Export Processing Zone Administration, Ministry of Economic Affairs, R.O.C.

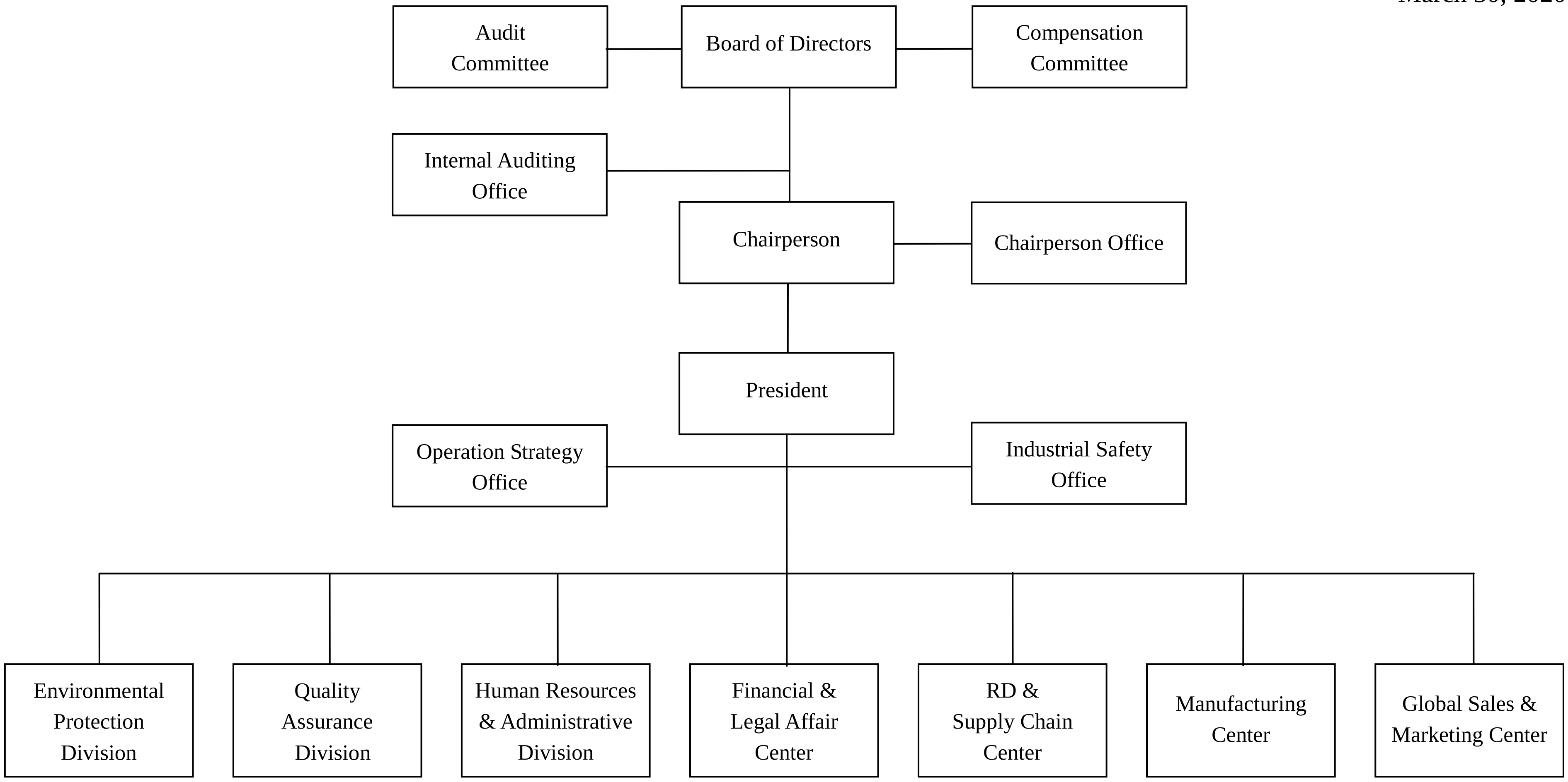
Year	Milestones
August, 2018	Ranked 31st in the CommonWealth Magazine's Corporate Citizenship Awards - Large-Scale Enterprises.
October, 2018	Received “Sports Corporation” certificate from Sports Administration, Ministry of Education.
May, 2019	Received Outstanding Industrial Relations Award from Export Processing Zone Administration.
May, 2019	Received Devotion to Social Welfare Award from Export Processing Zone Administration.
September, 2019	Obtained ISO45001 2018 Occupational Health and Safety Management Systems certification.
September, 2019	Obtained CNS45001 2018 Chinese National Standard Occupational Health and Safety Management Systems certification.
December, 2019	Received Commitment Prize and Jury Prize in the Enterprise Elite Award event organized by the Kaohsiung City Government.
December, 2019	Received the Occupational Health Promotion Certificate from the Health Promotion Administration, Ministry of Health and Welfare

III. Corporate Governance

1. Organization

(1) Organizational Structure

March 30, 2020



(2) Functions

Departments	Functions
Internal Auditing Office	1. To review and assess the reliability and effectiveness of the internal control system and make 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
Operation Strategy Office	1. To assist in the planning of founding the next emerging industry and product 2. To assist the Company in formulating important investment decisions and strategies 3. To assist the Chairperson and President in supervising the operations and performance of each center and division 4. To analyze operation cost and compose business plans 5. To maintain relationships with external investors and media
Industrial Safety Office	1. To formulate workplace safety management plans, and supervise and direct the execution of occupational safety and health management measures 2. In charge of public safety, workplace environmental health management, and employee well-being
Environmental Protection Division	1. To plan, supervise, manage and file matters pertaining to environmental protection
Quality Assurance Division	1. To establish and maintain the quality control system 2. To inspect and accept raw materials and perform quality control inspections on processes and products 3. To monitor product quality and provide relevant data to manufacturing units 4. To support sales with technical consultation to customers
Human Resources & Administrative Division	1. In charge of organizational rules, human resource management, training and development, performance assessment, promotion, general affairs, and asset management 2. To plan and execute corporate social responsibilities and maintain a sound corporate image 3. To manage industry-academia collaboration projects 4. To plan and carry out employee benefit policies 5. To maintain employee relations and develop employee assistance programs
Financial & Legal Affair Center	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. In charge of financial planning, accounting, and tax management 3. To review the Company's legal contracts 4. To manage the Company's commercial contracts, patents and other intellectual property rights 5. To provide consultation and handle relevant legal issues
RD & Supply Chain Center	1. To research and develop new products and launch them on time with joint efforts from all business divisions and marketing firms in line with the Company's directions 2. In charge of product and technical services at market and application ends 3. To plan production capacity, and obtain, allocate and integrate the management of raw materials and finished goods based on sales strategies of each division and purchase strategies of the Company so as to meet the sales and cost targets 4. In charge of purchase, allocation and warehouse management of raw materials, supplies and equipment 5. In charge of bonding and customs 6. To maintain supplier relations and facilitate a smooth supply chain operation

Departments	Functions
	7. To manage the maintenance and control of software and hardware including computers and IT systems
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 3. To enhance manufacturing capability and yield of mass-produced products 4. To develop, assess, test and introduce new equipment 5. Production human resource planning and training of manufacturing workers 6. Equipment installment, performance improvement and relocation assistant within factories of the Group
Global Sales & Marketing Center	1. In charge of product planning, sales, marketing and product sales service 2. To analyze domestic and foreign markets along with relevant data, and formulate and execute sales plans 3. To maintain customer relations and provide technical solutions required by customers

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 30, 2020 (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			Remark
							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	Bachelor of Business Administration, Fu Jen Catholic University	Chairperson of Taiflex Scientific Co., Ltd. Chairperson of Taiflex Scientific (Kunshan) Co., Ltd. Chairperson of Rudong Fuzhan Scientific Co., Ltd. Chairperson of Qiao Mei Development Corporation Chairperson of Innatech Co., Ltd. Independent Director of Advanced Ceramic X Corp. Director of SciVision Biotech Inc.	-	-	-	-
Representative of Corporate Director	Taiwan	Jun-Yan Jiang	Male	2017.05	3 years	2011.08	446,047	0.21	0	0	0	0	0	0	EMBA, National Sun Yat-sen University Certificate of completion for Entrepreneur Business Administration Class, National Chengchi University	Corporate Representative Director of Qiao Mei Development Corporation Independent Director of Anpec Electronics Corp. Independent Director of Sinopower Semiconductor, Inc.	-	-	-	-

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			Remark
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
															Former President of Taiflex Scientific Co., Ltd.					
Director	Taiwan	Ching-Yi Chang	Male	2017.05	3 years	2002.06	4,599,282	2.21	5,009,282	2.40	0	0	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 Ltd.	-	-	-	-
Director	Taiwan	Fu-Le Lin	Male	2017.05	3 years	1997.08	370,249	0.18	338,249	0.16	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 Researcher of Material Research Laboratories, Industrial Technology Research Institute	Senior R&D Director of Taiflex Scientific Co., Ltd. Chairperson of Koatech Technology Corporation	-	-	-	-
Corporate Director	Taiwan	Fuding Investment Co., Ltd.	-	2017.05	3 years	2014.06	1,020,000	0.49	1,020,000	0.49	0	0	0	0	-	-	-	-	-	-
Representative of Corporate Director	Taiwan	Re-Zhang Lin	Male	2017.05	3 years	2014.06	0	0	0	0	0	0	0	0	Bachelor of Accounting, Soochow University	Chairperson of Taiwan Fu Hsing Industrial Co., Ltd. Director of Fine Blanking & Tool Co., Ltd. Corporate Representative Director of Launch	-	-	-	-

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			Remark
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
																Technologies Co., Ltd. Corporate Representative Supervisor of Advanced International Multitech 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.	Independent Director of Silicon Optronics, Inc. Independent Director of M31 Technology Corporation	-	-	-	-
Independent Director	Taiwan	Chein-Ming Hsu	Male	2017.05	3 years	2017.05	0	0	0	0	0	0	0	0	Electrical Engineering, Chung Yuan Christian University 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	Master of Business Administration, National ChengChi University Former Vice President of CDIB Capital Management Corporation	Remuneration Committee member of ADO Optronics Corporation Corporate Representative Director of Gemtek Technology 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			Remark
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
															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.					
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	Adjunct Professor of Chemical Engineering, National Taiwan University Independent Director of Shin Foong Specialty and Applied Materials Co., Ltd. Remuneration Committee member of Subtron Technology Co., Ltd.	-	-	-	-

Remark: Where the Company's Chairperson and President or personnel with equivalent position (chief manager) are the same person, spouses or relatives within one degree of kinship, please state the reasons, reasonability, necessity and measures to be taken (e.g. increase the number of Independent Directors and have majority of Directors not serving as employees or managerial officers): None.

(a) Major shareholders of corporate shareholders

As of March 30, 2020

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 of Corporate Shareholders" 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-Jin Chen
	Si-Kai 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	11	12	
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	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
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. (This requirement does not apply where the independent director serves concurrently in the Company and its parent company or subsidiaries, or subsidiaries of the same parent company pursuant to 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 Company's total number of issued shares or ranks among the Company's top ten shareholders.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of managerial officers in (1) or any of the persons in (2) and (3).

(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the Company's total number of issued shares, ranks among the Company's top five shareholders, or appoints representatives to be the Company's directors or supervisors pursuant to Paragraph 1 or 2, Article 27 of the Company Act. (This requirement does not apply where the independent director serves concurrently in the Company and its parent company or subsidiaries, or subsidiaries of the same parent company pursuant to the Securities and Exchange Act or local laws and regulations.)

(6) Not a director, supervisor, or employee of a company which owns the majority of the Company's directorships or voting rights. (This requirement does not apply where the independent director serves concurrently in the Company and its parent company or subsidiaries, or subsidiaries of the same parent company pursuant to the Securities and Exchange Act or local laws and regulations.)

(7) Not a director, supervisor or employee of a company or institution whose chairperson, president, or an officer of equivalent position is the same person as, or a spouse to, one of the persons holding the same positions in the Company. (This requirement does not apply where the independent director serves concurrently in the Company and its parent company or subsidiaries, or subsidiaries of the same parent company pursuant to the Securities and Exchange Act or local laws and regulations.)

(8) Not a director, supervisor, managerial officer, or shareholder with shareholding of 5% or more of a specific company or institution that has a financial or business relationship with the Company. (This requirement does not apply where the specific company or institution owns 20% (inclusive) to 50% (exclusive) of the Company's total number of issued shares, and the independent director serves concurrently in the Company and its parent company or subsidiaries, or subsidiaries of the same parent company pursuant to the Securities and Exchange Act or local laws and regulations.)
(9) Not a professional individual, nor an owner, partner, director, supervisor, or managerial officer, and the spouse thereof, of a sole proprietorship, partnership, company, or institution that provides auditing service or commercial, legal, financial, or accounting services with a cumulative compensation not exceeding NT$500 thousand in the past two years to the Company or any of its affiliate. However, this requirement does not apply to members of the Remuneration Committee, Public Tender Offer Review Committee, or Special Committee for Merger/Acquisition who perform duties pursuant to laws and regulations in association with the Securities and Exchange Act or the Business Mergers and Acquisitions Act.
(10) Not a spouse or a relative within the second degree of kinship to any other director of the Company.
(11) Not being a person of any conditions defined in Article 30 of the Company Act.
(12) 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 30, 2020 (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	Managers Who are Spouses or within Second-Degree of Kinship to Each Other			Remark (2)
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
President	Taiwan	Zhi-Ming Yen	Male	2017.08	398,064	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.	Chairperson of Shenzhen Taiflex Electronic Co., Ltd. (Note 1)	-	-	-	-
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.	Representative Director of Taiflex Scientific (Japan) Co., Ltd. (Note 1)	-	-	-	-
Senior R&D Director	Taiwan	Fu-Le Lin	Male	1998.04	338,249	0.16	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 Researcher of Material Research Laboratories, Industrial Technology Research Institute	Corporate Representative Director of Koatech Technology Corporation Chairperson of Koatech Technology Corporation	-	-	-	-
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.	Corporate Representative Director of Koatech Technology Corporation	-	-	-	-
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. (Note 1)	-	-	-	
Senior Assistant Vice President	Taiwan	Chong-Chen Liu	Male	2016.02	100,561	0.05	0	0	0	0	Bachelor of Information Technology and Computer Science, Feng-Chia University Former Assistant Vice President of W&Jsoft Inc.	-	-	-	-	-

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	Managers Who are Spouses or within Second-Degree of Kinship to Each Other			Remark (2)
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
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.	-	-	-	-	-
Senior Assistant Vice President	Taiwan	Nian-Zu Zhang	Male	2019.12	0	0	0	0	0	0	Bachelor of Materials Science and Engineering, Feng Chia University Previously at Electronics GBU of Heraeus Materials Technology Taiwan Ltd.	-	-	-	-	-
Senior Assistant Vice President	Taiwan	Shi-Ming Liu	Male	2020.03	0	0	0	0	0	0	EMBA, University of North Carolina Former President of Shiming Metal & Plastic MFG Co., Ltd. (Kunshan, China) Former President of Metal Component Engineering Limited (Suzhou, China)	-	-	-	-	-
Assistant Vice President	Taiwan	Sheng-Ying Lin	Male	2017.08	1,000	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	Sheng-Xu Yang	Male	2018.08	0	0	0	0	0	0	Bachelor of International Business and Trade, Shu-Te University	-	-	-	-	-
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 Koatech Technology Corporation	-	-	-	-
Internal Audit	Taiwan	Shu-Zhen Guo	Female	2002.09	108	0.00	0	0	0	0	Bachelor of Business Management-Accounting, National	-	-	-	-	-

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	Managers Who are Spouses or within Second-Degree of Kinship to Each Other			Remark (2)
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Supervisor											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: Where the Company’s President or personnel with equivalent position (chief manager) and Chairperson are the same person, spouses or relatives within one degree of kinship, please state the reasons, reasonability, necessity and measures to be taken (e.g. increase the number of Independent Directors and have majority of Directors not serving as employees or managerial officers): None.

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

(1) Remuneration Paid to General Directors and Independent Directors

As of December 31, 2019 (In Thousands of New Taiwan Dollars; Thousands of Shares; %)

Title	Name	Remuneration to Directors								Total of A, B, C and D as a % of Net Income		Compensation Earned by Being an Employee of Taiflex or Taiflex's Consolidated Entities								Total of A, B, C, D, E, F and G as a % of Net Income		Compensation from Non-consolidated Affiliates or Parent Company
		Base Compensation (A)		Severance Pay and Pensions (B)		Compensation to Directors (C) (Note 3)		Allowances (D)				Base Compensation, Bonus and Allowances, etc. (E)		Severance Pay and Pensions (F)		Employee Compensation (G) (Note 4)						
		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	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	Ta-Wen Sun (Note 1)	0	0	0	0	12,188	12,188	205	211	1.97	1.97	11,413	11,633	0	0	4,710	0	4,710	0	4.52	4.56	None
Director	Jun-Yan Jiang (Note 1)																					
Director	Ching-Yi Chang																					
Director	Fu-Le Lin																					
Director	Re-Zhang Lin (Note 2)																					
Director	Chun-Chi Lin																					
Independent Director	Chein-Ming Hsu	0	0	0	0	5,485	5,485	100	100	0.89	0.89	0	0	0	0	0	0	0	0	0.89	0.89	None
Independent Director	Wen-I Lo																					
Independent Director	Shi-Chern Yen																					

1. Please state the policy, system, standard and structure of remuneration paid to Independent Directors and the correlation between factors such as responsibilities and risks assumed as well as time contributed and the amount of payment: Remuneration is determined based on the Articles of Incorporation. The Compensation Committee would evaluate the involvement of Directors in the business operation of the Company and their contributions to the Company. It would correlate the reasonable fairness of performance risk with remuneration and make recommendations to the Board. 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. As net income in 2019 was lower than that of 2018, it was reasonable to see a decrease in the average remuneration paid to Directors.
2. 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 the most recent year: None.

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

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

Note 3: 2019 remuneration to Directors approved in the Board of Directors' meeting on January 10, 2020.

Note 4: 2019 employee compensation earned by Directors for concurrently serving as an employee of Taiflex and approved in the Board of Directors' meeting on January 10, 2020.

Remuneration Paid to Directors

<table>
<tr><td rowspan="3">Ranges</td><td colspan="4">Name of Directors</td></tr>
<tr><td colspan="2">Total of (A+B+C+D)</td><td colspan="2">Total of (A+B+C+D+E+F+G)</td></tr>
<tr><td>From Taiflex</td><td>From All Consolidated Entities</td><td>From Taiflex</td><td>From All Consolidated Entities</td></tr>
<tr><td>Under NT$1,000,000</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>NT$1,000,000 ~ NT$1,999,999</td><td>Ching-Yi Chang, Fu-Le Lin, 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</td><td>Ching-Yi Chang, Fu-Le Lin, 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</td><td>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</td><td>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</td></tr>
<tr><td>NT$2,000,000 ~ NT$3,499,999</td><td>-</td><td>-</td><td>Corporate Directors of Qiao Mei Development Corporation Representatives: Jun-Yan Jiang</td><td>Corporate Directors of Qiao Mei Development Corporation Representatives: Jun-Yan Jiang</td></tr>
<tr><td>NT$3,500,000 ~ NT$4,999,999</td><td>Corporate Directors of Qiao Mei Development Corporation Representatives: Ta-Wen Sun</td><td>Corporate Directors of Qiao Mei Development Corporation Representatives: Ta-Wen Sun</td><td>Fu-Le Lin</td><td>Fu-Le Lin</td></tr>
<tr><td>NT$5,000,000 ~ NT$9,999,999</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>NT$10,000,000 ~ NT$14,999,999</td><td>-</td><td>-</td><td>Corporate Directors of Qiao Mei Development Corporation Representatives: Ta-Wen Sun</td><td>Corporate Directors of Qiao Mei Development Corporation Representatives: Ta-Wen Sun</td></tr>
<tr><td>NT$15,000,000 ~ NT$29,999,999</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>NT$30,000,000 ~ NT$49,999,999</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>NT$50,000,000 ~ NT$99,999,999</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>NT$100,000,000 and above</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Total</td><td>9</td><td>9</td><td>9</td><td>9</td></tr>
</table>

(2) Compensation Paid to President and Vice Presidents

As of December 31, 2019 (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 Net Income		Compensation from Non-Consolidated Affiliates or Parent Company
		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	10,111	13,590	0	0	11,063	11,087	11,465	0	11,465	0	5.18	5.73	None
President	Zhi-Ming Yen													
Vice President	Zong-Han Jiang													
Senior R&D Director	Fu-Le Lin													
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
Under NT$1,000,000	-	-
NT$1,000,000 ~ NT$1,999,999	Jiang-Zhi Zhao	-
NT$2,000,000 ~ NT$3,499,999	Fu-Le Lin	Fu-Le Lin
NT$3,500,000 ~ NT$4,999,999	Zong-Han Jiang	Zong-Han Jiang, 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 to Managers

As of December 31, 2019 (In Thousands of New Taiwan Dollars)

	Title	Name	Stock	Cash	Total	Total as a % of Net Income
Managers	Chairperson and CEO of Reinvestment	Ta-Wen Sun	0	17,516	17,516	2.78
	President	Zhi-Ming Yen				
	Vice President	Zong-Han Jiang				
	Senior R&D Director	Fu-Le Lin				
	Vice President	Jiang-Zhi Zhao				
	Senior Assistant Vice President	Zhen Lin				
	Chief Financial Officer	Fang-I Hsieh				
	Chief Legal Officer (Note 1)	Jin-Cheng Zhang				
	Senior Assistant Vice President	Guo-Xiong Xia				
	Senior Assistant Vice President	Chong-Chen Liu				
	Senior Assistant Vice President	Ji-Ren Huang				
	Senior Assistant Vice President	Nian-Zu Zhang				
	Senior Assistant Vice President	Bing-Xun Zhang				
	Assistant Vice President	Sheng-Ying Lin				
	Assistant Vice President (Note 2)	Jing-Wen Lu				
	Assistant Vice President	Sheng-Xu Yang				
	Assistant Vice President (Note 3)	Zheng-Hao Hou				

Note 1: Jin-Cheng Zhang was relieved from the position of CLO on September 1, 2019. He now serves full-time as the President of Koatech Technology Corporation, where the Company owns 53.86% of its shares.
Note 2: Jing-Wen Lu was transferred to the position of Project Assistant Vice President on October 1, 2019.
Note 3: Zheng-Hao Hou was transferred to the position of Project Assistant Vice President on October 1, 2019.

(4) Analysis of remuneration and compensation paid to Directors, President and Vice Presidents by the Company and all consolidated entities in 2018 and 2019 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 2018 and 2019 as a percentage of net income in the parent company only or individual financial statements:

(In %)

Item \ Year	2019		2018	
	Taiflex	All Consolidated Entities	Taiflex	All Consolidated Entities
Directors	5.41	5.45	5.20	5.29
President and Vice Presidents	5.18	5.73	4.49	4.92

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 in the business operation of the Company and their contributions to the Company, correlate the reasonable fairness of performance risk with remuneration, and make recommendations to the Board. 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 seven (A) Board meetings in 2019. The attendance status of the Directors are as follows:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate (%) (B/A)	Remark
Chairperson	Qiao Mei Development Corporation Representative: Ta-Wen Sun	7	0	100%	-
Director	Qiao Mei Development Corporation Representative: Jun-Yan Jiang	7	0	100%	-
Director	Ching-Yi Chang	7	0	100%	-
Director	Fu-Le Lin	7	0	100%	-
Director	Fuding Investment Co., Ltd. Representative: Re-Zhang Lin	7	0	100%	-
Director	Chun-Chi Lin	6	1	85%	-
Independent Director	Chein-Ming Hsu	7	0	100%	-
Independent Director	Wen-I Lo	6	1	85%	-
Independent Director	Shi-Chern Yen	7	0	100%	-

For the Board meetings in 2019, the number of attendance available was 63 times and the attendance in person was 61 time. The attendance rate of the Board as a whole was 96.83%.

Annotations:

1. The Board meeting's date, session, and contents of motions, opinions of all Independent Directors, and actions taken by the Company regarding the opinions shall be specified if one of the following circumstances occurs:
   (1) Matters specified in Article 14-3 of the Securities and Exchange Act: The Company has established the Audit Committee. Article 14-3 of the Securities and Exchange Act is no longer applicable pursuant to Article 14-5 of the same Act.
   (2) Except for items specified above, other recorded or written resolutions on which an Independent Director expresses objection or reservation: 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
2019.01.18	Ta-Wen Sun Fu-Le Lin	1. The 2018 compensation to employees and remuneration to Directors 2. To discuss the 2018 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.

2019.06.14	Ta-Wen Sun Fu-Le Lin	1. To review the distribution of 2018 remuneration to Directors 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. Performance assessment of the Board:

Frequency	Period	Scope	Method	Details
Annually	January 1, 2019 to December 31, 2019	1. Performance assessment on the Board	Internal performance assessment	1. Level of participation in corporate operations. 2. Enhancement on the quality of Board decisions. 3. Composition and structure of the Board. 4. Election and continuing education of Directors. 5. Internal control.
		2. Performance assessment on individual Board members		1. Command over corporate goals and mission. 2. Understanding of Directors' duties. 3. Level of participation in corporate operations. 4. Internal relationship management and communication. 5. Specialty and continuing education of Directors. 6. Internal control.
		3. Performance assessment on functional committees		1. Level of participation in corporate operations. 2. Understanding of functional committees' duties. 3. Enhancement on the quality of functional committees' decisions. 4. Composition of the functional committees and election of members. 5. Internal control.
Once every three years when needed	December 1, 2018 to November 30, 2019	Board efficiency (including performance) assessment	Engage an external professional institution to conduct the performance assessment	The Company commissioned Taiwan Corporate Governance Association in November 2019 to conduct the 2019 Board efficiency (including performance) assessment. The assessment encompassed 8 aspects (Board of Directors' composition, guidance, authorization, supervision, communication, internal control and risk management, discipline and others) and 38 indexes and was conducted via questionnaires and on-site visits. The Taiwan Corporate Governance Association had issued the Board efficiency (including performance) assessment report on February 21, 2020. The Association had no business transaction with the Company and was

				independent from the Company. The Company would continue to enhance the functionality of the Board based on recommendations from the Association. The aforementioned recommendations and actions to be taken were reported in the Board of Directors meeting on February 26, 2020.

4. Objectives of strengthening the functionality of the Board of Directors (e.g. to establish an audit committee, to enhance information transparency, etc.) 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", "Guidelines on Corporate Social Responsibility", and "Standard Operating Procedures of Handling Requests from Directors" 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 was available at the Market Observation Post System (MOPS) website, and major resolutions from the Board meetings and election of Independent Directors were disclosed on the Company's official website. Those actions demonstrated that the Company placed importance on corporate governance function and enhance it.
   (3) The Company's Board of Directors had approved the "Methods for Evaluating Board of Directors' Performance" on October 23, 2018. Internal assessments on the Board shall be conducted at least once every year. Assessments by external institutions shall be carried out every three years when the need arises for an objective opinion on the efficiency of the Board and recommendations for improvement so as to enhance the Company's corporate governance level. Please refer to details above for Board performance assessments.
   (4) 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 evaluations of Directors and managers and the policy, system, standards and structure of remuneration. Please refer to Page 43 to 45 for details.

(2) Operations of Audit Committee:

The summary of tasks completed by and operations of Audit Committee in 2019 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 assessment 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 and 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 2019 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, 2019 (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 11th meeting of the first-term Audit Committee on February 20, 2019 and the 13th meeting of the eighth-term Board of Directors on February 20, 2019, 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 2019.

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 2019. The attendance status of committee members are as follows:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate (%) (B/A)	Remark
Convener	Wen-I Lo	4	1	80%	-
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
2019.01.18	12th meeting of the 8th term	1. To approve the operation plan and capital expenditure budget for 2019	Approved	N/A
		2. To provide endorsement and guarantee to subsidiaries	Approved	N/A
2019.02.20	13th meeting of the 8th term	1. To approve 2018 business report and financial statements	Approved	N/A
		2. To approve the 2018 earnings distribution	Approved	N/A
		3. To appoint CPAs for 2019 and assess their independence	Approved	N/A
		4. To provide endorsement and guarantee to subsidiaries	Approved	N/A
		5. To amend some articles within the "Procedures for Acquisition or Disposal of Assets"	Approved	N/A
		6. To assess the effectiveness of internal control system for 2018 and issue the Statement of Internal Control System	Approved	N/A
2019.04.25	14th meeting of the 8th term	1. To approve consolidated financial statements for the three months ended March 31, 2019	Approved	N/A
		2. To reduce the endorsement and guarantee to subsidiaries	Approved	N/A
		3. To approve the provision of Letter of Comfort for investee, Koatech Technology Corporation	Approved	N/A
2019.07.30	16th meeting of the 8th term	1. To approve consolidated financial statements for the six months ended June 30, 2019	Approved	N/A
		2. To provide endorsement and guarantee to subsidiaries	Approved	N/A
2019.11.06	17th meeting of the 8th term	1. To approve consolidated financial statements for the nine months ended September 30, 2019	Approved	N/A
		2. To provide endorsement and guarantee to subsidiaries	Approved	N/A
		3. Limit for loans to subsidiaries	Approved	N/A
		4. 2019 annual audit plan of auditing office	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 2019: None.

2. For situations where Independent Directors recuse themselves from any motion due to conflict of interest, the Independent Directors' names, contents of motions, causes for the recusal, and participation in voting shall be specified: None.
3. Communications between the Independent Directors, the internal audit supervisor, and CPAs (It shall include material issues concerning the finance and business of the Company, and the means and outcomes of communication).
   (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) After reviewing the second-quarter financial statements and auditing the annual financial reports, CPAs attended the Audit Committee meeting to present the review or 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	Details	Outcome
2019.01.18 Audit Committee meeting	1. Internal audit items from October to December 2018	1. Reported at the Audit Committee meeting and then the Board meeting
2019.02.20 Audit Committee meeting	1. Internal audit items from December 2018 to January 2019 2. Assessment on the effectiveness of internal control system for 2018 3. 2018 "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
2019.04.25 Audit Committee meeting	1. Internal audit items from February to April 2019	1. Reported at the Audit Committee meeting and then the Board meeting
2019.07.30 Audit Committee meeting	1. Internal audit items from April to July 2019	1. Reported at the Audit Committee meeting and then the Board meeting
2019.11.06 Audit Committee meeting	1. Internal audit items from July to October 2019 2. 2020 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	Details	Outcome
2019.07.30 Audit Committee meeting and Board meeting	1. Explanations on consolidated financial statements for the six months ended June 30, 2019 2. Latest securities and tax laws and regulations 3. Tax issues on inward remittance of offshore funds	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.
2020.02.27 Audit Committee meeting and Board meeting	1. Assessment on the independence and competence of CPAs 2. Explanations on 2019 parent company only and consolidated financial statements 3. Impact of amendments to IFRSs on the Company	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 functionality 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 risk management and firewall mechanism 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 mechanisms already in place, there are Procedures to be followed for operational, business and financial transactions between the Company and its affiliates, for instance, the rules for reinvestments. These Procedures 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 "Code of Ethical Conduct" and "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) A. The Company has formulated the “Code of Practice for Corporate Governance” and the diversification policy is stipulated in Chapter III. Strengthen the Board's Functions. B. Board members have diverse backgrounds. The expertise of Board members covers global perspectives, reginal management capabilities, financial management, copper manufacturing, polymer chemical engineering and international business, which shapes a well-structured Board. C. Board diversity: (see table below) D. Based on current scale and development, the Company has nine Directors (including three Independent Directors), of which, there are three Directors serving concurrently as managerial officers, three Independent Directors and three outside Directors. Each category accounts for one third of the total number of Directors, which is in compliance with the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.	None

C. Board diversity:

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

<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>(2) Other than Compensation and Audit Committees which are required by laws, does the Company plan to set up other functional Committees?

(3) Has the Company formulated rules and methods for the performance assessment of the Board of Directors and evaluate the Board performance every year? Is the outcome of performance assessment submitted to the Board of Directors and used as reference for the remuneration and re-election nomination of individual Director?

(4) Has the Company periodically evaluated the independence of its CPAs?</td><td>V

V

V</td><td></td><td>(2) In addition to the existing Compensation Committee, Audit Committee and Corporate Social Responsibility Committee, the Company plans to establish other functional committees to assist the Board in managing the Company.

(3) The Company’s Board of Directors had approved the “Methods for Evaluating Board of Directors’ Performance” on October 23, 2018. Internal assessments on the Board shall be conducted at least once every year and assessments by external institutions shall be carried out every three years when the need arises. Please refer to page 29 to 30 for assessment details. The outcome of 2019 assessment has been submitted to the Board of Directors on February 26, 2020 and is in compliance with the spirit of corporate governance. It also is used as reference for the remuneration and re-election nomination of individual Director.

