



TECO ELECTRIC & MACHINERY CO., LTD.

# 2018

Annual Report



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### **Auditors**

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### **Corporate Website**

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### **Taiwan Stock Exchange Market Observation Post System:**

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## **Headquarter, Branches and Plants**

### **Headquarter**

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### **Plant Chung-Li**

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## I. Letter to Shareholders



Dear Shareholders,

External environment fluctuated in 2018, posing multiple challenges for enterprise. Volatile factors include prolonging China-U.S. trade friction, stagnant Brexit, attempt by North Korea to return to the international arena, and slackened market of crude oil and raw materials. However, continuing expansion of the electric-car market has triggered demands for auto motors, and the automation and AI current has fostered huge business potential. In the quest for sustainable development, the company has adhered to the vision of "energy conservation, emission reduction, intelligence, and automation," pushing the automation, smart production, and consistency of the company's production bases

worldwide and rolling out innovative high-performance and smart products, in order to uphold strong growth momentum, minimize the effect of external changes, and retain steady profits.

### A. Review of Business Performance in 2018

Analysis of the company's business performance in 2018 follows:

#### a. Parent Company

Unit: NT\$ thousand

	2018	2017	Change
Sales revenue	20,879,719	21,301,208	-1.98%
Operating profit	1,410,943	1,507,068	-6.38%
Profit for the year	3,150,089	3,092,358	1.87%

Motor's order intake and sales picked up significantly, thanks to increased share on domestic and Australian markets, plus robust demands from power generation and oil & gas industries in North America. Affected by sluggish realty market and private consumption, sales of home appliances and power devices dropped. In general, the company's 2018 revenue scored slight decline of 1.98%.

In response to China-U.S. trade war, some orders for the U.S. were shifted to Taiwan for production, dampening gross margin. Consequently, the company has endeavored to cut material and other costs, reduce product weight and size, to boost competitiveness. Still, affected mainly by profit margin drop of air conditioning products, overall gross margin decreased by 0.9%. The company, though, managed to decrease operating expense by near NT\$70 million, via working-flow improvement and outlay rationalization, as a result of which operating profit only declined by NT\$96 million.

Continuing sales and profit growth of affiliates in China, North America, and Australia led to increase of NT\$330 million in investment income under equity method in 2018. In 2018, the company's net profit increased by 1.87%.

In 2018, the company had a remarkable performance in R&D, launching high-power smart motor, permanent-magnet motor for electric car, smart air quality and air-conditioning energy management system for hospitals, and service-oriented robot, which won the company 15 awards of Taiwan Excellent Award, the highest among electromechanical manufacturers.

## b.Consolidated Financial Statements

Unit: NT\$ thousand

	2018	2017	Change
Sales revenue	50,104,927	50,942,521	-1.64%
Operating profit	3,520,486	3,496,200	0.69%
Profit for the year	3,475,969	3,544,248	-1.93%
Total comprehensive income for the year	3,908,980	4,326,037	-9.64%

Sales in China grew, thanks to the policy separating production and sales, increased market share of large-sized motor and air-separation equipment, grasp of the business opportunities related to "Road and Belt" program, and focus on gear reducer and explosion-proof electric machinery. Sales in North America and Europe both scored double-digit growth, thanks to brisk demands for large-sized motors and gear reducers, respectively, while sales growth in Australia exceeds 5% and domestic sales also grew, despite exclusion of the revenue of Kuenling Air. After excluding the contribution of Kuenling Air, operating income still grew slightly by NT\$60 million, due to merger of regional organizations and further rationalization of expenses. Affected by loss in the valuation of financial assets and reduced investment income, current net profit dropped by 1.93%, while total comprehensive income also tumbled by 9.64%, due to decline in unrealized valuation income from equity investment instruments.

**B.Outline of 2019 Business Plan**

In the coming year, the company will continue embracing the vision of "energy conservation, emission reduction, intelligence, and automation," focusing on IoT-enabled motor digital service, double growth for inverters, electromechanical equipment sales program, overseas electromechanical engineering, and smart communities, so as to sustain sales growth.

- For energy conservation and emission reduction, the company has engaged in the RD& on high-efficiency low-energy consumption permanent-magnet motor for use as motive force, and the development, via utilization of "synchronous reluctance assisted permanent magnet technology," of traction power modules, for deployment in the markets of electric cars and electric vessels. The company is also actively foraying into the supply chain for offshore wind-power turbines, plans to engage in the grid-connection power control panel and assembly of wind turbine, using Taiwan as a springboard for inroads into the markets of Japan, South Korea, and Southeast Asia.
- To achieve intelligence and automation, the company will establish industry IoT at all of its factories, on the basis of MES (manufacturing execution system), which will be coupled with big-data analysis in forging smart electromechanical factory solutions. Automated guided vehicles and service-oriented robots will also be applied, to further boost the operating efficiency of factories.

**C.External Competition, Legal and Microeconomy**

The global economy is expected to remain sluggish in 2019, according to the prediction of major forecast bodies. The Cabinet-level Directorate General of Budget, Accounting, and Statistics forecasts that Taiwan's economy will score 2.27% growth in 2019, compared with the forecasts of other bodies ranging 2.18-2.45%. Faced with even steeper challenges, the company will continually strive for technology innovation, accelerate to enhance the technology level and installation of automatic and intelligent prosution equipment, in order to minimize the impact from external unfavorable factors to sustain the business growth and profit.

The company has been granted golden award of Taiwan Top 50 Corporate Sustainability Report Award for five years in row and Corporate Citizen Award by Commonwealth magazine for seven consecutive years. As a vanguard of Taiwan's electromechanical industry, the company will continue adhering to the concept of sustainable development and, in response to the need for innovative technology and the current of Industry 4.0, will dedicate to the development of IoT and smart environment-friendly products, in the hope of turning in a good performance amid stern international environment and creating optimal benefits for shareholders and investing public, in return for their longstanding support and patronage.

Chairman Sophia  
TECO Electric & Machinery Co., Ltd



## II. Company Profile

**Date of Incorporation: June, 1956**

### Company History

- 1956 Established
- 1970 Produced air conditioners and entered the home appliances market
- 1986 Joint venture with Westinghouse Electric to form TECO Westinghouse Motor
- 1989 Founded TECO Industry Malaysia Sdn. Bhd.
- 1990 Founded Toshiba Compressor (Taiwan) Corp. with Toshiba
- 1992 Established Yatec Engineering Corporation with Yaskawa Electric Manufacture Co., Ltd of Japan
- 1995 Acquired Westinghouse Motor Co., Ltd (USA)
- 1998 Founded TECO Electro Devices Co., Ltd. for manufacturing of stepping motors
- 1999 Founded TECO (Dong Guan) Air Conditioning Equipment Co., Ltd. for manufacturing and sales of commercial air conditioning
- 2000 Founded Suzhou TECO Electric & Machinery Co., Ltd for the production and distribution of small motors
- 2001 Established Smart Card Division for National Health Insurance IC-card project
- 2002 Founded Wuxi TECO with China Steel, Nippon Steel and Marubeni-Itochu Steel for production and distribution of large motors
- 2003 Wuxi TECO Electric & Machinery Co., Ltd commenced mass production Merged Tai-An Electric Co., Ltd.
- 2004 Exported large-sized LCD TV to Japan Established Jiangxi TECO Electric & Machinery Co., Ltd.
- 2005 Founded Yaskawa TECO Motor Engineering Corp. to expand to Japanese market Won bid of orange/blue line extension projects of TRTS project
- 2006 Strategic alliance with CTC to set up the first Wind Power Project in Texas, USA  
Founded TECO (Vietnam) Electric & Machinery Co., Ltd.  
Founded TECO Electric & Machinery (Chin-Tao) Co., Ltd. to manufacture compressors
- 2007 Joint venture with South Korea's Finetec Century in setting up a compressor manufacturing facility in Qingdao, China Launched into Wind-Power Generation; introduce a 2MW Wind-Power generator  
Set up Asia Innovative Technology (Xiamen) to produce LCD monitors  
Announced the "TECO Go Eco" declaration to join the cause of reducing carbon emissions
- 2008 Founded Fujian TECO Precision Co., Ltd.  
Asia Innovative Technology Co., Ltd. (Xiamen) commenced operation  
TECO Electric & Machinery (Qingdao) Co., Ltd. commenced production
- 2009 Completion of TECO Mexico plant  
Inauguration of Qingdao TECO Century  
Inauguration of Tianjin operating center
- 2010 Inauguration of Fujian Teco Precision Co., Ltd.  
Rollout of TECO's first 2MW wind-power turbine  
Inauguration of TECO Sichuan Trading Co., Ltd.



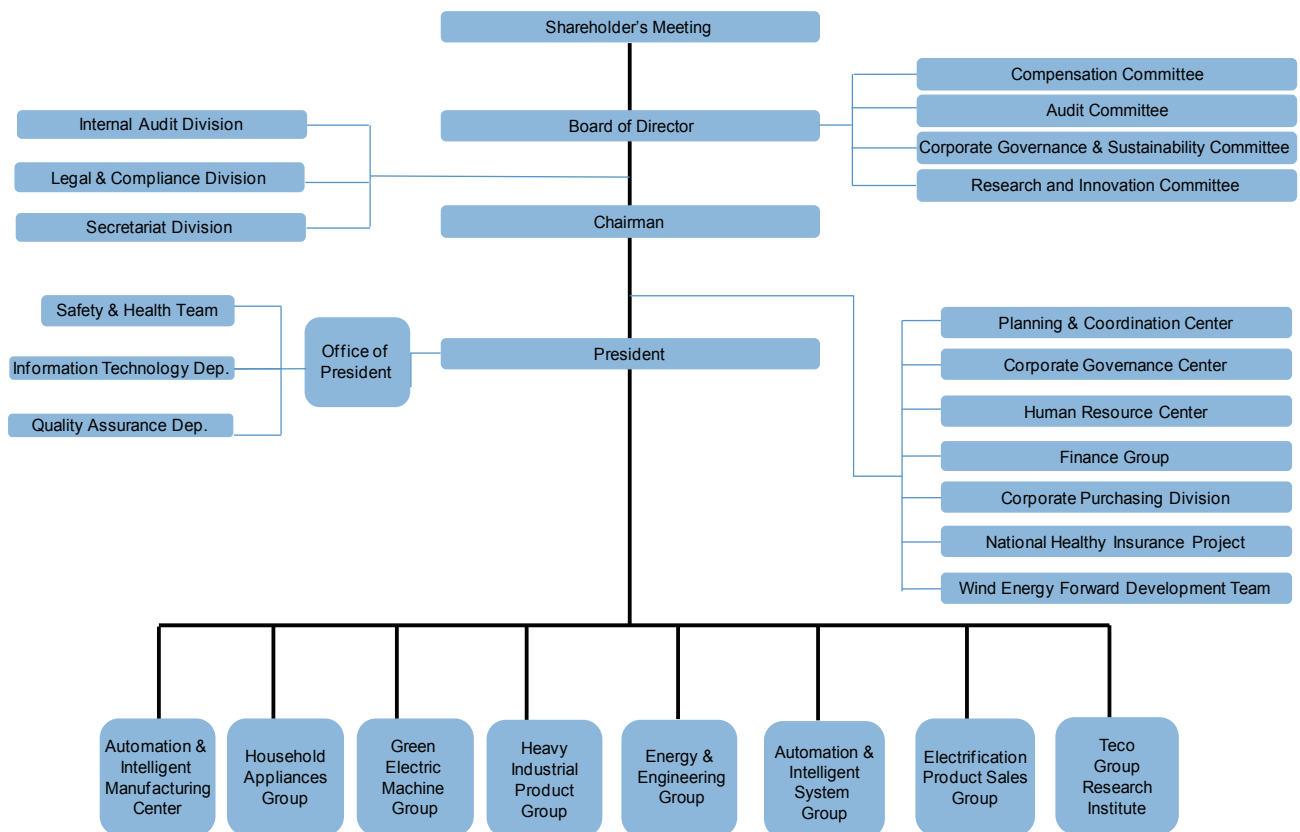
- 2011 Formal operation of TECO's large-scale 2MW wind turbine  
Completion the new plant of Tai-An Technology (Wuxi) Co., Ltd.  
Inauguration the new plant of TECO Middle East (TME)
- 2012 Gained corporate-citizen award granted by Common Wealth magazine  
Announced whole series electric vehicle motor  
TECO's 2MW wind-power turbine got golden medal of Taiwan Excellence Awards
- 2013 Grand opening of TECO's Turkey branch  
Winning the "Award of Corporate Citizen" granted by Commonwealth magazine for the second time  
Formation of strategic alliance with Kuenling Machinery Refrigerating Co., Ltd.  
Issuance of renminbi-denominated Formosa bond
- 2014 Social harmony award & Champion for the category of big-enterprise technology at Taiwan Corporate Sustainability Awards(TCSA)  
"Award of Corporate Citizen" granted by Commonwealth magazine for the third consecutive year  
Nation's foremost electric-machinery manufacturer, according to the study on the Top 2,000 enterprises conducted by the Commonwealth magazine  
Dedicated to pushing energy-conserving and environment-friendly products, TECO's high efficiency motor, smart appliances and other seven products were awarded "Taiwan Excellence Award"  
Inauguration of Hunan TECO Wind Energy Limited
- 2015 Acquired Motovario S.p.A, extending the operation from motors to power transmission system, and facilitating expansion of TECO's operation into Europe  
Erected a joint venture with China Steel Machinery, aiming at offshore wind turbine market  
"Award of Corporate Citizen" granted by Commonwealth magazine for the fourth consecutive year  
Acquired top 5% of Corporate Governance Evaluation for the first consecutive year  
Nation's foremost electric-machinery manufacturer, according to the study on the Top 2,000 enterprises conducted by the Commonwealth magazine
- 2016 The diecasting center in Wuxi was opened with certification of LEED  
The automatic product center for motor stator was erected  
TECO's 60 Anniversary, keeps moving forward to intelligent automation  
Social harmony award & Champion for the category of big-enterprise technology at Taiwan Corporate Sustainability Awards(TCSA) for the third consecutive year  
Acquired top 5% of Corporate Governance Evaluation for the second consecutive year  
"Award of Corporate Citizen" granted by Commonwealth magazine for the fifth consecutive year  
Nation's foremost electric-machinery manufacturer, according to the study on the Top 2,000 enterprises conducted by the Commonwealth magazine  
Subscribed 100 million kWH green electricity which can decrease emission of 50,000 kg carbon  
Rotor with venting function acquired National Invention&Creation Prize
- 2017 Opening automatic stator manufacturing center to realize the spirit of "energy conservation, emissions reduction, intelligence and automation"  
Taiwan Corporate Sustainability Awards (TCSA) for the fourth consecutive year  
Acquired top 5% of Corporate Governance Evaluation for the third consecutive year  
"Award of Corporate Citizen" granted by Commonwealth magazine for the sixth consecutive year  
Nation's foremost electric-machinery manufacturer, according to the study on the Top 2,000 enterprises conducted by the Commonwealth magazine  
TECO inked production/sales and technological cooperation agreement with Visedo of Finland  
Theodore Huang, chairman of TECO Group, was granted by the Japanese government the "Order of the Rising Sun."  
Granted National Innovation Award for Air-Quality Monitoring System  
TECO Smart E-Tricycle Wins 2018 System Integration Award
- 2018 Ground breaking for TECO's plant in Binh Duong province, Vietnam  
Granted Taiwan Corporate Sustainability Awards for fifth straight year  
Inclusion in top 5% among public companies in corporate governance evaluation for fourth year in a row  
Rollout of "Very High Power Density and Smart Motor"  
Signing of memorandum of understanding with Mitsubishi Vesta Offshore Wind for cooperation  
Granted "smart machinery golden awards" for the "automated motor-stator production center" at the Chungli plant  
Honor of emerging brands in Taiwan international brand awards



### III. Corporate Governance Report

#### 3.1 Organization

##### 3.1.1 Organization Chart



### 3.1.2 Major Corporate Functions

Business Unit	Operations
Heavy Industrial Products Group	Production of medium to large-sized 3-phase motors, medium to large-sized high-efficiency motors, medium to large-sized explosion-proof motors, medium to large-sized inverter-duty motors, DC motor and medium to large-sized generators.
Green Electric Machine Group	Production of single-phase motors, vehicle-used motors, permanent magnet motors, small-sized 3-phase motors, small-sized high-efficiency motors, small-sized explosion-proof motors, small-sized inverter-duty motors, small-sized generators, die casting.
Automation & Intelligent System Group	Production of inverters and programmable logic controllers, servo controllers and so on Production and sale of AGV(automated guided vehicle)
Energy & Engineering Group	Supplier of professional electric equipment and systems-related materials (R&D, design, production, and sales of equipment) Undertaking of projects related to power generation and transportation (transmission & distribution of power, power plant, alternative energy, and construction and maintenance of rail stations and airports, as well as railway power system); Air-conditioning equipment for specific environments such as clean rooms; Design, construction, and management of electrical engineering systems for high-rise buildings & Internet Data Center; integration of air-conditioning and electrical engineering systems for hospitals and hotels; Water resource/water pump stations and other related projects; Ultra-high pressure 161KV/69KV substations switchgears and installation projects; Project of smart grid and energy storage; system integration business of solar power system; Production and sale of electromagnetic switch, molded-case circuit breakers and electronic relays
Household Appliances Group	Production, assembly, sales, and repair of residential air conditioners, refrigerators, washing machines, dehumidifiers, dryers, LCD monitors, air purifiers, small appliances, DVD recorders, stereo systems, health appliances, beauty appliances, freezer storages, low-temperature caged carts, freezers, chillers for machine tools, inverter duty water/oil cooling machine tool set, assembly-type air-conditioning box, VRF air conditioning set, Water-cooled wholly encased type/semi-encased spiral type/centrifugal icy-water machine set, cloud-end smart system, business air-cooled split-type air conditioner, water-/air-cooled packaged air conditioner, air-cooled chiller machine, fan filter unit, air vent, industrial-use dehumidifier, freezing/cooling machine, dealership of other domestic and foreign home appliances brands, as well as various types of air-conditioned products.
Electrification Products Sales Group	Sales of medium to large-sized 3-phase motors, medium to large-sized high-efficiency motors, medium to large-sized explosion-proof motors, medium to large-sized inverter-duty motors, DC motor, medium to large-sized generators, single-phase motors, vehicle-used motors, permanent magnet motors, small-sized 3-phase motors, small-sized high-efficiency motors, small-sized explosion-proof motors, small-sized inverter-duty motors, small-sized generators, die casting, small-sized coolant compressors. ;Sales of inverters and programmable logic controllers, servo controllers; Overseas sales of electromagnetic switch, molded-case circuit breakers, electronic relays
Automation & Intelligent Manufacturing Center	Integration of producing resources in the company, and promote biotechnology projects improving layout of production efficiency and AIM strategy.
Teco Group Research Institute	Research and development catering to requirements of the medium-to-long term development of new products and technical support to members of the TECO group.
Intelligent System Division	Chip-embedded cards for financial, medical, membership loyalty, surveillance, e-invoice, and public transportation services; systems integration for ITS- and RFID-based cards; non-person vending machine.

## 3.2 Directors and Management Team

### 3.2.1 Directors

April. 30, 2019

Title	Nationality/ Companies Registry	Name	Date Elected	Term (Years)	Date First Elected (Note)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education )	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
						Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	ROC	Tung Kuang Investment Co., Ltd.	2018.6.15	3	2000.4.21	30,341,364	1.52%	30,341,364	1.52%	0	0	0	0	MBA, University of Michigan, Ann-Arbor	Chairman of Taiwan Pelican Express Co., Ltd Chairman of Motovario Chairman of TECO Westinghouse Motor Co., Ltd. USA	-	-	-
	ROC	Representative: Chwen-Jy, Chiu	2018.6.15	3	2006.6.15	1,741,964	0.09%	2,041,964	0.10%	16,987	0.00%	0	0					
Managing Director	ROC	Tong Ho Gloabl Investment Co., Ltd	2018.6.15	3	2000.4.21	2,240,262	0.11%	2,240,262	0.11%	0	0	0	0	Ph.D of Electric & Engineering, University of Illinois	Chairman of Tecom Co., Ltd. & Shanghai TECO Electric & Machinery Co.,Ltd	-	-	-
		Representative: Chao-Kai, Liu	2018.6.15	3	2000.4.21	300,000	0.02%	300,000	0.01%	122,018	0.01%	0	0					
Managing Director	ROC	Cheng-Tsung, Huang	2018.6.15	3	1991.5.8	15,279,849	0.76%	15,279,849	0.76%	2,110,934	0.11%	0	0	Bachelor of Economics, Fu Jen Catholic University	Chairman of Sen Yeh Construction Co., Ltd. Independent Director of Aurotek Corporation	-	-	-
Managing Director	ROC	Creative Sensor Inc.	2018.6.15	3	2009.6.19	10,000,000	0.54%	10,000,000	0.50%	0	0	0	0	Master of Electric & Engineering, Columbia University	Chairman of Creative Sensor Inc. , TECO Image Systems Co., Ltd. & Lien Chang Electronic Co., Ltd.	Director	Mao- Hsiung, Huang	Father & Son
	Japan	Representative: Yu-Ren, Huang	2018.6.15	3	2012.6.15	234,623	0.01%	234,623	0.01%	0	0	0	0					
Managing & Independent Director	ROC	Wei-Chi, Liu	2018.6.15	2	2018.6.15	0	0	0	0	0	0%	0	0	Ph.D of Business Administration, Northwestern University	Independent Director of Fusheng Precision Co., Ltd.	-	-	-
Independent Director	ROC	Jin-Fu, Chang	2018.6.15	3	2018.6.15	0	0	0	0	0	0.	0	0	Ph.D of Electric & Engineering and computer science, University of California, Berkeley	Independent Director of Taiwan Secom Co., Ltd.	-	-	-



Title	Nationality/ Companies Registry	Name	Date Elected	Term (Years)	Date First Elected (Note)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
						Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Independent Director	ROC	Ting-Wong, Cheng	2018.6.15	2	2016.6.16	0	0	0	0	0	0	0	0	Ph.D & Master of Accountancy, University of Missouri	Independent Director of Asia Pacific Telecom And SuperAlloy Industrial Co., Ltd.	-	-	-
Director	ROC	Mao-Hsiung, Huang	2018.6.15	3	1972.5.12	18,486,633	0.92%	18,486,633	0.92%	5,839,071	0.29%	0	0	Master of Economics, University of Pennsylvania	Chairman of Century Development Corporation, Tong-An Invesmtnet and Teco Australia Pte Limited.	Managing Director	Yu-Ren , Huang	Father & Son
Director	ROC	Yinge Int. Inv. Co.,Ltd	2018.6.15	3	2018.6.15	10,079,600	0.50%	14,454,698	0.72%	0	0	0	0	Master of Mechanical Engineering, University of Tokyo	Director of Tecom Co., Ltd.,	-	-	-
	ROC	Representative: Po-Chih, Huang	2018.6.15	3	1988.3.28	11,614,831	0.58%	7,344,746	0.37%	150,975	0.01%	14,454,698	0.72%			-	-	-
Director	ROC	Hung Shun Investment Co., Ltd	2018.6.15	3	2018.6.15	304,000	0.02%	604,000	0.03%	0	0	0	0	Bachelor of Business Administration, University of Southern California	Chairman of PT Group; Chairman of South Taiwan Bus	-	-	-
	ROC	Representative: Tzu-Yi, Kuo	2018.6.15	3	2018.6.15	724,559	0.04%	724,559	0.04%	0	0	0	0			-	-	-
Director	ROC	Tong-An Investment Co., Ltd.	2018.6.15	3	2018.6.15	19,540,052	0.98%	19,540,052	0.98%	0	0	0	0	Master of Business Administration, National Taiwan University of Science and Technology	Chairman of Information Technology Total Service Corp; Chairman of TECO Smart Technologies Co., Ltd.	-	-	-
	ROC	Representative : Shang-Wei, Kao	2018.6.15	3	2018.6.15	15,000	0.00%	15,000	0.00%	0	0	0	0			-	-	-
Director	ROC	Kuang Yuan Industrial Co., Ltd.	2018.6.15	3	2009.6.19	22,033,919	1.10%	22,033,919	1.10%	0	0	0	0	Ph.D. of Electric & Engineering, Northwestern University, US	Chairman of Global Strategic Venture; Independent Director of Topkey Corporation & WUS Printed Circuit	-	-	-
	ROC	Representative: Shih- Chien, Yang	2018.6.15	3	2009.6.19	0	0	0	0	0	0	0	0			-	-	-

Title	Nationality/ Companies Registry	Name	Date Elected	Term (Years)	Date First Elected (Note)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
						Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director	ROC	Tung Kuang Investment Co., Ltd.	2018.6.15	3	2000.4.21	30,341,364	1.52%	30,341,364	1.52%	0	0	0	0	Master of Mechanical Engineering, University of Houston	Chairman of TECO (Vietnam) Electric & Machinery Co.,Ltd., Wuxi TECO Precision Mechatronics Co., Ltd	-	-	-
	ROC	Representative : Hong-Hsiang, Lin	2018.6.15	3	2012.6.15	2,161,893	0.11%	2,116,893	0.11%	800,000	0.04%	0	0			-	-	-
Director	ROC	Yubantec & Co., Ltd.	2018.6.15	3	2018.6.15	13,200,000	0.66%	13,200,000	0.66%	0	0	0	0	Advance Course for Business Manager, Division of Financial Management, National Chengchi University	Chairman of Inotec Taiwan Co., Ltd; Vice Chairman of Yubantec & Co., Ltd.	-	-	-
	ROC	Representative: Tung-Hai, Kao	2018.6.15	3	2018.6.15	1,463	0.00%	1,463	0.00%	0	0	0	0			-	-	-
Director	ROC	Yung-Hsiang, Chang	2018.6.15	3	2006.9.6	0	0.00%	600,000	0.03%	0	0	0	0	Bachelor of Industrial Engineering and Management, Minghsin University of Science and Technology	Chairman of Hong Tong Co., Ltd.	-	-	-

## Data for Directors

Name	Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria(Note)										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, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have 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	
Tung Kuang Investment Co., Ltd. Representative : Chwen-Jy, Chiu			V				V	V	V	V	V	V	V		0
Tong Ho Gloabl Investment Co., Ltd Representative : Chao-Kai, Liu			V		V		V	V	V	V	V	V	V		0
Cheng-Tsung, Huang			V		V		V	V	V	V	V	V	V	V	1
Creative Sensor Inc. Representative: Yu-Ren, Huang			V				V		V		V		V		0
Wei-Chi, Liu	V		V		V	V	V	V	V	V	V	V	V	V	1
Jin-Fu, Chang	V		V		V	V	V	V	V	V	V	V	V	V	1
Ting-Wong, Cheng	V		V	V	V	V	V	V	V	V	V	V	V	V	2
Mao-Hsiung, Huang			V		V				V	V	V		V	V	0
Yinge Int. Inv. Co.,Ltd Representative : Po-Chih, Huang			V		V				V	V	V	V	V		0
Hung Shun Investment Co., Ltd Representative: Tzu-Yi, Kuo			V		V	V	V	V	V	V	V	V	V		0
Tong-An Investment Co., Ltd. Representative : Shang-Wei, Kao			V		V		V	V	V	V	V	V	V		0
Kuang Yuan Industrial Co., Ltd. Representative: Shih- Chien, Yang			V		V		V	V	V	V	V	V	V		2
Tung Kuang Investment Co., Ltd. Representative: Hong-Hsiang, Lin			V				V	V	V	V	V	V	V		0
Yubantec & Co., Ltd. Representative: Tung-Hai, Kao		V	V		V	V	V	V	V	V	V	V	V		1
Yung-Hsiang, Chang			V		V	V	V	V	V	V	V	V	V	V	0

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

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.



3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

### 3.2.2 Management Team

April 30, 2019

Title	Nationality	Name	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience ( Education )	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
				Shares	%	Shares	%	Shares	%			Title	Name	Relation
Acting President	ROC	Chao-Chih, Lien	2001.8.1	783,130	0.04%	0	0.00%	0	-	Master of Civil Engineering, Stevens Institute of Technology	Chairman of Teco Electric & Machinery Pte Ltd	-	-	-
Executive Consultant	ROC	Hong-Hsiang, Lin	1998.8.21	2,161,893	0.11%	800,000	0.04%	0	-	Master Mechanical Engineering, University of Houston	Chairman of Wuxi TECO Precision Mechatronics Co., Ltd	-	-	-
Assistant Vice President	ROC	Sheng-chyuan, Lin	2017.1.1	1,193,245	0.06%	40,434	0.00%	0	-	Bachelor of Electric & Engineering, National Taiwan University	Chairman of Teco Electro Devices Co., Ltd.	-	-	-
Assistant Vice President	ROC	Sung-Pin, Chang	2015.8.12	20,376	0.00%	0	0.00%	0	-	Bachelor of Chemical Engineering, National Tsing Hua University	Chairman of Hubbell-Taian Co., Ltd	-	-	-
Assistant Vice President	ROC	Chi-Tseng, Peng	2017.1.1	0	0.00%	0	0.00%	0	-	Master of Telecom Engineering, University of Pittsburgh	Director of A-Ok Technical Co., Ltd.	-	-	-
Assistant Vice President	ROC	Fei-Yuan, Kao	2017.1.1	30,589	0.00%	305	0.00%	0	-	Master of Mechanical Engineering, National Central University	Chairman of Wuxi Teco Co., Ltd	-	-	-
Assistant Vice President	ROC	Kevin Yeh	2017.1.1	0	0.00%	0	0.00%	0	-	Bachelor of Business Administration, Boston University	Chairman of TECO Electric Europe LTD	-	-	-
Assistant Vice President	ROC	Kuo-Min, Chen	2018.11.13	0	0.00%	0	0.00%	0	-	PH.D. of Industrial engineering and management information from Tunghai University	President of Teco Electro Devices Co., Ltd.	-	-	-
Assistant Vice President	ROC	Hank Horng	2018.1.1	0	0.00%	0	0.00%	0	-	EMBA of National Taiwan University; Master of Mechanical Engineering, National Cheng Kung University	Chairman of Taisan Electric Co., Ltd	-	-	-

### 3.2.3 Remuneration of Directors, President and Vice President

#### Remuneration of Directors (Including Independent Directors)

December 31, 2018 / Unit: NT\$ thousands

Code	Title	Name	Remuneration										Relevant remuneration received by directors who are also employees										Compensation paid to directors from an invested company other than the company's subsidiary																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																
			Base Compensation(A)		Severance Pay(B)		Bonus to Directors(C)		Allowances(D)		Ratio of total remuneration (A+B+C+D) to net income(%)		Salary, Bonuses, and Allowances (E)		Severance Pay (F)		Profit Sharing- Employee Bonus (G)				Ratio of total compensation (A+B+C+D+E+F+G) to net income(%)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
			The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	



Code	Title	Name	Remuneration								Relevant remuneration received by directors who are also employees										Compensation paid to directors from an invested company other than the company's subsidiary	
			Base Compensation(A)		Severance Pay(B)		Bonus to Directors(C)		Allowances(D)		Ratio of total remuneration (A+B+C+D) to net income(%)		Salary, Bonuses, and Allowances (E)		Severance Pay (F)		Profit Sharing- Employee Bonus (G)		Ratio of total compensation (A+B+C+D+E+F+G) to net income(%)			
			The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements			The company
11	Director	Yung-Hsiang, Chang (note 3)																				
12	Independent Director	Jin-Fu, Chang																				
13	Director	Hung Shun Investment Co., Ltd Representative: Tzu-Yi, Kuo																				
14	Director	Yubantec & Co., Ltd. Representative: Tung-Hai, Kao																				
15	Director	Tong-An Investment Co., Ltd. Representative : Shang-Wei, Kao																				
16	Managing & Independent Director	Chien-Yuan, Lin (note 2)																				
17	Director	Jing-Shown, Wu (note 2)																				
18	Director	Hsien-Sheng Kuo (note 2)																				
19	Director	Yaskawa Electric Corporation Representative: Hiroyuki Ougi (note 2)																				
20	Director	Lien Chang Electronic Co., Ltd. Representative: Ming-Feng, Yeh (note 2)																				

Note 1: Following expiration of his previous term on June 14, 2018, Po-chih, Huang was reelected as a representative of Yinge International Investment Co., Ltd on June 15, 2018.

Note 2: expiration of tenure on June 14, 2018

Note 3: Yung-hsiang, Chang was reelected on June 15, 2018, following the expiration of his previous term as a representative of Mao Yang Co., Ltd. on June 14, 2018.

Note 4: As there was no employee who retired in 2018, fund in the column is either provision or appropriation for retirement payment and is treated as expenses.