(4) The Board annually evaluates the independence of CPAs and obtains the Declaration of Independence. Once it is confirmed that other than audit and tax fees, there is no financial interests nor 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 (that 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 evaluation:
<table>
<tr><th>Evaluation Item</th><th>Evaluation Result</th><th>Independence Status</th></tr>
<tr><td>1. Whether the CPAs have remained unchanged for seven years, up till the latest audit?</td><td>N</td><td>Y</td></tr>
<tr><td>2. Whether the CPAs have significant financial interests in the Company?</td><td>N</td><td>Y</td></tr>
<tr><td>3. Whether the CPAs have improper relationships with the Company?</td><td>N</td><td>Y</td></tr>
</table></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></td><td></td><td></td><td>

4. Whether the assistants of CPAs have failed to be honest, fair and independent?	N	Y
5. Whether the CPAs have audited the financial statements of companies where they have served during the previous two years?	N	Y
6. Whether the CPAs allow others to use their credentials?	N	Y
7. Whether the CPAs own shares of the Company or its associates?	N	Y
8. Whether there is any financing between the CPAs and the Company or its associates?	N	Y
9. Whether the CPAs have joint investments or profit-sharing agreements with the Company or its associates?	N	Y
10. Whether the CPAs do regular works for the Company or its associates and receive fixed salaries?	N	Y
11. Whether the CPAs are involved with decision-making management functions of the Company or its associates?	N	Y
12. Whether the CPAs engages in businesses which may deprive them of audit independence?	N	Y
13. Whether the CPAs are spouses, lineal relatives, relatives by marriage, or relatives within the second degree of kinship to managerial officers of the Company?	N	Y
14. Whether the CPAs received any commissions in association with their businesses?	N	Y
15. Up till now, whether there is any circumstance where the CPAs have been punished or the independence principle violated?	N	Y

</td><td></td></tr>
</table>

Assessment Item	Status			Non-compliance and Reasons
	Yes	No	Description	
			The Board evaluated the independence of CPAs, Fang-Wen Li and Jheng-Chu Chen, from Ernst & Young on February 26, 2020. As they both met the Company's standards for independence, they were qualified to be its CPAs.	
4. Does the Company have an adequate number of qualified corporate governance personnel and appoint a chief corporate governance officer to handle matters pertaining to corporate governance (including but not limited to provide information required for business execution by directors and supervisors, assist directors and supervisors with regulatory compliance, handle matters pertaining to board meetings and shareholders' meetings according to laws and regulations, produce minutes of board meetings and shareholders meetings, etc.)?	V		The Company has corporate governance personnel in 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. The Company plans to appoint a chief corporate governance officer before June 30, 2021.	None
5. Has the Company established a communication channel for its stakeholders (including but not limited to shareholders, employees, customers and suppliers) and created a stakeholder section at the Company's website to address their concerns on major corporate social responsibility issues?	V		The Company has spokesperson and deputy spokesperson. Depending on the circumstances, investor relation, shareholder service and legal divisions would also communicate with stakeholders (including but not limited to shareholders, employees, customers and suppliers). In addition, the contact information of spokesperson and relevant departments can be found at the corporate website and a stakeholder section has been created to address stakeholders' issues of concerns, including corporate social responsibilities.	None
6. Has the Company appointed a professional registrar to organize the Shareholders' Meetings?	V		To service our shareholders, the Company has appointed the stock management service department of Yuanta Securities to manage issues related to shareholders and organize the Shareholders' Meetings.	None
7. Information disclosure (1) Has the Company established a corporate website to disclose information regarding the Company's financials, business and corporate	V		(1) The Company discloses financial and business information through the corporate website at http://www.taiflex.com.tw, which is maintained by designated persons. Information is available in both Chinese and English. Material information, financial status,	

Assessment Item	Status			Non-compliance and Reasons
	Yes	No	Description	
governance status?			organization and operation of internal audit, significant laws and regulations, corporate governance information and major resolutions of the Boards are disclosed on the Company's official website for foreign and domestic investors to access.	None
(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 on 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 set up both Chinese and English corporate websites and appointed dedicated personnel to collect relevant data and disclose material information. Spokesperson/deputy spokesperson are responsible for communication with external parties.	
(3) Does the Company publicly announce and file its annual financial report within two months after the end of financial year, and its financial reports of the first three quarters as well as operational status of each month prior to the prescribed deadlines?	V		(3) The Company has been publicly announced and filed its annual financial report within two months after the end of financial year, and its financial reports of the first three quarters as well as operational status of each month prior to the prescribed deadlines. Information is available on the corporate website at http://www.taiflex.com.tw and MOPS website at http://mops.twse.com.tw.	
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 90 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.	None

Assessment Item	Status			Non-compliance and Reasons
	Yes	No	Description	
			(5) Continuing education of Directors and Supervisors: Please refer to the table of "Continuing Education of Directors in 2019" for details. (6) The implementation of risk management policies and risk evaluation standards: 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 policies include innovations on research and development, continuous improvement, quick responses, customer satisfaction, environmental protection and green environment. Technical personnel of the Company provide on-time delivery and after-sale services. (8) Insurance for Directors and Supervisors provided by the Company: The Company provides liability insurance for Directors each year. (9) The Company has adopted electronic voting in Shareholders' Meetings since 2016, ahead of the schedule announced by Financial Supervisory Commission.	

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 the 5th Corporate Governance Evaluation of Taiwan Stock Exchange Corporate. It recognized the Company's outstanding performance in various management aspects, including corporate governance, corporate social responsibility, protection of shareholders' rights, information transparency and timely disclosure of information.
   (2) Improvements completed in 2019 for the 5th Corporate Governance Evaluation: The Company held at least six Board meetings annually and had external professional institution conducting Board performance assessments. It also set up a framework for information security risk management and formulated information security policies along with specific management schemes, and had the information disclosed at the corporate website or annual report. The English translation of annual financial reports (including the financial statements and notes) were available at the corporate or MOPS websites.
   (3) Pending issues with high priority
      A. To strengthen the structure and operation of the Board
         (a) The Company shall set up a corporate governance supervisor position 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.
         (b) At least one of the Company's internal auditing personnel shall have the certifications of Certified Internal Auditor or Certified Information Systems Auditor or for passing the CPA examination.
         (c) The Company shall draw up intellectual property management plans associated with the operational goals and have the execution status disclosed at the corporate website or annual report. It shall report to the Board at least once every year.

Assessment Item	Status			Non-compliance and Reasons
	Yes	No	Description	

B. To fulfill corporate social responsibilities
   (a) To regularly report communications with stakeholders to the Board.

(4) The Company performed self-assessment based on the 6th Corporate Governance Evaluation in January 2020. The outcome will be reviewed to determine the improvement plans.

10. The Company's Directors have duly attended courses organized by professional institutions. Continuing education of Directors in 2019 is as follows:

Director	Date	Host	Class	Duration	Total Hours
Representative of corporate director: Ta-Wen Sun	2019.04.18	Taiwan Academy of Banking and Finance	Corporate Governance and Sustainability Workshop	3 hours	6 hours
	2019.06.18	Taiwan Corporate Governance Association	China-US Trade War: Impact and Actions of Taiwan Enterprises	3 hours	
Representative of corporate director: Jun-Yan Jiang	2019.05.13	Taiwan Corporate Governance Association	Merger and Acquisition: Thoughts and Assessment & Anti-Tax Avoidance	3 hours	6 hours
	2019.09.04	Taiwan Academy of Banking and Finance	Corporate Governance and Sustainability Workshop	3 hours	
Director Ching-Yi Chang	2019.04.26	Securities & Futures Institute	2019 Insider Trading Prevention Seminar	3 hours	9 hours
	2019.06.12	Taiwan Securities Association	Latest Amendments and Practices of the Company Act	3 hours	
	2019.08.08	Taiwan Securities Association	Legal Liabilities of Short Swing and Insider Trading with Case Study	3 hours	
Director Fu-Le Lin	2019.01.10	Corporate Operation Association	From Political and Economic Developments at Home and Aboard to Future Development of Taiwan's Capital Market and Industry Consolidation, and M&A Opportunity	3 hours	6 hours
	2019.04.18	Taiwan Academy of Banking and Finance	Corporate Governance and Sustainability Workshop	3 hours	
Director Chun-Chi Lin	2019.04.18	Corporate Operation Association	Reforms of Shareholders Meeting and Cash Study	3 hours	15 hours
	2019.05.03	Securities & Futures Institute	2019 Insider Trading Prevention Seminar	3 hours	
	2019.08.28	Corporate Operation Association	M&A Opportunities and Strategies of Taiwan Enterprises under China-US Trade War	3 hours	
	2019.10.25	Taiwan Corporate Governance Association	Responsibilities of Directors and Supervisors and Corporate Governance	3 hours	

Director	Date	Host	Class	Duration	Total Hours
	2019.10.25	Taiwan Corporate Governance Association	Sanctions and Export Restrictions – Countermeasures of Taiwan Enterprises under China-US Trade War	3 hours	
Representative of corporate director Re-Zhang Lin	2019.04.18	Taiwan Academy of Banking and Finance	Corporate Governance and Sustainability Workshop	3 hours	6 hours
	2019.06.21	Taiwan Corporate Governance Association	How do Directors Exercise Due Care and Bear Fiduciary Duty	3 hours	
Independent Director Chein-Ming Hsu	2019.04.18	Taiwan Academy of Banking and Finance	Corporate Governance and Sustainability Workshop	3 hours	6 hours
	2019.04.26	Securities & Futures Institute	2019 Insider Trading Prevention Seminar	3 hours	
Independent Director Wen-I Lo	2019.04.16	Taiwan Academy of Banking and Finance	Corporate Governance and Sustainability Workshop	3 hours	6 hours
	2019.11.27	Taiwan Corporate Governance Association	The 15th Corporate Governance International Forum	3 hours	
Independent Director Shi-Chern Yen	2019.03.22	Taiwan Corporate Governance Association	Cause of Fraud and Legal Liabilities of Directors and Supervisors – Case Study	3 hours	12 hours
	2019.04.26	Taiwan Corporate Governance Association	Impact on Corporate Governance Internal Control and Responsibilities of Directors and Supervisors from the Trend of Latest Amendments to the Company Act	3 hours	
	2019.08.02	Taiwan Corporate Governance Association	Reform and New Prospect of Company Limited by Shares under Amendments to the Company Act	3 hours	
	2019.11.08	Taiwan Corporate Governance Association	Impact of Economic Substance, Return of Capital to Taiwan and New Southbound Policy on the Group	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	9	10		
Independent Director	Chein-Ming Hsu	No	No	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Note 3
Independent Director	Wen-I Lo	No	Yes	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	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's affiliates. (This requirement does not apply where the independent director serves concurrently in the Company and its parent company or subsidiaries, or subsidiaries of the same parent company pursuant to 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 Company's total number of issued shares or ranks among the Company's top ten shareholders.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of managerial officers in (1) or any of the persons in (2) and (3).
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the Company's total number of issued shares, ranks among the Company's top five shareholders, or appoints representatives to be the Company's directors or supervisors pursuant to Paragraph 1 or 2, Article 27 of the Company Act. (This requirement does not apply where the independent director serves concurrently in the Company and its parent company or subsidiaries, or subsidiaries of the same parent company pursuant to the Securities and Exchange Act or local laws and regulations.)
6. Not a director, supervisor, or employee of a company which owns the majority of the Company's directorships or voting rights. (This requirement does not apply where the independent director serves concurrently in the Company and its parent company or subsidiaries, or subsidiaries of the same parent company pursuant to the Securities and Exchange Act or local laws and regulations.)
7. Not a director, supervisor or employee of a company or institution whose chairperson, president, or an officer of equivalent position is the same person as, or a spouse to, one of the persons holding the same positions in the Company. (This requirement does not apply where the independent director serves concurrently in the Company and its parent company or subsidiaries, or subsidiaries of the same parent company pursuant to the Securities and Exchange Act or local laws and regulations.)
8. Not a director, supervisor, managerial officer, or shareholder with shareholding of 5% or more of a specific company or institution that has a financial or business relationship with the Company. (This requirement does not apply where the specific company or institution owns 20% (inclusive) to 50% (exclusive) of the Company's total number of issued shares, and the independent director serves concurrently in the Company and its parent company or subsidiaries, or subsidiaries of the same parent company pursuant to the Securities and Exchange Act or local laws and regulations.)
9. Not a professional individual, nor an owner, partner, director, supervisor, or managerial officer, and the spouse thereof, of a sole proprietorship, partnership, company, or institution that provides auditing service or commercial, legal, financial, or accounting services with a cumulative compensation not exceeding NT$500 thousand in the past two years to the Company or any of its affiliate. However, this requirement does not apply to members of the Remuneration Committee, Public Tender Offer Review Committee, or Special Committee

for Merger/Acquisition who perform duties pursuant to laws and regulations in association with the Securities and Exchange Act or the Business Mergers and Acquisitions Act.

10. 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 of current Committee members: May 26, 2017 to May 25, 2020. The Compensation Committee held four (A) meetings in 2019. The attendance status is as follows:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate (%) (B/A) (Note)	Remark
Independent Director (Convener)	Chein-Ming Hsu	4	0	100%	-
Independent Director	Wen-I Lo	4	0	100%	-
Independent Director	Shi-Chern Yen	4	0	100%	-

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 resolutions 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 2019, contents of motions, the resolutions and actions taken by the Company regarding the Committee's opinions are as follows:

Date of Compensation Committee Meeting	Session	Contents of Motions	Resolutions	Actions Taken
2019.01.18	7th meeting of the 3rd term	1. To review the distribution of 2018 compensation to employees and remuneration to Directors	Approved	N/A
		2. To review the distribution of 2018 year-end net income bonus to managers	Approved	N/A
2019.04.25	8th meeting of the 3rd term	1. To review the promotions and salary adjustments of managers	Approved	N/A
2019.06.14	9th meeting of the 3rd term	1. To review 2018 remuneration to Directors and compensation to managerial employees	Approved	N/A
2019.11.06	10th meeting of the 3rd term	1. To review managerial personnel changes, and details and amount of compensation to managers 2. To review the proposed changes to the structure of compensation and year-end net income bonus to managers	Approved	N/A

(5) Performance in 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. Does the Company conduct risk assessments on environmental, social and corporate governance issues related to the Company's operations in accordance with the materiality principle, and formulate relevant risk management policies or strategies?	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". Given the principle to undergo corporate development with environmental protection and prevention of occupational accidents, we are committed to operate in an eco-friendly manner and strive for pollution prevention and emission control, carry out reduction and efficient utilization of energy resources, and implement risk control and intrinsic safety mechanism. The Principles would be reviewed and modified based on actual practice.	None
2. 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?	V		2. The Company has established "Corporate Social Responsibility Committee". Human Resources & Administrative Division is the dedicated unit in charge of CSR activities with representatives from every department being the Committee members. The Chairperson and President jointly supervise the committee's operation, which covers environmental protection, workplace safety, corporate governance, employee rights, product quality and product R&D and encompasses management of issues from the three aspects of economic, environmental and social to carry out the corporate mission of taking on social responsibilities. The committee reports its performance to the Board.	
3. Environmental issues (1) Does the Company establish environmental management system designed to fit industry characteristics?	V		(1) The Company obtained ISO14001 Environmental Management Systems certification in October, 2004; ISO14001 2015 Environmental management systems in 2018; IECQ-QC080000 HSPM certification in January, 2007; and CNS15506 Taiwan Occupational Safety and Health Management System and OHSAS18001 Occupational Health	

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
			and Safety Management Systems certification in October, 2008. In September, 2014, it expanded ISO14001 Environmental Management Systems and OHSAS18001 Occupational Health and Safety Management Systems certification (Kunshan factory). 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
(2) Is the Company committed to improving the efficiency of various resources and utilizing renewable materials that have low environmental impact?	V		(2) To enhance the utilization efficiency of resources, promote the concept of recycling and reduce the adverse impacts on the environment, the Company takes the following actions: A. Waste solvent recycling rate: 193,767 Kg was processed which generated 152,660 Kg in 2019. 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 64,041 Kg. This mitigates the impact of incineration on the environment. C. Targets of quantitative management	
(3) Does the Company assess the present and future potential risks and opportunities of climate change for the entity, and takes measures to respond to climate-related issues?	V		(3) Taiflex is in the electronic component industry, specializing in high-end materials such as Flexible Copper Clad Laminate (FCCL) and polymer film. During our manufacturing process, electric power and natural gas are the major sources of energy consumed. Facing the inevitable increases in energy and environmental protection costs, we are devoted to various energy-saving projects to diminish the impact on costs and at the same time, committed to the recycling and renewal of	

Item	Emission	Reduction in 2019	Annual Target	Unit
Recycling of waste solvent 2L	Solvent	152,660	>150,000	KG/Year
Waste recycling and reduction 3R	Waste	64,041	>60,000	KG/Year

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
			waste resources to improve competitiveness and work towards the management goals of minimum energy consumption as well as cost optimization. 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 ISO14001: 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. The Company's improvement measures for stationary sources and industrial waste generated are as follows: A. Air pollution source: Waste gases from manufacturing process are well-managed. We continue to advance on the operation and management of rotors, waste gas NMP condensation system, wastewater cleaning facilities and RRTOs; and improve the processing efficiency for equipment to be at stable or optimal condition. Through reduction of volatile organic compounds (VOCs) emission and savings on natural gas and raw materials consumption, we can avoid wasting resources and cut down secondary pollutants. 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	

<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></td><td></td><td></td><td>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 gas emission, the waste gas is collected via enclosed, negative-pressure operation to be processed in air pollution control equipment.</td><td></td></tr>
<tr><td>(4) Does the Company calculate its greenhouse gas (GHG) emissions, water consumption and total waste weight in the past two years, and formulate policies for energy conservation, reductions of carbon, GHG and water consumption, or other waste management?</td><td>V</td><td></td><td>(4) The Company was re-verified and passed the ISO14064 Greenhouse Gas Accounting and Verification in August, 2017. Strategies to reduce GHG and carbon footprints were established based on the GHG inventory outcome to mitigate the adverse environmental impact.
A. In 2019, the Company purchased 607,054 kWh of green solar power, which reduced CO2e emission by 320.5 thousand Kg. Green power refers to electricity which has zero or close to zero CO2 emission during the production process.
B. Rotors at Factory Two went 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 1.4 million Kg/year.
C. Targets of quantitative management
<table><tr><th>Item</th><th>Emission</th><th>Reduction in 2019</th><th>Annual Target</th><th>Unit</th></tr><tr><td>Reduction from green power</td><td>CO2e</td><td>320,500</td><td>>300,000</td><td>Kg/Year</td></tr></table></td><td></td></tr>
</table>

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
			Reduction in natural gas using RRTO | Natural gas | 1,400,000 | >1,200,000 | Kg/Year	
4. Social issues (1) Does the Company formulate appropriate management policies and procedures according to related laws and regulations and the International Bill of Human Rights?	V		(1) The Company has established "Code of Conduct" in accordance with related laws and regulations and the International Bill of Human Rights. 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.	None
(2) Does the Company formulate and execute reasonable employee welfare measures (including compensation, leaves and other benefits), and have the operating performance or results properly reflected in employee compensation?	V		(2) The Company has established the Compensation Committee to perform regular reviews on operational performance and the policy, system, standard and structure of compensation. "Salary Management Rules", "Attendance Management Rules" and "Bonus Distribution Rules" of all sorts are formulated to have the operating performance properly reflected in employee compensation. Employees are entitled to recess, holidays and regular leaves pursuant to the government's labor regulations. There is also Employee Welfare Committee in place and funds for employee welfare are appropriated at the maximum percentage set out in the "Employee Welfare Fund Regulation".	
(3) Does the Company provide a safe and healthy work environment and periodic safety and health training?	V		(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	

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
(4) Has the Company established effective career development training plans? (5) Has the Company complied with related regulations and international standards in terms of customer health and safety, customer privacy, marketing and labeling of products and services, and formulate relevant consumer protection policies and complaint procedures?	V V		are provided to employees with unfavorable outcomes. There are also health-related seminars available to employees. (4) The Company has introduced performance and career interview system in March 2015. In addition, the human resource unit would build training roadmaps and develop annual training plans accordingly so as to enhance employees' professional skills and expertise. (5) Taiflex actively obtains various international safety certifications due to market globalization to ensure the quality, safety and reliability of its products. <u>Underwriter Laboratories Inc. (UL)</u> UL is an U.S. non-profit organization which aims to ascertain the safety level of products by inspecting and classifying samples from raw materials, components, system, structure, process and conditions of usage and conducting follow-up tests. The ultimate goal is to ensure the safety of users' life and property. Certification logos are issued for identification purpose. <u>Japan Electrical Safety & Environment Technology Laboratories (JET)</u> JET is a laboratory designated by Japanese government to inspect factories manufacturing electrical products and test the outputs. It issues certification logos to electrical products which meet the safety standards stipulated by Japanese government. According to Japanese DENTORL, safety certifications are required for 498 types of products before entering the Japan market. <u>TUV Rheinland (TUV)</u>: German safety certification institution. It provides certification services for product safety, quality and management system. The Company places great importance on the rights of stakeholders and the service satisfaction level. Thus, we have a stakeholder section within the corporate website as a complaint channel for customers. At the same time, it allows us to receive	None

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
(6) Has the Company formulated supplier management policies that require suppliers to follow relevant regulations on issues such as environmental protection, occupational safety and health, or labor rights, and the implementation results?	V		stakeholder feedback at any time and address their concerns with care. (6) We demand all suppliers to comply with the quality management system, the environmental safety and health management system and Authorized Economic Operator assessment. We examine every supplier criterion, including basic information of the company, relevant certifications, quality assurance records, environment, safety and health management investigations, operating conditions, product information, manufacturing procedures, financial status of (raw) material suppliers and business continuity management, contract approval associated with procurement obligations, green product management and social responsibilities of supplier, through supplier procurement procedures. In 2017, Taiflex introduced the Responsible Business Alliance as the standard for supplier management assessment. The standard serves as the social responsibility standard for the electronics industry at present and covers areas of labor, health and safety, environmental protection and business ethics. It aims to ensure that companies in the electronics industry have safe workplaces, employees are respected and companies are environmentally responsible during manufacturing processes. Contracts may be terminated if a supplier is in serious violation of the “Corporate Social Responsibility Best Practice Principles”.	None
5. Has the Company referred to the internationally accepted report preparation standards or guidelines for its preparation of CSR or other reports which disclose the Company's non-financial information? Do the aforementioned reports obtain a third-party assurance or verification statement?	V		5. The reporting framework of the Company’s CSR Report is based on the GRI Standards. Core options are adopted for information disclosure on relevant indicators. The Company’s official website, www.taiflex.com.tw, has CSR section where relevant and reliable information, including quality policy, environmental policy and charity activities, is disclosed.	None

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
6. 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 corporate website. Please refer to Performance in Corporate Social Responsibility under III. Corporate Governance (page 46 to 54) of this Annual Report or the Company's CSR report for details.				
7. 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, and other CSR 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 64,041Kg. Packaging materials are reused to reduce waste and cost. The Company aims at zero waste in terms of resource recycling. 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 CNS15506 Taiwan Occupational Safety and Health Management System and the risk assessment management strategies and regulation identification under OHSAS18001 Occupational Health and Safety Management System to comply with changes in regulatory requirement and reduce hazardous risks. The goal is to control risks and eliminate potential disaster. On top of persistently improving work environment for an enhanced comfort and safety level at work, Taiflex attaches great importance to employee health and continuously launches health promotion projects and health management measures to fulfill the Company's responsibilities concerning social environment and safety. (2) Community participation, contribution to society, service to society, social and public interests: A. 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 of 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 2019 are summarized as follows: Mar. 2019 Hosted charity basketball games with Siao Gang Senior High School May 2019 Invited teachers and students from Nanhua University to visit the Company Jun. 2019 Hosted the Taiflex Youth Care Concert Jun. 2019 Sponsored Siao Gang Senior High School's orchestra Jun. 2019 Sponsored Siao Gang Senior High School's pop music club Jul. 2019 Provided internships to students from National Kaohsiung University of Science and Technology and Chang Jung Christian University				

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	

Jul. 2019 Co-organized the Summer Camp of Puren Youth Care Foundation in Kaohsiung
Jul. 2019 Sponsored the adventure education camp under the scholarship and future development program of Kaohsiung United Charity Association
Aug. 2019 Co-organized blood donation activities with Kaohsiung Export Processing Zone
Aug. 2019 Participated in Kaohsiung United Charity Association's scholarship and future development program
Aug. 2019 Sponsored Siao Gang Senior High School's orchestra for the joint orchestra concert at Kaohsiung City Dadong Arts Center
Sep. 2019 Sponsored Siao Gang Senior High School's karate team
Sep. 2019 Invited students from Siao Gang Senior High School to participate in Taiflex Youth Care Moving-going Event
Sep. 2019 Donation to Puren Youth Care Foundation for scholarship programs
Sep. 2019 Sponsored activities organized by Kaohsiung United Charity Association to help disadvantaged families
Sep. 2019 Sponsored the charity activity for children organized by cnYes
Sep. 2019 Invited teachers and students from National Kaohsiung University of Science and Technology to visit the Company
Oct. 2019 Assisted Kaohsiung United Charity Association with food bank activity
Nov. 2019 Hosted the Kaohsiung study tours of Puren Youth Care Foundation
Nov. 2019 Invited teachers and students from National Kaohsiung Normal University to visit the Company
Dec. 2019 Sponsored the parent-child learning event organized by Good Shepherd Social Welfare Foundation at National Science and Technology Museum
Dec. 2019 Sponsored Siao Gang Senior High School's basketball team

B. Information related to the aforementioned charitable activities is summarized as follows:

Item	Performance
Total number of participants	50 participants
Number of beneficiaries	About 200 people
Number of participants in industry-academia collaboration	3 people
Amount sponsored	NT$1,552 thousand

(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 employment opportunities to all individuals, regardless of gender, religion and political affiliation. It also establishes a safe environment to protect employees from discrimination and harassment.

(5) Safety and Health:
The Company complies with the Occupational Safety and Health Act and establishes safety and health management organization and dedicated unit accordingly to draft, plan, promote and monitor the implementation of various safety and health measures.

(6) Performance in 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 schemes				None
(1) Does the Company formulate ethical management policies approved by the Board of Directors and clearly express ethical management policies and actions as well as the Board and senior management's commitment to implement those policies in the Company's internal rules and external documents?	V		(1) The Company has established and publicly announced to all personnel the "Principles of Business Ethics". Unless otherwise stipulated in laws and regulations, the Board meetings shall be conducted in accordance with the Company's "Rules of Procedure for the Board of Directors' Meetings". The designated division responsible for the Board meetings shall have relevant information ready for Directors to study at all times and notify relevant departments' managers, other than ones serving as Directors, to attend the Board meetings depending on the subject matters of the agenda. The CPAs or other professionals may also be invited to present at the meeting if necessary.	
(2) Does the Company establish assessment mechanism for risk arising from unethical conducts, regularly analyze and assess operating activities with higher risk of unethical conduct within its business, and formulate preventive schemes accordingly, which at least contain preventive measures for conducts set forth in Paragraph 2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies"?	V		(2) The Company has established measures to prevent operating activities involving higher risk of unethical conduct, which include: A. Offering and acceptance of bribes B. Provision of illegal political contribution C. Improper charitable donations or sponsorship D. Offering or acceptance of unreasonable gifts, hospitality or other improper benefits E. Infringement of trade secrets, trademarks, patents, copyrights and other intellectual property rights F. Unfair competition G. Maliciously and gravely jeopardize the rights, health and safety of consumers or other stakeholders during the process of research and development, purchase, manufacture, rendering or sale of products and services	
(3) Does the Company have clear statements regarding relevant procedures, conduct guidelines, disciplinary measures and	V		(3) 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	

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
compliant system in the schemes to prevent unethical conduct, and does the Company implement them accordingly and regularly review those schemes?			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.	
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 a dedicated department under the Board to promote ethical conducts and report regularly (at least once per year) its ethics policies and preventive schemes for unethical conducts as well as implementation status to the Board of Directors? (3) Has the Company established policies to prevent conflicts of interest, provide appropriate communication channels and thoroughly implement the policies?	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 formulate and monitor the execution of ethics policies and preventive schemes for unethical conducts, as well as report to the Board of Directors. There was no major unethical conduct in 2019. (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.	None

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
(4) Has the Company established effective accounting and internal control systems for the implementation of ethics policies and had the internal audit unit formulating relevant audit plans based on the assessment outcome of risk associated with unethical conducts? Has the Company then performed audits on the compliance with the preventive schemes for unethical conducts accordingly, or entrust the CPAs to conduct the audits? (5) Has the Company regularly held internal and external training sessions on business ethics?	V V		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 effective accounting and internal control systems as well as the Internal Auditing Office reporting directly to the Board. Each year, the Internal Auditing Office carries out audits according to the Annual Audit Plan, monitors corrective actions for deficiencies and regularly submits audit reports to the Audit Committee and the Board for management to understand the effectiveness of internal control system in order to realize the effectiveness of the design and execution of the systems. (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, actions to be taken upon the completion of investigation, and mechanisms for confidentiality? (3) Has the Company established measures to protect whistleblowers from retaliation?	V V V		(1) The Company has provided proper channels for reporting of 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

Assessment Items	Status			Non-compliance and Reasons
	Yes	No	Description	
4. Enhancement on Information disclosure 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 at 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, Code of Practice for Corporate Governance, Procedures and Guidelines of Business Ethics, etc.

B. Please refer to the Company and MOPS websites at http://www.taiflex.com.tw and http://mops.twse.com.tw, respectively, 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 corporate website at 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 and MOPS websites at http://www.taiflex.com.tw and http://mops.twse.com.tw, respectively.

(9) Internal Control System Execution Status:

A. Statement of Internal Control System

TAIFLEX Scientific Co., Ltd.

Statement of Internal Control System

February 26, 2020

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 2019:

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, 2019, its internal control system (including its supervision of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency; reliability, timeliness and transparency of financial reporting; and compliance with applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-mentioned objectives.
6. This Statement will be an essential content of the Taiflex's Annual Report and Prospectus, and will be publicly disclosed. Any falsehood, concealment, or other illegality in the content made public will entail legal liabilities under Articles 20, 32, 171, and 174 of the Securities and Exchanged Act.
7. This Statement has been approved in the Board of Directors' meeting on February 26, 2020, 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 on internal personnel for violation of the Company's internal control system regulations, details on the punishment if it might have significant impact on the shareholders' equity or security prices, major defects and corrective action thereof in the most recent year and as of the date of this annual report: None.

(11) Major resolutions of Shareholders' Meetings and Board of Directors' meetings in the most recent year 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	2019.05.29	1. Approved the Company's audited 2018 financial statements 2. Approved the Company's 2018 earnings distribution 3. Approved amendments to the Company's "Procedures for Acquisition or Disposal of Assets" 4. Approved the Company's distribution of cash out of capital surplus
Board of Directors' Meeting	2019.01.18	1. Approved the Company's distribution of 2018 compensation to employees and remuneration to Directors 2. Approved the Company's 2018 year-end net income bonus to managers 3. Approved the Company's operation plan and capital expenditure budget for 2019 4. Approved the provision of endorsement and guarantee to subsidiaries
Board of Directors' Meeting	2019.02.20	1. Approved the Company's 2018 business report and financial statements 2. Approved the Company's 2018 earning distribution 3. Appointed the Company's CPAs for 2019 and assessed their independence 4. Approved the provision of endorsement and guarantee to subsidiaries 5. Approved amendments to the Company's "Procedures for Acquisition or Disposal of Assets" 6. Approved the Company's 2018 assessment on the effectiveness of internal control system and issuance of the "Statement of Internal Control System" 7. Approved the formulation of plans associated with agenda of the 2019 Annual Shareholders' Meeting 8. Approved plans associated with shareholders' right to propose in the 2019 Annual Shareholders' Meeting
Board of Directors' Meeting	2019.04.25	1. Approved the formulation of the Company's "Standard Operating Procedures of Handling Requests from Directors" 2. Approved the decrease in the provision of endorsement and guarantee to subsidiaries 3. Approved the provision of Letter of Comfort to investee - Koatech Technology Corporation
Board of Directors' Meeting	2019.06.14	1. Approved the 2018 distribution of remuneration to Directors and compensation to managerial employees 2. Approved matters relating to the ex-dividend scheme for 2019
Board of Directors' Meeting	2019.07.30	1. Approved the provision of endorsement and guarantee to subsidiaries
Board of Directors' Meeting	2019.11.06	1. Approved amendments to the Company's "Methods for Evaluating Board of Directors' Performance" 2. Approved the provision of endorsement and guarantee to subsidiaries

Shareholders / Board Meetings	Date	Major Resolutions
		3. Approved the limit for loans to subsidiaries 4. Approved 2020 annual audit plan of internal auditing office
Board of Directors' Meeting	2019.12.12	1. Report the status on the disposal of land use right and buildings of the Company's indirect investment in China - Taiflex Scientific (Kunshan) Co., Ltd.

B. Execution of resolutions of 2019 Annual Shareholders' Meeting:

(a) Approved the audited 2018 financial statements

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
146,542,367	140,394,237	10,386	6,137,744
100.00%	95.80%	0.01%	4.19%

(b) Approved the 2018 earnings distribution

Execution: The record date was set on July 7, 2019 and the distribution was completed on July 18, 2019. (Cash dividend of NT$2.0 per share.)

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
146,542,367	140,701,217	10,385	5,830,765
100.00%	96.01%	0.01%	3.98%

(c) Approved amendments to the "Procedures for Acquisition or Disposal of Assets"

Execution: The Company has proceeded in accordance with the amended Procedures which is available at the corporate website.

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
146,542,367	140,698,189	7,868	5,836,310
100.00%	96.01%	0.01%	3.98%

(d) Approved the distribution of cash out of capital surplus

Execution: The record date was set on July 7, 2019 and the distribution was completed on July 18, 2019. (Cash dividend of NT$0.5 per share.)

Voting Results (In Shares)

Total Votes	Votes For	Votes Against	Abstain
146,542,367	140,693,709	6,399	5,842,259
100.00%	96.01%	0.01%	3.99%

(12) Different opinions expressed by Directors or Supervisors regarding major resolutions, either by recorded statement or in writing, in 2019 and as of the date of this annual report: None.

(13) Resignation or discharge of Chairperson, President and Supervisors of Accounting, Finance, Internal Audit, Corporate Governance and Research and Development in 2019 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	338	338	2019	Others mainly consist of audit of physical inventory on bonded goods of NT$100 thousand and money advanced of NT$238 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 10% decrease in audit fee on a year-to-year basis: None.

6. Change of CPA: 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 the Most Recent Year: None.

8. Changes in Shareholding and Shares Pledged by Directors, Supervisors, Managers and Shareholders with 10% Shareholdings or More in the Most Recent Year 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	2019		By March 30, 2020	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Corporate Director	Qiao Mei Development Corporation	0	0	0	0
Representative of Corporate Director and Chairperson	Ta-Wen Sun	0	0	0	0
Representative of Corporate Director	Jun-Yan Jiang	(160,047)	0	0	0
Director	Ching-Yi Chang	310,000	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	0	0	(52,000)	0
Independent Director	Chein-Ming Hsu	0	0	0	0
Independent Director	Wen-I Lo	0	0	0	0
Independent Director	Shi-Chern Yen	0	0	0	0
President	Zhi-Ming Yen	(6,000)	0	0	0
Vice President	Zong-Han Jiang	0	0	0	0
Vice President	Jiang-Zhi Zhao	0	0	0	0
Senior Assistant Vice President	Zhen Lin	0	0	0	0
Senior Assistant Vice President	Chong-Chen Liu	0	0	0	0
Senior Assistant Vice President	Guo-Xiong Xia	0	0	0	0
Senior Assistant Vice President	Ji-Ren Huang	0	0	0	0
Senior Assistant Vice President	Nian-Zu Zhang	0	0	0	0
Senior Assistant Vice President	Shi-Ming Liu	0	0	0	0
Assistant Vice President	Sheng-Ying Lin	(1,000)	0	0	0
Assistant Vice President	Bing-Xun Zhang	0	0	0	0
Assistant 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 30, 2020 (In Shares, %, New Taiwan Dollars)

Name	Reasons for Changes in Pledge	Date of Change	Counterparty	Relationship between the Counterparty and the Company, Directors, Supervisors, Managers 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	64.06	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 30, 2020; (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	-	-	-
Chang Wah Electromaterials Inc. Representative: Canon Huang	15,060,000	7.20	0	0	0	0	-	-	-
BaoJie Funds in custody of Standard Chartered Bank Main Branch	12,270,120	5.87	0	0	0	0	-	-	-
Huasheng International Investment Corp. Representative: Zhi-Cheng Zhang	5,806,945	2.78	0	0	0	0	-	-	-
New Labor Pension System Fund	5,390,000	2.58	0	0	0	0	-	-	-
Ching-Yi Chang	5,009,282	2.40	0	0	0	0	-	-	-
Cathay Life Insurance Co., Ltd. Representative: Tiao-Kuei Huang	4,000,000	1.91	0	0	0	0	-	-	-
Shun-Kai Lu	3,916,200	1.87	0	0	0	0	-	-	-
Vanguard Total International Stock Index Fund Managed under Vanguard Star Funds in custody of JPMorgan Chase Bank N.A. Taipei Branch	3,181,994	1.52	0	0	0	0	-	-	-
Norges Bank Investment Fund in custody of Citibank Taiwan Ltd.	3,111,195	1.49	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	2,380	9.35	16,080	63.21
Innovision FlexTech Corp.	3,972	15.07	3	0.01	3,975	15.08
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	21,170	100.00
Taiflex Scientific (Kunshan) Co., Ltd. (Note 2)	0	0	0	100.00	0	100.00
Richstar Co., Ltd.	30,500	66.29	15,510	33.71	46,010	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	1,562	31.24	0	0	1,562	31.24

Note 1: Long-term investment of the Company as of March 30, 2020

Note 2: Investments in companies located 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 30, 2020 (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 30, 2020; (In Shares)

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

C. Shelf Registration: None.

(2) Shareholder Composition

As of March 30, 2020 (In Shares; %)

Type / Quantities	Government Agencies	Financial Institutions	Other Juridical Persons	Natural Persons	Foreign Institutions and Natural Persons	Total
Number of Shareholders	1	9	233	27,965	115	28,323
Shares	5,390,000	11,377,692	46,666,265	98,890,921	46,794,814	209,119,692
%	2.58%	5.44%	22.31%	47.29%	22.38%	100%

(3) Shareholding Distribution

A. Common share:

As of March 30, 2020 (In Shares; %)

Shareholding			Number of Shareholders	Number of Shares	%
1	~	999	16,671	748,743	0.36%
1,000	~	5,000	8,858	17,492,903	8.36%
5,001	~	10,000	1,348	9,925,436	4.75%
10,001	~	15,000	457	5,508,253	2.63%
15,001	~	20,000	262	4,753,946	2.27%
20,001	~	30,000	266	6,577,927	3.15%
30,001	~	40,000	102	3,643,740	1.74%
40,001	~	50,000	67	3,051,842	1.46%
50,001	~	100,000	127	8,927,506	4.27%
100,001	~	200,000	61	8,619,467	4.12%
200,001	~	400,000	44	13,149,591	6.29%
400,001	~	600,000	16	7,853,120	3.76%
600,001	~	800,000	9	6,197,426	2.96%
800,001	~	1,000,000	2	1,688,760	0.81%
Over 1,000,001			33	110,981,032	53.07%
Total			28,323	209,119,692	100.00%

B. Preference share: None.

(4) Major Shareholders

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

As of March 30, 2020 (In Shares; %)

Shareholding / Major Shareholders	Shares	%
Qiao Mei Development Corporation	15,713,729	7.51
Chang Wah Electromaterials Inc.	15,060,000	7.20
BaoJie Funds in custody of Standard Chartered Bank Main Branch	12,270,120	5.87
Huasheng International Investment Corp.	5,806,945	2.78
New Labor Pension System Fund	5,390,000	2.58
Ching-Yi Chang	5,009,282	2.40
Cathay Life Insurance Co., Ltd.	4,000,000	1.91
Shun-Kai Lu	3,916,200	1.87
Vanguard Total International Stock Index Fund Managed under Vanguard Star Funds in custody of JPMorgan Chase Bank N.A. Taipei Branch	3,181,994	1.52
Norges Bank Investment Fund in custody of Citibank Taiwan Ltd.	3,111,195	1.49

(5) Market Price, Net Worth, Earnings and Dividends Per Share for 2018 and 2019

(In NT$)

Item			2018	2019	01/01/2020 to 03/30/2020 (Note 5)
Market Price per Share	Highest		64.90	49.20	53.40
	Lowest		28.80	34.15	35.50
	Average		41.78	41.57	46.97
Net Worth per Share (Note 1)	Before Distribution		34.73	34.65	-
	After Distribution		32.23	Note 6	-
Earnings per Share	Weighted Average No. of Shares (in thousands of shares)		209,084	209,120	-
	Earnings per Share		3.22	3.02	-
Dividends per Share	Cash Dividends		2.50	Note 6	-
	Stock Dividends	Earnings	-	Note 6	-
		Capital Surplus	-	Note 6	-
	Accumulated Undistributed Dividend		-	-	-
Analysis on Investment Return	Price/Earnings Ratio (Note 2)		12.98	13.76	-
	Price/Dividend Ratio (Note 3)		16.71	Note 6	-
	Cash Dividend Yield (Note 4)		5.98%	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 30, 2020, earnings distribution for 2019 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 2019 earnings distribution plan approved by the Board of Directors' meeting on February 26, 2020 is as follows:

(a) Cash dividend: NT$250,944 thousand from 2019 earnings, i.e. NT$1.2 per share; and NT$271,856 thousand from capital surplus related to share issued at a premium, i.e. NT$1.3 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 2019, thus, this is not applicable.

(c) Accounting treatments for difference between estimated and actual payment amount: Amount resolved to be distributed by the Board of Directors was recognized as operating expense in 2019. Difference between the estimated amount and the resolution of Shareholders' Meeting will be recognized in profit or loss of 2020.

C. Proposed compensation approved by the Board

With regard to compensation to employees and remuneration to directors, the proposed 2019 earnings distribution plan approved in the Board of Directors' meeting on January 10, 2020 is as follows:

(a) The proposed compensation to employees of NT$64,632,034 (in cash) and remuneration to directors of NT$17,673,011 approved in the Board of Directors' meeting were of the same amount as the expenses recognized in 2019.

(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 (2019.05.29)	Difference	Cause of Difference
Remuneration to Directors (in Cash)	19,833,930	19,833,930	0	None
Compensation to Employees (in Cash)	72,534,740	72,534,740	0	None

(9) Buyback of Common Shares:

A. Transactions completed were as follows:

March 30, 2020

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 Issued Shares (%)	0.00%	0.00%	0.00%

B. Ongoing transactions: None.

2. Corporate Bonds: None.

3. Preferred Shares: None.

4. Global Depositary Shares: None.

5. Employee Stock Options: None.

6. Employee Restricted Stock: None.

7. 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, 2020: 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, 2020: 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	2018		2019	
	Net Revenue	Ratio (%)	Net Revenue	Ratio (%)
Electronic Materials	8,273,030	85.79	7,195,384	94.88
PV Backsheets	1,176,124	12.20	85,434	1.13
Others	193,897	2.01	302,836	3.99
Total	9,643,051	100.00	7,583,654	100.00

C. Major Products/Services

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

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 heads towards two directions. One is the quest for thin, light, high frequency, high speed and high thermal conductivity products, namely mobile and wearable devices. Of which, materials with high frequency and high speed are becoming the mainstream in research and development due to the coming of 5G era. At present, different frequency requires the use of different materials and the Company is actively involved in all sorts of materials. Differentiated by the Df and Dk values, Taiflex proactively engages in the development of Modified Polyimide (MPI) and Liquid Crystal Polymer (LCP), and commences on the research and development of ultra high frequency material with fluorine. The other design is to satisfy the demand of fine circuits and high dimensional stability, which are mostly required for markets related to display or cameral module. 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) Optical Materials for Displays

For foldable displays, the Company develops encapsulant for Mini-LEDs, and amber-PI varnish and clear-PI varnish for display substrates.

(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 UV release tape with high chemical resistance, which can be used in the semiconductor packaging process as a temporary bonding material for wafer polishing and dicing. In addition, it can be applied during the cutting of optical lens.

(2) Industry Overview

A. Industry Status and Development

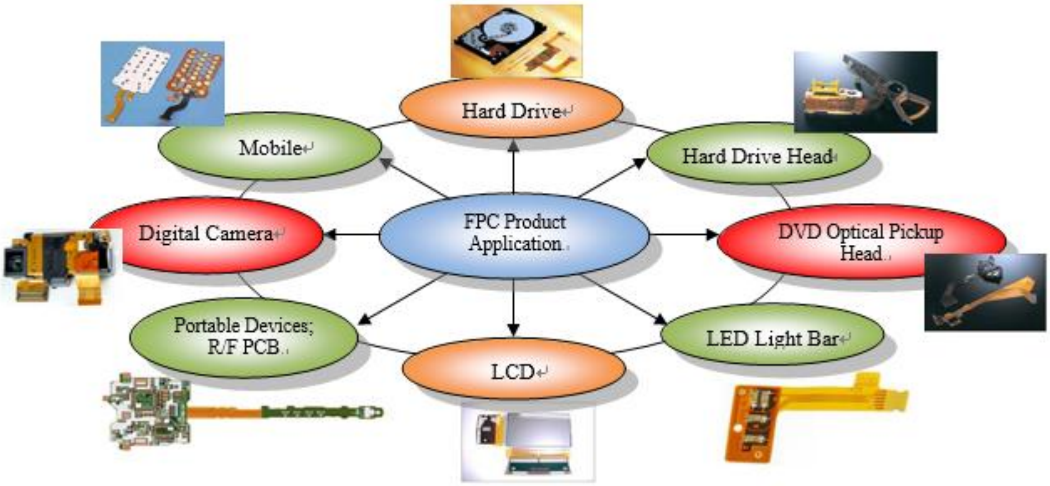
(a) FPC industry

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.

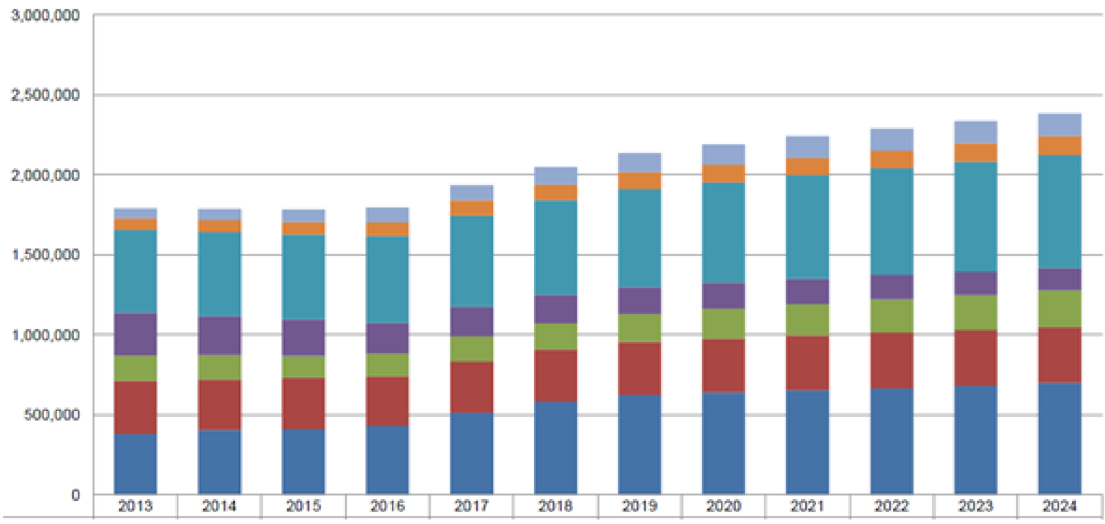
Japanese FPC suppliers (especially Fujikura) suffered massive damage during Thailand floods in 2011. Thus, they started to expand the production lines across Vietnam and Malaysia. During the same period of time, Taiwan and Korean suppliers focus on advancing technology and increasing production scale 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. The market reseach company, IDC, also predicts that 5G mobile phones will not be the mainstream in 2019; however, their sales will continue to rise and they will become the major reason for consumers to replace their phones. 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)

Smartphone Shipmnet Projections

Worldwide Smartphone Platform Shipments, Market Share, and Year-Over-Year Growth, 2019 and 2023 (Shipments in millions)

Generation	2019 shipment volume*	2019 Market Share*	2019 Year-Over-Year Growth*	2023 Shipment Volume*	2023 Market Share*	2023 Year-Over-Year Growth*
3G	57.5	4.1%	-25.4%	34.6	2.2%	-3.4%
4G	1,330.6	95.4%	0.2%	1,105.9	71.7%	-4.4%
5G	6.7	0.5%	N/A	401.3	26.0%	23.9%
Total	1,394.9	100%	-0.8%	1,541.8	100.0%	1.7%

Source: IDC Worldwide Quarterly Mobile Phone Tracker, Feburary 22, 2019

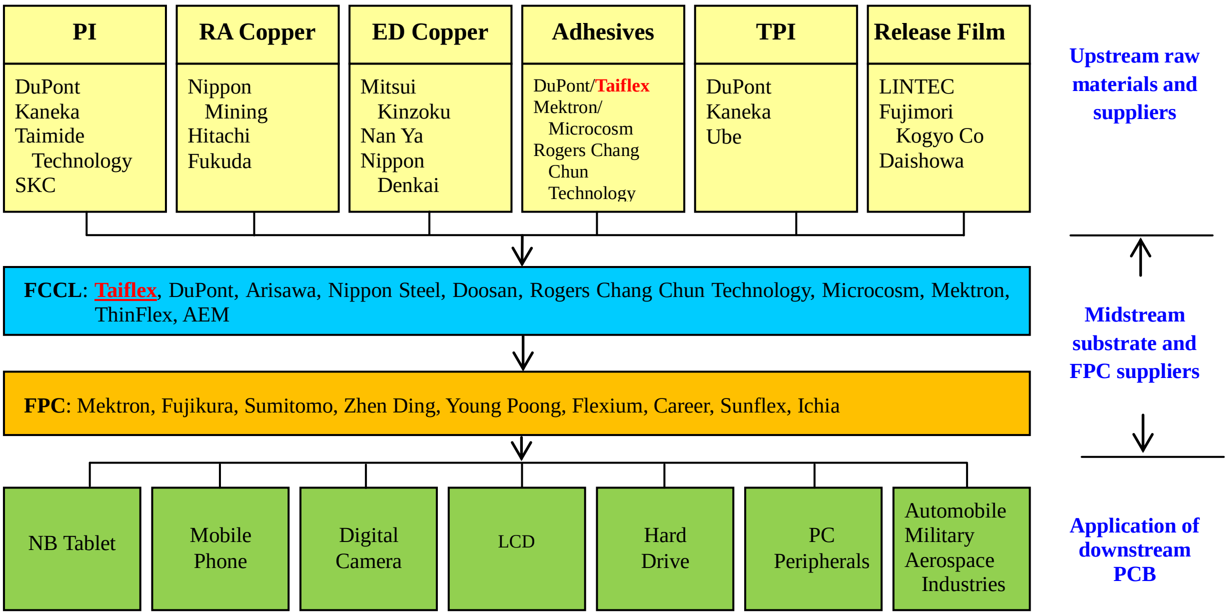
*Table Note: 2019 and 2023 figures are forecast projections.

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

C. Macro-economy and Industry Development Trend

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.

The development of materials will center around features of high frequency, high speed and high heat dissipation in response to various applications of 5G. Based on observing the choices made by major material companies and brands, the mainstreams are the applications of MPI, LCP and fluorine in FCCL, attracting active participations from companies worldwide.

D. Product Competition

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. 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 will be extremely critical.

Furthermore, in recent years, numerous system integrators have shifted their production lines to China, which bring FPC companies over so that the latter can stay close to their customers. Thus, China PCB industry achieves tremendous growth and becomes the most dominating production base in the world. Even though the China-US trade war and COVID-19 pandemic drive companies to diversify production bases in order to avoid supply chain interruptions, in terms of regional concentration of industries, supply of technical human resource and infrustructures, China still enjoys absolute advantages. Therefore, the stragegies of large companies continue to evolve around China with global diversification as a supplement. To meet customer demands and upon evaluating global strategies, Taiflex has established comprehensive production lines and well-structured distribution channels in China. On the whole, Taiflex is in the leading position regarding capacity, revenue, customer portfolio and profitability and remains highly competitive in the FPC industry.

(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 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 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	2017	2018	2019
Ph.D. and Master's Degree	41	52	65
Bachelor's Degree/College	25	27	46
Senior High School	2	2	6
Total	68	81	117

C. Research and Development Expenses from 2015 to 2019

(In Thousands of New Taiwan Dollars)

Year	2015	2016	2017	2018	2019
R&D Expenses	218,559	217,559	257,468	264,278	284,486
Net Revenue	10,267,868	10,283,979	11,192,892	9,643,051	7,583,654
Percentage of Revenue (%)	2.13	2.12	2.30	2.74	3.75

Source: Audited financial statements from 2015 to 2019

D. Technology or Product Developed from 2015 to 2019

Year	Item	Result
2015	Research and development of high frequency materials	Low Dk product (Dk:2.7, Df:0.004)
	Research and development of transparent materials	UL94V0
	Research of fused laminate composite material	Develop FFC for high speed transmission Dk:2.3 Df:0.003 @10GHz
	Research and development of EMI materials	EMI SE>40dB (KEC 1000MHz)
	Low gloss white CVL	Gloss(60o) ≦ 30 GU, Reflectance>85%(550nm)
	Research and development of high dimensional stability materials	+ - 0.04%
2016	Research and development of high frequency materials	Low Dk product (Dk:2.7, Df:0.004)
	Research and development of transparent materials	UL94V0
	Research of fused laminate composite material	Develop FFC for high speed transmission Dk:2.3 Df:0.003 @10GHz
	Development of PIF material	Solder (288℃,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

Year	Item	Result
	Development of pre-laminated double-sided FPC	Combine two single-sided FPC by pre-lamination and separate those two after FPC is made to enhance the production capacity of FPC customers
	Development of Anti-migration Adhesive	Develop adhesive for protective film which can withstand 85℃/85%RH/100V/1000hr
	Development of 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 and PI thickness 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	Develop 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	Develop polyimide and bonding sheet with low df and low 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 control characteristic impedance.
	Development of wireless charging materials for hand held devices	Develop adhesiveless double-sided FPC 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 rely 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
2019	Application of 5G materials to Sub-6 frequency	Develop materials associated with Modified-PI base FCCL

Year	Item	Result
	Application of 5G materials to mm-Wave	Develop single/double-sided FPC with LCP-based FCCL
	Laser de-bond adhesive materials	Application of laser de-bond adhesive to semiconductor materials
	Bonding sheet for high frequency application	Development of boding sheet with laser absorbance of 0.1 and 1.0 completed.

(4) Business Development Plan

A. Long-term Business Development Plan

(a) Marketing strategy

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

(ii) Identify niche markets and 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 bases to stay close to customers and set up global logistics 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 build technical capabilities for materials

(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 design trends of the market and customers, strengthen customer services, establish good relationships with customers and build customer trust to achieve higher customer satisfaction

(ii) Understand the dynamics of customers' product designs 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 materials, decrease lead time, expedite product delivery and improve accuracy to enhance customer satisfaction and lower inventory costs

(iii) Identify optimal cost-efficient material suppliers with considerations to the price, service and capability factors in order 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	2018		2019	
	Amount	Ratio (%)	Amount	Ratio (%)
Taiwan	1,931,443	20.03	1,229,108	16.21
China	7,364,249	76.37	5,983,082	78.89
Others	347,359	3.60	371,464	4.90
Total	9,643,051	100.00	7,583,654	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 2019.

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. Main applications of FPC include portable electronic devices, PC/NBs, panels, digital cameras, etc. Major drivers include smartphones, tablets, and emerging applications in automobile industry, Internet of Things and wearable devices.

Smartphone and tablet industries are summarized as follows:

(i) Smartphones

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

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 this, 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 a traditional mobile phone, a 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 a 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 employe 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 2018 and 2019

Top Five Smartphone Vendors, Shipments, Market Share and Year-Over-Year Growth (shipments in Millions)

Vendor	2019 Shipment Volumes	2019 Market Share	2018 Shipment Volumes	2018 Market Share	Year-Over-Year Change
Samsung	295.7	21.6%	292.2	20.8%	1.2%
Huawei	240.6	17.6%	206.0	14.7%	16.8%
Apple	191.0	13.9%	208.8	14.9%	-8.5%
Xiaomi	125.6	9.2%	119.1	8.5%	5.5%
OPPO	114.3	8.3%	113.3	8.1%	0.9%
Others	403.6	29.4%	463.2	33.0%	-12.9%
Total	1,371.0	100.00%	1,402.6	100.00%	-2.3%

Source: IDC Quarterly Mobile Phone Tracker, Company data

(ii) <u>Tablet</u>

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. FPC's main growth comes from NB application, which utilizes 5 to 8 FPCs per set (excluding the screen).

IDC statistics show global Tablet shipment of 144 million sets in 2019, representing a decrease of 1.5% year-over-year. Supported by demand from IoT spending and education in recent year, Tablet shipment is expected to remain stable.

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

Top Five Tablet Companies, Worldwide Shipments, Market Share, and Growth, 2019 (Preliminary results, combined company view for the current quarter only, shipments in Millions)

Vendor	2019 Shipments	2019 Market Share	2018 Shipments	2018 Market Share	Year-Over-Year Growth
1. Apple	49.9	34.60%	43.3	29.60%	15.20%
2. Samsung	21.7	15.10%	23.4	16.00%	-7.20%
3. Huawei	14.1	9.80%	14.6	10.00%	-3.50%
4. Amazon.com	13.0	9.00%	11.8	8.10%	9.90%
5. Lenovo	8.5	5.90%	8.8	6.00%	-4.20%
Others	37.0	25.70%	44.3	30.30%	-16.60%
Total	144.1	100.00%	146.2	100.00%	-1.50%

Source: IDC Worldwide Quarterly PCD Tracker, January 30, 2020

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 in command of the demands from the supply chain in China.

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 aforementioned purchase policy considers the fact that supply of key raw materials is concentrated on a few international corporations due to product quality stability and customer requests.

Countermeasures:

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

② Build a sound feedback mechanism. Customer feedback would be summarized and communicated to suppliers to facility relevant testing, improve product quality and strengthen 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 Expand market share with advantages of superior quality and solid relationship with customers. Enhance equipment efficiency and product yield to effectively lower the product cost.

② Improve bargaining power with large volume purchases to lower material costs

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

(2) Main applications and manufacturing process of key products

A. Main application of key products

Key products of the Company include Coverlay and FCCL. 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

B. Manufacturing process

Product			
Process Flow	Coverlay	3L-FCCL	2L-FCCL
	Adhesive mixing	Adhesive mixing	Mixing
	Filtering	Filtering	Coating
	Coating	Coating	Curing
	Drying	Drying	Thermal Imidization
	Laminating	Laminating	Slitting
	Rolling	Rolling	Packaging
	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 2018 and 2019:

A. Key suppliers in 2018 and 2019

(In Thousands of New Taiwan Dollars)

	2018				2019			
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	1,819,018	29.12	None	Supplier A	987,133	23.19	None
2	Supplier B	916,304	14.67	None	Supplier B	685,078	16.10	None
3	Supplier C	670,030	10.73	None	Supplier C	616,872	14.49	None
4	Others	2,841,226	45.48	None	Others	1,966,977	46.22	None
	Net Purchase	6,246,578	100.00		Net Purchase	4,256,060	100.00	

Note: Net purchase includes processing fee.

Variance Analysis:

The Company's suppliers of key raw materials are long-term business partners with a steady supply of quality products. Other than small changes due to requests from customers and adjustments on the Group's operational strategies, there is no significant change in supplier ranking. The total purchase amount in 2019 showed a larger degree of decrease on a year-over-year basis because the Company took a more aggressive stance on inventories for the tighter material supply back in 2018. However, the China-US trade war affected the overall shipment in 2019. To reduce inventory risk, Taiflex cut down purchases and digested inventories to bring inventory back to a healthy level.

B. Key customers in 2018 and 2019

(In Thousands of New Taiwan Dollars)

	2018				2019			
Item	Name	Amount	Percentage to Annual Net Revenue (%)	Relationship with the Company	Name	Amount	Percentage to Annual Net Revenue (%)	Relationship with the Company
1	Company A	1,608,965	16.69	None	Company A	1,257,583	16.58	None
2	Company B	1,161,924	12.05	None	Company B	959,503	12.65	None
3	Others	6,872,162	71.26	None	Others	5,366,568	70.77	None
	Net Revenue	9,643,051	100.00		Net Revenue	7,583,654	100.00	

Variance Analysis:

We have maintained long-term relationship with customers, therefore, there is no significant change in the ranking of major customers. The decline in revenue was mainly due to the Group's strategic adjustment to exit the solar industry; and at the same time, trade wars brought customers to adopt a more conservative inventory strategy. Those factors inevitably affected the Company's sales.

(5) Production in 2018 and 2019

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

Year	2018			2019		
Production / Product	Capacity (Note 1)	Output	Amount	Capacity (Note 1)	Output	Amount
Electronic Materials	-	41,709	6,370,750	-	34,565	5,409,347
PV Backsheet	-	10,838	1,226,508	-	346	36,365
Others	-	2,497	85,504	-	3,653	150,285
Total	80,431	55,044	7,682,762	80,431	38,564	5,595,997

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. However, different products have different production efficiency. Therefore, actual capacity would be affected by shipment mix.

(6) Shipments and sales in 2018 and 2019

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

Year	2018				2019			
Shipment/ Sales / Product	Domestic		Overseas		Domestic		Overseas	
	Shipment	Sales	Shipment	Sales	Shipment	Sales	Shipment	Sales
Electronic Materials	16,614	1,936,113	19,483	6,294,041	3,200	894,060	31,647	6,301,324
PV Backsheet	266	22,304	11,729	1,153,821	1,070	37,661	2,279	47,773
Others	686	48,460	2,785	188,312	835	101,077	3,079	201,759
Total	17,566	2,006,877	33,997	7,636,174	5,105	1,032,798	37,005	6,550,856

3. Human Resources in the Past Two Fiscal Years and as of the Date of this Annual Report (No. of Employees, Average Year of Service and Age, and Education)

(No. of people; %)

Item / Year		2018	2019	As of March 30, 2020
No. of Employees	Direct	494	497	492
	Indirect	533	499	499
	Total	1,027	996	991
Average Age		36.23	39.72	38.78
Average Year of Service		5.22	5.18	5.03
Education	Ph.D.	0.88	0.90	0.81
	Master’s Degree	13.24	12.95	12.71
	Bachelor’s Degree	56.67	56.03	56.61
	Senior High School	27.85	28.51	28.05
	Below Senior High School	1.36	1.61	1.82

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

4. Expenditure Related to Environmental Protection

(1) In the past two fiscal 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 ISO14001: 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

2019	
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 gas treatment system)
	(3) Industrial waste disposal charge
	(4) Industrial waste recycling charge (reuse)
	(5) Environmental management fee (the maintenance and certification of ISO14001 management system)
	Total spending: NT$14,360 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 from measures improving wastewater treatment efficiency
	(4) Savings on resource recycling
	Total savings: NT$65,173 thousand
3. Items to be improved	(1) Reduce air pollution (reduce air pollutant emissions) (2) Cut down resource consumption (e.g. recycling and reuse of organic solvent waste) (3) Improve the efficiency of control facilities (waste gas condensation) (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 VOCs emission (3) Reduce VOCs and acquire pollutant emission volume for subsidiaries to use during expansion (4) Innovative 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:

Waste gases from manufacturing process are well-managed. We continue to advance on the operation and management of rotors, waste gas NMP condensation system, wastewater cleaning facilities and RRTOs; and improve the processing efficiency for equipment to be at stable or optimal condition. Through reduction of VOCs emission and savings on natural gas and raw materials consumption, we can avoid wasting resources and cut down secondary pollutants.

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 gas emission, the waste gas 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: Annual comprehensive health check-ups for all employees and specific ones for personnel engaging in special operations

(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, running, softball, basketball, hiking, badminton, shrimp fishing, 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 holding 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 drills 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$2,449 thousand in 2019. Classes are summarized as follows:

Category	Duration
Training of New Recruits	2,763.00
Language Training	293.00
Internal Training	15,842.00
Manners	2,920.50
Production Management	1,657.00
Engineering Technology	184.50
Marketing and Sales	261.00
Human Resource	182.50
Research and Development	907.00
Finance and Purchase	440.50
Quality System	1,398.50
Operational Management	666.50
Administrative Management	281.00
Occupational and Environmental Safety	799.50
Internal Audit and Control	6.00
Information Technology	617.50
Use and Teaching of Computer Data	4.00
Seminar	262.75
Others	2,484.00
Total	31,970.75

(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 would 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$25,948 thousand and NT$26,303 thousand for the years ended December 31, 2019 and 2018, respectively.

D. Industrial relations and employee welfare:

The Company has maintained a good industrial relation. Frequent communications 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 voice their opinions to reach consensus.

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

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

(e) The Company has established 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 (Industrial Safety Office) pursuant to the Occupational Safety and Health Act. The unit 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 2019 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 "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 all factories 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.

Category	Details
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. 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 unit – Industrial Safety Office, to promote safety and health-related activities.
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, inspections on drinking water and operating environment, and cleaning of the premises by specialized personnel. 3 Implement health management and health promotion activities: Health education sessions, sporting courses and competitions, implementation of health management measures targeting high-risk groups and employees with abnormal health conditions, e.g. health education, consultation services, medical visit reminders, etc. to ensure employee health. 4 Prevention of musculoskeletal disorders, control measures for labor overload, and health protection guidelines for female employees.
Mental Health	1 Communication and stress relief training: Provide lectures of stress relief and communication techniques to assist employees with mental adjustment. 2 Diverse communication channels: 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 Formulation of rules pertaining to the prevention of wrongful harm and sexual harassment to assist employees with prevention and handling of physical and metal harm.
Management of Contractor Operations and Other Operators	The Company has “Rules Governing the Management of Contractors’ Workplace and Safety and Health” and Rules for Factory Access in place for the management of contractors and other workers. These rules define contractors’ rights and responsibilities regarding safety and health issues, prevent occupational hazard, and protect the safety and well-being of contractors and Company employees.
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

Category	Details
	payments from the Bureau of Labor in instances of child birth, injury, illness, disability, seniority and death. In addition, the Company also provides group insurances paid by the Company. The insurance policy covers life insurance, critical illness insurance, accidental injury insurance, accidental medical and hospitalization cover, cancer treatment insurance and outpatient surgery. 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	2016.01.01 - 2021.12.31	Land lease	No sub-lease, transfer or sub-lent
Land Lease	Kaohsiung Export Process Zone Administration, Ministry of Economic Affairs	2016.02.23 - 2026.02.28	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
Land Lease	Kaohsiung Export Process Zone Administration, Ministry of Economic Affairs	2019.02.01 - 2029.01.31	Land lease	No sub-lease, transfer or sub-lent

VI. Financial Highlights

1. Condensed Balance Sheet and Statement of Comprehensive Income from 2015 to 2019 with Names and Opinions of Independent Auditors

(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 2015 to 2019				
		2015	2016	2017	2018	2019
Current Assets		8,856,609	8,683,857	8,532,677	8,425,059	7,601,893
Property, Plant and Equipment		2,694,435	2,789,520	2,876,458	3,020,888	2,993,090
Intangible Assets		119,480	113,598	121,378	114,708	127,107
Right-of-use Assets		-	-	-	-	379,444
Other Assets (Note 1)		208,183	210,679	202,723	381,235	272,447
Total Assets		11,878,707	11,797,654	11,733,236	11,941,890	11,373,981
Current Liabilities	Before Distribution	3,866,032	3,939,432	3,920,097	3,959,460	2,295,834
	After Distribution	4,269,968	4,351,686	4,442,896	4,482,259	(Note 2)
Non-Current Liabilities		1,193,398	1,092,863	574,076	600,981	1,725,537
Total Liabilities	Before Distribution	5,059,430	5,032,295	4,494,173	4,560,441	4,021,371
	After Distribution	5,463,366	5,444,549	5,016,972	5,083,240	(Note 2)
Equity Attributable to Shareholders of the Parent		6,685,184	6,665,049	7,126,851	7,262,238	7,246,043
Capital		2,042,858	2,083,252	2,088,467	2,091,197	2,091,197
Capital Surplus	Before Distribution	1,447,952	1,407,558	1,441,339	1,446,639	1,342,759
	After Distribution	1,447,952	1,407,558	1,441,339	1,342,759	(Note 2)
Retained Earnings	Before Distribution	3,231,743	3,347,656	3,690,019	3,890,519	4,043,080
	After Distribution	2,827,807	2,935,402	3,167,220	3,472,280	(Note 2)
Other Components of Equity		61,375	(74,673)	(92,974)	(166,117)	(230,993)
Treasury Shares		(98,744)	(98,744)	-	-	-
Non-controlling Interests		134,093	100,310	112,212	119,211	106,567
Total Equity	Before Distribution	6,819,277	6,765,359	7,239,063	7,381,449	7,352,610
	After Distribution	6,415,341	6,353,105	6,716,264	6,858,650	(Note 2)

Note 1: Other Assets are non-current assets excluding Property, Plant and Equipment, Right-of-use Assets and Intangible Assets.