Bracket	Name of Directors(Note 1)			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company	Companies in the consolidated financial statements (I)	The company	Companies in the consolidated financial statements (J)
Under NT\$ 2,000,000	5,9,12,16,17	5,9,12,16,17	5,9,12,16	5,9,12,16
NT\$2,000,000 ~ Under NT\$5,000,000	10,11,13,14,15,20	10,11,13,14,15,20	10,11,13,14,15,17, 20	10,11,13,14,15,17, 20
NT\$5,000,000 ~ Under NT\$10,000,000	6,7,8,18,19	6,7,8,18,19	6, 8,18,19	6,8,18,19
NT\$10,000,000 ~ Under NT\$15,000,000	1,2,3,4	1,2,3,4	1,2,3,4,7	1,2,3,4,7
NT\$15,000,000 ~ Under NT\$30,000,000				
NT\$30,000,000 ~ Under NT\$50,000,000				
NT\$50,000,000 ~ Under NT\$100,000,000				
Over NT\$100,000,000				
Number of Directors	20	20	20	20

Note 1: Shown by code of Directors in the previous table

## Compensation of President and Vice President

December 31, 2018 / Unit: NT\$ thousands

Code	Title	Name	Salary (A)		Severance Pay (B)		Bonuses and Allowances (C)		Profit Sharing- Employee Bonus (D)				Ratio of total compensation (A+B+C+D) to net income(%)	Ratio of total compensation (A+B+C+D) to net income(%)	Compensation paid to the president and vice president from an invested company other than the company's subsidiary
			The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	
									Cash	Stock	Cash	Stock			
1	Chairman (note 1)	Chwen-Jy, Chiu	Total 22,948	Total 22,948	Total 1,480	Total 1,480	Total 25,919	Total 27,538	Total 18,648	-	Total 18,648	-	2.19%	2.24%	Yes
2	Acting President	Chao-Chih, Lien													
3	Executive Consultant	Hong-Hsiang, Lin													
4	Assistant Vice President	Sheng-chyuan, Lin													
5	Assistant Vice President	Steven Chiang													
6	Assistant Vice President	Sung-Pin, Chang													
7	Assistant Vice President (note 2)	K.R Chen													
8	Assistant Vice President	Chi-Tseng, Peng													
9	Assistant Vice President	Fei-Yuan, Kao													
10	Assistant Vice President	Kevin Yeh													
11	Assistant Vice President (note 3)	Kuo-Min, Chen													

Bracket	Name of President and Vice President (Note 1)	
	The company	Companies in the consolidated financial statements
Under NT\$ 2,000,000	11	11
NT\$2,000,000 ~ under NT\$5,000,000	7, 8	7, 8
NT\$5,000,000 ~ under NT\$10,000,000	1, 3, 4, 5, 6, 9, 10	1, 3, 4, 5, 6, 9, 10
NT\$10,000,000 ~ under NT\$15,000,000	2	2
NT\$15,000,000 ~ under NT\$30,000,000		
NT\$30,000,000 ~ under NT\$50,000,000		
NT\$50,000,000 ~ under NT\$100,000,000		
Over NT\$100,000,000		
Number of Executives	11	11

Note 1: Chairman Sophia Chiu relinquished the concurrent position as the company's president, which was taken over by vice president Chao-chih, Lien on a provisional basis on April 25, 2018, in compliance with the spirit of corporate governance.

Note 2: Assistant Vice president K. R. Chen relinquished his position on Aug. 18, 2018

Note 3: Kuio-ming, Chen assumed the position of Assistant vice president on Nov. 13, 2018

Note 4: Shown by code of Executives in the previous table

**Employee Bonus to Executive Officers**

2018.12.31/ Unit: NT\$ thousand

	Title	Name	Employee Bonus - in Stock (Fair Market Value)	Employee Bonus - in Cash	Total	Ratio of Total Amount to Net Income ( % )
Executive Officers	Chairman	Chwen-Jy, Chiu	-	Total 18,648	Total 18,648	0.59%
	Acting President	Chao-Chih, Lien				
	Executive Consultant	Hong-Hsiang, Lin				
	Assistant Vice President	Sheng-chyuan, Lin				
	Assistant Vice President	Steven Chiang				
	Assistant Vice President	Sung-Pin, Chang				
	Assistant Vice President	K.R Chen				
	Assistant Vice President	Chi-Tseng, Peng				
	Assistant Vice President	Fei-Yuan, Kao				
	Assistant Vice President	Kevin Yeh				
	Assistant Vice President	Kuo-Min, Chen				

**3.2.4 Comparison of Remuneration for Directors, Presidents and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, Presidents and Vice Presidents**

Unit: NT\$ thousand

Year	Total remuneration paid to directors, presidents and vice presidents	Ratio of total remuneration paid to directors, presidents and vice presidents to net income (%)
2018	195,254	6.20%
2017	204,026	6.60%

The company's compensations are set according to levels offered by peers for the same positions, responsibilities of the positions, and their contribution to the company in achieving its business goal. The determination of compensations is based on the company's guidelines for performance and compensations, which take into account the company's overall business performance, achievement of an employee's personal performance goal, and his/her contribution to the corporate performance, in order to reach reasonable levels of compensation. Year-end bonus is paid out according to a fixed share of net profits, which can only be changed by a resolution of the board of directors.



### 3.3 Implementation of Corporate Governance

#### 3.3.1 Board of Directors

A total of 9 meetings of the board of directors were held in 2018, director attendance was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance rate (%)	Remarks
Chairman	Tung Kuang Investment Co., Ltd. Representative : Chwen-Jy, Chiu	9	0	100 %	Re-election (re-elected on 2018.6.15) Should attend 9 times
Managing Director	Tong Ho Gloabl Investment Co., Ltd Representative : Chao-Kai, Liu	9	0	100%	Re-election (re-elected on 2018.6.15) Should attend 9 times
Managing Director	Cheng-Tsung, Huang	9	0	100%	Re-election (re-elected on 2018.6.15) Should attend 9 times
Managing Director	Creative Sensor Inc. Representative: Yu-Ren, Huang	9	0	100%	Re-election (re-elected on 2018.6.15) Should attend 9 times
Managing & Independent Director	Wei-Chi, Liu	5	0	100%	Newly elected (elected on 2018.6.15) Should attend 5 times
Independent Director	Jin-Fu, Chang	5	0	100%	Newly elected (elected on 2018.6.15) Should attend 5 times
Independent Director	Ting-Wong, Cheng	9	0	100%	Re-election (re-elected on 2018.6.15) Should attend 9 times
Director	Mao-Hsiung, Huang	8	1	89%	Re-election (re-elected on 2018.6.15) Should attend 9 times
Director	Yinge Int. Inv. Co.,Ltd Representative : Po-Chih, Huang (note 1)	9	0	100%	Re-election (re-elected on 2018.6.15) Should attend 9 times
Director	Hung Shun Investment Co., Ltd Representative: Tzu-Yi, Kuo	5	0	100%	Newly elected (elected on 2018.6.15) Should attend 5 times
Director	Tong-An Investment Co., Ltd. Representative : Shang-Wei, Kao	5	0	100%	Newly elected (elected on 2018.6.15) Should attend 5 times
Director	Kuang Yuan Industrial Co., Ltd. Representative: Shih- Chien, Yang	8	1	89%	Re-election (re-elected on 2018.6.15) Should attend 9 times
Director	Tong Kuang Investment Co,Ltd Representitive: Hong-Hsiang, Lin	8	1	89%	Re-election (re-elected on 2018.6.15) Should attend 9 times
Director	Yubantec & Co., Ltd. Representative: Tung-Hai, Kao	5	0	100%	Newly elected (elected on 2018.6.15) Should attend 5 times

Title	Name	Attendance in Person	By Proxy	Attendance rate (%)	Remarks
Director	Yung-Hsiang, Chang (note 2)	7	2	78%	Re-election (re-elected on 2018.6.15) Should attend 9 times
Managing & Independent Director	Chien-Yuan, Lin	4	0	100%	Resigned (2018.5.23) Should attend 4 times
Director	Jing-Shown, Wu	4	0	100%	Retired (re-elected on 2018.6.15) Should attend 4 times
Director	Yaskawa Electric Corporation Representative: Hiroyuki Ougi	3	1	75%	Retired (re-elected on 2018.6.15) Should attend 4 times
Director	Hsien-Sheng Kuo	2	2	50%	Retired (re-elected on 2018.6.15) Should attend 4 times
Director	Lien Chang Electronic Co., Ltd. Representative: Ming-Feng, Yeh	2	2	50%	Retired (re-elected on 2018.6.15) Should attend 4 times

Note 1: Po-chih, Huang became the company's director as a representative of Yingde International Investment Co., Ltd. on June 15, 2018.

Note 2: Yung-hsiang, Chang became the company's director as a natural person on June 15, 2018.

Other mentionable items:

1.If there is the following situation referred to the operation of Board of Director, the date of Board meeting, period, contents of the case, opinion of all Independent Director, and company's respond toward Independent Director should be narrated.

(1) Article 14-3 of Securities and Exchange Act: Please refer to the page about Audit Committee

(2) The resolution about the objection or reservations of Independent Director which was record or written proclamation:  
None

2. The implementation of Directors' avoidance of motions in conflict of interest:

i. 24-21 Board Meeting: 2018.3.26

Director's Name: Yu-Ren Huang (Managing Director), Po-Chih Huang (Director), Ming-Feng, Yeh (Director)

Contents of the case: Donation to "TECO Technology Foundation" for various events in 2018.

Reason for avoidance of conflict of interest and the status of voting: Since the aforementioned managing director and directors also serves as director, they left the meeting and abstained from taking part in the voting. Other directors passed the case without objection.

Director's name: Chwen-Jy, Chiu (Chairman), Chao-Kai, Liu (Managing Director), Yu-Ren Huang (Managing Director), Mao-Hsiung, Huang (Director), Ming-Feng, Yeh (Director), Hong-Hsiang, Lin (Director)

Contents of the case: Plan to supply affiliates and oversea subsidiaries with endorsement guarantee

Reason for avoidance of conflict of interest and participation in voting: Chwen-Jy Chiu is the director of An-Tai International Investment Co., Ltd., GD TECO Taiwan Co., Ltd., TECO International Investment Co., Ltd., president of Sankyo Co, Ltd., chairman of Asia Innovative Technology (Xiamen) Co., Ltd., chairman of Motovario S.p.A., abstained from the discussion and voting for the case based upon interest conflict, and presided over by managing & independent director, Chien-Yuan, Lin. Chao-Kai, Liu is the director of TECO International Investment Co., Ltd., Asia Innovative Technology (Xiamen) Co., Ltd., Motovario S.p.A, abstained from the discussion and voting for the case based upon interest conflict. Yu-Ren, Huang is director of Sankyo Co, Ltd., Mao-Hsiung, Huang is chairman of An-Tai International Investment Co., Ltd., TECO International Investment Co., Ltd., chairman of Sankyo Co, Ltd., director of Asia Innovative Technology (Xiamen) Co., Ltd. Ming-Feng, Yeh is director of TECO International Investment Co., Ltd. Hong-Hsiang, Lin is director of TECO Middle East, Motovario S.p.A, abstained from the discussion and voting for the case based upon interest conflict

Resolution: The case was approved by a meeting of the board of directors, presided over by managing & independent director, Chien-Yuan, Lin, who consulted other attending directors, none whom objected the case.

Director's name: Chwen-Jy, Chiu (Chairman), Chao-Kai, Liu (Managing Director), Cheng-Tsung, Huang (Managing Director), Mao-Hsiung, Huang (Director)

Contents of the case: Provision of loans among the company and affiliates

Reason for avoidance of conflict of interest and participation in voting: Chwen-Jy Chiu is the director of TECO Westinghouse Motor Company, chairman of Asia Innovative Technology (Xiamen) Co., Ltd., director of UVG Investment Co., Ltd., director of Tong-An Assets Management & Development Co., Ltd., supervisor of Tai-An Technology (Wuxi) Co., Ltd. abstained from the discussion and voting for the case based upon interest conflict, and presided over by managing & independent director, Chien-Yuan, Lin. Chao-Kai, Liu is the director of TECO Westinghouse Motor Company, chairman of Tai-An Technology (Wuxi) Co., Ltd., director of Asia Innovative Technology (Xiamen) Co., Ltd., director of UVG Investment Co., Ltd., Mao-Hsiung, Huang is the director of TECO Westinghouse Motor Company, director of Asia Innovative Technology (Xiamen) Co., Ltd., director of Tong-An Assets Management & Development Co., Ltd., Cheng-Tsung, Huang is the director of Tong-An Assets Management & Development Co., Ltd. abstained from the discussion and voting for the case based upon interest conflict.

Resolution: The case was approved by a meeting of the board of directors, presided over by managing & independent director, Chien-Yuan, Lin, who consulted other attending directors, none whom objected the case.

Director's name: Ting-Wong, Cheng (Independent Director)

Contents of the case: Nomination of candidates for 25<sup>th</sup> term Independent Director of the company

Reason for avoidance of conflict of interest and participation in voting: Ting-Wong Cheng is current independent director of the company. The above director were abstained from the discussion and voting for the case based upon interest conflict.

Resolution: The nomination was approved by a meeting of the board of directors, presided by chairman, who consulted other attending directors, none whom objected the case.

ii. 24-22 Board Meeting: 2018.4.17

Director's Name: Chwen-Jy, Chiu (Chairman)

Contents of the case: Discussion of disposing the shares of Kuenling Machinery Refrigerating Co., Ltd. and its subsidiary.

Reason for avoidance of conflict of interest and participation in voting: Chwen-Jy, Chiu is the director of Kuenling Machinery Refrigerating Co., Ltd., abstained from the discussion and voting for the case based upon interest conflict, and presided over by managing & independent director, Chien-Yuan, Lin.

Resolution: The case was approved by a meeting of the board of directors, presided over by managing & independent director, Chien-Yuan, Lin, who consulted other attending directors, none whom objected the case.

iii. 24-23 Board Meeting: 2018.4.30

Director's Name: Chwen-Jy, Chiu (Chairman), Chao-Kai, Liu (Managing Director), Cheng-Tsung, Huang (Managing Director), Yu-Ren Huang (Managing Director), Mao-Hsiung, Huang (Director), Po-Chih, Huang (Director), Shih-Chien, Yang (Director), Yung-Hsiang, Chang (Director), Hong-Hsiang, Lin (Director), Ting-Wong, Cheng (Independent Director)

Contents of the case: Review the qualification of candidates of 25<sup>th</sup> term director and independent director.

Reason for avoidance of conflict of interest and the status of voting: Chwen-Jy, Chiu is the current chairman of board of directors and abstained from the discussion and voting for the case based upon interest conflict and presided over by managing & independent director, Chien-Yuan, Lin. Chao-Kai, Liu (Managing Director), Cheng-Tsung, Huang (Managing Director), Yu-Ren Huang (Managing Director), Mao-Hsiung, Huang (Director), Po-Chih, Huang (Director), Shih-Chien, Yang (Director), Yung-Hsiang, Chang (Director), Hong-Hsiang, Lin (Director), Ting-Wong, Cheng (Independent Director) abstained from the discussion and voting for the case based upon interest conflict.

Resolution: Except when the nominated candidate of director/independent director is a current director, he/she shall be abstained during the review. The case was approved by a meeting of the board of directors, presided by chairman, who consulted other attending directors, none whom objected the case.

iv. 24-24 Board Meeting: 2018.5.14

Director's Name: Chwen-Jy, Chiu (Chairman), Mao-Hsiung, Huang (Director)

Contents of the case: Discussion on capital increase of TEMICO Singapore

Reason for avoidance of conflict of interest and the status of voting: Chwen-Jy, Chiu is the director of TEMICO Singapore, abstained from the discussion and voting for the case based upon interest conflict and presided over by managing & independent director, Chien-Yuan, Lin. Mao-Hsiung, Huang (Director) is chairman of TEMICO Singapore, abstained from the discussion and voting for the case based upon interest conflict.

Resolution: The case was approved by a meeting of the board of directors, presided over by managing &

independent director, Chien-Yuan, Lin, who consulted other attending directors, none whom objected the case.

v. 25-1 Board Meeting: 2018.6.15

Director's Name: Wei-Chi, Liu (Managing & Independent Director), Ting-Wong, Cheng (Independent Director), Jin-Fu, Chang (Independent Director)

Contents of the case: Discussion of the appointment of the members of the company's fourth "compensation committee."

Reason for avoidance of conflict of interest and the status of voting: Wei-Chi, Liu (Managing & Independent Director), Ting-Wong, Cheng (Independent Director), Jin-Fu, Chang (Independent Director) are the candidates of "compensation committee." and abstained from the discussion and voting for the case based upon interest conflict

Resolution: expect those who abstained from the case, the case was approved by a meeting of the board of directors, presided by chairman, who consulted other attending directors, none whom objected the case.

vi. 25-2 Board Meeting: 2018.7.2

Director's Name: Chwen-Jy, Chiu (Chairman), Mao-Hsiung, Huang (Director), Cheng-Tsung, Huang (Managing Director),

Contents of the case: Ratification of investment and capital expenditure budget of Tong-An Assets Management & Development Co., Ltd

Reason for avoidance of conflict of interest and the status of voting: Chwen-Jy, Chiu is the director of Tong-An Assets Management & Development Co., Ltd and abstained from the discussion and voting for the case based upon interest conflict and presided over by managing & independent director, Wei-Chih, Liu. Mao-Hsiung, Huang (Director) is chairman of Tong-An Assets Management & Development Co., Ltd., and Cheng-Tsung, Huang (Managing Director) is a director of Tong-An Assets Management & Development Co., Ltd. abstained from the discussion and voting for the case based upon interest conflict.

Resolution: The case was approved by a meeting of the board of directors, presided over by managing & independent director, Wei-Chi, Liu, who consulted other attending directors, none whom objected the case.

Director's Name: Chwen-Jy, Chiu (Chairman), Mao-Hsiung, Huang (Director), Yu-Ren Huang (Managing Director)

Contents of the case: Discussion of capital increase of Royal Host Taiwan

Reason for avoidance of conflict of interest and participation in voting: Chwen-Jy, Chiu is the director of Royal Host Taiwan., abstained from the discussion and voting for the case based upon interest conflict, and presided over by managing & independent director, Wei-Chih, Liu. Mao-Hsiung, Huang (Director) is chairman of Royal Host Taiwan, Chairman and president of Royal Host Taiwan is respectively Yu-Ren, Huang's one and two degrees of kinship, abstained from the discussion and voting for the case based upon interest conflict.