Note 2: As of March 30, 2020, earnings for 2019 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 2015 to 2019				
	2015	2016	2017	2018	2019
Net Revenue	10,267,868	10,283,979	11,192,892	9,643,051	7,583,654
Gross Profit, Net	2,164,720	1,895,651	2,134,482	1,993,044	1,739,138
Operating Income	1,049,120	954,586	988,890	968,965	740,787
Non-operating Income and Expenses	(181,850)	(271,188)	(29,792)	(100,423)	51,667
Income Before Income Tax	867,270	683,398	959,098	868,542	792,454
Net Income of Continuing Operations	707,308	546,610	746,545	679,474	618,282
Loss from Discontinued Operations	-	-	-	-	-
Net Income	707,308	546,610	746,545	679,474	618,282
Other Comprehensive Income, Net of Tax	(38,381)	(196,592)	1,673	(22,319)	(125,002)
Total Comprehensive Income	668,927	350,018	748,218	657,155	493,280
Net Income Attributable to Shareholders of the Parent	729,856	579,678	734,589	672,309	630,681
Net Income Attributable to Non-controlling Interests	(22,548)	(33,068)	11,956	7,165	(12,399)
Total Comprehensive Income Attributable to Shareholders of the Parent	691,601	383,801	736,316	650,156	505,924
Total Comprehensive Income Attributable to Non-controlling Interests	(22,674)	(33,783)	11,902	6,999	(12,644)
Earnings per Share	3.54	2.81	3.55	3.22	3.02

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

Condensed Balance Sheet (Parent Company Only)

(In Thousands of New Taiwan Dollars)

Item \ Year		Highlights from 2015 to 2019				
		2015	2016	2017	2018	2019
Current Assets		6,309,771	5,312,441	5,201,413	6,654,636	5,412,728
Property, Plant and Equipment		1,725,671	1,936,821	2,039,184	2,122,285	2,212,219
Intangible Assets		32,560	36,897	45,372	39,142	52,531
Right-of-use Assets		-	-	-	-	259,165
Other Assets (Note 1)		2,354,510	2,205,832	2,624,700	2,597,206	2,835,575
Total Assets		10,422,512	9,491,991	9,910,669	11,413,269	10,772,218
Current Liabilities	Before Distribution	2,833,355	1,936,230	2,304,309	3,589,858	2,045,086
	After Distribution	3,237,291	2,348,484	2,827,108	4,112,657	(Note 2)
Non-Current Liabilities		903,973	890,712	479,509	561,173	1,481,089
Total Liabilities	Before Distribution	3,737,328	2,826,942	2,783,818	4,151,031	3,526,175
	After Distribution	4,141,264	3,239,196	3,306,617	4,673,830	(Note 2)
Equity Attributable to Shareholders of the Parent		6,685,184	6,665,049	7,126,851	7,262,238	7,246,043
Capital		2,042,858	2,083,252	2,088,467	2,091,197	2,091,197
Capital Surplus	Before Distribution	1,447,952	1,407,558	1,441,339	1,446,639	1,342,759
	After Distribution	1,447,952	1,407,558	1,441,339	1,342,759	(Note 2)
Retained Earnings	Before Distribution	3,231,743	3,347,656	3,690,019	3,890,519	4,043,080
	After Distribution	2,827,807	2,935,402	3,167,220	3,472,280	(Note 2)
Other Components of Equity		61,375	(74,673)	(92,974)	(166,117)	(230,993)
Treasury Shares		(98,744)	(98,744)	-	-	-
Non-controlling Interests		-	-	-	-	-
Total Equity	Before Distribution	6,685,184	6,665,049	7,126,851	7,262,238	7,246,043
	After Distribution	6,281,248	6,252,795	6,604,052	6,739,439	(Note 2)

Note 1: Other Assets are non-current assets excluding Property, Plant and Equipment, Right-of-use Assets and Intangible Assets.

Note 2: As of March 30, 2020, earnings for 2019 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 2015 to 2019				
	2015	2016	2017	2018	2019
Net Revenue	6,528,844	6,712,397	7,383,077	7,633,620	6,919,495
Gross Profit, Net	1,510,128	1,307,674	1,507,384	1,698,366	1,726,172
Operating Income	785,719	710,292	772,238	1,011,455	993,589
Non-operating Income and Expenses	90,634	12,785	130,980	(140,266)	(210,865)
Income Before Income Tax	876,353	723,077	903,218	871,189	782,724
Net Income of Continuing Operations	729,856	579,678	734,589	672,309	630,681
Loss from Discontinued Operations	-	-	-	-	-
Net Income	729,856	579,678	734,589	672,309	630,681
Other Comprehensive Income, Net of Tax	(38,255)	(195,877)	1,727	(22,153)	(124,757)
Total Comprehensive Income	691,601	383,801	736,316	650,156	505,924
Earnings per Share	3.54	2.81	3.55	3.22	3.02

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

(2) Names and opinions of independent auditors from 2015 to 2019:

Year	CPAs	CPA Firm	Audit Opinion	Remark
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
2019	Jheng-Chu Chen Fang-Wen Li	Ernst & Young	An Unqualified Opinion	-

2. Financial Analysis from 2015 to 2019

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

Item		Financial Analysis from 2015 to 2019				
	Year	2015	2016	2017	2018	2019
Financial Structure %	Debt Ratio	42.59	42.65	38.30	38.18	35.35
	Long-term Fund to Property, Plant and Equipment Ratio	297.38	281.70	271.62	264.24	303.30
Liquidity Analysis %	Current Ratio	229.09	220.43	217.66	212.78	331.11
	Quick Ratio	198.27	189.11	173.73	173.63	284.66
	Times Interest Earned	1,357	839	1,549	1,851	4,119
Operating Performance	Average Collection Turnover (Times)	2.23	2.32	2.45	1.99	1.84
	Days Sales Outstanding	164	157	149	183	198
	Inventory Turnover (Times)	7.93	7.46	6.56	4.95	4.86
	Average Payment Turnover (Times)	4.27	3.93	3.83	3.68	4.54
	Average Inventory Turnover Days	46	49	56	74	75
	Property, Plant and Equipment Turnover (Times)	4.01	3.75	3.95	3.27	2.52
	Total Assets Turnover (Times)	0.85	0.86	0.95	0.81	0.65
Profitability	Return on Total Assets (%)	6.36	5.26	6.81	6.08	5.43
	Return on Equity (%)	10.42	8.04	10.66	9.29	8.39
	Net Income before Income Tax to Paid-in Capital Ratio (%)	42.45	32.80	45.93	41.53	37.89
	Net Margin (%)	6.88	5.31	6.66	7.04	8.15
	Earnings per Share (NT$)	3.54	2.81	3.55	3.22	3.02
Cash Flow	Cash Flow Ratio (%)	25.11	37.97	10.82	6.92	86.84
	Cash Flow Adequacy Ratio (%)	72.32	116.18	96.45	80.35	90.47
	Cash Flow Reinvestment Ratio (%)	3.60	10.72	0.11	-2.30	13.08
Leverage	Operating Leverage	2.92	2.92	3.00	2.85	3.30
	Financial Leverage	1.07	1.10	1.07	1.05	1.02

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

Explanations for ratios varying by over 20% from 2018 to 2019 are as follows:

A. Liquidity Analysis

- Increase in Current Ratio and Quick Ratio: Primarily due to a decrease in current liabilities comparing to 2018.
- Increase in Times Interest Earned: Primarily due to a decrease in interest expense comparing to 2018.

B. Operating Performance

- Increase in Average Payment Turnover (Times): Primarily due to a decrease in average payables comparing to 2018.
- Decrease in Property, Plant and Equipment Turnover (Times): Primarily due to a decrease in net revenue comparing to 2018.

C. Cash Flow

- Increase in Cash Flow and Cash Flow Reinvestment Ratios: Primarily due to an increase in net cash generated by operating activities comparing to 2018.

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

Item	Year	Financial Analysis from 2015 to 2019				
		2015	2016	2017	2018	2019
Financial Structure %	Debt Ratio	35.86	29.78	28.08	36.37	32.73
	Long-term Fund to Property, Plant and Equipment Ratio	439.78	390.11	373.00	368.63	394.49
Liquidity Analysis %	Current Ratio	222.70	274.37	225.72	185.37	264.66
	Quick Ratio	200.53	246.04	191.83	160.87	232.91
	Times Interest Earned	3,257	3,572	5,283	5,063	4,674
Operating Performance	Average Collection Turnover (Times)	3.38	4.12	4.12	2.80	2.34
	Days Sales Outstanding	108	89	89	130	156
	Inventory Turnover (Times)	9.06	9.56	9.24	7.39	7.02
	Average Payment Turnover (Times)	2.60	3.35	3.92	3.61	4.27
	Average Inventory Turnover Days	40	38	40	49	52
	Property, Plant and Equipment Turnover (Times)	4.24	3.66	3.71	3.66	3.19
	Total Assets Turnover (Times)	0.62	0.67	0.76	0.71	0.62
Profitability	Return on Total Assets (%)	7.10	5.99	7.72	6.44	5.80
	Return on Equity (%)	10.99	8.68	10.65	9.34	8.69
	Net Income before Income Tax to Paid-in Capital Ratio (%)	42.90	34.70	43.26	41.65	37.42
	Net Margin (%)	11.18	8.63	9.94	8.80	9.11
	Earnings per Share (NT$)	3.54	2.81	3.55	3.22	3.02
Cash Flow	Cash Flow Ratio (%)	39.81	82.30	-2.36	-6.83	64.22
	Cash Flow Adequacy Ratio (%)	100.40	116.11	94.56	81.38	79.67
	Cash Flow Reinvestment Ratio (%)	5.80	13.04	-4.98	-7.86	7.48
Leverage	Operating Leverage	2.52	2.51	2.72	2.30	2.35
	Financial Leverage	1.04	1.03	1.02	1.01	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 2018 to 2019 are as follows:

A. Operating Performance

- Increases in Current Ratio and Quick Ratio: Primarily due to a decrease in current liabilities comparing to 2018.

B. Cash Flow

- Increase in Cash Flow and Cash Flow Reinvestment Ratios: Primarily due to an increase in net cash generated by operating activities comparing to 2018.

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 2019

Audit Committee’s Review Report

The Board of Directors has prepared the Company’s 2019 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 26, 2020

4. Audited Consolidated Financial Statements for the Years Ended December 31, 2019 and 2018

Please refer to page 119 to 191.

5. Audited Parent Company Only Financial Statements for the Years Ended December 31, 2019 and 2018

Please refer to page 192 to 277.

6. Financial Difficulties Experienced by the Company and Its Affiliates in 2019 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 2019 and as of March 30, 2020.

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	2019	2018	Difference	
			Increase (Decrease)	%
Current Assets	7,601,893	8,425,059	(823,166)	(9.77)
Investments Accounted for under the Equity Method	49,470	51,470	(2,000)	(3.89)
Property, Plant and Equipment	2,993,090	3,020,888	(27,798)	(0.92)
Intangible Assets	127,107	114,708	12,399	10.81
Right-of-use Assets	379,444	-	379,444	-
Other Non-current Assets	222,977	329,765	(106,788)	(32.38)
Total Assets	11,373,981	11,941,890	(567,909)	(4.76)
Current Liabilities	2,295,834	3,959,460	(1,663,626)	(42.02)
Non-current Liabilities	1,725,537	600,981	1,124,556	187.12
Total Liabilities	4,021,371	4,560,441	(539,070)	(11.82)
Total Capital	2,091,197	2,091,197	-	-
Capital Surplus	1,342,759	1,446,639	(103,880)	(7.18)
Retained Earnings	4,043,080	3,890,519	152,561	3.92
Other Components of Equity	(230,993)	(166,117)	(64,876)	39.05
Non-controlling Interests	106,567	119,211	(12,644)	(10.61)
Total equity	7,352,610	7,381,449	(28,839)	(0.39)

Significant variance:

A. The decrease in Other Non-current Assets was mainly caused by the transfer of land use rights to right-of-use assets due to the adoption of International Accounting Standard (IAS) 16 in 2019.

B. The decrease in Current Liabilities was mainly due to the decreases in short-term loans and accounts payables.

C. The increase in Non-current Liabilities was mainly caused by the increases in long-term loans and guarantee deposits received, and an increase in lease liabilities due to the adoption of IAS 16 in 2019.

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	2019	2018	Difference	
			Increase (Decrease)	%
Net Revenue	7,583,654	9,643,051	(2,059,397)	(21.36)
Cost of Revenue	5,844,516	7,650,007	(1,805,491)	(23.60)
Gross Profit, Net	1,739,138	1,993,044	(253,906)	(12.74)
Operating Expenses	998,351	1,024,079	(25,728)	(2.51)
Operating Income	740,787	968,965	(228,178)	(23.55)
Non-operating Income and Expenses	51,667	(100,423)	152,090	151.45
Income before Income Tax	792,454	868,542	(76,088)	(8.76)
Less: Income Tax Expense	174,172	189,068	(14,896)	(7.88)
Net Income	618,282	679,474	(61,192)	(9.01)

Significant variance:

A. The decreases in Net Revenue, Cost of Revenue and Operating Income was mainly due to the strategic adjustment in energy business.

B. The increase in Non-operating Income was mostly from insurance claim.

(2) Expected Sales Volume in 2020 with Basis, and Its Impact on the Company's Finance and Business:

Based on the development of COVID-19 and its impact on the end market, competition in the industry, capacity planning of customers, advancement in technology, and overall strategic planning, the Company expects the sales to remain flat comparing to 2019. The Company plans on strengthen finance and business through optimization of internal operation management.

(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, productivity of employees, and achievement rates of R&D projects. The Company manages peer competitions and comprehends the dynamics of industry through excellent data analysis.

3. Cash Flows

(1) Variance Analysis of Cash Flows in 2019:

(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
1,862,586	1,993,828	721,935	2,584,521	-	-

Analysis of variance:

A. Net cash generated by operating activities: Mainly due to the cash collections of accounts receivable.

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

C. Net cash used in financing activities: Mainly due to bank loan repayments and cash dividend distribution.

(2) Liquidity Analysis for 2020:

Cash, Beginning of Year	Net Cash Provided by Operating Activities	Net Increase in Cash	Cash, End of Year	Remedies for Cash Shortage	
				Investment Plans	Financing Plans
2,584,521	1,464,237	265,702	2,850,223	-	-

Analysis: We do not expect any cash shortage in 2020.

4. Major Capital Expenditures in 2019 and Their Impacts on the Company's Finance and Operation

On the consolidated basis, the Company paid NT$788 million for the acquisition of equipment in 2019. Capital expenditures were mostly paid with cash generated from operations and had no significant impact on the Company's finance and business.

5. Reinvestment Policies of 2019, Main Reasons for Investment Gains or Losses, Improvement Plans, and Investment Plans of 2020

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$139,902 thousand in the parent company only financial statements for the year ended December 31, 2019 due to the recognition of losses on disposal of inventories and equipment for the strategic adjustment in energy business. 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 2019 on the Company's profitability and associated action plans:

(In Thousands of New Taiwan Dollars)

Item	2019
Net Interest Income (Expense) (1)	(4,755)
Net Revenue (2)	7,583,654
Operating Income (3)	740,787
(1)/(2)	(0.06%)
(1)/(3)	(0.64%)

The Company incurred interest expense of NT$4,755 thousand in 2019, which was 0.06% and 0.64% of revenue and operating income, respectively. The decrease in percentages comparing to 2018 was caused by the Company's strategy to reduce high interest rate loans denominated in U.S. dollars and factoring. 1% increase in the market interest rate would increase the Company's annual interest expense by NT$9,590 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 2019 on the Company's profitability and associated action plans:

(In Thousands of New Taiwan Dollars)

Item	2019
Net Foreign Exchange Gain (Loss) (1)	(106,369)
Net Revenue (2)	7,583,654
Operating Income (3)	740,787
(1)/(2)	(1.40%)
(1)/(3)	(14.36%)

Foreign exchange loss amounted to NT$106,369 thousand in 2019, which was 1.40% and 14.36% of 2019 revenue and operating income, respectively. The loss was mainly due to a depreciation in RMB against U.S. dollar and an appreciation of New Taiwan Dollar against U.S. dollar during the year.

The Company's revenue is mainly denominated in U.S. dollars and RMB and purchases of raw materials are mostly denominated in U.S. dollars. As foreign-currency revenues are greater than foreign-currency purchases, exchange rate risk is not completely covered by a natural hedge. Thus, exchange rates fluctuations in U.S. dollars and RMB would affect 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 2019 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 modified polyimide core technology used for Sub-6 frequency as the foundation, we will move towards existing FPC applications through collaboration with downstream customers. We will also develop materials for high-frequency feedline.

(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) Single/double-sided FPC with LCP-based FCCL and Fluoro-based material FCCL for high-frequency mm-wave.

(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. (CL for fine circuits)

(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 copper from suppliers to develop fine-pitch FCCL.

(vi) Development of materials featuring heat dissipation.

(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.

Polymer materials which can endure 350℃ 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℃ 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.

(c) Research and development of display products: Based on our core technology in PI synthesis, we develop colorless PI varnish and amber PI varnish for new flexible display panels to replace the traditional glass substrates. Our goal is to develop products which can sustain high-temperature manufacturing process and possess excellent optical features. We also cooperate with reputable global transparent PI companies in the development of transparent PI display cover lens using our high-precision coating technology in hope to get a head start on the promising foldable display market.

B. Estimated expenses:

The Company would continue its efforts in research and development. The R&D expense is estimated to be NT$308,000 thousand in 2020, which is equivalent to 3.5% to 3.9% of the 2020 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 2019. Asia region is the Company’s major market and the percentage of sales in China remains relatively high. The Company has established plants at Nantong 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 2019.

(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 2019 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.

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 ISO27001 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 again in November 2019.

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. Through regular inspections conducted by the Intangible Assets Security Committee on every operational procedure, the Company strengthens or supplements measures against information risk and protect the Company's trade secrets from theft. In 2019 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.

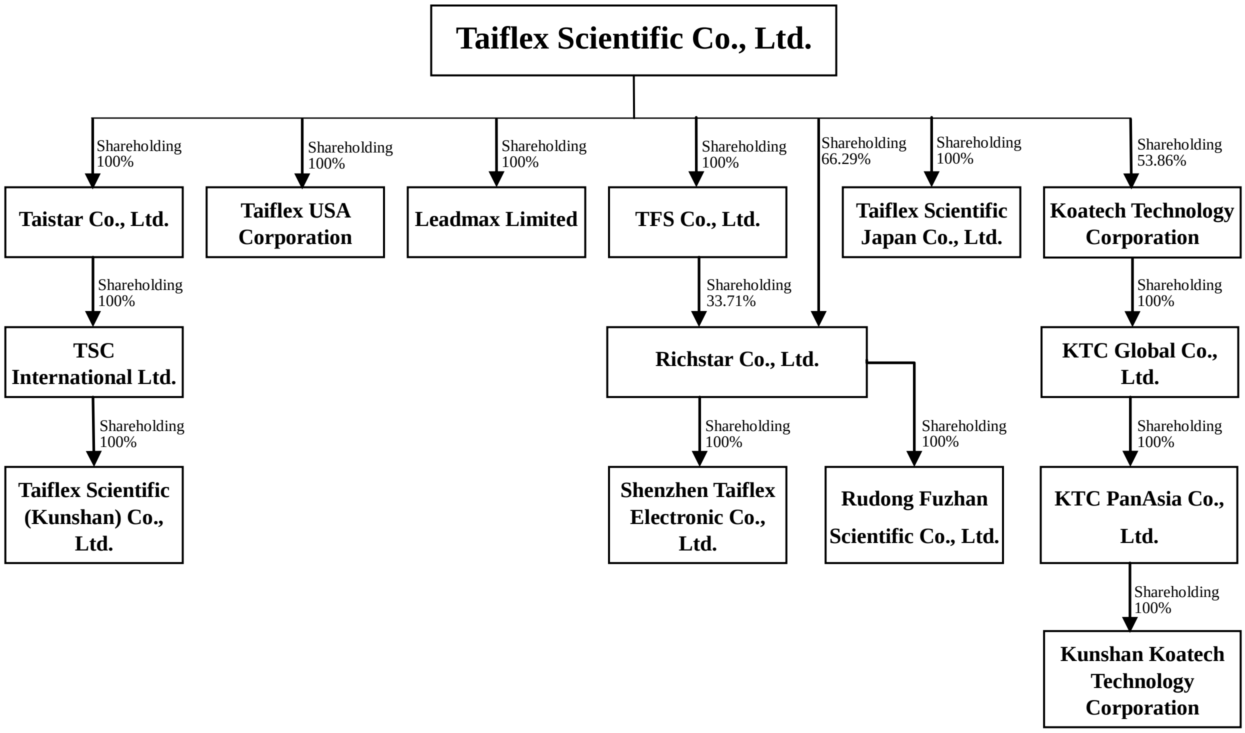
7. Other Significant Matters: None.

VIII. Special Notes

1. Affiliates

(1) Consolidated Business Report of the Affiliates

A. Chart of affiliates (as of December 31, 2019)



B. Basic information on affiliates

As of December 31, 2019 (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 321-2, No. 6, Yueshan 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	1,406,303	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	No. 88, Jinshan Rd., High-Tech Industrial Development Zone, Rudong County, Nantong City, Jiangsu Province, China	927,740	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, 2019 (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: Ta-Wen Sun	(Note)	100
	Director	TSC International Ltd. Representative: Zhi-Ming Yen		
		TSC International Ltd. Representative: Qi-Yuan Pan		
		TSC International Ltd. Representative: Hao Li		
	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	Taiflex Scientific Co., Ltd. Representative: Jiang-Zhi Zhao		
	Director	Taiflex Scientific Co., Ltd. Representative: Zong-Ru Shen		
	Director and President	Taiflex Scientific Co., Ltd. Representative: Jin-Cheng Zhang		
	Supervisor	Qi-Yuan Pan	-	-
	Supervisor	Mei-Xian Su	-	-
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	30,500,000	66.29
		TSC International Ltd. Representative: Ta-Wen Sun	15,510,000	33.71

Company	Title	Name or Representative	Shareholding	
			Shares	%
Shenzhen Taiflex Electronic Co., Ltd.	Chairperson	Richstar Co., Ltd. Representative: Zhi-Ming Yen	(Note)	100
	Director	Richstar Co., Ltd. Representative: Zong-Han Jiang		
	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, 2019 (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	944,291	46	944,245	0	(7,097)	(155,743)	(7.14)
TSC International Ltd.	683,946	755,337	0	755,337	0	(10)	(149,997)	(7.09)
Taiflex Scientific (Kunshan) Co., Ltd.	767,141	976,269	221,020	755,246	94,610	(248,206)	(149,987)	N/A
Leadmax Limited	337	8,345	0	8,345	0	(2,606)	(2,474)	(247.40)
Koatech Technology Corporation	254,380	410,262	179,298	230,964	263,832	(25,549)	(26,993)	(1.06)
KTC Global Co., Ltd.	28,649	14,555	0	14,555	0	0	(298)	(0.31)
KTC PanAsia Co., Ltd.	28,500	14,541	0	14,541	0	0	(298)	(0.31)
Kunshan Koatech Technology Corporation	28,351	43,455	28,928	14,527	35,504	(298)	(298)	N/A

Company	Capital	Total Assets	Total Liabilities	Net Worth	Net Revenue	Operating Income (Loss)	Net Income (Loss)	Earnings per Share After-tax (NT$)
TFS Co., Ltd.	478,797	497,221	0	497,221	0	(117)	24,710	1.59
Richstar Co., Ltd.	1,406,303	1,474,598	0	1,474,598	0	(36)	55,884	1.21
Shenzhen Taiflex Electronic Co., Ltd.	479,160	2,240,329	1,691,379	548,948	2,501,636	45,414	26,870	N/A
Taiflex Scientific Japan Co., Ltd.	16,260	18,607	867	17,740	6,941	347	156	26.03
Rudong Fuzhan Scientific Co., Ltd.	927,740	1,024,630	99,075	925,551	0	(21,545)	29,049	N/A
Taiflex USA Corporation	8,820	10,326	813	9,513	12,016	914	871	870.99

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 2019 and as of the Date of this Annual Report: None.

3. The Company’s Shares Held or Disposed of by Subsidiaries in 2019 and as of the Date of this Annual Report: None.

4. Other Necessary Supplement: None.

IX. Any Events in 2019 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, 2019, 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 26, 2020

Independent Auditors' Report

To 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, 2019 and 2018; and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to consolidated financial statements (including summary on significant accounting policies).

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, 2019 and 2018, and its consolidated financial performance and 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, 2019 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 and cover layer amounted to NT$3,340,170 thousand and accounted for 31% of Taiflex Group's consolidated total assets as of December 31, 2019. 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, 2019, net inventories of flexible copper-clad laminate and cover layer amounted to NT$938,566 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 was adequate.

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

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 appropriate 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, 2019. 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, 2019 and 2018, which we had audited and issued an unqualified opinion.

Ernst & Young, Taiwan

February 26, 2020

TAIFLEX SCIENTIFIC COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2019	December 31, 2018
Current assets			
Cash and cash equivalents	4, 6(1)	$ 2,584,521	$ 1,862,586
Financial assets at fair value through profit or loss - current	4, 6(2)	38,131	36,438
Financial assets at amortized cost - current	4, 6(3)	49,000	-
Notes receivable, net	4, 6(4)	748,651	1,218,019
Accounts receivable, net	4, 6(5)	2,591,519	3,678,098
Other receivables		27,476	54,605
Inventories, net	4, 6(6)	938,566	1,464,307
Prepayments		127,932	85,594
Non-current assets held for sale	4, 6(7)	473,439	-
Other current assets	8	22,658	25,412
Total current assets		7,601,893	8,425,059
Non-current assets			
Financial assets at fair value through other comprehensive income - non-current	4, 6(8)	-	-
Investments accounted for under the equity method	4, 6(9)	49,470	51,470
Property, plant and equipment	4, 6(10)	2,993,090	3,020,888
Right-of-use assets	4, 6(23)	379,444	-
Intangible assets	4, 6(11,13)	127,107	114,708
Deferred income tax assets	4, 6(26)	205,308	157,314
Other non-current assets	4, 6(12)	17,669	172,451
Total non-current assets		3,772,088	3,516,831
Total assets		$ 11,373,981	$ 11,941,890

(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, 2019 and 2018
(In Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	December 31, 2019	December 31, 2018
Current liabilities			
Short-term loans	6(14)	$ 740,000	$ 1,362,054
Financial liabilities at fair value through profit or loss - current	4, 6(15)	344	2,656
Contract liabilities – current	4, 6(21)	1,084	2,372
Notes payable		358	65,772
Accounts payable		833,240	1,672,749
Other payables		555,656	640,267
Current income tax liabilities	4, 6(26)	135,929	194,512
Lease liabilities - current	4, 6(23)	15,744	-
Current portion of long-term loans	6(16)	11,009	12,258
Lease payable - current	6(17)	-	758
Other current liabilities		2,470	6,062
Total current liabilities		2,295,834	3,959,460
Non-current liabilities			
Long-term loans	6(16)	923,556	329,674
Deferred income tax liabilities	4, 6(26)	114,231	130,944
Lease liabilities – non-current	4, 6(23)	252,171	-
Lease payable – non-current	6(17)	-	1,685
Net defined benefit liabilities - non-current	4, 6(18)	219,550	138,423
Other non-current liabilities	4, 12	216,029	255
Total non-current liabilities		1,725,537	600,981
Total liabilities		4,021,371	4,560,441
Equity attributable to shareholders of the parent			
Capital	6(19)		
Common stock		2,091,197	2,091,197
Capital surplus	6(19)	1,342,759	1,446,639
Retained earnings			
Legal capital reserve		882,821	815,590
Special capital reserve		166,117	75,546
Unappropriated earnings		2,994,142	2,999,383
Total retained earnings		4,043,080	3,890,519
Others	4	(230,993)	(166,117)
Total equity attributable to shareholders of the parent		7,246,043	7,262,238
Non-controlling interests	4, 6(19)	106,567	119,211
Total equity		7,352,610	7,381,449
Total liabilities and equity		$ 11,373,981	$ 11,941,890

(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, 2019 and 2018
(In Thousands of New Taiwan Dollars)

	Notes	2019	2018
Net revenue	4, 6(21)	$ 7,583,654	$ 9,643,051
Cost of revenue	4, 6(6)	(5,844,516)	(7,650,007)
Gross profit		1,739,138	1,993,044
Operating expenses	4, 6(24)		
Sales and marketing expenses		(374,759)	(445,484)
General and administrative expenses		(361,941)	(450,461)
Research and development expenses		(284,486)	(264,278)
Reversal of expected credit loss	6(22)	22,835	136,144
Total operating expenses		(998,351)	(1,024,079)
Operating income		740,787	968,965
Non-operating income and expenses	6(25)		
Other income		230,986	40,828
Other gains and losses		(142,015)	(111,328)
Finance costs		(19,716)	(49,589)
Share of profit or loss of associates accounted for under the equity method	4, 6(9)	(17,588)	19,666
Total non-operating income and expenses		51,667	(100,423)
Income before income tax		792,454	868,542
Income tax expense	4, 6(26)	(174,172)	(189,068)
Net income of continuing operations		618,282	679,474
Net income		618,282	679,474
Other comprehensive income (loss)	6(25)		
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit plan		(74,851)	55,488
Income tax related to components of other comprehensive income that will not be reclassified subsequently		14,970	(11,098)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(81,400)	(86,077)
Income tax related to components of other comprehensive income that may be reclassified subsequently to profit or loss		16,279	19,368
Total other comprehensive income, net of tax		(125,002)	(22,319)
Total comprehensive income		$ 493,280	$ 657,155
Net income attributable to:	4, 6(27)		
Shareholders of the parent		$ 630,681	$ 672,309
Non-controlling interests		(12,399)	7,165
		$ 618,282	$ 679,474
Total comprehensive income (loss) attributable to:			
Shareholders of the parent		$ 505,924	$ 650,156
Non-controlling interests		(12,644)	6,999
		$ 493,280	$ 657,155
Earnings per share (NT$)	4, 6(27)		
Earnings per share - basic		$ 3.02	$ 3.22
Earnings per share - diluted		$ 3.00	$ 3.18

(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, 2019 and 2018
(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	Total	Non-Controlling Interests	Total Equity
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
Balance as of January 1, 2019	$ 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
Appropriation and distribution of 2018 earnings											
Legal capital reserve				67,231		(67,231)			-		-
Special capital reserve					90,571	(90,571)			-		
Cash dividends for common stocks						(418,239)			(418,239)		(418,239)
Changes in other capital surplus											
Changes in associates accounted for under the equity method			680						680		680
Cash dividends from capital surplus			(104,560)						(104,560)		(104,560)
Net income for the year ended December 31, 2019						630,681			630,681	(12,399)	618,282
Other comprehensive income (loss) for the year ended December 31, 2019						(59,881)	(64,876)		(124,757)	(245)	(125,002)
Total comprehensive income	-	-	-	-	-	570,800	(64,876)	-	505,924	(12,644)	493,280
Balance as of December 31, 2019	$ 2,091,197	$ -	$1,342,759	$ 882,821	$ 166,117	$2,994,142	$ (224,393)	$ (6,600)	$ 7,246,043	$ 106,567	$ 7,352,610

(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, 2019 and 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
Cash flows from operating activities:		
Income before income tax	$ 792,454	$ 868,542
Adjustments:		
Non-cash income and expense items:		
Depreciation	325,804	291,462
Amortization	23,972	28,815
Reversal of expected credit loss	(22,835)	(136,144)
Net gain on financial assets (liabilities) at fair value through profit or loss	(12,226)	(7,215)
Interest expense	19,716	49,589
Interest income	(14,961)	(20,534)
Share of loss (profit) of associates accounted for under the equity method	17,588	(19,666)
Loss (gain) on disposal of property, plant and equipment	27,217	(856)
Gain on liquidation of subsidiaries	-	(35,761)
Impairment loss for non-financial assets	18,005	-
Gain on reversal of impairment loss for non-financial assets	-	(31,518)
Others	(1,939)	79,259
Changes in operating assets and liabilities:		
Increase in financial assets mandatorily at fair value through profit or loss	8,221	(22,455)
Decrease in notes receivable	469,368	809,759
Decrease (increase) in accounts receivable	1,108,045	(792,315)
Decrease in other receivables	25,837	2,428
Decrease in inventories	527,966	82,720
(Increase) decrease in prepayments	(45,315)	10,036
Decrease in other current assets	2,372	1,393
Increase in other non-current assets	1,833	(888)
Decrease in contract liabilities	(1,288)	(199)
(Decrease) increase in notes payable	(65,414)	65,448
Decrease in accounts payable	(839,509)	(743,783)
Decrease in other payables	(108,648)	(10,391)
(Decrease) increase in other current liabilities	(3,592)	2,761
Increase in net defined benefit liabilities	6,276	9,787
Cash generated from operations	2,258,947	480,274
Interest received	16,253	19,366
Interest paid	(14,989)	(50,153)
Income tax paid	(266,383)	(175,367)
Net cash generated by operating activities	1,993,828	274,120

(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, 2019 and 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
Cash flows from investing activities:		
Acquisition of financial assets at amortized cost	$ (49,000)	$ -
Acquisition of investments accounted for under the equity method	(16,182)	-
Acquisition of property, plant and equipment	(787,792)	(464,333)
Disposal of property, plant and equipment	18,310	1,661
Decrease in refundable deposits	390	7,221
Acquisition of intangible assets	(25,839)	(10,448)
Increase in other current assets - other financial assets - current	-	(59)
Decrease in other current assets - other financial assets - current	382	-
Increase in other non-current assets	-	(119,009)
Dividends received	1,444	-
Net cash used in investing activities	(858,287)	(584,967)
Cash flows from financing activities:		
Increase in short-term loans	-	705,458
Decrease in short-term loans	(622,054)	-
Increase in long-term loans	592,633	86,236
Increase in guarantee deposits received	215,774	-
Decrease in lease payable	-	(1,036)
Repayment of lease principal	(22,827)	-
Distribution of cash dividends	(522,799)	(522,799)
Exercise of employee stock options	-	9,583
Net cash (used in) generated by financing activities	(359,273)	277,442
Effect of exchange rate changes on cash and cash equivalents	(54,333)	(38,285)
Net increase (decrease) in cash and cash equivalents	721,935	(71,690)
Cash and cash equivalents at beginning of period	1,862,586	1,934,276
Cash and cash equivalents at end of period	$ 2,584,521	$ 1,862,586

(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, 2019 and 2018
(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 Taipei Exchange 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, 2019 and 2018 were approved and authorized for issue in the Board of Directors' meeting on February 26, 2020.

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, 2019. 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 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 Group adopts the transitional provisions of IFRS 16 and the initial application date is January 1, 2019. The impact of first-time adoption of IFRS 16 is as follows:

(a) Please refer to Note 4 for accounting policies adopted by the Group after and prior to January 1, 2019.

(b) Definition of leases: The Group elects not to reevaluate whether contracts are (or contain) leases on 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. In other words, the Group applies IFRS 16 only to contracts entered into (or amended) after January 1, 2019 to determine whether they are (or contain) leases. Comparing to IAS 17, IFRS 16 stipulates that if a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the contract is defined as (or contains) a lease. The adoption of new definition for leases will not have a significant effect on the Group's assessment of whether the contracts are (or contain) leases in most circumstances.

(c) The Group being 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 lease previously

The Group measures 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 recognizes 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 sheets immediately before January 1, 2019).

The Group’s right-of-use assets and lease liabilities increased by NT$271,336 thousand and NT$271,336 thousand, respectively, on January 1, 2019.

Also, for operating leases under IAS 17 where rents are paid in full, the long-term prepaid rents of NT$140,351 thousand were reclassified to right-of-use assets on January 1, 2019.

The Group adopts the transitional provisions of IFRS 16 and applies the following practical expedients to leases previously classified as operating leases on a lease-by-lease basis:

(i) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

(ii) Use the assessment of whether the leases are onerous immediately before January 1, 2019 as an alternative for impairment assessment

(iii) Elect to account for leases terminating within 12 months from January 1, 2019 as short-term leases.

(iv) Initial direct costs are excluded from the measurement of right-of-use assets as of January 1, 2019.

(v) Use hindsight on matters such as determining the lease term (if the contract contains options to extend or terminate the lease).

ii. Leases classified as finance lease previously

For leases classified as finance leases under IAS 17, the Group reclassified 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, on January 1, 2019.

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

iii. Please refer to Notes 4 and 6 for additional disclosures on lessee as required under IFRS 16.

iv. The impact of first-time adoption of IFRS 16 on financial statements as of January 1, 2019 was as follows:

(i) The weighted average incremental borrowing rate of lessee applied to lease liabilities on the balance sheet as of January 1, 2019 was 1.797% ~ 3.500%.

(ii) Explanations on the difference between operating lease commitments disclosed under IAS 17 as of December 31, 2018, discounted using the incremental borrowing rate as of January 1, 2019, and lease liabilities recognized on the balance sheet as of January 1, 2019 were as follows:

Operating lease commitments disclosed under IAS 17 as of December 31, 2018	$ 84,490
Discounted using the incremental borrowing rate as of January 1, 2019	74,425
Add: Lease payable as of December 31, 2018	2,443
Add: Adjustments as it is reasonably certain that the option to extend and to terminate a lease will be exercised	196,911
Lease liabilities as of January 1, 2019	$ 273,779

(d) No adjustments are performed for the Group being a lessor. Please refer to Notes 4 and 6 for additional disclosures on lessor.

(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 or Amended Standards or Interpretations	Effective Date
IFRS 3	Definition of a Business	January 1, 2020
IAS 1 and IAS 8	Definition of Material	January 1, 2020
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	January 1, 2020

A. 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 material, and narrowing the definitions of a business and outputs.

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

Information is considered material if it can reasonably be 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 and/or magnitude of information. Enterprises would determine whether the information is material based on the financial statements as a whole.

C. Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The amendments incorporate several exceptions for hedging relationship directly affected by the interest rate benchmark reform. Hedging relationship is deemed to be directly affected when uncertainties concerning the timing and amount of benchmark-based cash flows of the hedged item or hedging instruments arise due to the interest rate benchmark reform. Therefore, exceptions shall be applied to all hedging relationship directly affected by the interest rate benchmark reform.

The amendments include:

(a) Highly probable requirement

When assessing whether a prospective transaction is highly probable, an entity shall assume the interest rate on which the hedged cash flows are based would not be changed by the interest rate benchmark reform.

(b) Prospective assessment

When carrying out the prospective assessment, an entity shall assume the basis of hedged item, hedged risk and/or hedging instrument would not be changed by the interest rate benchmark reform.

(c) Retrospective assessment of IAS 39

For hedging relationship directly affected by the interest rate benchmark reform, an entity does not have to carry out the retrospective assessment under IAS 39 (i.e. assessment on whether the actual result of hedging falls between 80% to 125%).

(d) Risk component identified separately

For the hedging of a non-contractually specified benchmark component of interest rate risk, an entity only has to apply the separately identifiable requirement at the beginning of a hedging relationship.

The amendments also include rules for ceasing to apply the exceptions and disclosure requirements associated with these amendments.

The abovementioned new, revised and amended standards or interpretations are issued by IASB and endorsed by FSC to take effect for annual periods beginning on January 1, 2020. The adoption of these new, revised and amended standards and interpretations will not have a significant effect on the Group.

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

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

No.	Projects of New or 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
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2022

Items with potential effects on the Group's financial statements due to the adoption of above standards or interpretations, which are issued by IASB but not yet endorsed by FSC, in the 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 over 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 over a subsidiary. The amendments place restrictions on the above-mentioned rules of IAS 28. The gains or losses from the sale or contribution of assets defined as a business under IFRS 3 shall be recognized in full.

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. Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments aim at paragraphs 69 to 76 of IAS 1 "Presentation of Financial Statements" where liabilities are classified as current or non-current.

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, 2019 and 2018 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 measured at fair value.

(3) Basis of consolidation

Preparation principle of consolidated financial statements

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

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

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

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

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

A. the contractual arrangement with 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 for the period.

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Main Business	Percentage of Ownership	
			2019.12.31	2018.12.31
The Company	Taistar Co., Ltd. (Taistar)	Investment holding	100.00%	100.00%
The Company	Leadmax Ltd. (Leadmax)	Trading of electronic materials	100.00%	100.00%
The Company	Koatech Technology Corporation (Koatech)	Manufacturing and selling of electronic materials and components	53.86%	53.86%
The Company	TFS Co., Ltd. (TFS)	Investment holding	100.00%	100.00%
The Company	Taiflex Scientific Japan Co., Ltd. (Japan Taiflex)	Trading 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%	100.00%
The Company	Richstar Co., Ltd. (Richstar)	Investment holding	66.29%	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)	— (Note)
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	33.71%	46.99%
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%	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%

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 of 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 transaction dates. 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” 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 three 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” 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

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

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 or 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 gains or losses 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 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.

(d) for lease receivables arising from transactions within the scope of IFRS 16, 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 financial assets or liabilities for hedging.

Derivative instruments are initially recognized at fair value on the dates on which derivative contracts are 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. 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 profit or loss or equity.

Where the host contracts are non-financial assets or non-financial liabilities, 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 measured 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, labor and manufacturing overheads allocated 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) Non-current assets held for sale

For non-current assets (or disposal groups) to be classified as held for sale, they shall be available for immediate sale in their current condition subject only to usual terms and business practice, and the sale is highly probable to take place within one year. They are measured at the lower of carrying amount and fair value less costs to sell.

Once the property, plant and equipment and intangible assets are classified as held for sale, they are no longer depreciated nor amortized.

(11) 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 an associate is carried in the balance sheet at cost and adjusted thereafter for the Group’s share of post-acquisition change in the net assets of the associate. After the carrying amount and other interests of the investment 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 and the carrying value of the associate and recognizes the amount in the “share of profit or loss of associates accounted for 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.

(12) 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, the 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.

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

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
Right-of-use assets (Note)	2 to 50 years
Miscellaneous equipment	5 to 10 years

Note: The Group adopts IFRS 16 on January 1, 2019 and reclassifies lease assets to right-of-use assets.

An item or any significant part of property, plant and equipment 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.

(13) 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.

(14) Leases

The accounting treatment from January 1, 2019 is as follows:

Based on the establishment dates of contracts, the Group assesses whether the contracts are (or contain) leases. If a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the contract is defined as a lease or contains a lease. To assess if a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether the following two conditions are met during the period of use:

A. Having the right to obtain substantially all of the economic benefits from the use of identified asset; and

B. Having the right to direct the use of identified asset.

The Group elects not to reevaluate whether contracts are (or contain) leases on 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.

For contracts that are (or contain) leases, the Group accounts for each lease component as a lease and handles separately from the non-lease components within the contracts. For contracts that contain one lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contracts to the lease component on the basis of the relative stand-alone price of each lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone prices of lease and non-lease components are determined based on the prices that the lessor (or a similar supplier) would charge for those components (or similar components) separately. If an observable stand-alone price is not readily available, the Group would maximize the use of observable information to estimate the stand-alone price.

The Group being a lessee

Except for short-term leases or leases of low value assets, when the Group is a lessee to lease contracts, it recognizes right-of-use assets and lease liabilities for all leases.

On the commencement date, the Group measures lease liabilities by the present value of outstanding lease payments. If the interest rate implicit in the lease can be readily determined, lease payments would be discounted using this rate. If the rate cannot be readily determined, the Group would use the incremental borrowing rate of lessee. On the commencement date, lease payments for lease liabilities include the following outstanding payments which are related to the right to use the underlying asset during the lease term:

A. Fixed payments (including in-substance fixed payments), less any lease incentives receivable;

B. Variable lease payments that are determined by an index or a rate (adopting the initial measurement of the index or rate on the commencement date);

C. Amounts expected to be paid by the lessee under residual value guarantees;

D. The exercise price of a purchase option if the Group is reasonably certain to exercise the option; and

E. Penalties to be paid for terminating the lease, if the lease term reflects that the lessee will exercise the option to terminate the lease.

After the commencement date, the Group measures lease liabilities on amortized cost basis. It increases the carrying amount of lease liabilities via the effective interest method to reflect the interest of lease liabilities. The carrying amount of lease liabilities is reduced when lease payments are made.

The Group measures right-of-use assets at cost on the commencement date. The costs of right-of-use assets include:

A. The initial measurement amount of lease liabilities;

B. All lease payments made on or before the commencement date, less any lease incentives received;

C. Any initial direct costs incurred by the lessee; and

D. The estimated costs for the lessee to dismantle and remove the underlying asset and restore its original location or to restore the underlying asset to the conditions required by the lease terms and conditions.

The right-of-use assets are subsequently measured at cost less accumulated depreciation and accumulated impairment losses, i.e. the cost model is adopted to measure the right-of-use assets.

If the underlying assets' ownership is transferred to the Group at the end of lease term, or the cost of right-of-use assets reflects the fact that the Group will exercise the purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of underlying assets' useful life. Otherwise, the Group depreciates the right-of-use assets from the commencement date to the end of underlying assets' useful life or the end of lease term, whichever is earlier.

The Group applies IAS 36 "Impairment of Assets" to determine whether the right-of-use assets are impaired and account for any impairment loss identified.

Except for short-term leases or leases of low value assets, the Group recognizes right-of-use assets and lease liabilities on the balance sheets and lease-related depreciation and interest expenses on the statements of comprehensive income.

For short-term leases or leases of low value assets, the Group elects to adopt the straight-line basis or another systematic basis to recognize the lease payments associated with the leases as expenses during the lease terms.

The Group being a lessor

On the date the contract is established, the Group classifies each lease as an operating or finance lease. If the lease transfers substantially all of the risks and rewards incidental to the underlying asset's ownership, it is classified as a finance lease; otherwise, it is classified as an operating lease. On the commencement date, the Group recognizes its assets under finance leases at net investment amounts on the balance sheet as finance lease receivable.

For contracts that contain lease and non-lease components, the Group adopts IFRS 15 to allocate the considerations of contracts.

The Group adopts the straight-line basis or another systematic basis to recognize lease payments from operating leases as rent income. Variable lease payments under operating leases that are not determined by an index or a rate are recognized as rent income as incurred.

(15) 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 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 method of 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.

In-process intangible assets - research and development costs

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.

(16) 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.

(17) 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.

(18) Revenue recognition

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 180 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.

(19) 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.

(20) 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.

(21) Income tax

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

<u>Current income tax</u>

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

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

<u>Deferred income tax</u>

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

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

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

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

Deferred income tax assets are recognized for all deductible temporary differences, 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, 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.

(22) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, identifiable assets acquired and liabilities assumed are measured at fair value as at the acquisition date. For each business combination, the acquirer measures NCI 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 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 the consideration 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

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(22) 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(6) for details.

(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(18).

(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(20).

(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 unused tax losses, carryforward of 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 which have not been recognized by the Group as of December 31, 2019 are disclosed in Note 6(26).

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

6. Details of Significant Accounts

(1) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand and petty cash	$ 702	$ 688
Bank deposits	2,583,819	1,861,898
Total	$ 2,584,521	$ 1,862,586

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

	December 31, 2019	December 31, 2018
Mandatorily at fair value through profit or loss:		
Derivative instruments not designated in a hedging relationship		
- Forward foreign exchange contracts	$ 3,150	$ 13,659
- Cross-currency swap contracts	—	2,358
Stocks	34,981	20,421
Total	$ 38,131	$ 36,438

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

(3) Financial assets at amortized cost – current

	December 31, 2019	December 31, 2018
Time deposits – current	$ 49,000	$ —

Some financial assets were classified as financial assets at amortized cost by the Group and they were not pledged. Please refer to Note 12 for information concerning credit risk.

(4) Notes receivable, net

	December 31, 2019	December 31, 2018
Notes receivable, net	$ 748,651	$ 1,218,019

The Group's notes receivables were not pledged.

The Group adopted IFRS 9 for impairment assessment. Please refer to Note 6(22) for details on loss allowance and Note 12 for information concerning credit risk.

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

(5) Accounts receivable, net

	December 31, 2019	December 31, 2018
Accounts receivable	$ 2,647,687	$ 3,755,856
Less: loss allowance	(56,168)	(77,758)
Accounts receivable, net	$ 2,591,519	$ 3,678,098

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

B. The credit terms of accounts receivables are generally set at 60 to 180 days from the end of month. The gross carrying amounts were NT$2,647,687 thousand and NT$3,755,856 thousand as of December 31, 2019 and 2018, respectively. Please refer to Note 6(22) for loss allowance for the years ended December 31, 2019 and 2018 and Note 12 for credit risk.

(6) Inventories, net

	December 31, 2019	December 31, 2018
Raw materials	$ 257,685	$ 572,527
Inventories in transit	46,876	81,199
Supplies	6,777	8,568
Work in process	66,861	52,921
Finished goods	322,585	426,139
Merchandise	237,782	322,953
Total	$ 938,566	$ 1,464,307

The Group recognized operating costs associated with inventories of NT$5,844,516 thousand and NT$7,650,007 thousand for the years ended December 31, 2019 and 2018, respectively. 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$23,364 thousand and NT$238 thousand for the years ended December 31, 2019 and 2018, respectively.

The aforementioned inventories were not pledged.

(7) Non-current assets held for sale

	December 31, 2019
Non-current assets held for sale	
Property, plant and equipment	$ 447,114
Right-of-use assets	18,545
Other non-current assets	7,780
Total	$ 473,439

The Company resolved to sold the right-of use assets, i.e. land, property, plant and equipment, and other non-current assets, of its subsidiary, Taiflex Scientific (Kunshan) Co., Ltd., to a non-related party, the Kunshan Plant of Flexium Interconnect, Inc., in the Board of Directors' meeting on December 12, 2019. As the sales proceeds exceeded the carrying amount of net assets, there was no impairment loss to be recognized when classifying those assets as non-current assets held for sale. As of December 31, 2019, the ownership of those assets was pending to be transferred; thus, they were classified as non-current assets held for sale.

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

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

	December 31, 2019	December 31, 2018
Equity instrument investments at fair value through other comprehensive income – non-current:		
Non-publicly traded stocks	$ —	$ —

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

(9) Investments accounted for under the equity method

	December 31, 2019		December 31, 2018	
Investee	Amount	Percentage of Ownership	Amount	Percentage of Ownership
Investments in associates:				
Innovision FlexTech Corp.	$ 36,218	15.07%	$ 51,470	15.07%
Geckos Technology Corp.	13,252	31.24%	—	
Total	$ 49,470		$ 51,470	

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

A. The shares of profit or loss of associates accounted for under the equity method for the years ended December 31, 2019 and 2018 were as follows:

	Years Ended December 31	
Investee	2019	2018
Innovision FlexTech Corp.	$ (13,848)	$ 19,666
Geckos Technology Corp.	(3,740)	—
Total	$ (17,588)	$ 19,666

B. The Group accounted for Innovision FlexTech Corp. (Innovision) using the equity method as it had significant influence over the investee through ownership and representation on Innovision's board of directors.

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

	December 31, 2019	December 31, 2018
Total assets	$ 538,417	$ 471,150
Total liabilities	$ 274,106	$ 129,608

	Years Ended December 31	
	2019	2018
Revenue	$ 151,006	$ 333,264
Net (loss) income	$ (108,775)	$ 72,099

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

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, which took into account the recent financing activities of the investees, the technology development status, companies with similar attributes, market conditions and other economic indicators. This was a level 3 fair value measurement.

(10) Property, plant and equipment

	December 31, 2019	December 31, 2018 (Note)
Owner-occupied property, plant and equipment	$ 2,993,090	

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

A. Owner-occupied property, plant and equipment (subject to IFRS 16)

	As of January 1, 2019	Additions	Disposals	Reclassification	Impairment Loss	Effect of Exchange Rate Changes	As of December 31, 2019
Cost							
Land	$ 100,843	$ −	$ −	$ −	$ −	$ −	$ 100,843
Buildings	1,692,479	7,353	−	(425,456)	−	(16,946)	1,257,430
Machinery and equipment	2,711,297	108,107	(63,686)	(40,432)	−	(14,231)	2,701,055
Hydropower equipment	485,254	3,895	(69,895)	(31,078)	−	(4,914)	383,262
Testing equipment	296,469	15,269	(7,326)	48,613	−	(878)	352,147
Miscellaneous equipment	380,600	7,281	(45,018)	14,705	−	(2,717)	354,851
Total	$ 5,666,942	$ 141,905	$ (185,925)	$ (433,648)	$ −	$ (39,686)	$ 5,149,588
Accumulated depreciation and impairment							
Buildings	$ 538,473	$ 73,038	$ −	$ (187,296)	$ −	$ (6,846)	$ 417,369
Machinery and equipment	1,787,283	164,540	(38,431)	(124,537)	18,005	(11,097)	1,795,763
Hydropower equipment	298,923	19,064	(53,128)	(32,590)	−	(3,382)	228,887
Testing equipment	145,408	28,751	(6,386)	−	−	(634)	167,139
Miscellaneous equipment	289,430	18,093	(42,453)	(70)	−	(2,287)	262,713
Total	$ 3,059,517	$ 303,486	$ (140,398)	$ (344,493)	$ 18,005	$ (24,246)	$ 2,871,871
Construction in progress and equipment awaiting inspection	411,218	670,816	−	(361,576)	−	(5,085)	715,373
Net	$ 3,018,643						$ 2,993,090

B. Property, plant and equipment (prior to the adoption of IFRS 16)

	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	−	81,256	−	(3,099)	485,254

(Continued)

(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
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)	$ 522,656	$ —	$ (25,426)	$ 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

(Concluded)

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

(11) Intangible assets

	December 31, 2019	December 31, 2018
Trademarks	$ 312	$ 354
Patents	8,284	6,848
Software cost	48,730	37,725
Goodwill	69,781	69,781
Total	$ 127,107	$ 114,708

	As of January 1, 2019	Additions	Reclassification	Effect of Exchange Rate Changes	As of December 31, 2019
Cost					
Trademarks	$ 672	$ 19	$ —	$ —	$ 691
Patents	45,022	2,314	—	—	47,336
Software cost	138,319	23,506	3,441	28	165,294
Goodwill	69,781	—	—	—	69,781
Total	$ 253,794	$ 25,839	$ 3,441	$ 28	$ 283,102
Accumulated amortization and impairment					
Trademarks	$ 318	$ 61	$ —	$ —	$ 379
Patents	38,174	878	—	—	39,052
Software cost	100,594	15,936	—	34	116,564
Total	139,086	$ 16,875	$ —	$ 34	155,995
Net	$ 114,708				$ 127,107

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

	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

(12) Other non-current assets

	December 31, 2019	December 31, 2018
Long-term prepaid rents (Land use rights)	－ (Note)	$ 137,374
Refundable deposits	$ 16,489	16,879
Other non-current assets - other	1,180	18,198
Total	$ 17,669	$ 172,451

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

(13) Impairment testing of goodwill

Goodwill acquired through business combinations was allocated to each of the cash generating unit (CGUs), which were expected to benefit from synergies. Impairment evaluation on 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 the 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 uses the pre-tax discount rate to reflect the specific risk in the operating segment.

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

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.

(14) Short-term loans

	December 31, 2019	December 31, 2018
Unsecured bank loans	$ 740,000	$ 1,362,054

The interest rate ranges of loans were 0.76% to 1.80% and 0.74% to 3.50% and the unused short-term credit facilities amounted to NT$2,726,471 thousand and NT$3,752,222 thousand as of December 31, 2019 and 2018, respectively.

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

	December 31, 2019	December 31, 2018
Held for trading:		
Derivative financial instruments not designated in a hedging relationship		
- Forward foreign exchange contracts	$ 278	$ 2,471
- Foreign exchange swap contracts	66	185
Total	$ 344	$ 2,656

(16) Long-term loans

	December 31, 2019	December 31, 2018
Secured loans	$ 34,565	$ 46,932
Revolving loans	900,000	295,000
Syndicated loans	—	—
Total	934,565	341,932
Less: current portion	(11,009)	(12,258)
Less: unamortized syndicated loan fee	—	—
Net	$ 923,556	$ 329,674

A. The interest rate ranges of loans were 0.83% to 1.79% and 0.88% to 1.97% as of December 31, 2019 and 2018, 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 loan to NT$1.5 billion or the equivalent in U.S. dollars in July 2017.) The contract term was five years from the initial drawdown date, i.e. June 2016 to June 2021 and the credit term of the agreement was mid-term loans - current. During the loan term, the Group was 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.

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

(17) Lease payable

Some equipment of the Group was held under finance leases 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, 2019 (Note)	December 31, 2018
Total minimum lease payments		
Less than 1 year		$ 959
1 to 5 years (excluding)		1,730
Subtotal		2,689
Less: Future financial expense		(246)
Present value of minimum lease payments		$ 2,443
Present value of minimum lease payments		
Less than 1 year		$ 758
1 to 5 years (excluding)		1,685
Total		$ 2,443

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

(18) Post-employment benefit plans

A. Defined contribution plan

Expenses under the defined contribution plan for the years ended December 31, 2019 and 2018 were NT$25,948 thousand and NT$26,303 thousand, respectively.

B. Defined benefit plan

Expenses under the defined benefit plan were as follows:

	Years Ended December 31	
Financial Statement Account	2019	2018
Operating costs	$ 3,840	$ 5,232
Sales and marketing expenses	420	598
General and administrative expenses	2,258	3,437
Research and development expenses	2,539	3,415
Total	$ 9,057	$ 12,682

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

	Years Ended December 31	
	2019	2018
Beginning balance	$ 45,521	$ 101,009
Actuarial gain or loss	74,851	(55,488)
Ending balance	$ 120,372	$ 45,521

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

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

	Years Ended December 31	
	2019	2018
Present value of defined benefit obligation	$ 243,665	$ 172,041
Fair value of plan assets	(24,115)	(33,618)
Funded status	219,550	138,423
Net defined benefit liability	$ 219,550	$ 138,423

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

	Years Ended December 31	
	2019	2018
Balance, beginning of year	$ 172,041	$ 213,669
Current service cost	7,148	9,644
Interest cost	2,254	3,419
Actuarial gain or loss	75,872	(54,691)
Benefits paid	(13,650)	—
Balance, end of year	$ 243,665	$ 172,041

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

	Years Ended December 31	
	2019	2018
Balance, beginning of year	$ 33,618	$ 29,545
Return on plan assets	440	472
Contributions from employer	2,686	2,804
Actuarial gain or loss	1,021	797
Benefits paid	(13,650)	—
Balance, end of year	$ 24,115	$ 33,618

G. As of December 31, 2019, the Company expects to make contributions of NT$9,861 thousand to the defined benefit plan in the following 12 months.

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, 2019	December 31, 2018
Cash	100%	100%

The Company’s actual returns on plan assets were NT$1,462 thousand and NT$1,269 thousand for the years ended December 31, 2019 and 2018, respectively.

The expected rate of return on plan assets is determined based on historical trend and analysts’ expectations 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.

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

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

	December 31, 2019	December 31, 2018
Discount rate	0.85%	1.31%
Expected rate of return on plan assets	0.85%	1.31%
Expected rate of salary increases	5.00%	3.00%

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

	Years Ended December 31			
	2019		2018	
	0.5% Increase	0.5% Decrease	0.5% Increase	0.5% Decrease
Effect on the aggregate current service cost and interest cost	$ –	$ (70)	$ (205)	$ 131
Effect on the present value of defined benefit obligation	(21,049)	23,343	(14,613)	16,194

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

	Years Ended December 31	
	2019	2018
Present value of defined benefit obligation, ending balance	$ 243,665	$ 172,041
Fair value of plan assets, ending balance	(24,115)	(33,618)
Deficit of plan, ending balance	$ 219,550	$ 138,423
Experience adjustments on plan liabilities	$ (11,066)	$ (15,345)
Experience adjustments on plan assets	$ (1,021)	$ (797)

(19) Equity

A. Capital

(a) The Company's authorized capital was NT$3,000,000 thousand, 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 or bond with warrants), each at a par value of NT$10, as of December 31, 2019 and 2018.

(b) The Company's issued capital was NT$2,091,197 thousand, divided into 209,120 thousand shares, each at a par value of NT$10, as of December 31, 2019 and 2018.

B. Capital surplus

	December 31, 2019	December 31, 2018
Additional paid-in capital	$ 938,334	$ 1,042,894
Premium from merger	262,500	262,500
Donated assets	1,970	1,970
Treasury stock transactions	27,280	27,280
Others	112,675	111,995
Total	$ 1,342,759	$ 1,446,639

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. 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 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.

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

The reversal of special capital reserve set aside for the first-time adoption of IFRS to undistributed earnings due to the use, disposal or reclassification of related assets for the years ended December 31, 2019 and 2018 was as follows:

	Years Ended December 31	
	2019	2018
Beginning balance	$ 75,546	$ 102,158
Disposal of subsidiaries	−	(26,612)
Ending balance	$ 75,546	$ 75,546

Information about the appropriation of 2018 and 2017 earnings approved in the shareholders' meetings on May 29, 2019 and 2018, respectively, was as follows:

	Appropriation of Earnings		Dividend per Share (NT$)	
	2018	2017	2018	2017
Legal capital reserve	$ 67,231	$ 73,459	−	−
Special capital reserve	90,571	−	−	−
Cash dividends - common stocks	418,239	522,799	$ 2.00	$ 2.50

The Company's shareholders' meeting on May 29, 2019 approved to distribute NT$104,560 thousand from capital surplus to shareholders in the form of cash. Shareholders are entitled to receive NT$0.5 per share.

Please refer to Note 6(24) for information on the accrual basis and the amounts recognized for compensation to employees and remuneration to directors.

D. Non-controlling interests (NCI)

	Years Ended December 31	
	2019	2018
Beginning balance	$ 119,211	$ 112,212
Net (loss) income attributable to NCI	(12,399)	7,165
Other comprehensive income attributable to NCI:		
Exchange differences arising on translation of foreign operations	(245)	(166)
Ending balance	$ 106,567	$ 119,211

(20) Share-based payment plans

On February 25, 2010, the Company resolved at the Board of Directors' meeting to issue 2,355 units of employee stock options. 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 employee stock option plan for the year ended December 31, 2019 was NT$0 thousand.

There have been no cancellations or modifications to any of the employee stock option plans by December 31, 2019.

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

Stock options	Years Ended December 31			
	2019		2018	
	Quantity	Weighted Average Exercise Price per Share (NT$)	Quantity	Weighted Average Exercise Price per Share (NT$)
Outstanding at beginning of period	–	$ –	273	$ 35.10
Granted	–	–	–	–
Forfeited	–	–	–	–
Exercised	–	–	(273)	35.10
Expired	–	–	–	–
Outstanding at end of period	–	–	–	–
Exercisable at end of period	–	–	–	–

(21) Revenue

	Years Ended December 31	
	2019	2018
Sale of goods	$ 7,583,654	$ 9,643,051

A. Contract balances:

	Years Ended December 31	
Contract liabilities - current	2019	2018
Sale of goods	$ 1,084	$ 2,372

The decrease in the balance of contract liabilities was mostly due to the satisfaction of performance obligations in 2019, of which NT$2,370 thousand was from the beginning balance and recognized as revenue during this period.

(22) (Reversal) of expected credit loss

	Years Ended December 31	
	2019	2018
Operating expenses – Reversal of expected credit loss		
Accounts receivable	$ (20,169)	$ (136,144)
Other non-current assets	(2,666)	–
Total	$ (22,835)	$ (136,144)

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, 2019 was as follows:

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

Expected credit loss of accounts receivables

December 31, 2019

	Not Past Due (Note)	Past Due: Within 90 Days	Past Due: 91-180 Days	Past Due: Over 181 Days	Total
Gross carrying amount	$ 3,254,330	$ 87,768	$ 24,357	$ 29,883	$ 3,396,338
Loss ratio	0%~1%	3%~20%	20%~50%	50%~100%	
Lifetime expected credit losses	20,813	3,804	4,871	26,680	56,168
Subtotal	$ 3,233,517	$ 83,964	$ 19,486	$ 3,203	$ 3,340,170

December 31, 2018

	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 years ended December 31, 2019 and 2018 were as follows:

	Receivables	Other Non-current Assets	Total
Balance as of January 1, 2019	$ 77,758	$ 8,291	$ 86,049
Reversal in the current period	(20,169)	(2,666)	(22,835)
Write off	(123)	(1,524)	(1,647)
Effect of exchange rate changes	(1,298)	–	(1,298)
Balance as of December 31, 2019	$ 56,168	$ 4,101	$ 60,269

	Receivables	Other Non-current Assets	Total
Balance as of January 1, 2018 (according to IFRS 9)	$ 216,495	$ 8,291	$ 224,786
Reversal in the current period	(136,144)	–	(136,144)
Write off	(1,586)	–	(1,586)
Effect of exchange rate changes	(1,007)	–	(1,007)
Balance as of December 31, 2018	$ 77,758	$ 8,291	$ 86,049

(23) Leases

A. The Group being a lessee (subject to disclosures associated with IFRS 16)

The Group leased various assets, including property (land and buildings) and transportation equipment. The lease terms of those contracts ranged between 2 to 50 years.

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

The effects of leases on the financial status, financial performance and cash flows of the Group were as follows:

(a) Amounts recognized in the balance sheets

i. Right-of-use assets

The carrying amount of right-of-use assets

	December 31, 2019	December 31, 2018 (Note)
Land	$ 355,924	
Buildings	6,081	
Transportation equipment	17,439	
Total	$ 379,444	

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

The Group's right-of-use assets increased by NT$13,738 thousand for the year ended December 31, 2019.

ii. Lease liabilities

	December 31, 2019	December 31, 2018 (Note)
Current	$ 15,744	
Non-current	252,171	
Lease liabilities	$ 267,915	

Please refer to Note 6(25)C Finance costs for details on interest expenses of lease liabilities for the year ended December 31, 2019 and Note 12(5) Liquidity risk management for a maturity analysis on lease liabilities as of December 31, 2019.

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

(b) Amounts recognized in the statements of comprehensive income

Depreciation of right-of-use assets

	Years Ended December 31	
	2019	2018 (Note)
Land	$ 9,044	
Buildings	5,400	
Transportation equipment	7,874	
Total	$ 22,318	

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

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

(c) Lessee's income and expenses associated with leasing activities

	Years Ended December 31	
	2019	2018 (Note)
Expense of short-term leases	$ 16,076	
Expense of leases of low value assets (excluding short-term leases of low value assets)	888	

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

(d) Lessee's cash outflows associated with leasing activities

The Group's cash outflows from leases amounted to NT$22,827 thousand for the year ended December 31, 2019.

(e) Other information associated with leasing activities

Options to extend or terminate the lease

Some of the Group's property leases contain options to extend or terminate the leases. When determining the lease term, it shall be the non-cancellable period where the lessee has the right to use the underlying asset, together with periods covered by an option to extend the lease where the Group is reasonably certain to exercise that option and periods covered by an option to terminate the lease where the Group is reasonably certain not to exercise that option. The use of those options can maximize the flexibility in managing the contracts. The majority of options to extend or terminate the leases can only be exercised by the Group. The Group would reassess the lease terms when a significant event or a significant change in circumstances occurs (that is within the control of the lessee and affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term) after the commencement date.

B. The Group being a lessee – operating leases (subject to disclosures associated with IAS 17)

The Group entered into commercial property lease agreements with average duration between 1 to 10 years. Some lease agreements had renewal options.

Based on the non-cancellable operating lease agreements, total future minimum lease payments as of December 31, 2018 were as follows:

	December 31, 2018
Less than 1 year	$ 23,793
More than 1 year but less than 5 years	42,216
More than 5 years	14,481
Total	$ 84,490

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

Expenses recognized under operating leases were as follows:

	Year Ended December 31, 2018
Minimum lease payments	$ 38,603

The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

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

Function / Nature	Years Ended December 31					
	2019			2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	367,567	360,207	727,774	449,960	440,003	889,963
Labor and health insurance	38,117	28,333	66,450	45,197	28,222	73,419
Pension	20,352	14,653	35,005	22,052	16,933	38,985
Remuneration to directors	－	18,002	18,002	－	20,127	20,127
Other employee benefits expense	39,761	24,178	63,939	50,455	37,972	88,427
Depreciation	298,637	27,167	325,804	277,404	14,058	291,462
Amortization	8,575	15,397	23,972	11,214	17,601	28,815

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 at least 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.

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

Information on 2019 compensation to employees and remuneration to directors resolved in the Board of Directors' meeting on January 10, 2020 and 2018 compensation to employees and remuneration to directors reported in the shareholders' meeting on May 29, 2019 was as follows:

	Years Ended December 31	
	2019	2018
Compensation to employees	$ 64,632	$ 72,535
Remuneration to directors	17,673	19,834

The above-mentioned 2018 compensation to employees and remuneration to directors reported in the shareholders' meeting were consistent with the amounts resolved in the Board of Directors' meeting on January 18, 2019, and the amounts recognized as expenses in the financial statements.

(25) Non-operating income and expenses

A. Other income

	Years Ended December 31	
	2019	2018
Interest income	$ 14,961	$ 20,534
Insurance claim income (Note)	134,553	—
Other income	81,472	20,294
Total	$ 230,986	$ 40,828

Note: A fire broke out in the Group's subsidiary, Taiflex Scientific (Kunshan) Co., Ltd., in January 2018 and parts of the plants, equipment and inventories were damaged. The insurance claim of CNY 29,500 thousand was recognized under other income and fully received in July 2019.