Resolution: The case was approved by a meeting of the board of directors, presided over by managing & independent director, Wei-Chi, Liu who consulted other attending directors, none whom objected the case.

Director's Name: Chwen-Jy, Chiu (Chairman), Shang-Wei, Kao (Director)

Contents of the case: Discussion for share issuance by ITTS for application for share listing on the over-the-counter market

Reason for avoidance of conflict of interest and participation in voting: Chwen-Jy, Chiu is the director of ITTS, abstained from the discussion and voting for the case based upon interest conflict, and presided over by managing & independent director, Wei-Chih, Liu. Shang-Wei, Kao (director) is the chairman of ITTS, abstained from the discussion and voting for the case based upon interest conflict.

Resolution: The case was approved by a meeting of the board of directors, presided over by managing & independent director, Wei-Chi, Liu who consulted other attending directors, none whom objected the case.

vii. 25-3 Board Meeting: 2018.8.13

Director's Name: Chao-Kai, Liu (Managing Director)

Contents of the case: Discussion on equity buyback of Roteco

Reason for avoidance of conflict of interest and the status of voting: Chao-Kai, Liu is a director of Ropali-TECO Corporation and abstained from the discussion and voting for the case based upon interest conflict.

Resolution: The case was approved by a meeting of the board of directors, presided by chairman, who consulted other attending directors, none whom objected the case.

Director's Name: Wei-Chi, Liu (Managing & Independent Director), Ting-Wong, Cheng (Independent Director), Jin-Fu, Chang (Independent Director)

Contents of the case: Discussion on the adjustment of the compensations for the company's independent directors

Reason for avoidance of conflict of interest and the status of voting: Wei-Chi, Liu (Managing & Independent Director), Ting-Wong, Cheng (Independent Director), Jin-Fu, Chang (Independent Director) are the candidates of "compensation committee." and abstained from the discussion and voting for the case based upon interest

conflict

Resolution: the case was approved by a meeting of the board of directors, presided by chairman, who consulted other attending directors, none whom objected the case.

viii. 25-4 Board Meeting: 2018.11.13

Director's Name: Chwen-Jy, Chiu (Chairman), Mao-Hsiung, Huang (Director)

Contents of the case: Discussion on capital increase of TEMICO Singapore

Reason for avoidance of conflict of interest and the status of voting: Chwen-Jy, Chiu is the directors of TEMICO Singapore and abstained from the discussion and voting for the case based upon interest conflict and presided over by managing & independent director, Wei-Chi, Liu, Mao-Hsiung, Huang (Director) is the chairman of TEMICO Singapore, abstained from the discussion and voting for the case based upon interest conflict.

Resolution: The case was approved by a meeting of the board of directors, presided over by managing & independent director, Wei-Chi, Liu who consulted othehr attending directors, none whom objected the case.

ix. 25-5 Board Meeting: 2018.12.22

Director's Name: Chwen-Jy, Chiu (Chairman), Hong-Hsiang, Lin (Director)

Contents of the case: Discussion on Jiangxi TECO's lending to Qingdao TECO

Reason for avoidance of conflict of interest and the status of voting: Chwen-Jy, Chiu is the director of Jiangxi TECO and abstained from the discussion and voting for the case based upon interest conflict and presided over by managing & independent director, Wei-Chi, Liu. Hong-Hsiang, Lin (Director) is the director of Jiangxi TECO, abstained from the discussion and voting for the case based upon interest conflict.

Resolution: The case was approved by a meeting of the board of directors, presided over by managing & independent director, Wei-Chi, Liu who consulted othehr attending directors, none whom objected the case.



### 3.3.2 Audit Committee

The Company set up “Audit Committee” on June 15, 2012 to replace the original supervisor system. The committee consists of independent directors (three seats), who select one among them as the convener and chairman of its meeting, and functions according to the company’s “organizational charter of audit committee,” with the scope of its auditing covering the company’s financial statement, the company’s auditing and accounting policy and procedure, the company’s internal-control system, major transactions in assets or derivatives, raising or issuance of securities, appointment and dismissal of, along with compensations for, certified public accountant(s), and appointment and dismissal of financial, accounting, and internal-auditing managers.

A total of 8 meetings of the Audit Committee were held in 2018, and the Audit Committee attendance was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance rate (%)	Remarks
Convener & Chairman	Ting-Wong, Cheng	8	0	100%	Re-election (Re-elected on 2018.6.15) Should attend 8 times
Member	Wei-Chi, Liu	8	0	100 %	Newly Elected (Re-elected on 2018.6.15) Should attend 5 times
Member	Jin-Fu, Chang	8	0	100%	Newly Elected (Re-elected on 2018.6.15) Should attend 5 times
Convener & Chairman	Chien-Yuan, Lin	3	0	100%	Retired (Re-elected on 2018.6.15) Should attend 3 times
Member	Jing-Shown, Wu	3	0	100%	Retired (Re-elected on 2018.6.15) Should attend 3 times
Other mentionable items:					
1. If there is the following situation referred to the operation of Audit Committee, the date of Audit Committee meeting, period, contents of the case, opinion of all members, and company’s respond toward Audit Committee members should be narrated					
i. Items specified in article 14-5 of Securities and Exchange Act: Please see the following charts					
ii. Other items resolved by the audit committee member with support of two thirds of directors but without approval of the auditing committee.: None					
Board Meeting	Contents of the case and follow-up		Article 14-5 of Securities and Exchange Act	Other items resolved by the audit committee member with support of two thirds of directors but without approval of the auditing committee	
24-21 Board Meeting 2018.3.26	Discussion on business report, parent company only financial statements and consolidated financial statements of 2017		v		
	Discussion on Profit distribution of 2017		v		
	Internal audit report and self assesment of internal control of 2017		v		
	Discussion on Due Date Quota of Financial Institution in 2017		v		
	Discussion on provision of loans among the company and affiliates		v		
	Adjustment of trader on derivatives and stock		v		
	The Resolution of Audit Committee (2018.3.20): A proposal on the distribution of 2017 profit was formed following inquiry of the members of the audit committee present by the chairman, which was submitted alongside the original proposal (with preference to case one) to the board of directors for resolution, with other contents of the case endorsed by all the members in attendance.				
How the company handle opinion of Audit Committee: Passed by all attendee directors					

24-22 Board Meeting 2018.4.17	Discussion on disposing the shares of Kuenling Machinery Refrigerating Co., Ltd. and its subsidiary.	v	
	Discussion on joint venture with Mitsui	v	
	The Resolution of Audit Committee (2018.4.17): Passed by all members		
	How the company handle opinion of Audit Committee: Passed by all attendee directors		
24-24 Board Meeting 2018.5.14	Discussion on capital increase of TEMICO Singapore	v	
	Discussion on the amendment to "Procedure of acquisition or disposal of assets".	v	
	The Resolution of Audit Committee (2018.5.7): Proposal to suspend for further study article 7-2-1 and article 11-2-1 of the company's "procedure for acquisition or disposal of assets, with other contents of the case being endorsed by all the directors present upon the inquiry by the chairman.		
	How the company handle opinion of Audit Committee: Passed by all attendee directors		
25-2 Boarding Meeting 2018.7.2	Discussion of capital increase of Royal Host Taiwan	v	
	Discussion for share issuance by ITTS for application for share listing on the over-the-counter market	v	
	The Resolution of Audit Committee (2017.7.2): Proposal of suggestion for faithful execution of its business improvement plan by Royal Host Taiwan Co., Ltd. in the case involving its capital increase, with other contents of the case approved by all the members present.		
	How the company handle opinion of Audit Committee: Passed by all attendee directors		
25-3 Boarding Meeting 2018.8.13	2017Q2 consolidated financial statements	v	
	Discussion on equity buyback of Roteco	v	
	The Resolution of Audit Committee (2018.8.8): Proposal for further study of its business model in the case involving share buyback of subsidiary Roteco in Philippines, with other contents of the case endorsed by all the members of the committee present.		
	How the company handle opinion of Audit Committee: For the case involving share buyback by Filipino subsidiary Reteco, in addition to suggestion of the authorization for decision by standing directions for cases with value under a certain amount via revision of related measures, other opinions of the audit committee were all approved by all the directors present.		
25-4 Boarding Meeting 2018.11.13	Discussion on capital increase of TEMICO Singapore	v	
	Discussion on the amendment to "Procedure of acquisition or disposal of assets".	v	
	The Resolution of Audit Committee (2018.11.7): Case involving capital increment by TEMICO Singapore was approved after inquiry of all the committee members present by the chairman, who, though, suggested the company to consider the first option of self-own in priority and intensify analysis and explanation of the third option, should it be adopted, with other contents of the case being endorsed by all the committee members present.		
	How the company handle opinion of Audit Committee: Passed by all attendee directors		
25-5 Boarding Meeting 2018.12.22	Internal audit plan for 2019	v	
	Plan to buy back shares to maintain the company's credit and shareholders' interest, as well as draft the announcement that no impact on company's capital maintainance	v	
	Discussion on Jiangxi TECO's lending to Qingdao TECO	v	
	Discussion on CPA's independence and adequacy	v	
	Discussion on remuneration of CPA	v	
	Discussion on change of accounting chief at the accounting management department of the financial and management center	v	
	The Resolution of Audit Committee (2018.4.17): Passed by all members		
	How the company handle opinion of Audit Committee: Passed by all attendee directors		

## 2. The avoidance of Independent Director due to interest conflict

## i. 24-21 Board Meeting: 2018.3.26

Director's name: Ting-Wong.Cheng (Independent Director)

Contents of the case: Nomination of candidates for 25<sup>th</sup> term Independent Director of the company

Reason for avoidance of conflict of interest and participation in voting: Ting-Wong Cheng is current independent director of the company. The above director were abstained from the discussion and voting for the case based upon interest conflict.

Resolution: The nomination was approved by a meeting of the board of directors, presided by chairman, who consulted other attending directors, none whom objected the case.

## ii. 25-1 Board Meeting: 2018.6.15

Director's Name: Wei-Chi, Liu (Managing & Independent Director), Ting-Wong.Cheng (Independent Director), Jin-Fu, Chang(Independent Director)

Contents of the case: Discussion of the appointment of the members of the company's fourth "compensation committee."

Reason for avoidance of conflict of interest and the status of voting: Wei-Chi, Liu (Managing & Independent Director), Ting-Wong, Cheng (Independent Director), Jin-Fu, Chang(Independent Director) are the candidates of "compensation committee." and abstained from the discussion and voting for the case based upon interest conflict

Resolution: expect those who abstained from the case, the case was approved by a meeting of the board of directors, presided by chairman, who consulted other attending directors, none whom objected the case.

## iii. 25-3 Board Meeting: 2018.8.13

Director's Name: Wei-Chi, Liu (Managing & Independent Director), Ting-Wong.Cheng (Independent Director), Jin-Fu, Chang(Independent Director)

Contents of the case: Discussion on the adjustment of the compensations for the company's independent directors

Reason for avoidance of conflict of interest and the status of voting: Wei-Chi, Liu (Managing & Independent Director), Ting-Wong, Cheng (Independent Director), Jin-Fu, Chang(Independent Director) are the candidates of "compensation committee." and abstained from the discussion and voting for the case based upon interest conflict

Resolution: the case was approved by a meeting of the board of directors, presided by chairman, who consulted other attending directors, none whom objected the case.

## 3. The communication between independent director, internal audit chief and CPA

(1) Communications method of independent directors with internal auditing chief and certified public accountants: The Company has put in place direct contact channel for independent directors to communicate with internal auditing chief and certified public accounts. In line with the regulation of the regulator, the company audits its finance and business status regularly and communicates directly with management and corporate governance unit.

i. The company's internal auditing chief delivers internal auditing report at the quarterly meeting of the audit committee, covering status of the execution of auditing operation and improvement and tracking, as well as effect, of the audited defects. In addition to delivery of written auditing report to independent directors monthly, internal auditing chief also makes specific business reports on the suggestion of any independent director.

ii. After completing the auditing of the semiannual and annual financial statements, the company's contracted certified public account reports the result of the auditing or checking of the financial statements of the company and its subsidiaries, both domestic and overseas ones, at the auditing committee, as well as other legally required communications items.

(2) Independent Director and internal audit chief have good communication, and independent directors have no suggestions. Communication issues are showed as follows.

Audit Committee	Communication Item	Communication Result
2-23 (2018.3.20)	Report for 2017 Internal Audit	Notification
	2017 Internal Audit Self Evaluation (Announcement of Internal Control)	Approval after review before submission to the board of directors for resolution
2-25 (2018.5.7)	Report for 2018 1Q Internal Audit	Notification
3-3 (2018.8.8)	Report for 2018 2Q Internal Audit	Notification
3-5 (2018.12.17)	Report for 2018 3Q Internal Audit	Notification
	Audit Project for 2019	Approval after review before submission to the board of directors for resolution

(3) Independent Director and CPA have good communication, and independent directors have no suggestions. Summary of communication issues are showed as follows.

Audit Committee	Communication Item	Communication Result
2-23 (2018.3.20)	Report for 2017 consolidate and parent company only financial statements	Approval after review before submission to the board of directors for resolution
	The effect resulted from updated IFRS, regulations and tax law	Notification
3-3 (2018.8.8)	Report for 2018 2Q consolidate financial statements	Approval after review before submission to the board of directors for resolution
	Effect of the revised Income Tax Act	Notification

### 3.3.3 Corporate Governance Execution Status and Deviations from “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”

Items	Implementation status			Discrepancy with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies “ and reasons
	Yes	No	Summaried Explanation	
A. Whether the company has formulated and publicized “Corporate Governance Best Practice Principles”, according to “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies”	V		The company’s 21th board of directors already approved the company’s “Corporate Governance Best Practice Principles” at its 13th meeting (March 25, 2008) and also made four amendments by Boeard of directos from 2013 to 2016, which has been posted on the Market Observation Post System and the company’s website.	Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies “
B. The company’s shareholding structure and shareholders’ equity a. Whether the company has formulated and implemented internal procedure for handling suggestions, questions, disputes, and litigation of shareholders. b. Whether the company has got hold of the list of major shareholders and their ultimate controllers. c. Whether the company has established and implemented risk-management and firewall mechanism pertaining to affiliates. d. Whether the company has formulated internal norms forbidding the company’s insiders to take advantage of unpublicized information in trading in securities.	V		a. The company has installed stock-affairs unit, which handles shareholders’ suggestions or disputes, among others. b. The company has got hold of the list of major shareholders and their ultimate controllers, which is updated regularly. c. The company has distinct relationship of rights and obligations with affiliates, in terms of personnel, assets, and financial management, and regularly audits the accounting and internal control system of affiliates, on top of putting in place adequate risk-management mechanism and firewall. d. The company has formulated internal norms forbidding insiders to take advantage of unpublicized information in trading in securities.	a. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”. b. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”. c. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”. d. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”.
C. Composition and duties of the board of directors a. Whether the board of directors has formulated and achieved diversification for the composition of its membership.	V		a. In line with the policy of membership diversification for the board of directors, as stipulated in the "practical guidelines for corporate governance." Include but not restrict the following 2 standards: i. Basic condition: sex, age, nationality and culture ii. Professional knowledge and skill: professional background (such as law, accounting, industry, finance, marketing and technology), professional skill and industrial experience. The company implemented the policy of diversification. The company implemented the policy of diversification in the board (Note 1). There is one female director and one Japanese director sitting on the company's 25th board of directors, which has 15 seats (including three for independent directors), with a three-year term, which	a. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”

Items	Implementation status			Discrepancy with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies “ and reasons
	Yes	No	Summaried Explanation	
<p>b. Whether the company has installed on its own various functional committees other than the compensations committee and the auditing committee.</p> <p>c. Whether the company has formulated measures and methods for the evaluation of the performance of the board of directors and carryout regular performance evaluation every year.</p>			<p>can be continued via reelection. Members of the board of directors are all outstanding figures in industry and academia, with abundant experience in corporate governance and industrial technologies, as well as expertise in money, finance, accounting, and law. Members of the Board attend the BOD meeting actively and attendance in person in 2018 reaches at 93.17%. The members monitored and understand the execution of business plans effectively.</p> <p>b. The company already approved the institution of the “compensations committee” at the 13<sup>th</sup> meeting of the 22th board of directors (Aug. 22, 2011) and the “audit committee” at the first meeting of the 23th board of directors (June 15, 2012). In order to establish a good governance system, rationalize and strengthen management functions, fulfill corporate social responsibilities, and attain sustainable development, the 25th board of directors resolved in its third meeting (on Aug. 13, 2018) to set up "corporate governance and sustainability committee." (note 2)</p> <p>c. According to its organizational charter, the company's salary and compensations committee convenes regularly to evaluate the performance of the board of directors every year. In order to materialize corporate governance and clearly delineate performance objective, for enhancing the function and operating efficiency of the board of directors, the board of directors resolved to formulate the company's "measures for evaluating the performance of the board of directors" on November 13, 2015, in line with the stipulation of article 37 of "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies" At the end of every year, the secretariat of the board of directors would collect information on the activities of the board of directors and issue questionnaires for self evaluation before recording the evaluation results and reporting them to the board of directors for review and improvement. External professional independent agent or external expert team may be hired to evaluate the performance evaluation of BOD and issue external evaluation report every three years. In 2017, the company entrusted the Taiwan Institute of Ethical Business and Forensics in evaluating the performance of the board of directors (including functional committees under the jurisdiction of the board of directors, such as audit committee and compensation committee), via the methods of data review, questionnaire, and interviews. Evaluation dimensions include: participation in the</p>	<p>b. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”</p> <p>c. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”</p>



Items	Implementation status			Discrepancy with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies “ and reasons
	Yes	No	Summaried Explanation	
a. Whether the company has regularly evaluated the independence of certified public accountants.			<p>meetings of the board of directors (attendance rate/activeness in participating in discussion), professional competence (continuing study), legal compliance (conformance to regulation in reporting share transfer/assistance for the company in legal compliance), and community participation (attendance rate for corporate events/assistance for the company in upholding the company's relationship with stakeholders). The evaluation report, which was submitted to the board of directors on March 26, 2018, points out that operation of the meetings of the board of directors and functional committees was smooth and communication channel among members was not blocked, and members identified with corporate culture and management concept in 2017. Suggestion for improvement: the management team can consider including report on the global market and industrial trend for the company's products at the meetings of the board of directors, so as to give directors an opportunity in accessing information on business management environment, in addition to reviewing and analyzing failures in the execution of resolutions, so as to improve the effectiveness of decision making.</p> <p>2018 Performance evaluation of BoD was conducted by secretariat division of the board of directors through internal self evaluation. Items covered by self evaluation questionnaire includes 48 items in five sections: participation in company's operation, enhancement of quality of decision made by BoD, Composition and structure of BoD, selection and continual training of directors and internal control. The evaluation report was submitted to the board meeting on March 26<sup>th</sup>, 2018. All items reached the related standard. The performance of BoD in 2018 demonstrates its sound operation.</p>	d. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”
			<p>d. The 23<sup>rd</sup> board of directors also approved at its 19<sup>th</sup> meeting Dec. 22, 2014) the company's “measures for the selection and evaluation of certified public accounts,” calling for regular review of the independence and adequacy of certified public accountants. The company's financial and accounting units evaluated CPAs Wu, Yu-Lung and Chou, Chien-Hung of PwC Taiwan according to the CPA evaluation scale and ascertained their conformance to the company's evaluation standards, in terms of independence and suitability, proving their qualification to become the company's contracted CPA, finding which was approved by the 24<sup>th</sup> board of directors at the 20<sup>th</sup> meeting (Dec. 22, 2017) and the 25<sup>th</sup> board of directors at the 5<sup>th</sup> meeting (Dec. 22, 2018)</p>	

Items	Implementation status			Discrepancy with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies “ and reasons
	Yes	No	Summaried Explanation	
D. Does the listed company assign a department for corporate governance or a staff in charge of related issues (include but not restrict providing directors and supervisors with information to conduct business, holding board meeting, AGM, registration and updated registration for the company, composing meeting minutes for board meeting and AGM based upon the regulation	V		<p>In line with article 3-1 of "practical guidelines for corporate governance," the company set up "corporate governance center" in July 2015, and also upgraded "Legal Divion" to "Legal and Compliance Division" to strengthen the concept of compliance. The two units are supervised by dedicated director-level above chiefs with the qualification of more-than three years related experience or lawyer. They are Joinly responsible for the matters related to corporate governance. The main duties are handling in a legal manner affairs related to the meetings of the board of directors and shareholders' meeting, production of minutes of the meetings of the board of directors and shareholders' meeting, assistance for directors in assuming their offices and continual traning, and undertaking continuing provision of data needed by directors in the execution of their duties, assistance for directors in legal compliance, safeguard of shareholders' benefits, and strengthening of the function of the board of directors. The implementation of corporate governance 2018 has summited to the meeting of Corporate Governance and Sustainability Committee on January 24<sup>th</sup>, 2018 as well as Bod meeting on march 26<sup>th</sup>, 2018. The report is showed as follow:</p> <ul style="list-style-type: none"> <li>i. Arrangement of the meetings of the board of directors according to law/regulation: Notify all directors seven days in advance and provide related data, to facilitate their understanding of items on the agenda; remind directors avoiding interest of conflict, should the items be related to their interests or the interests of legal entities they represent; distribute minutes for the meeting within 20 days.</li> <li>ii. Arrangement of shareholders' meeting according to law/regulation: Register date for shareholders' meeting by legal deadline, produce and submit notice, manual, and minutes of the meeting by deadline, and change corporate registration after revision of corporate charter or election of directors and supervisors.</li> <li>iii. Based upon "Regulations Governing the Board Performance Evaluation," board secretary collects the information related activities of the board, distributing the questionnaire to collect self evaluation of the board of directors, turning in to the board to review and improve at the end of the year. And commission outside independent institutions or experts/scholars to carry out the evaluation at least once every three years.</li> <li>iv. Assistance for directors in compliance with various laws, regulations, and guidelines: Arrange study courses for directors at least twice a year and provide data irregularly</li> </ul>	Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies “

Items	Implementation status			Discrepancy with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies “ and reasons
	Yes	No	Summaried Explanation	
			<p>needed by directors in the execution of their duties, conducive to their understanding of latest legal development related to the company's operation; invite certified public accountant to attend meetings of the board of directors at least twice a year to exchange opinions with directors on annual report and semiannual report, as well as the updating of IFRSs, securities laws/regulations, and tax laws/regulations.</p> <p>v. Oversee the establishment of "administrative platform for corporate governance," in order to integrate and track various corporate-governance indicators and have a firm grip of the progress of corporate governance. Starting from the company's vision for corporate governance and based on the evaluation indicators of the "corporate governance evaluation," drafted by the Taiwan Stock Exchange, the platform reviews regularly, alongside various related units, various corporate-governance items, sets various corporate-governance goals, and tracks the execution, as well as results, of various corporate-governance items by units in charge, so as to sustain performance.</p> <p>vi. Handle related issue about investor relations: investor relations team provides AGM information, material information announcement, financial statements, presentation material about finance and operation, information about domestic and overseas conferences.</p> <p>According to "Taiwan Stock exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers" the board of directors has resolved to designate a manger to be dedicated corporate-governance chief by June 30, 2019.</p> <p>According to "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies," the company's corporate governance chief will arrange courses related to execution of duties with study time meeting legal requirement.</p> <p>The company will disclose the scope of the duties of corporate-governance chief, business focuses of the year, and the status of continuing study.</p>	
E. Whether the company has established communications channel for stakeholders (include but not restrict shareholders, employees, customers and suppliers) and dedicated sector	V		The company has high regard for issues concerned by stakeholders and channels for communication with them(note 4), keeping smooth communications with shareholders, employees, customers, suppliers, local communities, NGOs, and government units, via	Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies “

Items	Implementation status			Discrepancy with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies “ and reasons
	Yes	No	Summaried Explanation	
for stakeholders on its website, in addition to responding properly to key issues on corporate social responsibility concerned by stakeholders.			regular or irregular publication of messages or direct communication with stakeholders, so as to respect and uphold their legal rights. There is a section on the company's website for identification of and communication with stakeholders, in addition to designation of staffers in responding to questions by stakeholders on key issues of corporate social responsibilities. <a href="http://tecocsr.teco.com.tw/page1.php?gid=11">http://tecocsr.teco.com.tw/page1.php?gid=11</a>	
F. Whether the company has entrusted professional stock-affairs agent to handle shareholder' meeting.	V		The company has entrusted professional stock-affairs agent to handle shareholders' meeting.	Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies“
G. Information publication a. Whether the company has installed website for publication of information on finance, business, and corporate governance.  b. Whether the company has publicized information via other methods (such as installation of English-language website, designations of persons in charge of collection and publication of company information, materialization of the system of spokesman, and posting of the process of investors' conference on the company website).	V		a. The company institutes website for disclosing the status of finance and corporate governance. The address of the corporate website: <a href="http://www.teco.com.tw">www.teco.com.tw</a>  b. The company institutes English-language website ( <a href="http://www.teco.com.tw/en_version/index.asp">http://www.teco.com.tw/en_version/index.asp</a> ), According to the company's measures for news release, Collection and disclosure of company information is in the charge of designated staffer. After approval by the president, various units can notify the public relations unit for news release which will then be transferred to the spokesman for execution. According to the company's measures for information publication, spokesman should disclose company information to all investors and media at the same time in a fair manner.	a. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies“  b. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies“
H. Whether the company has other information conducive to understanding the status of corporate governance (including, but not limited to, staffers' interests, concern for staffers, investor relationship, supplier relationship, stakeholders' rights, advanced study of directors and supervisors, execution of risk-management policy and criteria for risk assessment, execution of customer policy, and taking out of liabilities insurance for directors, and supervisors.	V		a. a. In order to safeguard employees' benefits, labor union has been established, on top of regular labor-management meeting, as a bridge of communications with employees. At quarter meeting at headquarters and weekly meeting at various plant premises, senior managers would explain to employees the company's current business performance and challenges and open commend those with extraordinary performance. b. The company set up committee of employees' welfare as early as 1964, in charge of pushing various welfare measures and planning series of measures caring for employees' families, so as help employees build a harmonious familial relationship and improve their health, so as to enhance their performance. c. The company has set up a unit dedicated to periodic disclosure the company's major business information, boosting information transparency, as well as a feedback mechanism for accepting suggestions of investors on the company's development, in addition to active participation in investor conferences, so that investors can have firm	Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies“

Items	Implementation status			Discrepancy with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies “ and reasons
	Yes	No	Summaried Explanation	
			<p>grip on the company current business status and development planning.</p> <p>d. The company's representatives visit each supplier at least twice a year. The company has been pushing the establishment of e-procurement platform, as an effective communications channel for suppliers worldwide. The business group has also formulated a uniform list of qualified sales agents.</p> <p>e. To uphold the rights of stakeholders, they can express their suggestions and complaints via telephone, fax, or e-mail, which will be handled by designated staffers, and employees are also encouraged to report violations of laws or regulations via dedicated mailbox.</p> <p>f. In 2018, all the directors of the company engaged in advanced study with hours meeting the requirement of "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies," with total study time reaching 141 hours, on top of total study time of 48 hours for managers.</p> <p>g. The company has dedicated to the establishment of a complete risk-management system, actively taking into account all the risks which may occur in the company's operation and assuring compliance by the company with related laws and regulations. Meanwhile, assure continuing effectiveness of the company's internal control system via auditing system. Various auditing tasks by the auditing unit ascertain the effectiveness of the company's internal control system, as shown in the low risks of various environmental indicators in 2018.</p> <p>h. The company has dedicated to the provision of quality products with high price-performance ratio to customers. In order to meet customer demands for products and services, the company has also endeavored to better understand their expectation for the company and its products, via multiple channels, including dedicated customer service phone lines, seminars, field visits, after-sales tracking, telephone calls, corporate website, and media, so as to lower the risks of major loss for the company and shareholders which could be caused by the mistake or negligence of directors.</p> <p>i. The company has taken out liabilities insurance for directors covering possible liabilities related to their responsibilities during their tenure since 1999. Report on the insurance, including insurance amount (US\$10 million), coverage (all the directors), premium rate, and insurance period (2018 and 2019) was delivered at the 21th meeting of the 24th board of directors and sixth meeting of the 25th board of directors.</p>	



Items	Implementation status			Discrepancy with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies “ and reasons
	Yes	No	Summaried Explanation	
I. Please illustrate the improvement based upon Corporate Governance Evaluation Result released by Taiwan Stock Exchange.	V		a. The company was granted top 5% evaluation in corporate-governance evaluation for three years running since fiscal 2015. b. In compliance with the new version of corporate governance roadmap, "Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers", and "2019 evaluation indicators for corporate governance," the company is scheduled to complete the standard operating procedure for handling the demands by directors by June 30, 2019 and the board of directors has resolved to designate a manger to be dedicated corporate-governance chief.	Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”

Note 1: Implement the policy of diversification in the borad

Name Name	Basic Condition and Value		Back-ground  Education	Knowledge and Skill							
	Sex	Nationality		Judg-ment for operation	Analytical Skills for accounting and finance	Mana-gement	Crisis Mana-gement	Industry know-ledge	Inter-national outlook	Lead-Ing Ability	Decision Making
Tung Kuang Investment Co., Ltd. Representative: Chwen-Jy, Chiu	F	Taiwan	Business Administration	v	v	v	v	v	v	v	v
Tong Ho Gloabl Investment Co., Ltd Representative : Chao-Kai, Liu	M	Taiwan	Electronic Engineering	v	v	v	v	v	v	v	v
Cheng-Tsung, Huang	M	Taiwan	Economy	v	v	v	v	v	v	v	v
Creative Sensor Co., Ltd. Representative: Yu-Ren Huang	M	Japan	Electronic Engineering	v	v	v	v	v	v	v	v
Wei-Chi, Liu	M	Taiwan	Business Administration	v	v	v	v		v	v	v
Jin-Fu, Chang	M	Taiwan	Electronic Engineering	v		v	v	v	v	v	v
Ting-Wong, Cheng	M	Taiwan	Accounting	v	v	v	v	v	v	v	v
Mao-Hsiung, Huang	M	Taiwan	Economy	v	v	v	v	v	v	v	v
Yinge Int. Inv. Co.,Ltd Representative : Po-Chih, Huang	M	Taiwan	Engineering	v	v	v	v	v	v	v	v
Hung Shun Investment Co., Ltd Representative: Tzu-Yi, Kuo	M	Taiwan	Business Administration	v	v	v	v		v	v	v
Tong-An Investment Co., Ltd. Representative : Shang-Wei, Kao	M	Taiwan	Management	v	v	v	v		v	v	v
Kuang Yuan Industrial Co., Ltd. Representative: Shih- Chien, Yang	M	Taiwan	Electronic Engineering	v	v	v	v	v	v	v	v
Tung Kuang Investment Co., Ltd. Representative: Hong-Hsiang, Lin	M	Taiwan	Mechanical Engineering	v	v	v	v	v	v	v	v
Yubantec & Co., Ltd. Representative: Tung-Hai, Kao	M	Taiwan	Accounting	v	v	v	v		v	v	v
Yung-Hsiang, Chang	M	Taiwan	Industrial Management	v	v	v	v	v	v	v	v

Note 2: Information on the operation of corporate governance and sustainability committee

In order to establish a good governance system, rationalize and strengthen management function, fulfill corporate social responsibilities, and attain sustainable development, the company's 25th board of directors resolved in its third meeting (on Aug. 13, 2018) to set up "corporate governance and sustainability committee." The committee consists of more than three directors, over half of them independent directors, with convener and chairman of committee meetings being served by an independent director to be elected by committee members.

According to the company's "organization regulations for corporate governance and sustainability committee," the committee convenes at least twice a year and is in charge of reviewing the soundness of the company's corporate governance organization and system, the nomination of the candidates for directors and independent directors, supervision of the fulfillment of corporate social responsibilities and attainment of sustainable development, and strengthening of the operation and management of the units under the direct jurisdiction of the board of directors, among others.