B. Other gains and losses

	Years Ended December 31	
	2019	2018
(Loss) gain on disposal of property, plant and equipment	$ (27,217)	$ 856
Gain on liquidation of subsidiaries	—	35,761
Foreign exchange loss, net	(106,369)	(51,256)
(Loss) gain on reversal of impairment loss for non-financial assets	(18,005)	31,518
Gain on financial assets (liabilities) at fair value through profit or loss, net	12,226	7,215
Disaster loss	—	(131,537)
Other losses	(2,650)	(3,885)
Total	$ (142,015)	$ (111,328)

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

C. Finance costs

	Years Ended December 31	
	2019	2018
Interest on bank borrowings	$ (14,097)	$ (49,248)
Interest on lease liabilities	(5,619)	—
Interest on finance leases	(Note) —	(341)
Total	$ (19,716)	$ (49,589)

Note: The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

D. Components of other comprehensive income

For the year ended December 31, 2019

	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	$ (74,851)	$ —	$ (74,851)	$ 14,970	$ (59,881)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	(81,400)	—	(81,400)	16,279	(65,121)
Total	$ (156,251)	$ —	$ (156,251)	$ 31,249	$ (125,002)

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)

(26) Income tax

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

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

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

Income tax recognized in profit or loss

	Years Ended December 31	
	2019	2018
Current income tax expense (benefit):		
Current income tax expense	$ 207,177	$ 255,134
Income tax adjustments on prior years	(11,039)	(3,149)
Effect of exchange rate changes	784	(204)
Deferred income tax expense (benefit):		
Income tax expense relating to origination and reversal of temporary differences	(22,750)	(77,278)
Deferred income tax relating to changes in tax rates	–	14,565
Income tax expense	$ 174,172	$ 189,068

Income tax recognized in other comprehensive income

	Years Ended December 31	
	2019	2018
Deferred income tax expense (benefit):		
Remeasurement of defined benefit plan	$ (14,970)	$ 11,098
Exchange differences arising on translation of foreign operations	(16,279)	(19,368)
Income tax relating to components of other comprehensive income	$ (31,249)	$ (8,270)

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	
	2019	2018
Income before tax of continuing operations	$ 792,454	$ 868,542
Income tax expense at the statutory rate of the parent company	$ 158,491	$ 173,708
Additional profit-seeking enterprise income tax on unappropriated earnings (5% and 10% for 2019 and 2018, respectively)	7,363	15,836
Tax effects of entities at different tax jurisdictions with different tax rates	19,837	(13,580)
Income tax adjustments on prior years	(11,039)	(3,149)
Tax effects of other tax adjustments	(480)	16,253
Income tax expense recognized in profit or loss	$ 174,172	$ 189,068

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

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

For the year ended December 31, 2019

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Ending balance
Temporary differences					
Exchange gain and loss	$ 12,783	$ 5,765	$ －	$ －	$ 18,548
Allowance for inventory valuation and obsolescence loss	24,682	(8,091)	－	－	16,591
Investments accounted for under the equity method	(93,679)	28,585	16,279	(169)	(48,984)
Unrealized intra-group profits and losses	7,507	(935)	－	－	6,572
Impairment of assets	5,453	(4,133)	－	－	1,320
Allowance for doubtful accounts	14,230	(9,767)	－	－	4,463
Net defined benefit liabilities	27,684	1,256	14,970	－	43,910
Others	27,710	20,947	－	－	48,657
Deferred income tax expense		$ 33,627	$ 31,249	$ (169)	
Net deferred income tax assets (liabilities)	$ 26,370				$ 91,077
Reflected in balance sheets as follows:					
Deferred income tax assets	$ 157,314				$ 205,308
Deferred income tax liabilities	$ 130,944				$ 114,231

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 sheets as follows:					
Deferred income tax assets	$ 130,697				$ 157,314
Deferred income tax liabilities	$ 176,327				$ 130,944

D. Unrecognized deferred income tax assets:

As of December 31, 2019 and 2018, deferred income tax assets that had not been recognized by the Group amounted to NT$38,341 thousand and NT$42,371 thousand, respectively.

E. The assessment of income tax returns:

As of December 31, 2019, the income tax return assessments of the Group's entities in ROC were as follows:

	Assessment of Income Tax Returns
The Company	Assessed and approved up to 2017
Subsidiary- Koatech Technology Corporation	Assessed and approved up to 2017

(27) Earnings per share (EPS)

	Year Ended December 31, 2019		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT$)
Basic earnings per share			
Net income attributable to common shareholders of the Company	$ 630,681	209,120	$ 3.02
Effect of dilutive potential common stocks			
Employee compensation - stock	–	1,347	
Diluted earnings per share			
Net income attributable to common shareholders of the Company and effect of potential common stocks	$ 630,681	210,467	$ 3.00

	Year Ended December 31, 2018		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT$)
Basic earnings per share			
Net income attributable 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 attributable to common shareholders of the Company and effect of potential common stocks	$ 672,309	211,226	$ 3.18

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

7. Related Party Transactions

(1) Names and relationships

Name	Relationship
Innatech Co., Ltd. (Innatech)	A substantive related party

(2) Significant transactions with related parties

A. Other payables – related parties

	December 31, 2019	December 31, 2018
Other related parties	$ 7,932	$ 648

B. Compensation to key management of the Group

	Years Ended December 31	
	2019	2018
Short-term employee benefits	$ 71,512	$ 73,939
Post-employment benefits	564	641
Termination benefits	—	783
Total	$ 72,076	$ 75,363

8. Pledged Assets

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

	Carrying Amount		
	December 31, 2019	December 31, 2018	Purpose of Pledge
Time deposits (Note)	$ 20,031	$ 20,413	Customs guarantee
Land	100,843	100,843	Long-term loans
Buildings	96,750	100,749	Letter of credit, short-term credit facilities and long-term loans
Machinery and equipment	—	12,513	Long-term loans
Total	$ 217,624	$ 234,518	

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

9. Significant Contingencies and Unrecognized Contract Commitments

Details of the Group's unused letters of credit as of December 31, 2019 were as follows:

	L / C Balance
NTD	NT$ 31,122 thousand
USD	US$ 3,495 thousand
JPY	JPY 30,000 thousand
EUR	EUR 2,803 thousand

10. Significant Disaster Loss

None.

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, 2019	December 31, 2018
Financial assets at fair value through profit or loss:		
Mandatorily at fair value through profit or loss	$ 38,131	$ 36,438
Financial assets at amortized cost:		
Cash and cash equivalents (excluding cash on hand)	2,583,819	1,861,898
Financial assets at amortized cost	49,000	－
Receivables	3,367,646	4,950,722
Other financial assets - current	20,031	20,413

Financial liabilities

	December 31, 2019	December 31, 2018
Financial liabilities at fair value through profit or loss:		
Held for trading	$ 344	$ 2,656
Financial liabilities at amortized cost:		
Short-term loans	740,000	1,362,054
Payables	1,389,254	2,378,788
Long-term loans (including current portion)	934,565	341,932
Lease payable	(Note) －	2,443
Lease liabilities	267,915	(Note) －

Note: 1. The Group adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

(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.

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 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 at fair value through profit or loss could cause the profit or loss for the years ended December 31, 2019 and 2018 to increase/decrease by NT$1,749 thousand and NT$1,021 thousand, respectively.

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

D. Pre-tax sensitivity analysis was as follows:

For the year ended December 31, 2019

Key Risk	Variation	Sensitivity of Profit or Loss
Foreign currency risk	NTD/USD appreciate/depreciate by 1%	−/+ NT$18,466 thousand
	NTD/CNY appreciate/depreciate by 1%	−/+ NT$ 2,529 thousand
Interest rate risk	Market interest rate increase/decrease by 10 basis points	+/− NT$ 959 thousand

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

(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 accounts and notes receivable) and financing activities (primarily 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 and rating from credit rating agencies, past experience, current economic environment, the Group’s internal rating criteria, etc. The Group also uses some credit enhancement tools, such as prepayments or insurances, to reduce the credit risk of certain customers.

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.

(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 also included the contractual interest. The undiscounted interest payment relating to borrowings with variable interest rates was extrapolated based on the yield curve as of the end of the reporting period.

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

Non-derivative financial liabilities

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2019					
Borrowings	$ 751,699	$ 698,556	$ 225,000	$ –	$ 1,675,255
Payables	1,389,254	–	–	–	1,389,254
Lease liabilities	15,744	20,167	10,069	221,935	267,915
December 31, 2018					
Borrowings	$ 1,375,895	$ 295,000	$ 34,674	$ –	$ 1,705,569
Payables	2,378,788	–	–	–	2,378,788

Derivative financial liabilities

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2019					
Inflows	$ 809,783	$ –	$ –	$ –	$ 809,783
Outflows	$ 812,127	–	–	–	$ 812,127
Net	$ (2,344)	$ –	$ –	$ –	$ (2,344)
December 31, 2018					
Inflows	$ 526,637	$ –	$ –	$ –	$ 526,637
Outflows	$ 605,689	–	–	–	$ 605,689
Net	$ (79,052)	$ –	$ –	$ –	$ (79,052)

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, 2019:

	Short-term Loan	Long-term Loan	Lease Liability	Guarantee Deposits Received	Total Liabilities from Financing Activities
As of January 1, 2019	$1,362,054	$ 341,932	$ 273,779	$ 255	$ 1,978,020
Cash flows	(622,054)	592,633	(22,827)	215,774	163,526
Non-cash movement	–	–	16,963	–	16,963
As of December 31, 2019	$ 740,000	$ 934,565	$ 267,915	$ 216,029	$ 2,158,509

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

	Short-term Loan	Long-term Loan	Lease Payable	Guarantee Deposits Received	Total Liabilities from Financing Activities
As of January 1, 2018	$ 656,596	$ 255,696	$ 3,138	$ 255	$ 915,685
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	$ 255	$ 1,706,684

(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 prices (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, 2019 and 2018, 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 dates were listed as follows:

Currency	Contract Period	Contract Amount (in thousands)
December 31, 2019		
Sell CNY/Buy NTD	2019.10～2020.04	CNY 102,000/NT$ 437,360
Sell USD/Buy NTD	2019.11～2020.02	US$ 11,000/NT$ 331,379
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

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

Currency	Contract Period	Contract Amount (in thousands)
December 31, 2019		
Sell CNY/Buy NTD	2019.09～2020.04	CNY 9,600/NT$ 41,044
December 31, 2018		
Sell CNY/Buy NTD	2018.08～2019.04	CNY 4,200/NT$ 18,463

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

Currency	Contract Period	Contract Amount (in thousands)	Range of Interest Rate Paid	Range of Interest Rate Received
December 31, 2019				
None				
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%

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, 2019				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	$ —	$ 3,150	$ —	$ 3,150
Stocks	34,981	—	—	34,981

(Continued)

	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	$ —	$ 278	$ —	$ 278
Foreign exchange swap contracts	—	66	—	66

(Concluded)

	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
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

For the years ended December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value hierarchy.

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

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

	December 31, 2019			December 31, 2018		
	Foreign Currencies (in thousands)	Exchange Rate	NTD	Foreign Currencies (in thousands)	Exchange Rate	NTD
Financial assets						
Monetary items						
USD	$ 76,464	30.047	$ 2,297,500	$ 115,349	30.7220	$ 3,543,738
CNY	58,552	4.3155	252,681	4,640	4.4730	20,754
Financial liabilities						
Monetary items						
USD	$ 15,014	30.047	$ 451,124	$ 45,429	30.7220	$ 1,395,662
JPY	211,599	0.2764	58,486	192,735	0.2781	53,600

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, 2019 and 2018, the Group's foreign exchange gain (loss) amounted to NT$(106,369) thousand and NT$(51,256) 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, 2019 (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, 2019: 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, 2019: 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, 2019: 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, 2019: 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, 2019: Please refer to Table 5.

I. Direct or indirect significant influence or control over the investees for the year ended December 31, 2019 (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, 2019: Please refer to Table 8.

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

14. Operating Segment Information

For management purposes, the Group is organized into operating segments based on each independent utility. 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.

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

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, 2019

	General Management	Overseas	Adjustment and Elimination (Note)	Consolidated
Revenue				
External customer	$ 5,015,217	$ 2,568,437	$ —	$ 7,583,654
Inter-segment	2,168,110	51,021	(2,219,131)	—
Total revenue	$ 7,183,327	$ 2,619,458	$ (2,219,131)	$ 7,583,654
Segment income (loss) (before income tax)	$ 755,732	$ (79,293)	$ 116,015	$ 792,454

Note: Inter-segment revenues were eliminated upon consolidation.

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.

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

(2) Geographic information

A. Revenue from external customers:

	Years Ended December 31	
Region	2019	2018
Taiwan	$ 1,229,108	$ 1,931,443
Mainland China	5,983,082	7,364,249
Others	371,464	347,359
Total	$ 7,583,654	$ 9,643,051

Revenue was categorized based on countries where customers are located.

B. Non-current assets:

Region	December 31, 2019	December 31, 2018
Taiwan	$ 3,002,519	$ 2,617,315
Mainland China	769,569	899,516
Total	$ 3,772,088	$ 3,516,831

(3) Major customers

Customers accounted for at least 10% of the Group's net revenue for the years ended December 31, 2019 and 2018 were as follows:

	Years Ended December 31	
Name	2019	2018
Customer A	$ 1,257,583	$ 1,608,965
Customer B	959,503	1,161,924

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 Limit for Individual Borrower	Limit on Total Financing Amount	Note
													Item	Value			
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Other receivables - related parties	Y	$ 948,210	–	–	1.70%~4.00%	2	–	Operating capital	–	–	–	$ 1,449,209	$ 2,898,417	(Note 7)
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	442,498	420,658	416,666	1.70%~4.00%	2	–	Operating capital	–	–	–	1,449,209	2,898,417	(Note 7)
1	Taiflex Scientific (Kunshan) Co., Ltd.	Rudong Fuzhan Scientific Co., Ltd.	Other receivables - related parties	Y	151,043	151,043	–	0%	2	–	Operating capital	–	–	–	151,049	302,098	(Note 9)
1	Taiflex Scientific (Kunshan) Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	151,043	151,043	151,043	0%	2	–	Operating capital	–	–	–	151,049	302,098	(Note 9)

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

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

Note 3: The maximum balance of financing provided to others for the year ended December 31, 2019.

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 purchase 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 drawdown 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 drawdowns 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 A Single Entity (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	$ 3,623,022	$ 126,428	$ –	$ –	$ –	–		Y	N	N
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	2	3,623,022	290,930	–	–	–	–		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Rudong Fuzhan Scientific Co., Ltd.	2	3,623,022	381,350	375,588	75,240	–	5.18%	$ 3,623,022	Y	N	Y
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	2	3,623,022	1,232,554	813,016	–	–	11.22%		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, 2019.

Note 5: This refers to 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, 2019 (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 Issuer (Note 2)	Financial Statement Account	December 31, 2019				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	245	$ 34,981	0.03%	$ 34,981	—

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.	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	Sales	$ 2,152,377	31.10%	180 days from end of month	—	—	$ 1,060,112	42.12%	—
Shenzhen Taiflex Electronic Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent company	Purchases	2,152,377	89.67%	180 days from end of month	—	—	(1,060,112)	(97.71%)	—

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	$ 1,060,112	1.80	—	—	—	—	—
Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	438,133	(Note 1)	—	—	—	—	—

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, 2019			Net Income (Loss) of Investee	Share of Profit/Loss	Note
				December 31, 2019	December 31, 2018	Shares (In Thousands)	Shareholding Percentage	Carrying Value			
Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	Belize	Investment holding	$ 704,536	$ 704,536	21,825	100.00%	$ 944,245	$ (155,743)	$ (156,465)	–
Taiflex Scientific Co., Ltd.	Leadmax Limited	Samoa	Trading of electronic materials	337	337	10	100.00%	8,345	(2,474)	(2,474)	–
Taiflex Scientific Co., Ltd.	Koatech Technology Corporation	Taiwan	Manufacturing and selling of electronic materials and components	294,102	294,102	13,700	53.86%	212,985	(26,993)	(20,169)	(Note 2)
Taiflex Scientific Co., Ltd.	Innovision FlexTech Corp.	Taiwan	Manufacturing and selling of electronic materials	102,894	102,894	3,972	15.07%	36,218	(92,140)	(13,848)	–
Taiflex Scientific Co., Ltd.	TFS Co., Ltd.	Belize	Investment holding	478,797	478,797	15,520	100.00%	470,934	24,710	24,710	(Note 1)
Taiflex Scientific Co., Ltd.	Richstar Co., Ltd.	Samoa	Investment holding	927,740	525,733	30,500	66.29%	977,510	55,884	31,057	–
Taiflex Scientific Co., Ltd.	Taiflex Scientific Japan Co., Ltd.	Japan	Trading and technical support of electronic materials	16,260	16,260	6	100.00%	17,740	156	156	–
Taiflex Scientific Co., Ltd.	Taiflex USA Corporation	U.S.A.	Technical support and marketing of electronic materials	8,820	8,820	1	100.00%	9,513	871	871	–
Taiflex Scientific Co., Ltd.	Geckos Technology Corp.	Taiwan	Manufacturing and selling of electronic materials	16,182	–	1,562	31.24%	13,252	(16,635)	(3,740)	–
TFS Co., Ltd.	Richstar Co., Ltd.	Samoa	Investment holding	478,563	478,563	15,510	33.71%	497,088	55,884	24,827	–
Taistar Co., Ltd.	TSC International Ltd.	Cayman Islands	Investment holding	683,946	683,946	21,170	100.00%	755,337	(149,997)	(149,997)	–
Koatech Technology Corporation	KTC Global Co., Ltd.	Samoa	Investment holding	28,649	28,649	960	100.00%	14,696	(298)	(298)	–
KTC Global Co., Ltd.	KTC PanAsia Co., Ltd.	Samoa	Investment holding	28,500	28,500	955	100.00%	14,541	(298)	(298)	–

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)

Investor	Investee	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflows of Investment from Taiwan as of January 1, 2019	Investment Flows		Accumulated Outflows of Investment from Taiwan as of December 31, 2019	Profit/Loss of Investee	Percentage of Ownership (Direct or Indirect Investment)	Share of Profit/Loss	Carrying Amount as of December 31, 2019	Accumulated Inward Remittances of Earnings as of December 31, 2019
						Outflow	Inflow						
Taiflex Scientific Co., Ltd.	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	$ (149,987)	100.00%	$ (149,987)	$755,246	–
	Rudong Fuzhan Scientific Co., Ltd.	Manufacturing and selling of electronic materials	$927,740 (US$30,500,000)	2	525,733	$402,007	–	927,740	29,049	100.00%	29,049	925,551	–
	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	26,870	100.00%	26,870	548,948	–
Koatech Technology Corporation	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	(298)	53.86%	(161)	7,824	–

	Accumulated Outflows of Investment from Taiwan to Mainland China as of December 31, 2019	Investment Amounts Authorized by the Investment Commission, MOEA	Upper Limit on Investment
Taiflex Scientific Co., Ltd.	$2,174,041	$2,326,872	(Note 3)
Koatech Technology Corporation	$28,351	$40,318	(Note 4) $138,578

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, either 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 Company received official documents issued by the Industrial Development Bureau, Ministry of Economic Affairs certifying the Company being qualified for operating headquarters in May 2019. Thus, the limit stipulated in the "Regulations Governing the Examination of Investment or Technical Cooperation in Mainland China" does not apply.

Note 4: The upper limit on investment is calculated as follows:
Koatech Technology Corporation: NT$230,964 thousand × 60% = NT$138,578 thousand

TABLE 8: INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS FOR THE YEAR ENDED DECEMBER 31, 2019

(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	Cost of revenue	$ 29,830	General trading terms	0.39%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Sales revenue	2,152,377	General trading terms	28.38%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Accounts receivable	1,060,112	General trading terms	9.32%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Other receivables	20,221	General trading terms	0.18%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Other receivables	416,666	Financing	3.66%
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	1	Purchase on behalf of others	49,819	—	0.44%

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 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, 2019 and 2018; and the related parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to parent company only financial statements (including summary on significant accounting policies).

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, 2019 and 2018, and its parent company only financial performance and 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, 2019 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 and cover layer amounted to NT$2,494,267 thousand and accounted for 23% of Taiflex's total assets as of December 31, 2019. 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, 2019, net inventories of flexible copper-clad laminate and cover layer amounted to NT$626,770 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 was adequate.

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

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

Our objectives are to obtain reasonable assurance on whether the parent company only 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 parent company only financial statements; design and execute appropriate 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 entities within Taiflex Group 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 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's parent company only financial statements for the year ended December 31, 2019. 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

February 26, 2020

TAIFLEX SCIENTIFIC COMPANY LIMITED
PARENT COMPANY ONLY BALANCE SHEETS
December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2019	December 31, 2018
Current assets			
Cash and cash equivalents	4, 6(1)	$ 1,678,502	$ 1,065,055
Financial assets at fair value through profit or loss - current	4, 6(2)	38,131	20,820
Financial assets at amortized cost - current	4, 6(3)	49,000	-
Notes receivable, net	4, 6(4)	2,940	4,826
Accounts receivable, net	4, 6(5)	1,426,216	2,039,942
Accounts receivable – related parties	6(5), 7	1,068,051	1,348,288
Other receivables		18,878	43,229
Other receivables – related parties	7	459,778	1,229,366
Inventories, net	4, 6(6)	626,770	851,750
Prepayments		22,678	27,587
Other current assets	8	21,784	23,773
Total current assets		5,412,728	6,654,636
Non-current assets			
Financial assets at fair value through other comprehensive income - non-current	4, 6(7)	-	-
Investments accounted for under the equity method	4, 6(8)	2,690,742	2,490,400
Property, plant and equipment	4, 6(9)	2,212,219	2,122,285
Right-of-use assets	4, 6(20)	259,165	-
Intangible assets	4, 6(10)	52,531	39,142
Deferred income tax assets	4, 6(23)	136,925	100,000
Other non-current assets	4, 6(11)	7,908	6,806
Total non-current assets		5,359,490	4,758,633
Total assets		$ 10,772,218	$ 11,413,269

(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, 2019 and 2018
(In Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	December 31, 2019	December 31, 2018
Current liabilities			
Short-term loans	6(12)	$ 670,000	$ 1,165,000
Financial liabilities at fair value through profit or loss - current	4, 6(13)	278	2,453
Notes payable		-	65,419
Accounts payable		780,269	1,554,031
Accounts payable – related parties	7	3,092	26,934
Other payables		429,162	545,822
Other payables – related parties	7	21,194	31,761
Current income tax liabilities	4, 6(23)	128,071	193,339
Lease liabilities - current	4, 6(20)	11,058	-
Other current liabilities		1,962	5,099
Total current liabilities		2,045,086	3,589,858
Non-current liabilities			
Long-term loans	6(14)	900,000	295,000
Deferred income tax liabilities	4, 6(23)	111,415	127,750
Lease liabilities – non-current	4, 6(20)	250,124	-
Net defined benefit liabilities - non-current	4, 6(15)	219,550	138,423
Total non-current liabilities		1,481,089	561,173
Total liabilities		3,526,175	4,151,031
Equity			
Capital	6(16)		
Common stock		2,091,197	2,091,197
Capital surplus	6(16)	1,342,759	1,446,639
Retained earnings			
Legal capital reserve		882,821	815,590
Special capital reserve		166,117	75,546
Unappropriated earnings		2,994,142	2,999,383
Total retained earnings		4,043,080	3,890,519
Others	4	(230,993)	(166,117)
Total equity		7,246,043	7,262,238
Total liabilities and equity		$ 10,772,218	$ 11,413,269

(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, 2019 and 2018
(In Thousands of New Taiwan Dollars)

	Notes	2019	2018
Net revenue	4, 6(18), 7	$ 6,919,495	$ 7,633,620
Cost of revenue	4, 6(6)&(21), 7	(5,195,358)	(5,921,108)
Gross profit		1,724,137	1,712,512
Unrealized sales profit or loss		2,035	(14,146)
Realized sales profit or loss		-	-
Gross profit, net		1,726,172	1,698,366
Operating expenses	4, 6(21)		
Sales and marketing expenses		(243,123)	(270,209)
General and administrative expenses		(244,327)	(280,017)
Research and development expenses		(265,762)	(244,580)
Reversal of expected credit loss	6(19)	20,629	107,895
Total operating expenses		(732,583)	(686,911)
Operating income		993,589	1,011,455
Non-operating income and expenses	6(22)		
Other income		36,695	70,856
Other gains and losses		(90,544)	41,892
Finance costs		(17,114)	(17,555)
Share of profit or loss of subsidiaries and associates accounted for under the equity method	4, 6(7)	(139,902)	(235,459)
Total non-operating income and expenses		(210,865)	(140,266)
Income before income tax		782,724	871,189
Income tax expense	4, 6(23)	(152,043)	(198,880)
Net income of continuing operations		630,681	672,309
Net income		630,681	672,309
Other comprehensive income (loss)	6(22)		
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit plan		(74,851)	55,488
Income tax related to components of other comprehensive income that will not be reclassified subsequently	6(23)	14,970	(11,098)
Items that may be reclassified subsequently to profit or loss	6(22)		
Exchange differences on translation of foreign operations		(81,094)	(85,854)
Income tax related to components of other comprehensive income that may be reclassified subsequently to profit or loss	6(23)	16,218	19,311
Total other comprehensive income, net of tax		(124,757)	(22,153)
Total comprehensive income		$ 505,924	$ 650,156
Earnings per share (NT$)	4, 6(24)		
Earnings per share - basic		$ 3.02	$ 3.22
Earnings per share - diluted		$ 3.00	$ 3.18

(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, 2019 and 2018
(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	Total Equity
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
Balance as of January 1, 2019	$ 2,091,197	$ -	$1,446,639	$ 815,590	$ 75,546	$ 2,999,383	$ (159,517)	$ (6,600)	$ 7,262,238
Appropriation and distribution of 2018 earnings									
Legal capital reserve				67,231		(67,231)			-
Special capital reserve					90,571	(90,571)			-
Cash dividends for common stocks						(418,239)			(418,239)
Changes in other capital surplus									
Changes in associates accounted for under the equity method			680						680
Cash dividends from capital surplus			(104,560)						(104,560)
Net income for the year ended December 31, 2019						630,681			630,681
Other comprehensive income (loss) for the year ended December 31, 2019						(59,881)	(64,876)		(124,757)
Total comprehensive income	-	-	-	-	-	570,800	(64,876)	-	505,924
Balance as of December 31, 2019	$ 2,091,197	$ -	$1,342,759	$ 882,821	$ 166,117	$ 2,994,142	$ (224,393)	$ (6,600)	$ 7,246,043

(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, 2019 and 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
Cash flows from operating activities:		
Income before income tax	$ 782,724	$ 871,189
Adjustments:		
Non-cash income and expense items:		
Depreciation	248,306	206,801
Amortization	15,738	16,403
Reversal of expected credit loss	(20,629)	(107,895)
Net (gain) loss on financial assets (liabilities) at fair value through profit or loss	(12,395)	12,328
Interest expense	17,114	17,555
Interest income	(20,774)	(29,449)
Share of loss of subsidiaries and associates accounted for under the equity method	139,902	235,459
Gain on disposal of property, plant and equipment	(1,481)	-
Gain on reversal of impairment loss for non-financial assets	-	(31,518)
Others	39,867	46,020
Changes in operating assets and liabilities:		
Increase in financial assets mandatorily at fair value through profit or loss	(7,091)	(18,010)
Decrease in notes receivable	1,886	5,032
Decrease (increase) in accounts receivable	631,689	(1,433,570)
Decrease in accounts receivable – related parties	280,237	195,162
Decrease (increase) in other receivables	23,059	(2,805)
Decrease (increase) in other receivables – related parties	188,011	(163,632)
Decrease (increase) in inventories	185,487	(145,392)
Decrease in prepayments	4,909	1,087
Decrease in other current assets	1,989	311
(Decrease) increase in notes payable	(65,419)	65,419
Decrease in accounts payable	(773,762)	(20,176)
Decrease in accounts payable – related parties	(23,842)	(37,339)
(Decrease) increase in other payables	(81,036)	27,054
(Decrease) increase in other payables – related parties	(10,567)	19,881
(Decrease) increase in other current liabilities	(6,880)	18,507
Increase in net defined benefit liabilities	6,276	9,787
Cash generated from operations	1,543,318	(241,791)
Interest received	22,066	28,281
Interest paid	(12,298)	(17,078)
Income tax paid	(239,553)	(129,166)
Net cash generated by (used in) operating activities	1,313,533	(359,754)

(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, 2019 and 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
Cash flows from investing activities:		
Acquisition of financial assets at amortized cost	$ (49,000)	$ -
Acquisition of investments accounted for under the equity method	(418,189)	(534,553)
Return of capital from investee accounted for under the equity method	-	117,658
Acquisition of property, plant and equipment	(380,898)	(305,929)
Disposal of property, plant and equipment	17,713	-
Increase in refundable deposits	(1,102)	-
Decrease in refundable deposits	-	3,949
Decrease (increase) in other receivables – related parties	581,577	(7,767)
Acquisition of intangible assets	(25,686)	(9,777)
Increase in other current assets - other financial assets - current	-	(59)
Decrease in other non-current assets	2,666	-
Dividends received	1,444	122,078
Net cash used in investing activities	(271,475)	(614,400)
Cash flows from financing activities:		
Increase in short-term loans	-	1,165,000
Decrease in short-term loans	(495,000)	-
Increase in long-term loans	605,000	156,818
Repayment of lease principal	(15,812)	-
Distribution of cash dividends	(522,799)	(522,799)
Exercise of employee stock options	-	9,583
Net cash (used in) generated by financing activities	(428,611)	808,602
Net increase (decrease) in cash and cash equivalents	613,447	(165,552)
Cash and cash equivalents at beginning of period	1,065,055	1,230,607
Cash and cash equivalents at end of period	$ 1,678,502	$ 1,065,055

(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, 2019 and 2018
(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 Taipei Exchange 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, 2019 and 2018 were approved and authorized for issue in the Board of Directors' meeting on February 26, 2020.

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, 2019. 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 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 Company adopts the transitional provisions of IFRS 16 and the initial application date is January 1, 2019. The impact of first-time adoption of IFRS 16 is as follows:

      (a) Please refer to Note 4 for accounting policies adopted by the Company after and prior to January 1, 2019.

      (b) Definition of leases: The Company elects not to reevaluate whether contracts are (or contain) leases on 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. In other words, the Company applies IFRS 16 only to contracts entered into (or amended) after January 1, 2019 to determine whether they are (or contain) leases. Comparing to IAS 17, IFRS 16 stipulates that if a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the contract is defined as (or contains) a lease. The adoption of new definition for leases will not have a significant effect on the Company's assessment of whether the contracts are (or contain) leases in most circumstances.

(c) The Company being 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.

i. Leases classified as operating lease previously

The Company measures 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 recognizes 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 sheets immediately before January 1, 2019).

The Company’s right-of-use assets and lease liabilities increased by NT$261,602 thousand and NT$261,602 thousand, respectively, on January 1, 2019.

The Company adopts the transitional provisions of IFRS 16 and applies the following practical expedients to leases previously classified as operating leases on a lease-by-lease basis:

(i) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

(ii) Use the assessment of whether the leases are onerous immediately before January 1, 2019 as an alternative for impairment assessment

(iii) Elect to account for leases terminating within 12 months from January 1, 2019 as short-term leases.

(iv) Initial direct costs are excluded from the measurement of right-of-use assets as of January 1, 2019.

(v) Use hindsight on matters such as determining the lease term (if the contract contains options to extend or terminate the lease).

ii. Please refer to Notes 4 and 6 for additional disclosures on lessee as required under IFRS 16.

iii. The impact of first-time adoption of IFRS 16 on financial statements as of January 1, 2019 was as follows:

(i) The weighted average incremental borrowing rate of lessee applied to lease liabilities on the balance sheet as of January 1, 2019 was 1.797%.

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

(ii) Explanations on the difference between operating lease commitments disclosed under IAS 17 as of December 31, 2018, discounted using the incremental borrowing rate as of January 1, 2019, and lease liabilities recognized on the balance sheet as of January 1, 2019 were as follows:

Operating lease commitments disclosed under IAS 17 as of December 31, 2018	$ 68,774
Discounted using the incremental borrowing rate as of January 1, 2019	64,835
Add: Adjustments as it is reasonably certain that the option to extend and to terminate a lease will be exercised	196,767
Lease liabilities as of January 1, 2019	$ 261,602

(d) No adjustments are performed for the Company being a lessor. Please refer to Notes 4 and 6 for additional disclosures on lessor.

(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 or Amended Standards or Interpretations	Effective Date
IFRS 3	Definition of a Business	January 1, 2020
IAS 1 and IAS 8	Definition of Material	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	January 1, 2020

A. 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 material, and narrowing the definitions of a business and outputs.

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

Information is considered material if it can reasonably be 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 and/or magnitude of information. Enterprises would determine whether the information is material based on the financial statements as a whole.

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

C. Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The amendments incorporate several exceptions for hedging relationship directly affected by the interest rate benchmark reform. Hedging relationship is deemed to be directly affected when uncertainties concerning the timing and amount of benchmark-based cash flows of the hedged item or hedging instruments arise due to the interest rate benchmark reform. Therefore, exceptions shall be applied to all hedging relationship directly affected by the interest rate benchmark reform.

The amendments include:

(a) Highly probable requirement

When assessing whether a prospective transaction is highly probable, an entity shall assume the interest rate on which the hedged cash flows are based would not be changed by the interest rate benchmark reform.

(b) Prospective assessment

When carrying out the prospective assessment, an entity shall assume the basis of hedged item, hedged risk and/or hedging instrument would not be changed by the interest rate benchmark reform.

(c) Retrospective assessment of IAS 39

For hedging relationship directly affected by the interest rate benchmark reform, an entity does not have to carry out the retrospective assessment under IAS 39 (i.e. assessment on whether the actual result of hedging falls between 80% to 125%).

(d) Risk component identified separately

For the hedging of a non-contractually specified benchmark component of interest rate risk, an entity only has to apply the separately identifiable requirement at the beginning of a hedging relationship.

The amendments also include rules for ceasing to apply the exceptions and disclosure requirements associated with these amendments.

The abovementioned new, revised and amended standards or interpretations are issued by IASB and endorsed by FSC to take effect for annual periods beginning on January 1, 2020. The adoption of these new, revised and amended standards and interpretations will not have a significant effect on the Company.

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

No.	Projects of New or 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
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2022

Items with potential effects on the Company's financial statements due to the adoption of above standards or interpretations, which are issued by IASB but not yet endorsed by FSC, in the 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 over 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 over a subsidiary. The amendments place restrictions on the above-mentioned rules of IAS 28. The gains or losses from the sale or contribution of assets defined as a business under IFRS 3 shall be recognized in full.

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. Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments aim at paragraphs 69 to 76 of IAS 1 "Presentation of Financial Statements" where liabilities are classified as current or non-current.

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, 2019 and 2018 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 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 accounted for 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.

Transactions in foreign currencies are initially recognized by the Company at the rates of exchange prevailing at 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" 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 non-controlling interests 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 three 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” 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

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

<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 or 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 gains or losses 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

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 dates on which derivative contracts are 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. 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.

Where the host contracts are non-financial assets or non-financial liabilities, 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 measured 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, labor and manufacturing overheads allocated 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 and the carrying value of the subsidiary 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.

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

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 and the carrying value of the associate 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, the 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
Right-of-use assets/lease assets (Note)	2 to 50 years
Miscellaneous equipment	5 to 10 years

Note: The Company adopts IFRS 16 on January 1, 2019 and reclassifies lease assets to right-of-use assets.

An item or any significant part of property, plant and equipment 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 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 method of 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

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 180 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) Leases

The accounting treatment from January 1, 2019 is as follows:

For contracts established after January 1, 2019, the Company assesses whether the contracts are (or contain) leases. If a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the contract is defined as a lease or contains a lease. To assess if a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether the following two conditions are met during the period of use:

A. Having the right to obtain substantially all of the economic benefits from the use of identified asset; and

B. Having the right to direct the use of identified asset.

The Company elects not to reevaluate whether contracts are (or contain) leases on 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.

For contracts that are (or contain) leases, the Company accounts for each lease component as a lease and handles separately from the non-lease components within the contracts. For contracts that contain one lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contracts to the lease component on the basis of the relative stand-alone price of each lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone prices of lease and non-lease components are determined based on the prices that the lessor (or a similar supplier) would charge for those components (or similar components) separately. If an observable stand-alone price is not readily available, the Company would maximize the use of observable information to estimate the stand-alone price.

The Company being a lessee

Except for short-term leases or leases of low value assets, when the Company is a lessee to lease contracts, it recognizes right-of-use assets and lease liabilities for all leases.

On the commencement date, the Company measures lease liabilities by the present value of outstanding lease payments. If the interest rate implicit in the lease can be readily determined, lease payments would be discounted using this rate. If the rate cannot be readily determined, the Company would use the incremental borrowing rate of lessee. On the commencement date, lease payments for lease liabilities include the following outstanding payments which are related to the right to use the underlying asset during the lease term:

A. Fixed payments (including in-substance fixed payments), less any lease incentives receivable;

B. Variable lease payments that are determined by an index or a rate (adopting the initial measurement of the index or rate on the commencement date);

C. Amounts expected to be paid by the lessee under residual value guarantees;

D. The exercise price of a purchase option if the Company is reasonably certain to exercise the option; and

E. Penalties to be paid for terminating the lease, if the lease term reflects that the lessee will exercise the option to terminate the lease.

After the commencement date, the Company measures lease liabilities on amortized cost basis. It increases the carrying amount of lease liabilities via the effective interest method to reflect the interest of lease liabilities. The carrying amount of lease liabilities is reduced when lease payments are made.

The Company measures right-of-use assets at cost on the commencement date. The costs of right-of-use assets include:

A. The initial measurement amount of lease liabilities;

B. All lease payments made on or before the commencement date, less any lease incentives received;

C. Any initial direct costs incurred by the lessee; and

D. The estimated costs for the lessee to dismantle and remove the underlying asset and restore its original location or to restore the underlying asset to the conditions required by the lease terms and conditions.

The right-of-use assets are subsequently measured at cost less accumulated depreciation and accumulated impairment losses, i.e. the cost model is adopted to measure the right-of-use assets.

If the underlying assets' ownership is transferred to the Company at the end of lease term, or the cost of right-of-use assets reflects the fact that the Company will exercise the purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of underlying assets' useful life. Otherwise, the Company depreciates the right-of-use assets from the commencement date to the end of underlying assets' useful life or the end of lease term, whichever is earlier.

The Company applies IAS 36 "Impairment of Assets" to determine whether the right-of-use assets are impaired and account for any impairment loss identified.

Except for short-term leases or leases of low value assets, the Company recognizes right-of-use assets and lease liabilities on the balance sheets and lease-related depreciation and interest expenses on the statements of comprehensive income.

For short-term leases or leases of low value assets, the Company elects to adopt the straight-line basis or another systematic basis to recognize the lease payments associated with the leases as expenses during the lease terms.

The Company being a lessor

On the date the contract is established, the Company classifies each lease as an operating or finance lease. If the lease transfers substantially all of the risks and rewards incidental to the underlying asset's ownership, it is classified as a finance lease; otherwise, it is classified as an operating lease. On the commencement date, the Company recognizes its assets under finance leases at net investment amounts on the balance sheet as finance lease receivable.

For contracts that contain lease and non-lease components, the Company adopts IFRS 15 to allocate the considerations of contracts.

The Company adopts the straight-line basis or another systematic basis to recognize lease payments from operating leases as rent income. Variable lease payments under operating leases that are not determined by an index or a rate are recognized as rent income as incurred.

(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 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.

(19) 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.

(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, 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, 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

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(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(15).

(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(17).

(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 unused tax losses, carryforward of 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 which have not been recognized by the Company as of December 31, 2019 are disclosed in Note 6(23).

6. Details of Significant Accounts

(1) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand and petty cash	$ 333	$ 333
Bank deposits	1,678,169	1,064,722
Total	$ 1,678,502	$ 1,065,055

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

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

	December 31, 2019	December 31, 2018
Mandatorily at fair value through profit or loss:		
Derivative instruments not designated in a hedging relationship		
- Forward foreign exchange contracts	$ 3,150	$ 399
Stocks	34,981	20,421
Total	$ 38,131	$ 20,820

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

(3) Financial assets at amortized cost – current

	December 31, 2019	December 31, 2018
Time deposits – current	$ 49,000	$ —

Some financial assets were classified as financial assets at amortized cost by the Company and they were not pledged. Please refer to Note 12 for information concerning credit risk.

(4) Notes receivable, net

	December 31, 2019	December 31, 2018
Notes receivable, net	$ 2,940	$ 4,826

The Company's notes receivables were not pledged.

The Company adopted IFRS 9 for impairment assessment. Please refer to Note 6(19) for details on loss allowance and Note 12 for information concerning credit risk.

(5) Accounts receivable, net

	December 31, 2019	December 31, 2018
Accounts receivable	$ 1,446,058	$ 2,077,747
Less: loss allowance	(19,842)	(37,805)
Subtotal	1,426,216	2,039,942
Accounts receivable – related parties	1,068,051	1,348,288
Total	$ 2,494,267	$ 3,388,230

A. The Company's accounts receivables were not pledged.

B. The credit terms of accounts receivables are generally set at 60 to 180 days from the end of month. The gross carrying amounts were NT$2,514,109 thousand and NT$3,426,035 thousand as of December 31, 2019 and 2018, respectively. Please refer to Note 6(19) for loss allowance for the years ended December 31, 2019 and 2018 and Note 12 for credit risk.

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

(6) Inventories, net

	December 31, 2019	December 31, 2018
Raw materials	$ 250,236	$ 501,897
Inventories in transit	708	34,238
Supplies	5,171	6,094
Work in process	65,814	46,265
Finished goods	300,694	258,606
Merchandise	4,147	4,650
Total	$ 626,770	$ 851,750

The Company recognized operating costs associated with inventories of NT$5,195,358 thousand and NT$5,921,108 thousand for the years ended December 31, 2019 and 2018, respectively. The amounts included inventory valuation loss due to write-down of inventories to net realizable value of NT$37,396 thousand for the year ended December 31, 2018, which was recognized as an addition to operating costs. 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$30,311 thousand for the year ended December 31, 2019.

The aforementioned inventories were not pledged.

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

	December 31, 2019	December 31, 2018
Equity instrument investments at fair value through other comprehensive income – non-current:		
Non-publicly traded stocks	$ –	$ –

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

(8) Investments accounted for under the equity method

	December 31, 2019		December 31, 2018	
Investees	Amount	Percentage of Ownership	Amount	Percentage of Ownership
Investments in subsidiaries:				
Taistar Co., Ltd.	$ 944,245	100.00%	$ 1,133,837	100.00%
Leadmax Limited	8,345	100.00%	10,990	100.00%
Koatech Technology Corp.	212,985	53.86%	233,440	53.86%
TFS Co., Ltd.	470,934	100.00%	469,677	100.00%
Taiflex Scientific Japan Co., Ltd.	17,740	100.00%	17,696	100.00%
Richstar Co., Ltd.	977,510	66.29%	564,429	53.01%
Taiflex USA Corporation	9,513	100.00%	8,861	100.00%
Subtotal	2,641,272		2,438,930	
Investments in associates:				
Innovision FlexTech Corp.	36,218	15.07%	51,470	15.07%
Geckos Technology Corp.	13,252	31.24%	–	
Subtotal	49,470		51,470	
Total	$ 2,690,742		$ 2,490,400	

(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 subsidiaries and associates accounted for under the equity method for the years ended December 31, 2019 and 2018 were as follows:

	Years Ended December 31	
Investee	2019	2018
Taistar Co., Ltd.	$ (156,465)	$ (313,497)
Leadmax Limited	(2,474)	(5,114)
Innovision FlexTech Corp.	(13,848)	19,666
Koatech Technology Corp.	(20,169)	2,669
TFS Co., Ltd.	24,710	50,426
Taiflex Scientific Japan Co., Ltd.	156	331
Richstar Co., Ltd.	31,057	10,408
Taiflex USA Corporation	871	(348)
Geckos Technology Corp.	(3,740)	—
Total	$ (139,902)	$ (235,459)

B. The Company accounted for Innovision FlexTech Corp. (Innovision) using the equity method as it had significant influence over the investee through ownership and representation on Innovision’s board of directors.

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

	December 31, 2019	December 31, 2018
Total assets	$ 538,417	$ 471,150
Total liabilities	$ 274,106	$ 129,608

	Years Ended December 31	
	2019	2018
Revenue	$ 151,006	$ 333,264
Net (loss) income	$ (108,775)	$ 72,099

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, which took into account the recent financing activities of the investees, the technology development status, companies with similar attributes, market conditions and other economic indicators. This was a level 3 fair value measurement.

(9) Property, plant and equipment

	December 31, 2019	December 31, 2018 (Note)
Owner-occupied property, plant and equipment	$ 2,212,219	

Note: The Company adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard’s transitional provisions.

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

A. Owner-occupied property, plant and equipment (subject to IFRS 16)

	As of January 1, 2019	Additions	Disposals	Reclassification	As of December 31, 2019
Cost					
Buildings	$ 987,889	$ 6,164	$ －	$ 38,794	$ 1,032,847
Machinery and equipment	2,201,790	29,408	(44,817)	121,255	2,307,636
Hydropower equipment	345,741	3,771	－	24,993	374,505
Testing equipment	271,519	15,153	(3,369)	48,613	331,916
Miscellaneous equipment	175,829	5,043	(744)	15,502	195,630
Total	$ 3,982,768	$ 59,539	$ (48,930)	$ 249,157	$ 4,242,534
Accumulated depreciation and impairment					
Buildings	$ 212,206	$ 40,235	$ －	$ －	$ 252,441
Machinery and equipment	1,437,528	139,629	(28,995)	－	1,548,162
Hydropower equipment	209,057	12,964	－	－	222,021
Testing equipment	128,354	27,808	(2,959)	－	153,203
Miscellaneous equipment	100,525	14,530	(744)	－	114,311
Total	$ 2,087,670	$ 235,166	$ (32,698)	$ －	$ 2,290,138
Construction in progress and equipment awaiting inspection	227,187	285,608	－	(252,972)	259,823
Net	$ 2,122,285				$ 2,212,219

B. Property, plant and equipment (prior to the adoption of IFRS 16)

	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

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, 2019	December 31, 2018
Trademarks	$ 312	$ 354
Patents	8,283	6,848
Software cost	43,936	31,940
Total	$ 52,531	$ 39,142

	As of January 1, 2019	Additions	Reclassification	As of December 31, 2019
Cost				
Trademarks	$ 672	$ 19	$ −	$ 691
Patents	15,656	2,314	−	17,970
Software cost	116,916	23,353	3,441	143,710
Total	$ 133,244	$ 25,686	$ 3,441	$ 162,371
Amortization and impairment				
Trademarks	$ 318	$ 61	$ −	$ 379
Patents	8,808	879	−	9,687
Software cost	84,976	14,798	−	99,774
Total	94,102	$ 15,738	$ −	109,840
Net	$ 39,142			$ 52,531

	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

(11) Other non-current assets

	December 31, 2019	December 31, 2018
Refundable deposits	$ 7,908	$ 6,806

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

(12) Short-term loans

	December 31, 2019	December 31, 2018
Unsecured bank loans	$ 670,000	$ 1,165,000

The interest rate ranges of loans were 0.76% to 0.85% and 0.74% to 1.04% and the unused short-term credit facilities amounted to NT$1,810,000 thousand and NT$835,000 thousand as of December 31, 2019 and 2018, respectively.

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

	December 31, 2019	December 31, 2018
Held for trading:		
Derivative financial instruments not designated in a hedging relationship		
- Forward foreign exchange contracts	$ 278	$ 2,453

(14) Long-term loans

	December 31, 2019	December 31, 2018
Revolving loans	$ 900,000	$ 295,000
Syndicated loans	—	—
Total	900,000	295,000
Less: current portion	—	—
Less: unamortized syndicated loan fee	—	—
Net	$ 900,000	$ 295,000

A. The interest rate ranges of loans were 0.83% to 1.0511% and 0.88% as of December 31, 2019 and 2018, 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 loan to NT$1.5 billion or the equivalent in U.S. dollars in July 2017.) The contract term was five years from the initial drawdown date, i.e. June 2016 to June 2021 and the credit term of the agreement was mid-term loans - current. During the loan term, the Company was 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, 2019 and 2018 were NT$22,876 thousand and NT$23,076 thousand, respectively.

B. Defined benefit plan

Expenses under the defined benefit plan were as follows:

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

Financial Statement Account	Years Ended December 31 2019	2018
Operating costs	$ 3,840	$ 5,232
Sales and marketing expenses	420	598
General and administrative expenses	2,163	3,346
Research and development expenses	2,539	3,415
Total	$ 8,962	$ 12,591

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

	Years Ended December 31 2019	2018
Beginning balance	$ 45,521	$ 101,009
Actuarial gain or loss	74,851	(55,488)
Ending balance	$ 120,372	$ 45,521

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

	Years Ended December 31 2019	2018
Present value of defined benefit obligation	$ 243,665	$ 172,041
Fair value of plan assets	(24,115)	(33,618)
Funded status	219,550	138,423
Net defined benefit liability	$ 219,550	$ 138,423

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

	Years Ended December 31 2019	2018
Balance, beginning of year	$ 172,041	$ 213,669
Current service cost	7,148	9,644
Interest cost	2,254	3,419
Actuarial gain or loss	75,872	(54,691)
Benefits paid	(13,650)	—
Balance, end of year	$ 243,665	$ 172,041

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

	Years Ended December 31 2019	2018
Balance, beginning of year	$ 33,618	$ 29,545
Return on plan assets	440	472
Contributions from employer	2,686	2,804
Actuarial gain or loss	1,021	797
Benefits paid	(13,650)	—
Balance, end of year	$ 24,115	$ 33,618

G. As of December 31, 2019, the Company expects to make contributions of NT$9,861 thousand to the defined benefit plan in the following 12 months.

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

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

	Pension Plan (%)	
	December 31, 2019	December 31, 2018
Cash	100%	100%

The Company's actual returns on plan assets were NT$1,462 thousand and NT$1,269 thousand for the years ended December 31, 2019 and 2018, respectively.

The expected rate of return on plan assets is determined based on historical trend and analysts' expectations 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, 2019	December 31, 2018
Discount rate	0.85%	1.31%
Expected rate of return on plan assets	0.85%	1.31%
Expected rate of salary increases	5.00%	3.00%

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

	Years Ended December 31			
	2019		2018	
	0.5% Increase	0.5% Decrease	0.5% Increase	0.5% Decrease
Effect on the aggregate current service cost and interest cost	$ –	$ (70)	$ (205)	$ 131
Effect on the present value of defined benefit obligation	(21,049)	23,343	(14,613)	16,194

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

	Years Ended December 31	
	2019	2018
Present value of defined benefit obligation, ending balance	$ 243,655	$ 172,041
Fair value of plan assets, ending balance	(24,115)	(33,618)
Surplus/deficit of plan, ending balance	$ 219,550	$ 138,423
Experience adjustments on plan liabilities	$ (11,066)	$ (15,345)
Experience adjustments on plan assets	$ (1,021)	$ (797)

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

(16) Equity

A. Capital

(a) The Company's authorized capital was NT$3,000,000 thousand, 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 or bond with warrants), each at a par value of NT$10, as of December 31, 2019 and 2018.

(b) The Company's issued capital was NT$2,091,197 thousand, divided into 209,120 thousand shares, each at a par value of NT$10, as of December 31, 2019 and 2018.

B. Capital surplus

	December 31, 2019	December 31, 2018
Additional paid-in capital	$ 938,334	$ 1,042,894
Premium from merger	262,500	262,500
Donated assets	1,970	1,970
Treasury stock transactions	27,280	27,280
Others	112,675	111,995
Total	$ 1,342,759	$ 1,446,639

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. 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 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.

The reversal of special capital reserve set aside for the first-time adoption of IFRS to undistributed earnings due to the use, disposal or reclassification of related assets for the years ended December 31, 2019 and 2018 was as follows:

	Years Ended December 31	
	2019	2018
Beginning balance	$ 75,546	$ 102,158
Disposal of subsidiaries	—	(26,612)
Ending balance	$ 75,546	$ 75,546

Information about the appropriation of 2018 and 2017 earnings approved in the shareholders' meetings on May 29, 2019 and 2018, respectively, was as follows:

	Appropriation of Earnings		Dividend per Share (NT$)	
	2018	2017	2018	2017
Legal capital reserve	$ 67,231	$ 73,459	— -	—
Special capital reserve	90,571	—	— -	—
Cash dividends - common stocks	418,239	522,799	$ 2.00	$ 2.50

The Company's shareholders' meeting on May 29, 2019 approved to distribute NT$104,560 thousand from capital surplus to shareholders in the form of cash. Shareholders are entitled to receive NT$0.5 per share.

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 2,355 units of employee stock options. 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 employee stock option plan for the year ended December 31, 2019 was NT$0 thousand.

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

There have been no cancellations or modifications to any of the employee stock option plans by December 31, 2019.

	Years Ended December 31			
	2019		2018	
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
Granted	—	—	—	—
Forfeited	—	—	—	—
Exercised	—	—	(273)	35.10
Expired	—	—	—	—
Outstanding at end of period	—	—	—	—
Exercisable at end of period	—	—	—	—

(18) Revenue

	Years Ended December 31	
	2019	2018
Sale of goods	$ 6,919,495	$ 7,633,620

(19) (Reversal) of expected credit loss

	Years Ended December 31	
	2019	2018
Operating expenses – Reversal of expected credit loss		
Accounts receivable	$ (17,963)	$ (107,895)
Other non-current assets	(2,666)	—
Total	$ (20,629)	$ (107,895)

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, 2019 was as follows:

Expected credit loss of accounts receivables as of December 31, 2019

	Not Past Due (Note)	Past Due: Within 90 Days	Past Due: 91-180 Days	Past Due: Over 181 Days	Total
Gross carrying amount	$ 2,515,131	$ 1,154	$ —	$ 764	$ 2,517,049
Loss ratio	0%~1%	0%~20%	20%~50%	50%~100%	
Lifetime expected credit losses	19,006	72	—	764	19,842
Subtotal	$ 2,496,125	$ 1,082	$ —	$ —	$ 2,497,207

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

Expected credit loss of accounts receivables as of December 31, 2018

	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 years ended December 31, 2019 and 2018 were as follows:

	Receivables	Other Non-current Assets	Total
Balance as of January 1, 2019	$ 37,805	$ 8,291	$ 46,096
Reversal in the current period	(17,963)	(2,666)	(20,629)
Write off	－	(1,524)	(1,524)
Balance as of December 31, 2019	$ 19,842	$ 4,101	$ 23,943

	Receivables	Other Non-current Assets	Total
Balance as of January 1, 2018 (according to IFRS 9)	$ 145,700	$ 8,291	$ 153,991
Reversal in the current period	(107,895)	－	(107,895)
Balance as of December 31, 2018	$ 37,805	$ 8,291	$ 46,096

(20) Leases

A. The Company being a lessee (subject to disclosures associated with IFRS 16)

The Company leased various assets, including property (land and buildings) and transportation equipment. The lease terms of those contracts ranged between 2 to 50 years.

The effects of leases on the financial status, financial performance and cash flows of the Company were as follows:

(a) Amounts recognized in the balance sheets

i. Right-of-use assets

The carrying amount of right-of-use assets

	December 31, 2019	December 31, 2018 (Note)
Land	$ 241,933	
Buildings	1,756	
Transportation equipment	15,476	
Total	$ 259,165	

Note: The Company adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

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

The Company's right-of-use assets increased by NT$10,908 thousand for the year ended December 31, 2019.

ii. Lease liabilities

	December 31, 2019	December 31, 2018 (Note)
Current	$ 11,058	
Non-current	250,124	
Lease liabilities	$ 261,182	

Please refer to Note 6(22)C Finance costs for details on interest expenses of lease liabilities for the year ended December 31, 2019 and Note 12(5) Liquidity risk management for a maturity analysis on lease liabilities as of December 31, 2019.

Note: The Company adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

(b) Amounts recognized in the statements of comprehensive income

Depreciation of right-of-use assets

	Years Ended December 31	
	2019	2018 (Note)
Land	$ 6,066	
Buildings	1,054	
Transportation equipment	6,020	
Total	$ 13,140	

Note: The Company adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

(c) Lessee's income and expenses associated with leasing activities

	Years Ended December 31	
	2019	2018 (Note)
Expense of short-term leases	$ 12,279	
Expense of leases of low value assets (excluding short-term leases of low value assets)	1,718	

Note: The Company adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

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

(d) Lessee's cash outflows associated with leasing activities

The Company's cash outflows from leases amounted to NT$15,812 thousand for the year ended December 31, 2019.

(e) Other information associated with leasing activities

Options to extend or terminate the lease

Some of the Company's property leases contain options to extend or terminate the leases. When determining the lease term, it shall be the non-cancellable period where the lessee has the right to use the underlying asset, together with periods covered by an option to extend the lease where the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease where the Company is reasonably certain not to exercise that option. The use of those options can maximize the flexibility in managing the contracts. The majority of options to extend or terminate the leases can only be exercised by the Company. The Company would reassess the lease terms when a significant event or a significant change in circumstances occurs (that is within the control of the lessee and affects whether the Company is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term) after the commencement date.

B. The Company being a lessee – operating leases (subject to disclosures associated with IAS 17)

The Company entered into commercial property lease agreements with average duration between 1 to 10 years. Some lease agreements had renewal options.

Based on the non-cancellable operating lease agreements, total future minimum lease payments as of December 31, 2018 were as follows:

	December 31, 2018
Less than 1 year	$ 14,585
More than 1 year but less than 5 years	35,730
More than 5 years	18,459
Total	$ 68,774

Expenses recognized under operating leases were as follows:

	Year Ended December 31, 2018
Minimum lease payments	$ 26,039

The Company adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

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

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

Function / Nature	Years Ended December 31					
	2019			2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	330,736	249,946	580,682	353,493	280,535	634,028
Labor and health insurance	33,605	18,557	52,162	32,857	18,197	51,054
Pension	18,607	13,231	31,838	20,180	15,487	35,667
Remuneration to directors	–	17,978	17,978	–	20,109	20,109
Other employee benefits expense	37,426	17,593	55,019	41,107	20,004	61,111
Depreciation	204,530	43,776	248,306	177,307	29,494	206,801
Amortization	4,224	11,514	15,738	3,737	12,666	16,403

As of December 31, 2019 and 2018, the Company had 754 and 759 employees, respectively. There were 6 Directors who were not employees for both years.

The following information shall be disclosed for entities with stocks traded on the Taiwan Stock Exchange or the Taipei Exchange:

A. The average employee benefits expense in 2019 equaled NT$962 thousand, which was calculated as follows: (Sum of employee benefits expense – Sum of remuneration to directors in 2019)/(Number of employees – Number of directors who are not employees in 2019). The average employee benefits expense in 2018 equaled NT$1,038 thousand, which was calculated as follows: (Sum of employee benefits expense – Sum of remuneration to directors in 2018)/(Number of employees – Number of directors who are not employees in 2018).

B. The average employee salaries in 2019 equaled NT$776 thousand, which was calculated as follows: Sum of employee salaries in 2019/(Number of employees – Number of directors who are not employees in 2019). The average employee salaries in 2018 equaled NT$842 thousand, which was calculated as follows: Sum of employee salaries in 2018/(Number of employees – Number of directors who are not employees in 2018).

C. The change in average employee salaries equaled (7.8)% in 2019, which was calculated as follows: (Average employee salaries in 2019 – average employee salaries in 2018)/Average employee salaries in 2018.

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 at least 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.

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

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

Information on 2019 compensation to employees and remuneration to directors resolved in the Board of Directors' meeting on January 10, 2020 and 2018 compensation to employees and remuneration to directors in the form of cash reported in the shareholders' meeting on May 29, 2019 was as follows:

	Years Ended December 31	
	2019	2018
Compensation to employees	$ 64,632	$ 72,535
Remuneration to directors	17,673	19,834

The above-mentioned 2018 compensation to employees and remuneration to directors reported in the shareholders' meeting were consistent with the amounts resolved in the Board of Directors' meeting on January 18, 2019, and the amounts recognized as expenses in the financial statements.

(22) Non-operating income and expenses

A. Other income

	Years Ended December 31	
	2019	2018
Interest income	$ 20,774	$ 29,449
Other income	15,921	41,407
Total	$ 36,695	$ 70,856

B. Other gains and losses

	Years Ended December 31	
	2019	2018
Gain on disposal of property, plant and equipment	$ 1,481	$ －
Foreign exchange (loss) gain, net	(103,220)	23,902
Gain (loss) on financial assets (liabilities) at fair value through profit or loss, net	12,395	(12,328)
Gain on reversal of impairment loss for non-financial assets	－	31,518
Other losses	(1,200)	(1,200)
Total	$ (90,544)	$ 41,892

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

C. Finance costs

	Years Ended December 31	
	2019	2018
Interest on bank borrowings	$ (12,425)	$ (17,555)
Interest on lease liabilities	(4,689)	–
Total	$ (17,114)	$ (17,555)

D. Components of other comprehensive income

For the year ended December 31, 2019

	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	$ (74,851)	$ –	$ (74,851)	$ 14,970	$ (59,881)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	(81,094)	–	(81,094)	16,218	(64,876)
Total	$ (155,945)	$ –	$ (155,945)	$ 31,188	$ (124,757)

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)

(23) Income tax

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

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

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

Income tax recognized in profit or loss

	Years Ended December 31	
	2019	2018
Current income tax expense (benefit):		
Current income tax expense	$ 185,669	$ 248,526
Income tax adjustments on prior years	(11,385)	(7,447)
Deferred income tax expense:		
Income tax expense relating to origination and reversal of temporary differences	(22,241)	(56,764)
Adjustments relating to changes in tax rates	－	14,565
Income tax expense	$ 152,043	$ 198,880

Income tax recognized in other comprehensive income

	Years Ended December 31	
	2019	2018
Deferred income tax expense (benefit):		
Remeasurement of defined benefit plan	$ (14,970)	$ 11,098
Exchange differences arising on translation of foreign operations	(16,218)	(19,311)
Income tax relating to components of other comprehensive income	$ (31,188)	$ (8,213)

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	
	2019	2018
Income before tax of continuing operations	$ 782,724	$ 871,189
Income tax expense at the statutory rate of the Company	$ 156,545	$ 174,238
Additional profit-seeking enterprise income tax on unappropriated earnings (5% and 10% for 2019 and 2018, respectively)	7,363	15,836
Income tax adjustments on prior years	(11,385)	(7,447)
Tax effects of other tax adjustments	(480)	16,253
Income tax expense recognized in profit or loss	$ 152,043	$ 198,880

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

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

For the year ended December 31, 2019

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Ending balance
Temporary differences					
Exchange gain and loss	$ 12,816	$ 6,303	$ –	$ –	$ 19,119
Allowance for inventory valuation and obsolescence loss	17,292	(6,062)	–	–	11,230
Investments accounted for under the equity method	(95,479)	28,269	16,218	(169)	(51,161)
Unrealized intra-group profits and losses	7,507	(935)	–	–	6,572
Impairment of assets	1,320	–	–	–	1,320
Allowance for doubtful accounts	2,335	(2,595)	–	–	(260)
Net defined benefit liabilities	27,684	1,256	14,970	–	43,910
Others	(1,225)	(3,995)	–	–	(5,220)
Deferred income tax benefit (expense)		$ 22,241	$ 31,188	$ (169)	
Net deferred income tax assets (liabilities)	$ (27,750)				$ 25,510
Reflected in balance sheets as follows:					
Deferred income tax assets	$ 100,000				$ 136,925
Deferred income tax liabilities	$ 127,750				$ 111,415

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 sheets as follows:					
Deferred income tax assets	$ 99,874				$ 100,000
Deferred income tax liabilities	$ 176,294				$ 127,750

D. Unrecognized deferred income tax assets:

As of December 31, 2019 and 2018, the Company had no deferred income tax assets that had not been recognized.

E. The assessment of income tax returns:

As of December 31, 2019, the Company's income tax return was assessed and approved up to 2017.

(24) Earnings per share (EPS)

	Year Ended December 31, 2019		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT$)
Basic earnings per share			
Net income attributable to common shareholders of the Company	$ 630,681	209,120	$ 3.02
Effect of dilutive potential common stocks			
Employee compensation - stock	—	1,347	
Diluted earnings per share			
Net income attributable to common shareholders of the Company and effect of potential common stocks	$ 630,681	210,467	$ 3.00

	Year Ended December 31, 2018		
	Amount after-tax	Weighted average number of outstanding shares (in thousands)	EPS (NT$)
Basic earnings per share			
Net income attributable 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 attributable to common shareholders of the Company and effect of potential common stocks	$ 672,309	211,226	$ 3.18

7. Related Party Transactions

(1) Names and relationships

Name	Relationship
Taistar Co., Ltd.	100% owned subsidiary
Leadmax Limited (Leadmax)	100% owned subsidiary
TSC International Ltd. (TSC)	100% owned second-tier subsidiary
Kunshan Taiflex Electronic Material Co., Ltd. (Kunshan Taiflex)	100% owned third-tier subsidiary

(Continued)

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

Name	Relationship
Taiflex Scientific (Kunshan) Co., Ltd. (Taiflex Kunshan)	100% owned third-tier subsidiary
TFS Co., Ltd.	100% owned subsidiary
Richstar Co., Ltd.	100% owned second-tier subsidiary
Shenzhen Taiflex Electronic Co., Ltd.	100% owned third-tier subsidiary
Innovision FlexTech Corp. (Innovision)	Investee under the equity method (shareholding of 15.07%)
Geckos Technology Corp.	Investee under the equity method (shareholding of 31.24%)
Koatech Technology Corporation (Koatech)	53.86% owned subsidiary
Innatech Co., Ltd. (Innatech)	A substantive related party
Taiflex Scientific Japan Co., Ltd.	100% owned subsidiary
Taiflex USA Corporation	100% owned subsidiary
Rudong Fuzhan Scientific Co., Ltd.	100% owned subsidiary

(Concluded)

(2) Significant transactions with related parties

A. Sales

	Years Ended December 31	
	2019	2018
Subsidiaries	$ 2,160,948	$ 2,193,993

The sales prices of related party transactions were determined through mutual agreements based on market conditions. The outstanding balances as of December 31, 2019 and 2018 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	
	2019	2018
Subsidiaries	$ 31,977	$ 110,029

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, 2019	December 31, 2018
Subsidiaries	$ 1,068,051	$ 1,348,288

D. Other receivables - related parties

(a) Non-financing

	December 31, 2019	December 31, 2018
Subsidiaries	$ 41,866	$ 225,166

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

(b) Financing

	December 31, 2019					
	Maximum Balance	Ending Balance	Amount Actually Drawn	Interest Receivable	Interest Rate	Interest Income
Subsidiaries	$ 1,390,708	$ 420,658	$ 416,666	$ 1,246	1.70%～4.0%	$13,329

	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

E. Accounts payable - related parties

	December 31, 2019	December 31, 2018
Subsidiaries	$ 3,092	$ 26,934

F. Other payables – related parties

	December 31, 2019	December 31, 2018
Subsidiaries	$ 13,262	$ 31,113
Other related parties	7,932	648
Total	$ 21,194	$ 31,761

G. Compensation to key management

	Years Ended December 31	
	2019	2018
Short-term employee benefits	$ 40,152	$ 62,701
Post-employment benefits	435	509
Total	$ 40,587	$ 63,210

8. Pledged Assets

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

	Carrying Amount		
	December 31, 2019	December 31, 2018	Purpose of Pledge
Time deposits (Note)	$ 20,031	$ 20,413	Customs guarantee
Buildings	40,928	42,277	Letter of credit and short-term credit facilities
Total	$ 60,959	$ 62,690	

Note: These were recognized as other current assets.

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

9. Significant Contingencies and Unrecognized Contract Commitments

Details of the Company's unused letters of credit as of December 31, 2019 were as follows:

	L / C Balance	
USD	US$	3,495 thousand
JPY	JPY	30,000 thousand
EUR	EUR	2,803 thousand

10. Significant Disaster Loss

None.

11. Significant Subsequent Events

None.