The current corporate governance and sustainability committee consists of five members, with tenure starting from Aug. 13, 2018 through June 14, 2021. Status of attendance for the two meetings of the committee in the recent year follows:

Title	Name	Times of attendance	Attendance rate (%)	Note
Convener and chairman	Wei-Chi, Liu	2	100%	
Member	Ting-Wong, Cheng	2	100%	
Member	Jin-Fu, Chang	2	100%	
Member	Chwen-Jy, Chiu	2	100%	
Member	Mao-Hsiung, Huang	2	100%	

Other items of mandatory registration:

1. In case the board of directors turns down suggestions of corporate governance and sustainability committee, specify the date and number of the meeting, contents of the case, resolutions of the board of directors, and status of the handling of the committee's opinions by the company: nil
2. Opposition or reservation of members on record or in written statement against resolutions of corporate governance and sustainability committee: nil

#### Note 3: Evaluation for CPA

A. Requirement of Independence			
Item		Result	Comply with the standard
1	Do certified public accountants, their spouses, or minor children have relationship of investment or financial-interest sharing with the company?	No	v
2	Whether certified public accountants, their spouses, or minor children have borrowing or loaning relationship with the company? It doesn't cover cases involving financial institutions as clients for normal dealings.	No	v
3	Whether certified public accounts or members of auditing service panel serve as the company's directors, managing staffers, or other positions with significant influence on the audited cases at present or recent two years?	No	v
4	Whether certified public accountants or members of auditing service panel undertake promotion or brokerage of stocks or other securities floated by the company?	No	v
5	Whether certified public accountants or members of auditing service panel represent the company in defending cases involving the company and third parties or other disputes?	No	v
6	Whether certified public accounts or members of auditing service panel are spouses, direct blood relatives, direct relatives by marriage, or relatives within second-degree kinship of the company's directors, managerial staffers, or employees with significant influence on audited cases?	No	v
7	Whether there are certified public accountants relieving joint practice within one year who now serve as the company's directors, managerial staffers, or other positions with significant influence on audited cases?	No	v
8	Whether certified public accountants or members of auditing service panel receive major gifts or preferential treatments from the company's directors, managerial staffers, or major shareholders?	No	v
9	Whether certified public accountants are hired by clients or persons under investigation for regular jobs, reception of fixed pays, or service of directors or supervisors?	No	v
B. Operation of Independence			
Item		Result	Comply with the standard
1	Whether certified public accounts can maintain independence in substance and form for audition, perusal, recheck, or special inspection of financial statements before offering opinions?	Yes	v
2	Whether members of auditing service panel, other certified public accountants with joint practice or shareholders of legal firms, legal firms, affiliates of legal firms, or allied legal firms can keep independence with the company?	Yes	v
3	Whether certified public accountants carry out professional service in upright and rigorous manner?	Yes	v
4	Whether certified public accountants can keep fair and objective stance, avoiding influence of prejudice, conflicting interest, or relationship of interest on professional judgment?	Yes	v

Note 4: Issues which stakeholders focus and communication channel

Stakeholder	Issue	Communication Channel	Communication Result
Shareholder	<ul style="list-style-type: none"> <li>• Business development and operation</li> <li>• Financial transparency</li> <li>• Risk management</li> <li>• Corporate governance</li> <li>• Environmental protection</li> </ul>	<ul style="list-style-type: none"> <li>• Market Observation Post System at Taiwan Stock Exchange</li> <li>• Shareholder meeting---at least once a year</li> <li>• Investment forums in Taiwan and abroad---six forums in 2018</li> <li>• Visits by representatives of investment corporations---91 person-visits in 2018</li> <li>• Relation/stock mailboxes dedicated to investors---immediate replies by responsible persons</li> </ul>	<ul style="list-style-type: none"> <li>• Chosen as a component stock of Taiwan Sustainability Index</li> <li>• In 2018 corporate governance evaluation, Teco Electric &amp; Machinery ranked high in every performance indicator for the evaluation and consequently was among the top-5% of evaluated enterprises.</li> </ul>
Employee	<ul style="list-style-type: none"> <li>• Business development and operation</li> <li>• Relations between company and employees\Employees' rights and interests</li> <li>• Training and career development</li> <li>• Occupational environment</li> <li>• Expression of employees' opinions and communication</li> </ul>	<ul style="list-style-type: none"> <li>• Company-employee meetings---once every quarter</li> <li>• Employees' meetings---once every quarter</li> <li>• Executives' symposiums---once half a year</li> <li>• Occupational safety and health committee---a meeting every quarter</li> <li>• Employee welfare committee</li> <li>• Publication of a bimonthly</li> <li>• Survey of employees' satisfaction---once a year</li> <li>• Proposals for improvement</li> </ul>	<ul style="list-style-type: none"> <li>• A symposium is held once a year for company president, manager of every factory, company's human resource director as well as directors and supervisors of the company's labor union, with all of the company's executives aforementioned and 80% of directors and supervisors on average attending.</li> <li>• Employees' satisfaction remains at a high level of over 80%</li> <li>• Employees' social participation is encouraged, with voluntary social workers' total input exceeding 784 hours in 2018. Besides, the company promoted a credit system and paid leaves for voluntary contribution to social benefit.</li> <li>• 498 courses were offered in 2018 under the company's training program and business units' separate training plans, with an employee receiving 17.6-hour training on average.</li> </ul>
Client	<ul style="list-style-type: none"> <li>• Labeling for products and services</li> <li>• Customers' health and safety</li> <li>• Marketing communication</li> <li>• Survey of customers' satisfaction</li> <li>• Green products</li> </ul>	<ul style="list-style-type: none"> <li>• Dedicated telephone lines for response to customers if needed</li> <li>• 1-4 symposiums a year for sales agents and irregular calls on sales agents</li> <li>• Tracking of after-sale services---by telephone talks</li> <li>• company's website and media---updated in needed</li> <li>• Questionnaire survey of satisfaction---1-4 times a year</li> </ul>	<ul style="list-style-type: none"> <li>• Teco regularly mails questionnaires to customers globally to survey their satisfaction twice a year. The global customers' satisfaction in 2018 stood at 95%.</li> <li>• High-efficiency energy-saving motors sold globally in 2018 were estimated to save total power consumption of 650 million kWh; green energy-saving home electric appliances sold in 2018 were estimated to reduce carbon dioxide emission by 34,710 metric tons a year.</li> </ul>
Supplier	<ul style="list-style-type: none"> <li>• Green supply chain management</li> <li>• Human right evaluation for suppliers</li> <li>• Operational performance</li> <li>• Order management</li> <li>• Quality management</li> <li>• Technology used in production</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluation of suppliers---70 suppliers are evaluated every year</li> <li>• Examination of suppliers---once a quarter</li> <li>• Counseling for suppliers---offered if needed</li> <li>• E-procurement---if needed</li> </ul>	<ul style="list-style-type: none"> <li>• Risk assessment and on-site evaluation were undertaken for key suppliers, with key suppliers of which evaluation was finished expected to take up 75% of total value of procurement from all suppliers, but in fact, the proportion in 2018 was 84%.</li> <li>• 99% of suppliers signed agreements for protection of human rights and environment</li> </ul>

Stakeholder	Issue	Communication Channel	Communication Result
Local community	<ul style="list-style-type: none"> <li>Occupational safety and health</li> <li>Environmental management</li> <li>Social participation</li> <li>Voluntary services for social benefit</li> </ul>	<ul style="list-style-type: none"> <li>Service centers in industrial parks---services provided irregularly</li> <li>Joint efforts to prevent impact of disasters on neighborhoods of industrial parks---once every quarter</li> <li>Communication mailbox at the company's website---for use irregularly</li> <li>Employees' voluntary work for social benefit---activities held every quarter</li> </ul>	<ul style="list-style-type: none"> <li>No violations of regulations on air pollution and waste disposal as well as no events with negative impact on neighboring communities</li> <li>Participation in joint efforts and cooperation with other companies stationed in industrial parks to prevent impact of disasters on residential communities neighboring industrial parks</li> <li>Energy-saving education totaling 1,125 man-hours was offered for local communities and schools</li> </ul>
NGO (non-governmental organization)	<ul style="list-style-type: none"> <li>Environmental protection</li> <li>Social benefit</li> <li>Labor conditions</li> </ul>	<ul style="list-style-type: none"> <li>Disclosure of non-financial information---regular publication of CSR (corporate social responsibility) reports every year, disclosing the company's action in environmental protection, social responsibility and corporate governance and results accordingly</li> <li>Greenhouse gas inventory---the company passes BSI (British Standards Institution) ISO 14064-1 verification to obtain reasonable level of assurance every year</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration with 30 NPOs (nonprofit organizations) and NGOs as well as 34 enterprises to implement a project aimed to maintain and conserve aborigines' culture</li> <li>Active participation in external organizations and advocacy to support goals of sustainable development and government policies</li> </ul>
Government agency	<ul style="list-style-type: none"> <li>Regulatory compliance</li> <li>Occupational safety and health</li> <li>Reduction in greenhouse gas emission</li> <li>Environmental protection</li> <li>Energy management</li> </ul>	<ul style="list-style-type: none"> <li>Irregular attendance in symposiums and public hearings on regulations held by authorities concerned</li> <li>Promotion of compliance with latest anti-corruption regulations and rules of faithful operation at employees' meetings---once every quarter</li> </ul>	<ul style="list-style-type: none"> <li>Market Observation Post System at Taiwan Stock Exchange---declaration of important information</li> <li>Pursuant to OHSAS (Occupational Health and Safety Assessment Series) 18001 and CNS 15506 under Taiwan Occupational Safety &amp; Health Management System (TOSHMS), the company has set up an OSHMS for efficient management to secure employees' occupational safety and health</li> </ul>

### 3.3.4 Compensation Committee

#### (1) Information on Members of Compensation Committee

Status	Conditions  Name	Whether or not possess over five years of working experience and following professional qualifications			Conformance to independency (note 2)								Number of part-time positions on the compensation committees of other companies	Note
		Instructors or higher position in the fields of commerce, law, finance, accounting or other related departments at universities	Judges, prosecutors, lawyers, certified public accountants, or other related professionals or technicians with government licenses	Working experience in commerce, law, finance, accounting, or other related fields	1	2	3	4	5	6	7	8		
Independent Director	Wei-Chi, Liu	v		v	v	v	v	v	v	v	v	v	1	Newly Elected (Re-elected on 2018.6.15)
Independent Director	Ting-Wong, Cheng	v			v	v	v	v	v	v	v	v	2	Newly Elected (Re-elected on 2018.6.15)
Independent Director	Jin-Fu, Chang	v		v	v	v	v	v	v	v	v	v	0	Re-elected (Re-elected on 2018.6.15)
Independent Director	Chien-Yuan, Lin	v		v	v	v	v	v	v	v	v	v	1	Resigned (on 2018.5.13)
Other	Charles Kau			v	v	v	v	v	v	v	v	v	0	Retired (Re-elected on 2018.6.15)

Note 1: Status would be filled as Director, Independent Director or Other.

Note 2: For members conforming the following conditions during the two years before the appointment or the term of the position, please give a check mark “✓” in the black space under the code of various conditions:

- (1) Not an employee of the company or its affiliates
- (2) Not a director or supervisor of the company or its affiliates, excluding independent director set up by the parent company and subsidiary based upon Company Law or local regulations.
- (3) Not a shareholder owning over 1% stake in the company, in the names of himself/herself, the spouse, offspring before the age of majority, or others, or not one of the top-10 natural-person shareholders
- (4) Not spouse or relatives within second kinship or relatives of direct lineage within third kinship of the aforementioned three kinds of persons
- (5) Not director, supervisor, or employee of institutional shareholder owning over 5% stake in the company directly, or director, supervisor, or employee of the top-five institutional shareholders
- (6) Not director, supervisor, manager, or shareholder with over 5% stake of specific company or institution with financial or business dealing with the company
- (7) Not professionals providing commercial, legal, financial, and accounting services or consulting to the company or its affiliates; not owner, partner, director, manager, or spouse of such person of firms of sole proprietorship or partnership, companies, or institutions providing aforementioned services or consulting to the company and its affiliates.
- (8) Without cases mentioned in various clauses of Article 30 of Company Law

## (2) Information on Members of Compensation Committee

A. There are three members in Compensation Committee

B. The term of the current committee: June 15, 2018 to June 14, 2021. The committee has met two times (A) in the recent year. The attendance and qualifications of committee members follow:

Title	Name	Number of attendance (B)	Number of attendance via proxy	Actual attendance rate (%) (B/A) (note)	Note
Covener & Chairman	Wei-Chi, Liu	1	0	100%	Newly Elected (Re-elected on 2018.6.15) Should attend 1 time
Member	Ting-Wong, Cheng	2	0	100%	Re-elected (Re-elected on 2018.6.15) Should attend 2 times
Member	Jin-Fu, Chnag	1	0	100%	Newly Elected (Re-elected on 2018.6.15) Should attend 1 time
Covener & Chairman	Chien-Yuan, Lin	1	0	100%	Resigned (on 2018.5.23) Should attend 1 time
Member	Charles Kau	1	0	100%	Retired (Re-elected on 2018.6.15) Should attend 1 time

## Other items needing registration:

- In case the board of directors declines or modifies the suggestions of the compensations committee, specify the date, number, contents, and resolutions of the meeting of the board and its handling of the opinions of the compensations committee: None.
- If a member opposes or has reservation, on record or in written form, about the resolutions of the compensations committee: None
- Summary of main subjects of communication and results in 2018

Compensation committee	Subject of communication	Communication Result
3-8 (2018.3.20)	Remuneration to executive manager in 2017	Approved, subject to final decision at directors of board's meeting
	Remuneration to director of board in 2017	Approved, subject to final decision at directors of board's meeting
4-1 (2018.12.17)	Report on distribution of remuneration to executive manager in 2017	Ratification
	Distribution of 2018 year-end bonuses among employees	Ratification
	Report of examining structure of the company's salary system	Ratification
	Report on salary for assistant vice president Chen Kuo-min for AIM center	Approved, subject to final decision at directors of board's meeting
	How to adjust executive managers' salaries in line with adjustment in corporate operational system	Approved, subject to final decision at directors of board's meeting



### 3.3.5 Social Responsibility

Fulfillment of social responsibility: The company's system, measures, and fulfillment for events related to social responsibility, including environmental protection, communal participation, social contribution, social services, public benefits, consumer rights, human rights, and security and hygienic.

Items	Implement Status			Difference with “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Company” and reasons
	Yes	No	Summaried Explanation	
<p>A. Implementation of corporate governance</p> <p>a. Whether the company has formulated social responsibility policy or system and reviewed the implementation result.</p> <p>b. Whether the company has held education and training on social responsibility regularly.</p> <p>c. Whether the company has instituted unit for pushing fulfillment of corporate social responsibility, either on full- or part-time basis, in addition to having the board of directors authorize ranking management to handle the issue before reporting the outcome to the board of directors.</p> <p>d. Whether the company has formulated sound compensations policy and integrated the evaluation system for staffer performance and corporate social responsibility policy, in addition to putting in place a clear and effective system of incentives and penalties.</p>	V		<p>a. The company has clear policy for corporate social responsibility, and reviewed and improved its CSR performance in various aspects when compiling its CSR report. In addition, performance in key talent cultivation and training and development of green products was reviewed quarterly, and related to salary of manager.</p> <p>b. The company constantly gets hold of information on courses on corporate social responsibility and conducts training on environment, vocational safety and related laws/regulations every year, in addition to providing timely related training for members of the corporate responsibility committee and panel, in order to achieve consensus among staffers and the vision of corporate sustainability.</p> <p>c. The company has instituted corporate social responsibility committee. President is the chairman, assistant vice presidents are members, directly subordinated by CSR working group. Corporate social responsibility committee is chaired by chairman, which oversees a panel responsible for handling CSR-related affairs, including performance evaluation, compilation and publication of annual CSR report, and irregular reporting to the board of directors on the execution and tracking of corporate social responsibility.</p> <p>d. In order to provide protection of reasonable compensations to staffers, the company's compensations policy calls for provision of reasonable and competitive compensations, not below minimum wage regulated by the Authority and linkage of staffer performance with incentives, as stipulated in the “performance-evaluation measures” and “measures for management and assistance of staffer performance.” To materialize linkage between performance evaluation and corporate social responsibility, the company has formulated “measures or implementation of goal management,” which list talent and system and forward-looking deployment as key performance-evaluation criteria, in line with the mission of upholding human value and achieving corporate sustainability.</p>	No difference

Items	Implement Status			Difference with “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Company” and reasons
	Yes	No	Summaried Explanation	
<p>B. Environment for sustainable development</p> <p>a. Status for the dedication of the company to enhancing the utilization efficiency of various resources and utilizing recycled materials in lowering the impact on the environment;</p> <p>b. Status of the company in establishing proper environmental-management system according to its industrial features;</p> <p>c. Whether the company has noticed the effect of climate change on its business activities, conducted check on greenhouse gases, and formulated strategy on energy conservation and carbon/greenhouse gases abatement.</p>	V		<p>a. Develop IE3/IE4 high-efficiency motor, inverter, air conditioners and home appliances with first-grade energy performance, and achieve energy conservation in production process via adoption of high-efficiency motor and energy-saving lighting. Reduce consumption of resources by developing compact motors, use for silicon-steel scraps and renewed materials from scrap steel for the casting of motor cases, reducing packages for transportation, and recycling and reuse of containers. Develop and use environment-friendly refrigerants, such as R600a and R32 for refrigerators and air conditioners, slashing greenhouse-gas emission from the effusion of refrigerants during the stages of the manufacturing, and disposal of products. Lower impact on environment in efforts in various aspects.</p> <p>b. Set up Environment management system based on ISO 14001 and passed the certification.</p> <p>c. On the issue of climate change, in adherence to the vision of “energy conservation, emissions reduction, intelligence and automation,” the company has been developing wind-power products and high energy-efficient products, in the hope of maximizing its contribution to energy conservation and carbon abatement. Various factories have also been improving their manufacturing process, taking into account energy conservation and carbon abatement. In addition, the company started to have external party check its greenhouse-gases emission in 2012, to assure the accuracy of data, as the basis for the effort of energy conservation and carbon abatement, whose outcome is disclosed in the annual CSR report.</p>	No difference
<p>C. Upholding of public benefits</p> <p>a. Whether the company has formulated relevant management policy and procedure, according to related laws/regulations and international convention on human rights.</p> <p>b. Whether the company has instituted mechanism and channel for complaints by staffers and handled the complaints properly.</p>	V		<p>a. Posting of employee work rules, performance evaluation measures, rules for employee leave on corporate poster. To demonstrate its emphasis on and executive power for human right, formulate “Declaration of TECO Corp. on Human-Right Policy” and post it on the company's website. In addition, require suppliers to sign “commitment to human right and environmental sustainability,” along with contracts, to contribute to the cause of human right jointly.</p> <p>b. The company has set up an “opinion mailbox” for employees to communicate directly with the management and obtain rapid services from the company. As for employee reward and discipline,</p>	No Difference

Items	Implement Status			Difference with “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Company” and reasons
	Yes	No	Summaried Explanation	
<p>c. Whether the company has provided staffers safe and healthy working environment and held regular safety and health education for staffers.</p> <p>d. Whether the company has established mechanism for regular communications with staffers and inform, in a reasonable manner, staffers possible material influence which may be caused by changes in its operation.</p> <p>e. Whether the company has established effective cultivation plan for staffers in developing capabilities essential for their career.</p>			<p>formulate procedure on the handling of employee reward and discipline, mandating objective investigation and fact finding before any discipline and the setup of personnel evaluation committee to assist in cases of major disciplines. Moreover, establish dedicated e-mail (<a href="mailto:HRI@teco.com.tw">HRI@teco.com.tw</a>) as a channel for filing complaints, to ward off irregularities or unfair treatments at workplace, and dedicated e-mail (<a href="mailto:HRP@teco.com.tw">HRP@teco.com.tw</a>) as a channel for consulting and reporting of workplace violence, to prevent such violence and illegal damage. Formulate "measures on reporting and handling of sexual harassments," to handle complaints of sexual harassments at workplace filed by staffers, so as to uphold a safe and friendly working environment.</p> <p>c. In compliance with the requirement of laws/regulations related to vocational hygiene and safety, carry out safety and hygiene education, disaster-prevention training, and health management, needed by employees in their works. To safeguard safety of employees at workplace, conduct safety protection of equipment and install personal-safety gear according to standard norm, on top of safety inspection and supervision by managerial staffers in charge. In addition, general manager conducts occupational safety committee- labor represents 1/3, and reviews every management and training every quarter.</p> <p>d. In accordance with the measures for labor-management meeting, the company holds labor-management meeting regularly to exchange opinions and solve problems via consultation. For listening to the opinions of staffers, the chairman and managerial staffers at various levels hold seminars irregularly to understand the work status of staffers and learn their suggestions for the company. As for the company's business performance, the headquarters convene quarterly meeting, wherein the chairman would explain the company's business performance in the quarter and the management policy. In addition, the chairman would meet with cadres of the labor union twice a year, to exchange opinions for achieving a win-win outcome for management and labor.</p> <p>e. Cultivate the expertise of staffers along the dual lines of professional jobs and management jobs and combine the training with staffers' individual development plan (IDP) for follow-up tracking and confirmation. Provide complete and plural training to staffers to improve their expertise and expand their knowledge and experience. Carry out performance evaluation every half year, when staffers and their direct superiors would talk for</p>	

Items	Implement Status			Difference with “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Company” and reasons
	Yes	No	Summaried Explanation	
<p>f. Whether the company has formulated consumer-right protection policy and complaint procedure on the flow of R&amp;D, procurement, production, operation, and service.</p> <p>g. Whether the company has complied with related laws/regulations and international norms in the marketing and labeling of products and services.</p> <p>h. Whether the company has checked the track record of prospective suppliers on anti-environment and –society behaviors.</p> <p>i. Whether the contracts between the company and major suppliers include a clause empowering the company to terminate or revoke the contracts, in case the suppliers involve in behaviors which run counter to the company’s CSR policy and have marked adverse influence on environment and society.</p>			<p>full communication on their personal career development plan. In addition, the company will continue the endeavor for institutionalizing the promotional channel and the system of job rotation, so as to augment and diversify staffers' capabilities and putting in place a complete career development channel. In addition, it embraces institutionalized promotion channel and the system of job rotation, to help staffers develop plural capabilities. The institution of a complete career development route is an objective of the company.</p> <p>f. The company adheres to ISO 9001/ISO/TS 16949 in various work flows, on a process-oriented basis, in contrast to the customer orientation for marketing, including presales, sales management, and after-sales service, which, along with payback to customers, constitutes a cyclic system, materializing a complete customer service system.</p> <p>g. The company acquires certification of products’ safety, reliability, and functionality according to the following standards: CE, IEEE, CNS, CQC., etc. Product fact conform with related regulation.</p> <p>h. The company demands suppliers to fill in the questionnaire produced by the company, which includes their practice in the human rights and environment.</p> <p>i. Note 41 in “Basic Engagement of Transaction with Supplier”</p>	
D. Whether the company has disclosed essential and reliable CSR-related information on its website and the Market Observation Post System.	V		The company has instituted “CSR section” on its website for disclosure of related information, so that interested parties can understand the operation and result of TECO’s corporate social responsibility. TECO also has third party certify its CSR report from 2012.	No difference
E. Describe the operation of company’s Corporate Social Responsibility Best Practice Principles, should it exist, and its difference with “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies.” No difference				
<p>F. Other key information conducive to the understanding of the company’s CSR-related affairs:</p> <p>(1) Via the function of the TECO Technology Foundation, the company supports the humanistic aspect of Taiwan with its technological expertise, encourages sci-tech innovation, and holds “Green Tech” international contest, to highlight the “Corporate social responsibility” spirit and encourages young students to engage in sci-tech R&amp;D on energy conservation and carbon abatement. During 24 consecutive, TECO Award (1994-2017), there are 132 winners from Electric Machinery/ Information/ Communication, Machinery/ Energy/ Environment, Chemical/ Material, Biology/ Medical professionals/ Agriculture, four “science” category and one “human culture”. In order to consolidate the humanistic</p>				

Items	Implement Status			Difference with “ Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Company”and reasons
	Yes	No	Summaried Explanation	
power of Taiwan, the company pushes “creativity education,” to innovate and update teaching model of schools’ teaches, also provide school children in remote area with high quality learning opportunities resources. The “heritage education” rallies various parties to make contributions for the expense of the event, with the aim of recruiting teachers for the program as TECO’s staffers and helping tribal children learn their own culture and tradition, as well as sustain and develop further.				
(2) Other related information is contained in the CSR report, which has been posted on TECO’s website. <a href="http://tecocrs.teco.com.tw/">http://tecocrs.teco.com.tw/</a>				
G. In case the company’s report on products or corporate social responsibility has passed the certification of related certification bodies, describe the inspection standards: The company’s 2017 CSR report was certified by PricewaterhouseCoopers according to ISAE 3000 and GRI G4 guideline on global sustainability report.				

### 3.3.6 Adherence to the Ethical Corporate Management and Measures

The company executes ethical corporate management based on “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies”

Items	Implementation Status			Difference with “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies
	Yes	No	Summaried Explanation	
A. Formulate policy and program for ethical corporate management a. Whether the company has explicitly express the policy and methods of ethical corporate management in its charter and outbound documents and whether the board of directors and management have fulfilled the commitment to the policy of ethical corporate management	V		a. The company has yet to formulate “Ethical Corporate Management Best Practice Principles” on August 14 in 2014, announced and carried out “The Principle of Antitrust” on October 1 in 2015, amended “Rules of Ethical Conduct to Directors and Managers” on March 20 in 2015. The company’s directors and management have been cautiously fulfilling their duties in compliance with the obligation of attention of a prudent administrator. The company has disclosed Rules of Faithful Operation and Standards for Directors’ and Executive Managers’ Ethic Behavior at its website. The company in August 2018 prepared an organization chart for Committee on Corporate Governance and Sustainability and later in the month established the committee. The committee consists of more than three directors of whom over half are independent directors. An independent director was elected as meeting convener and chairman who is responsible for evaluating performance in corporate governance and social responsibility as well as faithful operation. There are at least two committee meetings a year and the company’s Legal & Compliance Division has to report what has been done on faithful operation.	Prepare rules according to the regulations concerned and put them into force
b. Whether the company has program preventing unethical behaviors with the principle of ethical corporate management, in addition to specifying and			b. The company on October 31, 2017 announced Standards for Behavior and Practice and Behavioral Guidelines for Faithful Operation which prohibits employees from accepting gifts worth over	

Items	Implementation Status			Difference with "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies"
	Yes	No	Summaried Explanation	
<p>executing operating procedure, behavioral guidelines, penalties for violation of regulations and complaint system.</p> <p>c. Whether the company has adopted precautionary measures against business activities with higher risk of violating the principle of ethical corporate management, as specified in item 2 of article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies"</p>			<p>NT\$3,000 from the company's suppliers or individuals in business deal with the company without supervisors' permission. If gift giving has something to do with job positions, employees should decline or return gifts and report to their supervisors and the company's responsible units. The company's responsible units, depending on motivations of gift giving and value of gifts, should propose disposal of the gifts including return, acceptance with payment, appropriation for public use, and transfer to charity organizations. The company on December 23, 2016 put into force Procedures for Handling Cases of Reported Illegal, Unethical or Unfaithful Behavior, setting up channels of internally and externally reporting and a handling system. Specifically for the regulation, there are operating procedures, behavioral guidelines as well as punitive measures for violation and mechanism for appeal. In order to realize faithful operation, the company has set up a unit specifically for promoting policies on faithful operation and preventing unfaithful behavior, with the unit belonging to the board of directors.</p> <p>c. The Standards for Behavior and Practice and Behavioral Guidelines for Faithful Operation announced on October 31, 2017 is based on Provision 2, Article 7 or preventive measures for business activities with relatively high risks of unfaithful behavior under Rules of Faithful Operation for Listed Companies, the company demands that all business units comply with the regulation. In addition, the Regulatory Compliance and legal Affairs Office belonging to the board of directors examines contracts to prevent violations of the regulation and the board's auditing unit irregularly checks and keeps tracking contra</p>	
<p>B. Materialize ethical corporate management</p> <p>a. Whether the company has evaluated the track record on the integrity of business partners and whether the contracts with business partners include an article on behavioral integrity.</p> <p>b. Whether the company has instituted unit pushing ethical corporate management, either on a full-time or part-time basis, which is under the jurisdiction of the board of directors and reports to the latter regularly.</p>	V		<p>a. The company's legal &amp; compliance division reviews contracts signed by company for outbound business activities, to avoid dealing with those violating the principle of integrity of management on record.</p> <p>b. The company sets up a legal &amp; compliance division office, under the direct jurisdiction of the board of directors, in charge of the formulation and implementation of the policy of integrity-oriented management and would be supervised by an auditing unit before being reported to the board of directors once per year. Auditing unit audited related operation in September 2018, and reported to the board on</p>	Put into force according to the regulations concerned

Items	Implementation Status			Difference with "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies"
	Yes	No	Summaried Explanation	
<p>c. Whether the company has formulated policy preventing conflict of interest and provided, as well as faithfully executed, proper channel for complaints.</p> <p>d. Whether the company has instituted effective accounting system and internal control system for the materialization of the policy of ethical corporate management, which is audited regularly by in-house auditing unit or certified public account under its entrustment.</p> <p>e. Whether the company had held internal or external education and training regularly on ethical corporate management.</p>			<p>December 22 in 2018.</p> <p>c. The company has formulated "behavioral guidelines," demanding all staffers not to take benefits and sacrifice the company's interests for personal benefits. When discovering violation of integrity-related regulations, one can make compliant or report, according to the company's "measures for handling reports on illegal, unethical, or dishonest behaviors."</p> <p>d. To assure the materialization of ethical corporate management, the company has instituted effective accounting system and internal-control system, with in-house auditors checking their compliance regularly.</p> <p>e. The company holds internal education and training on ethical corporate management regularly in 2017. And also promote "Ethical Corporate Management Best Practice Principles" &amp; "Standards for Behavior and Practice and Behavioral Guidelines for Faithful Operation" during the training course of new employees.</p>	
<p>C. Status of the company's reporting system:</p> <p>a. Whether the company has formulated concrete reporting and rewarding system, as well as convenient reporting channel, in addition to designation of specific person handling the reporting.</p> <p>b. Whether the company has instituted standard operating procedure for handling reported items and related confidentiality mechanism.</p> <p>c. Whether the company has adopted measures to protect informants from improper treatment.</p>	V		<p>a. As part of the company's reporting system, the company has formulated "measures for handling reports on illegal, unethical, or dishonest behaviors," containing ethical norms for staffers, and has instituted reporting e-mail address integrity@teco.com.tw with the audit division</p> <p>b. For Procedures for Handling Cases of Reported Illegal, Unethical or Unfaithful Behavior, Articles 3 and 4 specify channels of reporting and handling procedures while Provision 5 under Articles 4 specifies secrecy mechanism that keeps the reporters or responsible investigators and content of reporting secret to prevent them from unfair treatment or revenge.</p> <p>c. Provision 5 under Articles 4 of Procedures for Handling Cases of Reported Illegal, Unethical or Unfaithful Behavior specifies secrecy mechanism that protects the reporters or responsible investigators and content of reporting from unfair treatment or revenge.</p>	Prepare rules for reporting and keeping secrets according to the regulations concerned
<p>D. Intensifying information disclosure</p> <p>a. Whether the company has disclosed its "Ethical Corporate Management Best Practices Principles" on its website and the implementation effect.</p>	V		<p>a. The company has disclosed information related to "Ethical Corporate Management Best Practice Principles" on website, and disclosed the operation situation in year book and CSR Report.</p>	No major difference



E. Should the company formulate own ethical corporate management principles according to “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Company,” specify its execution and difference with the principles: The company has already formulated its own ethical corporate management principles and disclosed on the Company’s website. There is no major difference between its execution and principles.
F. Other key information conducive to the understanding of the company’s ethical corporate management (such as review and revision to the company’s ethical corporate management): The company materializes ethical corporate management via compliance with Company Law, Securities Exchange Act, and regulations and laws governing listed firms, in addition to forbidding unethical behaviors in business dealings.

### 3.3.7 Corporate Governance Guidelines and Regulations

The company has instituted “Corporate Governance Best Practice Principles”. The document could be accessed “Corpoarte Governance” on Market Observation Post System (<http://mops.twse.com.tw>) conforming to related regulations.

### 3.3.8 Other Important Information Regarding Corporate Governance

A. The important information regarding corporate governance has been disclosed on Market Observation Post System (<http://newmops.twse.com.tw>) conforming to related regulations.

B. Advanced studies for directors and supervisors in 2018:

Title	Name	Date	Organizer	Training Course	Time
Chairman	Tung Kuang Investment Co., Ltd. Representative : Chwen-Jy, Chiu	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Managing Director	Tong Kuang Investment Co., Ltd Representative : Chao-Kai, Liu	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Managing Director	Cheng-Tsung, Huang	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Managing Director	Creative Sensor Inc. Representative: Yu-Ren, Huang	2018.11.15	Accounting Research and Development Foundation	Major points and practical implications of recently revised Company Act	3 hrs
		2018.12.20	Accounting Research and Development Foundation	Analysis of recently revised Company Act and practical implications and effect on public companies	3 hrs

Title	Name	Date	Organizer	Training Course	Time
Managing Director	Creative Sensor Inc. Representative: Yu-Ren, Huang	2018.11.15	Accounting Research and Development Foundation	Major points and practical implications of recently revised Company Act	3 hrs
		2018.12.20	Accounting Research and Development Foundation	Analysis of recently revised Company Act and practical implications and effect on public companies	3 hrs
Managing & Independent Director	Wei-Chi, Liu	2018.3.15	Taiwan Listed Company Association	Management of altruistic enterprises	3 hrs
		2018.7.16	Taiwan Listed Company Association	Valuation formula of innovative digital economy and strategy and practice for the upsurge of Taiwanese industry	3 hrs
		2018.8.15	Taiwan Listed Company Association	Successful transformation experience of Nan Shan Life Insurance Company, LTD.	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Independent Director	Ting-Wong, Cheng	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidiaries of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Independent Director	Jin-Fu, Chang	2018.7.10	Securities & Future Institute	Instruction conference on legal compliance related to insider trading of listed companies and companies with public share offering	3 hrs
		2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidiaries of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.9.26	Taiwan Stock Exchange	2018 ESG investment forum	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Director	Mao-Hsiung, Huang	2018.4.10	Securities & Futures Institute	Trend and challenge of information-safety governance	3 hrs
		2018.5.7	Chunghwa Corporate Governance Association	Evaluation of the performance of board of directors	3hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs

Title	Name	Date	Organizer	Training Course	Time
Director	Yinge Int. Inv. Co.,Ltd Representative : Po-Chih, Huang	2018.3.5	Taiwan Stock Exchange	Forum on full e-voting and enhancement of corporate value	3 hrs
		2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Director	Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Director	Tung Kuang Investment Co., Ltd. Representative : Hong-Hsiang, Lin	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Director	Yubantec & Co., Ltd. Representative: Tung-Hai, Kao	2018.7.24	Securities & Future Institute	Instruction conference on legal compliance related to insider trading of listed companies and companies with public share offering	3 hrs
		2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.9.19	Chunghwa Corporate Governance Association	14th international corporate governance forum-obligation of directors for compliance and supervision	6 hrs
		2018.9.26	Taiwan Stock Exchange	2018 ESG investment forum	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs

Title	Name	Date	Organizer	Training Course	Time
Director	Hung Shun Investment Co., Ltd Representative: Tzu-Yi, Kuo	2018.8.3	Securities & Future Institute	Instruction conference on legal compliance related to insider trading of listed companies and companies with public share offering	3 hrs
		2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidiaries of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.11.16	Chunghwa Corporate Governance Association	Indispensable knowledge on brand and IP strategy for directors and supervisors	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Director	Tong-An Investment Co., Ltd. Representative : Shang-Wei, Kao	2018.5.16	Taiwan Academy of Banking and Finance	Class on corporate governance	3 hrs
		2018.5.22	Chinese National Association of Industry and Commerce, Taiwan	Indispensable knowledge on the revision trend for Company Act for directors and supervisors	3 hrs
		2018.7.26	Chinese National Association of Industry and Commerce, Taiwan	Regulation and operation of auditing committee and compensation committee	3 hrs
		2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidiaries of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.10.16	Chinese National Association of Industry and Commerce, Taiwan	Protection of business secrets from the angle of corporate governance	3 hrs
		2018.10.25	Chinese National Association of Industry and Commerce, Taiwan	Recent changes of labor law/regulation and effect on corporate management	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Director	Yung-Hsiang, Chang	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidiaries of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.9.19	Chunghwa Corporate Governance Association	14th international corporate governance forum--performance and support of independent directors (afternoon session)	3 hrs

## C. Advanced studies for managing staffers in 2018:

Title	Name	Date	Organizer	Traning course	Time
Chairman	Chwen-Jy, Chiu	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Acting President	Chao-Chih, Lien	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Executive Consultant	Hong-Hsiang, Lin	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Assistant Vice President	Sheng-chyuan, Lin	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
Assistant Vice President	Sung-Pin, Chang	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
Assistant Vice President	Kevin Yeh	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Assistant Vice President	Kuo-Min, Chen	2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs

Title	Name	Date	Organizer	Traning course	Time
Assistant Vice President	Chi-Tseng, Peng	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
		2018.12.22	The Business Council for Sustainable Development of Taiwan	Explanation of the status of corporate sustainable development and non-financial information disclosure	3 hrs
Assistant Vice President	Fei-Yuan, Kao	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
Assistant Vice President	Steven Chiang (Note)	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs
Assistant Vice President	K.R Chen (note)	2018.8.13	Chunghwa Corporate Governance Association	Application of local company act on different overseas subsidies of multinational corporations (MNC) and management of local board of directors	3 hrs

Note: Assistant vice president Steven Chiang retired in Feb. 2019 and assistant vice president K. R., Kuo was reassigned to the position of consultant in Aug. 2018.