12. Others

(1) Categories of financial instruments

Financial assets

	December 31, 2019	December 31, 2018
Financial assets at fair value through profit or loss:		
Mandatorily at fair value through profit or loss	$ 38,131	$ 20,820
Financial assets at amortized cost:		
Cash and cash equivalents (excluding cash on hand)	1,678,169	1,064,722
Financial assets at amortized cost	49,000	—
Receivables	2,975,863	4,665,651
Other financial assets - current	20,031	20,413

Financial liabilities

	December 31, 2019	December 31, 2018
Financial liabilities at fair value through profit or loss:		
Held for trading	$ 278	$ 2,453
Financial liabilities at amortized cost:		
Short-term loans	670,000	1,165,000
Payables	1,233,717	2,223,967
Long-term loans (including current portion)	900,000	295,000
Lease liabilities	261,182	—

Note: 1. The Company adopted IFRS 16 on January 1, 2019 and chose not to restate the comparative periods in accordance with the Standard's transitional provisions.

(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.

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

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

A 5% increase/decrease in the prices of listed companies' stocks classified as mandatorily at fair value through profit or loss could cause the profit or loss for the years ended December 31, 2019 and 2018 to increase/decrease by NT$1,749 thousand and NT$1,021 thousand, respectively.

D. Pre-tax sensitivity analysis was as follows:

For the year ended December 31, 2019

Key Risk	Variation	Sensitivity of Profit or Loss
Foreign currency risk	NTD/USD appreciate/depreciate by 1%	−/+ NT$16,975 thousand
	NTD/CNY appreciate/depreciate by 1%	−/+ NT$12,918 thousand
Interest rate risk	Market interest rate increase/decrease by 10 basis points	+/− NT$ 158 thousand

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

(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 accounts and notes receivable) and financing activities (primarily 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 and rating from credit rating agencies, past experience, current economic environment, the Company's internal rating criteria, etc. The Company also uses some credit enhancement tools, such as prepayments or insurances, to reduce the credit risk of certain customers.

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 also included the contractual interest. The undiscounted interest payment relating to borrowings with variable interest rates was extrapolated based on the yield curve as of the end of the reporting period.

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

Non-derivative financial liabilities

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2019					
Borrowings	$ 670,656	$ 675,000	$ 225,000	$ –	$ 1,570,656
Payables	1,233,717	–	–	–	1,233,717
Lease liabilities	11,058	18,119	10,070	221,935	261,182
December 31, 2018					
Borrowings	$ 1,165,530	$ 295,000	$ –	$ –	$ 1,460,530
Payables	2,223,967	–	–	–	2,223,967

Derivative financial liabilities

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2019					
Inflows	$ 768,739	$ –	$ –	$ –	$ 768,739
Outflows	$ 770,698	–	–	–	$ 770,698
Net	$ (1,959)	$ –	$ –	$ –	$ (1,959)
December 31, 2018					
Inflows	$ 508,174	$ –	$ –	$ –	$ 508,174
Outflows	$ 586,902	–	–	–	$ 586,902
Net	$ (78,728)	$ –	$ –	$ –	$ (78,728)

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, 2019:

	Short-term Loan	Long-term Loan	Lease Liability	Total Liabilities from Financing Activities
As of January 1, 2019	$1,165,000	$ 295,000	$ 261,602	$ 1,721,602
Cash flows	(495,000)	605,000	(15,812)	94,188
Non-cash movement	–	–	15,392	–
As of December 31, 2019	$ 670,000	$ 900,000	$ 261,182	$ 1,815,790

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

(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 prices (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(9) for details.

(8) Derivative instruments

As of December 31, 2019 and 2018, 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 dates were listed as follows:

Currency	Contract Period	Contract Amount (in thousands)
December 31, 2019		
Sell CNY/Buy NTD	2019.10～2020.04	CNY 102,000/NT$ 437,360
Sell USD/Buy NTD	2019.11～2020.02	US$ 11,000/NT$ 331,379
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

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:

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

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

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

Level 3 inputs are unobservable inputs for the asset or liability

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

B. Hierarchy of fair value measurement

The 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, 2019				
Financial assets:				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	$ —	$ 3,150	$ —	$ 3,150
Stocks	34,981	—	—	34,981
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	278	—	278
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
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	—	2,453	—	2,453

For the years ended December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value hierarchy.

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

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

	December 31, 2019			December 31, 2018		
	Foreign Currencies (in thousands)	Exchange Rate	NTD	Foreign Currencies (in thousands)	Exchange Rate	NTD
Financial assets						
Monetary items						
USD	$ 71,666	30.0470	$ 2,153,828	$ 128,488	30.7220	$ 3,912,852
CNY	299,026	4.3155	1,290,447	356,854	4.4730	1,588,039
Financial liabilities						
Monetary items						
USD	$ 15,174	30.0470	$ 455,936	$ 42,285	30.7220	$ 1,299,075
JPY	227,161	0.2764	62,787	211,689	0.2781	58,871

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

As the Company 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, 2019 and 2018, the Company's foreign exchange gain (loss) amounted to NT$(103,220) thousand and NT$23,902 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, 2019 (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, 2019: 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, 2019: 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, 2019: 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, 2019: 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, 2019: Please refer to Table 5.

I. Direct or indirect significant influence or control over the investees for the year ended December 31, 2019 (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 Limit for Individual Borrower	Limit on Total Financing Amount	Note
													Item	Value			
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	Other receivables - related parties	Y	$ 948,210	–	–	1.70%~4.00%	2	–	Operating capital	–	–	–	$ 1,449,209	$ 2,898,417	(Note 7)
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	442,498	420,658	416,666	1.70%~4.00%	2	–	Operating capital	–	–	–	1,449,209	2,898,417	(Note 7)
1	Taiflex Scientific (Kunshan) Co., Ltd.	Rudong Fuzhan Scientific Co., Ltd.	Other receivables - related parties	Y	151,043	151,043	–	0%	2	–	Operating capital	–	–	–	151,049	302,098	(Note 9)
1	Taiflex Scientific (Kunshan) Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Other receivables - related parties	Y	151,043	151,043	151,043	0%	2	–	Operating capital	–	–	–	151,049	302,098	(Note 9)

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

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

Note 3: The maximum balance of financing provided to others for the year ended December 31, 2019.

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 purchase 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 drawdown 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 drawdowns 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 A Single Entity (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	$ 3,623,022	$ 126,428	$ –	$ –	$ –	–	$ 3,623,022	Y	N	N
0	Taiflex Scientific Co., Ltd.	Taiflex Scientific (Kunshan) Co., Ltd.	2	3,623,022	290,930	–	–	–	–		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Rudong Fuzhan Scientific Co., Ltd.	2	3,623,022	381,350	375,588	75,240	–	5.18%		Y	N	Y
0	Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	2	3,623,022	1,232,554	813,016	–	–	11.22%		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, 2019.

Note 5: This refers to 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, 2019 (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 Issuer (Note 2)	Financial Statement Account	December 31, 2019				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	245	$ 34,981	0.03%	$ 34,981	—

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.	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	Sales	$ 2,152,377	31.10%	180 days from end of month	—	—	$ 1,060,112	42.12%	—
Shenzhen Taiflex Electronic Co., Ltd.	Taiflex Scientific Co., Ltd.	The company's ultimate parent company	Purchases	2,152,377	89.67%	180 days from end of month	—	—	(1,060,112)	(97.71%)	—

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	$ 1,060,112	1.81	—	—	—	—	—
Taiflex Scientific Co., Ltd.	Shenzhen Taiflex Electronic Co., Ltd.	Holds 100% of the third-tier subsidiary	438,133	(Note 1)	—	—	—	—	—

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, 2019			Net Income (Loss) of Investee	Share of Profit/Loss	Note
				December 31, 2019	December 31, 2018	Shares (In Thousands)	Shareholding Percentage	Carrying Value			
Taiflex Scientific Co., Ltd.	Taistar Co., Ltd.	Belize	Investment holding	$ 704,536	$ 704,536	21,825	100.00%	$ 944,245	$ (155,743)	$ (156,465)	—
Taiflex Scientific Co., Ltd.	Leadmax Limited	Samoa	Trading of electronic materials	337	337	10	100.00%	8,345	(2,474)	(2,474)	—
Taiflex Scientific Co., Ltd.	Koatech Technology Corporation	Taiwan	Manufacturing and selling of electronic materials and components	294,102	294,102	13,700	53.86%	212,985	(26,993)	(20,169)	(Note 2)
Taiflex Scientific Co., Ltd.	Innovision FlexTech Corp.	Taiwan	Manufacturing and selling of electronic materials	102,894	102,894	3,972	15.07%	36,218	(92,140)	(13,848)	—
Taiflex Scientific Co., Ltd.	TFS Co., Ltd.	Belize	Investment holding	478,797	478,797	15,520	100.00%	470,934	24,710	24,710	(Note 1)
Taiflex Scientific Co., Ltd.	Richstar Co., Ltd.	Samoa	Investment holding	927,740	525,733	30,500	66.29%	977,510	55,884	31,057	—
Taiflex Scientific Co., Ltd.	Taiflex Scientific Japan Co., Ltd.	Japan	Trading and technical support of electronic materials	16,260	16,260	6	100.00%	17,740	156	156	—
Taiflex Scientific Co., Ltd.	Taiflex USA Corporation	U.S.A.	Technical support and marketing of electronic materials	8,820	8,820	1	100.00%	9,513	871	871	—
Taiflex Scientific Co., Ltd.	Geckos Technology Corp.	Taiwan	Manufacturing and selling of electronic materials	16,182	—	1,562	31.24%	13,252	(16,635)	(3,740)	—
TFS Co., Ltd.	Richstar Co., Ltd.	Samoa	Investment holding	478,563	478,563	15,510	33.71%	497,088	55,884	24,827	—
Taistar Co., Ltd.	TSC International Ltd.	Cayman Islands	Investment holding	683,946	683,946	21,170	100.00%	755,337	(149,997)	(149,997)	—
Koatech Technology Corporation	KTC Global Co., Ltd.	Samoa	Investment holding	28,649	28,649	960	100.00%	14,696	(298)	(298)	—
KTC Global Co., Ltd.	KTC PanAsia Co., Ltd.	Samoa	Investment holding	28,500	28,500	955	100.00%	14,541	(298)	(298)	—

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)

Investor	Investee	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflows of Investment from Taiwan as of January 1, 2019	Investment Flows		Accumulated Outflows of Investment from Taiwan as of December 31, 2019	Profit/Loss of Investee	Percentage of Ownership (Direct or Indirect Investment)	Share of Profit/Loss	Carrying Amount as of December 31, 2019	Accumulated Inward Remittances of Earnings as of December 31, 2019
						Outflow	Inflow						
Taiflex Scientific Co., Ltd.	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	$ (149,987)	100.00%	$ (149,987)	$755,246	—
	Rudong Fuzhan Scientific Co., Ltd.	Manufacturing and selling of electronic materials	$927,740 (US$30,500,000)	2	525,733	$402,007	—	927,740	29,049	100.00%	29,049	925,551	—
	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	26,870	100.00%	26,870	548,948	—
Koatech Technology Corporation	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	(298)	53.86%	(161)	7,824	—

	Accumulated Outflows of Investment from Taiwan to Mainland China as of December 31, 2019	Investment Amounts Authorized by the Investment Commission, MOEA	Upper Limit on Investment
Taiflex Scientific Co., Ltd.	$2,174,041	$2,326,872	(Note 3)
Koatech Technology Corporation	$28,351	$40,318	$138,578 (Note 4)

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, either 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 Company received official documents issued by the Industrial Development Bureau, Ministry of Economic Affairs certifying the Company being qualified for operating headquarters in May 2019. Thus, the limit stipulated in the “Regulations Governing the Examination of Investment or Technical Cooperation in Mainland China” does not apply.

Note 4: The upper limit on investment is calculated as follows:
Koatech Technology Corporation: NT$230,964 thousand × 60% = NT$138,578 thousand

TAIFLEX SCIENTIFIC COMPANY LIMITED

1. STATEMENT OF CASH AND CASH EQUIVALENTS

December 31, 2019

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Petty cash		$ 150	
Cash on hand		183	
Subtotal		333	
Bank deposits:			
Checking & demand deposits in NTD		646,445	Exchange rate:
Demand deposits - USD	US$ 23,692 thousand	711,865	30.0470
Demand deposits – JPY	JPY 9,812 thousand	2,712	0.2764
Demand deposits – HKD	HK$ 7 thousand	25	3.8590
Demand deposits – CNY	CNY 48,683 thousand	210,093	4.3155
Demand deposits – EUR	EUR 1,700 thousand	57,229	33.6640
Time deposits - NTD		49,800	
Subtotal		1,678,169	
Total		$ 1,678,502	

TAIFLEX SCIENTIFIC COMPANY LIMITED
2. STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE
THROUGH PROFIT OR LOSS - CURRENT
December 31, 2019

In Thousands of New Taiwan Dollars

Name	Description	Number of Stocks	Fair Value		Note
			Unit Price	Total	
Listed stocks	Zhen Ding Technology Holding Limited	244,625	143.00	$ 34,981	
Forward foreign exchange contract	Notional amount of US$11,000 thousand			1,936	
Forward foreign exchange contract	Notional amount of CNY90,000 thousand			1,214	
				$ 38,131	

TAIFLEX SCIENTIFIC COMPANY LIMITED
3. STATEMENT OF FINANCIAL ASSETS AT AMORTIZED COST - CURRENT
December 31, 2019

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Time deposits in NTD		$ 49,000	
		$ 49,000	

TAIFLEX SCIENTIFIC COMPANY LIMITED

4. STATEMENT OF NOTES RECEIVABLE, NET

December 31, 2019

In Thousands of New Taiwan Dollars

Customer	Description	Amount	Note
Company A		$ 1,799	
Company B		558	
Others (Note)		583	
Total		2,940	
Less: Loss allowance		—	
Net		$ 2,940	

Note: Customers with balances less than 5% of this account are shown in aggregate.

TAIFLEX SCIENTIFIC COMPANY LIMITED

5. STATEMENT OF ACCOUNTS RECEIVABLE, NET

December 31, 2019

In Thousands of New Taiwan Dollars

Customer	Description	Amount	Note
Company C		$ 250,444	
Company D		153,661	
Company E		148,041	
Company F		147,079	
Company G		95,840	
Company H		95,010	
Company I		93,446	
Others (Note)		462,537	
Total		1,446,058	
Less: Loss allowance		(19,842)	
Net		$ 1,426,216	

Note: Customers with balances less than 5% of this account are shown in aggregate.

TAIFLEX SCIENTIFIC COMPANY LIMITED
6. STATEMENT OF ACCOUNTS RECEIVABLE – RELATED PARTIES
December 31, 2019
In Thousands of New Taiwan Dollars

Customer	Description	Amount	Note
Shenzhen Taiflex Electronic Co., Ltd.		$ 1,060,113	
Rudong Fuzhan Scientific Co., Ltd.		7,938	
Total		1,068,051	
Less: Loss allowance		—	
Net		$ 1,068,051	

TAIFLEX SCIENTIFIC COMPANY LIMITED
7. STATEMENT OF OTHER RECEIVABLES
December 31, 2019
In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Other receivables	Receivables from sales of scraps	$ 3,090	
Income tax refund receivable	Business tax refund receivable	15,298	
Earned revenue receivable	Estimated interest income from time deposits	490	
Total		$ 18,878	

TAIFLEX SCIENTIFIC COMPANY LIMITED
8. STATEMENT OF OTHER RECEIVABLES – RELATED PARTIES
December 31, 2019
In Thousands of New Taiwan Dollars

Customer	Description	Amount	Note
Shenzhen Taiflex Electronic Co., Ltd.	Items purchased on behalf of others, financing and interests	$ 438,132	
Rudong Fuzhan Scientific Co., Ltd.	Equipment	21,646	
Total		$ 459,778	

TAIFLEX SCIENTIFIC COMPANY LIMITED
9. STATEMENT OF INVENTORIES
December 31, 2019

In Thousands of New Taiwan Dollars

Item	Cost	Net Realizable Value	Note
Raw materials	$ 282,804	$ 250,236	
Inventories in transit	708	708	
Supplies	5,171	5,171	
Work in process	65,814	65,814	
Finished goods	324,277	300,694	
Merchandise	4,147	4,147	
Total	682,921		
Less: allowance for inventory valuation losses	(56,151)		
Net	$ 626,770		

TAIFLEX SCIENTIFIC COMPANY LIMITED
10. STATEMENT OF PREPAYMENTS
December 31, 2019

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Prepaid expenses		$ 19,105	
Other prepayments		1,598	
Others (Note)		1,975	
Total		$ 22,678	

Note: Items with balances less than 5% of this account are shown in aggregate.

TAIFLEX SCIENTIFIC COMPANY LIMITED
11. STATEMENT OF OTHER CURRENT ASSETS
December 31, 2019

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Other financial assets		$ 20,031	
Other current assets – other		518	
Temporary payments		1,069	
Payment on behalf of others		166	
Total		$ 21,784	

TAIFLEX SCIENTIFIC COMPANY LIMITED

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

For the Year Ended December 31, 2019

In Thousands of New Taiwan Dollars

Investee	Beginning Balance		Increase		Decrease		Repatriation of Profits	Share of Profits/Losses of Investee	Exchange Differences Arising on Translation of Foreign Operations	Ending Balance			Market Value or Net Asset Value	Valuation Basis	Collateral/ Pledge	Note
	Shares	Amount	Shares	Amount	Shares	Amount				Shares	Percentage of Ownership	Amount				
Taistar Co., Ltd.	21,825,000	$ 1,133,837	–	$ –	–	$ 791	$ –	$ (156,465)	$ (32,336)	21,825,000	100.00%	$ 944,245	$ 944,245	Equity method	None	(Note 1)
Leadmax Limited	10,000	10,990	–	–	–	–	–	(2,474)	(171)	10,000	100.00%	8,345	8,345	Equity method	None	
Innovision FlexTech Corp.	3,610,722	51,470	361,072	40	–	–	(1,444)	(13,848)	–	3,971,794	15.07%	36,218	36,218	Equity method	None	(Note 2)
Koatech Technology Corp.	13,700,126	233,440	–	–	–	–	–	(20,169)	(286)	13,700,126	53.86%	212,985	124,397	Equity method	None	
TFS Co., Ltd.	15,520,000	469,677	–	4,534	–	10,062	–	24,710	(17,925)	15,520,000	100.00%	470,934	497,221	Equity method	None	(Note 3)
Richstar Co., Ltd.	17,500,000	564,429	13,000,000	412,069	–	–	–	31,057	(30,045)	30,500,000	66.29%	977,510	977,510	Equity method	None	(Note 4)
Taiflex Scientific Japan Co., Ltd.	6,000	17,696	–	–	–	–	–	156	(112)	6,000	100.00%	17,740	17,740	Equity method	None	
Taiflex USA Corporation	1,000	8,861	–	–	–	–	–	871	(219)	1,000	100.00%	9,513	9,513	Equity method	None	
Geckos Technology Corp.	–	–	1,561,960	16,992	–	–	–	(3,740)	–	1,561,960	31.24%	13,252	13,252	Equity method	None	(Note 5)
Subtotal		$ 2,490,400		$ 433,635		$ 10,853	$ (1,444)	$ (139,902)	$ (81,094)			$ 2,690,742				
Less: Accumulated impairment		–		–		–	–	–	–			–				
Net		$ 2,490,400		$ 433,635		$ 10,853	$ (1,444)	$ (139,902)	$ (81,094)			$ 2,690,742				

(Note 1): The decrease was a result of downstream transactions between subsidiaries of NT$791 thousand.

(Note 2): The increase was a result of changes in ownership interests in subsidiaries of NT$40 thousand.

(Note 3): The increase was a result of downstream transactions between subsidiaries of NT$4,534 thousand and the decrease was a result of adjustments for non-proportional share subscription of NT$10,062 thousand.

(Note 4): The increase was a result of an increase in investment of NT$402,007 thousand and adjustments for non-proportional share subscription of NT$10,062 thousand.

(Note 5): The increase was a result of an increase in investment of NT$16,182 thousand and adjustments for non-proportional share subscription of NT$810 thousand.

TAIFLEX SCIENTIFIC COMPANY LIMITED

13. STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT

For the Year Ended December 31, 2019

In Thousands of New Taiwan Dollars

Item	Beginning Balance	Changes			Ending Balance	Collateral/ Pledge	Note
		Additions	Disposals	Reclassification			
Original cost							
Buildings	$ 987,889	$ 6,164	$ –	$ 38,794	$ 1,032,847	Part of property, plant and equipment, such as buildings, are pledged as collateral.	
Machinery and equipment	2,201,790	29,408	(44,817)	121,255	2,307,636		
Hydropower equipment	345,741	3,771	–	24,993	374,505		
Testing equipment	271,519	15,153	(3,369)	48,613	331,916		
Miscellaneous equipment	175,829	5,043	(744)	15,502	195,630		
Subtotal	3,982,768	59,539	–	249,157	4,291,464		
Construction in progress and equipment awaiting inspection	227,187	285,608	–	(252,972)	259,823		
Total cost	$ 4,209,955	$ 345,147	$ –	$ (3,815)	$ 4,551,287		

TAIFLEX SCIENTIFIC COMPANY LIMITED

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

For the Year Ended December 31, 2019

In Thousands of New Taiwan Dollars

Item	Beginning Balance	Changes			Ending Balance	Note
		Increase	Decrease	Reclassification		
Buildings	$ 212,206	$ 40,235	$ –	$ –	$ 252,441	
Machinery and equipment	1,437,528	139,629	(28,995)	–	1,548,162	
Hydropower equipment	209,057	12,964	–	–	222,021	
Testing equipment	128,354	27,808	(2,959)	–	153,203	
Miscellaneous equipment	100,525	14,530	(744)	–	114,311	
Total accumulated depreciation	$ 2,087,670	$ 235,166	$ (32,698)	$ –	$ 2,290,138	

TAIFLEX SCIENTIFIC COMPANY LIMITED
15. STATEMENT OF CHANGES IN RIGHT-OF-USE ASSETS
For the Year Ended December 31, 2019
In Thousands of New Taiwan Dollars

Item	Beginning Balance	Changes			Ending Balance	Note
		Increase	Decrease	Reclassification		
Original cost						
Right-of-use assets: Land	$ 247,999	$ –	$ –	$ –	$ 247,999	
Right-of-use assets: Buildings	2,810	–	–	–	2,810	
Right-of-use assets: Transportation equipment	10,793	10,908	(1,831)	–	19,870	
Total costs	$ 261,602	$ 10,908	$ (1,831)	$ –	$ 270,679	

TAIFLEX SCIENTIFIC COMPANY LIMITED
16. STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF RIGHT-OF-USE ASSETS
For the Year Ended December 31, 2019
In Thousands of New Taiwan Dollars

Item	Beginning Balance	Changes			Ending Balance	Note
		Increase	Decrease	Reclassification		
Right-of-use assets: Land	$ –	$ 6,066	$ –	$ –	$ 6,066	
Right-of-use assets: Buildings	–	1,054	–	–	1,054	
Right-of-use assets: Transportation equipment	–	6,020	(1,626)	–	4,394	
Total accumulated depreciation	$ –	$ 13,140	$ (1,626)	$ –	$ 11,514	

TAIFLEX SCIENTIFIC COMPANY LIMITED
17. STATEMENT OF CHANGES IN INTANGIBLE ASSETS
For the Year Ended December 31, 2019

In Thousands of New Taiwan Dollars

Item	Beginning Balance	Additions	Reclassification	Ending Balance	Note
Original cost					
Trademarks	$ 672	$ 19	$ —	$ 691	
Patents	15,656	2,314	—	17,970	
Software cost	116,916	23,353	3,441	143,710	
Total	$ 133,244	$ 25,686	$ 3,441	$ 162,371	

TAIFLEX SCIENTIFIC COMPANY LIMITED
18. STATEMENT OF CHANGES IN ACCUMULATED AMORTIZATION
OF INTANGIBLE ASSETS
For the Year Ended December 31, 2019

In Thousands of New Taiwan Dollars

Item	Beginning Balance	Additions	Reclassification	Ending Balance	Note
Trademarks	$ 318	$ 61	$ —	$ 379	
Patents	8,808	879	—	9,687	
Software cost	84,976	14,798	—	99,774	
Total	$ 94,102	$ 15,738	$ —	$ 109,840	

TAIFLEX SCIENTIFIC COMPANY LIMITED
19. STATEMENT OF DEFERRED INCOME TAX ASSETS
December 31, 2019

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Deferred income tax assets		$ 136,925	

TAIFLEX SCIENTIFIC COMPANY LIMITED
20. STATEMENT OF OTHER NON-CURRENT ASSETS
December 31, 2019

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Refundable deposits	1. Security deposit for car leases	$ 5,409	
	2. Construction bonds	1,700	
	3. Others (Note)	799	
		$ 7,908	

Note: Items with balances less than 5% of this account are shown in aggregate.

TAIFLEX SCIENTIFIC COMPANY LIMITED
21. STATEMENT OF SHORT-TERM LOANS
December 31, 2019

In Thousands of New Taiwan Dollars

Bank	Description	Loan Amount	Contract Term	Interest Rate	Note
Bank of Taiwan	Short-term working capital	$ 100,000	2019.11.26 ~ 2020.02.24	0.76% ~ 0.85%	
Bank of Taiwan	Short-term working capital	50,000	2019.12.24 ~ 2020.03.23	0.76% ~ 0.85%	
Bank of Taiwan	Short-term working capital	50,000	2019.12.24 ~ 2020.03.23	0.76% ~ 0.85%	
Citibank Taiwan	Short-term working capital	300,000	2019.12.02 ~ 2020.01.02	0.76% ~ 0.85%	
HSBC Bank (Taiwan)	Short-term working capital	20,000	2019.10.08 ~ 2020.01.17	0.76% ~ 0.85%	
HSBC Bank (Taiwan)	Short-term working capital	30,000	2019.10.18 ~ 2020.01.31	0.76% ~ 0.85%	
HSBC Bank (Taiwan)	Short-term working capital	40,000	2019.11.08 ~ 2020.02.18	0.76% ~ 0.85%	
HSBC Bank (Taiwan)	Short-term working capital	80,000	2019.12.24 ~ 2020.03.23	0.76% ~ 0.85%	
Total		$ 670,000			

TAIFLEX SCIENTIFIC COMPANY LIMITED
22. STATEMENT OF FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT
December 31, 2019

In Thousands of New Taiwan Dollars

Name	Description	Number of Stocks	Fair Value		Note
			Unit Price	Total	
Forward foreign exchange contract	Notional amount of CNY12,000 thousand			$ 278	
				$ 278	

TAIFLEX SCIENTIFIC COMPANY LIMITED
23. STATEMENT OF ACCOUNTS PAYABLES
December 31, 2019

In Thousands of New Taiwan Dollars

Vendor	Description	Amount	Note
Company J		$ 186,936	
Company K		139,248	
Company L		89,288	
Company M		59,916	
Company N		58,953	
Others (Note)		245,928	
Total		$ 780,269	

Note: Vendors with balances less than 5% of this account are shown in aggregate.

TAIFLEX SCIENTIFIC COMPANY LIMITED
24. STATEMENT OF ACCOUNTS PAYABLE – RELATED PARTIES
December 31, 2019

In Thousands of New Taiwan Dollars

Vendor	Description	Amount	Note
Koatech Technology Corp.		$ 1,242	
Shenzhen Taiflex Electronic Co., Ltd.		1,850	
Total		$ 3,092	

TAIFLEX SCIENTIFIC COMPANY LIMITED
25. STATEMENT OF OTHER PAYABLES
December 31, 2019

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Bonus payables	Year-end and performance bonuses	$ 143,696	
Employee compensation payables		64,632	
Payables on equipment		26,916	
Others (Note)		193,918	
Total		$ 429,162	

Note: Items with balances less than 5% of this account are shown in aggregate.

TAIFLEX SCIENTIFIC COMPANY LIMITED
26. STATEMENT OF OTHER PAYABLES – RELATED PARTIES
December 31, 2019

In Thousands of New Taiwan Dollars

Vendor	Description	Amount	Note
Innatech Co., Ltd.		$ 7,932	
Taiflex Scientific Japan Co., Ltd.		6,762	
Taiflex USA Corporation		6,367	
Shenzhen Taiflex Electronic Co., Ltd.		133	
Total		$ 21,194	

TAIFLEX SCIENTIFIC COMPANY LIMITED
27. STATEMENT OF LONG-TERM LOANS
December 31, 2019

In Thousands of New Taiwan Dollars

Bank	Type	Amount	Current Portion	Unamortized Syndicated Loan Fee	Net	Contract Term	Interest Rate	Collateral	Repayment
Export-Import Bank of the Republic of China	Medium to long-term credit loan	$ 150,000	$ —	$ —	$ 150,000	2019.06.28-2024.06.28	0.83%~1.05%	None	Principal will be repaid in 6 equal semiannual installments after the grace period of 30 months with quarterly interest payment.
Export-Import Bank of the Republic of China	Medium to long-term credit loan	300,000	—	—	300,000	2019.06.28-2024.06.28	0.83%~1.05%	None	Principal will be repaid in 6 equal semiannual installments after the grace period of 30 months with quarterly interest payment.
Mizuho Bank	Medium to long-term credit loan	60,000	—	—	60,000	2019.10.05-2021.10.05	0.83%~1.05%	None	Revolving during the 2 years after the commencement date with monthly interest payment.
Mizuho Bank	Medium to long-term credit loan	150,000	—	—	150,000	2019.10.05-2021.10.05	0.83%~1.05%	None	Revolving during the 2 years after the commencement date with monthly interest payment.
Mizuho Bank	Medium to long-term credit loan	90,000	—	—	90,000	2019.10.05-2021.10.05	0.83%~1.05%	None	Revolving during the 2 years after the commencement date with monthly interest payment.
KGI Bank	Medium to long-term credit loan	150,000	—	—	150,000	2019.07.18-2021.07.18	0.83%~1.05%	None	Revolving during the 2 years after the commencement date with monthly interest payment.
Total		$ 900,000	$ —	$ —	$ 900,000				

TAIFLEX SCIENTIFIC COMPANY LIMITED
28. STATEMENT OF LEASE LIABILITIES
December 31, 2019
In Thousands of New Taiwan Dollars

Item	Description	Lease Term	Discount Rate	Ending Balance	Note
Land		2009.02.01-2068.01.30	1.7970%	$ 243,847	
Buildings		2018.08.20-2021.08.19	1.7970%	1,772	
Transportation equipment		2015.02.26-2024.02.19	1.0511%~1.7970%	15,563	
			Total	$ 261,182	
			Current portion of lease liabilities	(11,058)	
			Lease liabilities – non-current	$ 250,124	

TAIFLEX SCIENTIFIC COMPANY LIMITED
29. STATEMENT OF OTHER CURRENT LIABILITIES
December 31, 2019
In Thousands of New Taiwan Dollars

Item	Amount	Note
Temporary receipts	$ 191	
Receipts under custody	1,771	
Total	$ 1,962	

TAIFLEX SCIENTIFIC COMPANY LIMITED
30. STATEMENT OF DEFERRED INCOME TAX LIABILITIES
December 31, 2019
In Thousands of New Taiwan Dollars

Item	Amount	Note
Deferred income tax liabilities	$ 111,415	

TAIFLEX SCIENTIFIC COMPANY LIMITED
31. STATEMENT OF NET DEFINED BENEFIT LIABILITIES – NON-CURRENT
For the Year Ended December 31, 2019
In Thousands of New Taiwan Dollars

Item	Amount	Note
Beginning balance	$ 138,423	
Expenses incurred	8,962	
Contribution	(2,686)	
Actuarial gain (loss)	74,851	
Ending balance	$ 219,550	

TAIFLEX SCIENTIFIC COMPANY LIMITED
32. STATEMENT OF NET REVENUE
For the Year Ended December 31, 2019
In Thousands of New Taiwan Dollars

Item	Quantity	Amount
Electronic materials	34,614,901	$ 6,902,057
Others (Note)	1,814,447	91,133
Total		6,993,190
Less: Sales returns and discounts and allowances		(73,695)
Net		$ 6,919,495

Note: Items with balances less than 10% of this account are shown in aggregate.

TAIFLEX SCIENTIFIC COMPANY LIMITED
33. STATEMENT OF COST OF REVENUE
For the Year Ended December 31, 2019
In Thousands of New Taiwan Dollars

Item			Amount
Manufacturing:			
	Raw materials, beginning balance		$ 604,440
	Add:	Raw materials purchased	3,979,092
	Less:	Raw materials, ending balance	(283,243)
		Others	(73,981)
		Sale of raw materials	(52,591)
		Scrapped	(633)
	Raw materials used		4,173,084
	Direct labor		274,562
	Manufacturing overhead		842,347
	Total manufacturing cost		5,289,993
	Add:	Work in process, beginning balance	46,262
	Less:	Work in process, ending balance	(65,814)
	Cost of finished goods		5,270,441
	Add:	Finished goods, beginning balance	276,763
	Less:	Finished goods, ending balance	(324,277)
		Others	(76,781)
		Scrapped	(8,543)
	Total cost of production and marketing		5,137,603
Trading:			
	Merchandise, beginning balance		4,650
	Add:	Purchases	43,192
	Less:	Merchandise, ending balance	(4,415)
		Others	(129)
		Scrapped	(6)
	Cost of goods sold		5,180,895
	Others		14,463
	Total cost of revenue		$ 5,195,358

TAIFLEX SCIENTIFIC COMPANY LIMITED
34. STATEMENT OF OPERATING EXPENSES
For the Year Ended December 31, 2019

In Thousands of New Taiwan Dollars

Item	Sales and Marketing Expenses	General and Administrative Expenses	Research and Development Expenses	Total
Payroll	$ 37,888	$ 123,488	$ 88,570	$ 249,946
Commissioned research	—	—	90,994	90,994
Export	102,258	—	—	102,258
Others (Note)	102,977	120,839	86,198	310,014
Total	$ 243,123	$ 244,327	$ 265,762	$ 753,212

Note: Items with balances less than 5% of this account are shown in aggregate.

TAIFLEX SCIENTIFIC COMPANY LIMITED
35. STATEMENT OF NON-OPERATING INCOME AND EXPENSES
For the Year Ended December 31, 2019
In Thousands of New Taiwan Dollars

Item	Amount
Interest income	$ 20,774
Dividend income	1,136
Rent income	870
Miscellaneous income	13,915
Total other income	36,695
Gain on disposal of property, plant and equipment	1,481
Foreign exchange (loss) gain, net	(103,220)
Net gain (loss) on financial assets and liabilities at fair value through profit or loss	12,395
Other losses	(1,200)
Total other gains and losses	(90,544)
Finance costs	(17,114)
Share of profit or loss of subsidiaries and associates accounted for under the equity method	(139,902)
Total non-operating income and expenses	$ (210,865)

TAIFLEX Scientific Co., Ltd.

Chairperson: Ta-Wen Sun