D. The situation of resignation in the Company: None

Title	Name	Appointment Date	Discharge Date	Reason
President	Chwen-Jy, Chiu	2005.6.1	2018.4.25	Stop doubleing as president and chairman

Note: Chairman will no longer hold the office of president of TECO. Vice president, Caho-Chih, Lien serves as acting president.

### 3.3.9 Internal Control System

Please refer to page 58 of the Chinese annual report.

### 3.3.10 In the recent year and up to the publication of the annual report, legal penalties for the company and internal staffers, penalties of internal staffers by the company for violation of internal control system and regulation, major defects and improvement status

None

### 3.3.11 Major Resolutions of Shareholders' Meeting and Board Meetings

#### A. Major Resolutions of Shareholders' Meeting and Board Meetings in the recent two years

2018/03/26	(1)The board of directors resolved to convene 2018 shareholders' meeting on June 15, 2018. (2)The Board of Directors resolved 2017 financial statements with consolidated sales revenue NT\$50,942,521 thousand, EPS 1.56, and plans to pay cash dividend NT\$0.86 per share with the total amount NT\$ 1,722,316 thousand. The related financial reports material would be submitted to 2018 shareholders' meeting. (3) The board of directors approved employees' compensation of NT\$ 250,553 thousand and directors' remuneration of NT\$111,357 thousand in 2017. The above amount will be distributed through cash. There is no difference from the expense amounts in 2017 recognized by the board of directors.
2018/4/25	For pushing corporate governance policy, vice president Lien Chao-chih was approved to serve as the company's acting president.
2018/5/14	Submission of 2018 Q1 consolidated financial report to the board of directors, which shows that consolidated operating revenue stood at NT\$12,155,711,000 in the first quarter of 2018, with earnings per share reaching NT\$0.27.
2018/6/15	Important resolutions in Annual Shareholders' Meeting (1) Acknowledged 2017 business report and financial statement. (2) Acknowledged 2017 earnings allocation, amounting to NT\$0.86 per share for cash dividend payment. (3) Election of the company's 25th board of directors (including independent directors) (4) Approval of the lifting of non-competence clause for 25th directors (including independent directors) and their representatives
2018/6/15	Election of 25th standing directors by the board of directors followed by election of chairman by standing directors
2018/8/13	Submission of 2018 Q2 consolidated financial report to the board of directors, which shows that consolidated operating revenue stood at NT\$25,045,475,000 in the first half of 2018, with earnings per share reaching NT\$0.83.
2018/11/13	Submission of 2018 Q3 consolidated financial report to the board of directors, which shows that consolidated operating revenue stood at NT\$37,109,837,000 in the first nine months of 2018, with earnings per share reaching NT\$1.24
2018/12/22	In order to hold the company's credit standing and shareholders' interests, the board of directors resolved to buy back 35,000,000 shares of the company, 1.75% of the total issued shares, at maximum cost of NT\$28,636,888,000.
2018/12/12	The board of directors approved the change of auditing chief, substituting Lin Hung-ming, deputy department director, for manager Lan Chun-hsiung, as part of job rotation.
2019/03/26	(1)The board of directors resolved to convene 2019 shareholders' meeting on June 14, 2019. (2)The Board of Directors resolved 2018 financial statements with consolidated sales revenue NT\$50,104,927 thousand, EPS 1.59, and plans to pay cash dividend NT\$0.90 per share with the total amount NT\$ 1,770,923 thousand. The related financial reports material would be submitted to 2019 shareholders' meeting. (3) The board of directors approved employees' compensation of NT\$ 255,103 thousand and directors' remuneration of NT\$113,379 thousand in 2017. The above amount will be distributed through cash. There is no difference from the expense amounts in 2018 recognized by the board of directors.

#### B. Implementation of Resolutions made in Annual Shareholders' Meeting on June 15, 2018.

Number	Resolution	Implementation
1	Acknowledged of the 2017 Business Report and Financial Statements	※ The proposal was approved by the participating Shareholders with 88.14% approved percentage.
2	Acknowledged of cash dividend payout of NT\$0.86 per share for the distribution of 2017 profits.	1. The proposal was approved by the participating Shareholders with 88.57% approved percentage. 2. Ex-Dividend Trading Date: 2018/07/11. Cash Dividend Payout date: 2018/07/31.
3	Election of 25th shareholders' meeting	1. Election of 15 25th directors (including three independent directors), with a three-year tenure from June 15, 2018 through June 14, 2021. 2. The appointment of new directors was approved by the Department of Commerce, the Ministry of Economic Affairs, for registration on July 13, 2018 (No. 10701078140 decree).
4	Approval of non-competence restriction on 25th directors	※The proposal was approved with 87.61% weighted share of the voting rights of shareholders present at shareholders' meeting. °



### 3.3.12 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors

None

### 3.3.13 Resignation or Dismissal of Personnel Involved in Preparation of Financial Reports

Title	Name	Starting date for job	Date of dismissal	Reason for resignation or dismissal
Accounting chief	Lan Chun-hsiung	2015.03.21	2018.12.31	Reassigned to business division as part of job rotation

## 3.4 Information on CPA fee

### 3.4.1 Accountant Information

Name of accounting firm	CPA names		Auditing period	Note
Pricewaterhouse Coopers, Taiwan	Wu, Yu-Lung	Chou, Chien-Hung	2018	

### 3.4.2 Table of Brackets for CPA Fees

Fee item		Auditing fee	Non-auditing fee (Note)	Total
Fee brackets				
1	Lower than NT\$2 M.		V	V
2	NT\$2-4 M.			
3	NT\$4-6 M.			
4	NT\$6-8 M.			
5	NT\$8-10 M.			
6	NT\$10 M. and higher	V		V

Note: NT\$1,050,000 of non-auditing public expense, including certification expense for auditing business income tax return and English-language translation fee for financial report and consolidated financial report.

### 3.4.3 Non-inspection fees for CPAs, accounting firms, and its affiliates account for over one quarter of inspection fee: Nil

### 3.4.4 Replacement of accounting firm and auditing fee for the replacement year is lower than amount in the year prior to the replacement: Nil

### 3.4.5 Auditing fee decreases by over 15% from the previous year: Nil

### 3.5 Information on replacement of CPA: Not applicable

### 3.6 Information on service of the company's chairman, president, and financial or accounting managers at the accounting firm or its affiliates: Nil

### 3.7 Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders

#### 3.7.1 Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders

Unit: Share

Title	Name	2018		Apr. 30, 2019	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman	Tong Kuang Investment Co., Ltd. Representative: Chwen-Jy, Chiu	0	600,000	0	0
		300,000	0	0	0
Managing Director	Tong Ho Gloabal Investment Co., Ltd. Representative : Chao-Kai, Liu	0	(325,000)	0	0
		0	0	0	0
Managing Director	Cheng-Tsung, Huang	0	0	0	0
Managing Director	Creative Sensor Inc. Representative: Yu-Ren, Huang	0	0	0	0
		0	0	0	0
Managing & Independent Director	Wei-Chi, Liu	0	0	0	0
Independent Director	Jin-Fun, Chang	0	0	0	0
Independent Director	Ting-Wong, Cheng	0	0	0	0
Director	Mao-Hsiung, Huang	0	0	0	0
Director	Yinge Int. Inv. Co.,Ltd Representative : Po-Chih, Huang	10,079,600	0	4,375,098	0
		(10,000,000)	0	(4,270,085)	0
Director	Hung Shun Investment Co., Ltd Representative:Tzu-Yi, Kuo	300,000	0	0	0
		0	0	0	0
Director	Tong-An Investment Co., Ltd. Representative : Shang-Wei, Kao	0	0	0	0
		0	0	0	0
Director	Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang	0	(470,067)	0	0
		0	0	0	0
Director	Tong Kuang Investment Co., Ltd. Representative: Hong-Hsiang, Lin	0	600,000	0	0
		0	0	0	0
Director	Yubantec & Co., Ltd. Representative: Tung-Hai, Kao	0	0	0	0
		0	0	0	0
Director	Yung-Hsiang, Chang	600,000	0	0	0

Title	Name	2018		Apr. 30, 2019	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
President	Chwen-Jy, Chiu	0	0	0	0
Acting President	Chao-Chi, Lien	0	0	0	0
Executive Consultant	Hong-Hsiang, Lin	0	0	0	0
Management	Sheng-chyuan, Lin	0	0	0	0
Management	Sung-Pin, Chang	0	0	0	0
Management	Chi-Tseng, Peng	0	0	0	0
Management	Fei-Yuan, Kao	0	0	0	0
Management	Kevin Yeh	0	0	0	0
Management	Albert Peng	0	0	0	0
Management	Fei-Yuan, Kao	0	0	0	0
Management	Kuo-Min, Chen (note)	0	0	0	0
Management	Hank Horng (note)	N/A	N/A	0	0
Major Shareholder	None	N/A	N/A	N/A	N/A

Note: Kuo-min, Chen reported to his job on Nov. 13, 2018; Hank Horng reported to his job on Jan. 1, 2019

### 3.7.2 Shares Transfer with Related Parties

Name	Reason of Transfer	Date of Transaction	Transferee	Relationship between Transferee and the Company, Directors, Supervisors and Shareholders with more than 10% shareholding	Shares	Transaction Price (NTD)
Po-Chih, Huang	Disposal (exchange shares for price)	2018.3.6	YINGE Int. Inv. Co.,Ltd.	Director holds it under the name of third party	10,000,000	26.45
Po-Chih, Huang	Disposal (exchange shares for price)	2019.1.23	YINGR Int. Inv. Co.,Ltd.	Director holds it under the name of third party	4,270,085	18.1

### 3.7.3 Shares Pledged with Related Parties

Name	Reason of Pledge	Date of Transaction	Transferee	Relationship between Transferee and the Company, Directors, Supervisors and Shareholders with more than 10% shareholding	Shares	Shares holding %	Shares Pledged %	Pledged Amount
Not Applicable								

### 3.8 Information Disclosing the Relationship between any of the Company's Top Ten Shareholders

April 30, 2019

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation	
Silchester International Investors International Value Equity Trust	90,033,000	4.50%	0	-	0	-	None	-	-
Silchester International Investors International Value Equity Group Trust	46,802,000	2.34%	0	-	0	-	None	-	-
PJ Asset Management	45,292,000	2.26%	0	-	0	-	None	-	-
Edgbaston Asian Equity Trust	45,152,000	2.25%	0	-	0	-	None	-	-
WGI Emerging Markets Smaller Companies Fund, LLC	39,236,000	1.96%	0	-	0	-	None	-	-
Silchester International Investors International Value Equity Taxable Trust	30,486,000	1.52%	0	-	0	-	None	-	-
Tong Kuang Investment Co., Ltd.	30,341,364	1.52%	0	-	0	-	None	-	-
Chunghwa Post Co., Ltd.	30,028,000	1.50%	0	-	0	-	None	-	-
Yaskawa Electric Corporation	29,541,089	1.48%	0	-	0	-	None	-	-
Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	29,408,000	1.47%	0	-	0	-	None	-	-

### 3.9 Long-Term Investments Ownership

December 31, 2018

Investee	Ownership by TECO		Direct / Indirect Ownership by Directors, Supervisors and Management		Total Investment	
	Shares	%	Shares	%	Shares	%
Tong Dai Co., Ltd.	5,290,800	92.63%	0	0.00%	5,290,800	92.63%
Teco Nanotech Co., Ltd.	21,502,098	86.01%	205,000	0.82%	21,707,098	86.83%
TECO International Investment Co., Ltd.	57,533,521	100.00%	0	0.00%	57,533,521	100.00%
TECO Holding, USA	1,680	100.00%	0	0.00%	1,680	100.00%
TECO Electric & Machinery Pte Ltd. Singapore	7,200,000	90.00%	800,000	10.00%	8,000,000	100.00%
TECO Electric Europe Ltd.	4,500,000	100.00%	0	0.00%	4,500,000	100.00%
Tong An Assets Management & Development Co., Ltd.	147,323,399	100.00%	0	0.00%	147,323,399	100.00%
Appliance (HK) Ltd.	1,499,999	99.99%	0	0.00%	1,499,999	99.99%
Tong An Investment Co., Ltd.	444,134,422	99.60%	1,670,084	0.40%	445,804,506	100.00%
TECO Electro Devices Co., Ltd.	15,386,949	62.57%	371,324	1.51%	15,758,273	64.08%
Tecnos International Consultant Co., Ltd.	5,601,014	57.52%	1,402,134	16.02%	7,003,148	73.54%
Tong Tai Jung Co., Ltd.	3,960,000	60.00%	0	0.00%	3,960,000	60.00%
UVG Investment Co., Ltd.	195,416,844	100.00%	0	0.00%	195,416,844	100.00%
Information Technology Total Services Co., Ltd.	11,723,844	57.64%	1,925,922	9.47%	13,649,170	67.11%
Tesen Electric & Machinery Co., Ltd.	20,000,000	100.00%	0	0.00%	20,000,000	100.00%
GD TECO Taiwan Co., Ltd.	5,400,000	100.00%	0	0.00%	5,400,000	100.00%
Taitec Technology CO.,LTD.	950,000	95.00%	0	0.00%	950,000	95.00%
Yatec Engineering Corp.	7,799,996	64.95%	0	0.00%	7,799,996	64.95%
Taian (Subic) Electric Co., Inc.	17,131,155	76.70%	0	0.00%	17,131,155	76.70%
Taian (Malaysia) Electric Sdn. Bhd.	13,113,235	66.85%	1,961,934	10.00%	15,075,169	76.85%
An Tai International Investment Co., Ltd.	25,018,661	100.00%	0	0.00%	25,018,661	100.00%
Micropac (BVI)	14,883,591	100.00%	0	0.00%	14,883,591	100.00%
Taian-Etacom Technology Co., Ltd.	7,033,000	84.73%	0	0.00%	7,033,000	84.73%
Taian Electric Co., Ltd.	100,000	100.00%	0	0.00%	100,000	100.00%
Tecom	200,301,025	63.52%	0	0.00%	200,301,025	63.52%
E-Joy International Co., Ltd.	9,500,000	93.60%	500,000	4.93%	10,000,000	98.53%
A-Ok Technical Co., Ltd.	1,950,000	86.67%	0	0.00%	1,950,000	86.67%
TECO Technology (Vietnam) Co., Ltd.	29,013,668	100.00%	0	0.00%	29,013,668	100.00%
TECO (Philippines) 3C & Appliances, Inc.	2,604,000	60.00%	0	0.00%	2,604,000	60.00%
An-Sheng Travel Co., Ltd.	480,000	16.00%	2,400,000	80.00%	2,880,000	96.00%
Taiwan Pelican Express Co., Ltd.	24,121,700	25.27%	6,570,940	6.88%	30,692,640	32.15%
Eagle Holding Co.	1	100.00%	0	0.00%	1	100.00%
Century Development	96,353,338	28.67%	73,736,289	24.08%	170,089,627	52.75%
Teco Sun Energy	2,100,000	30.00%	2,100,000	30.00%	4,200,000	60.00%
Temico Inteenational Pte. Ltd.	348,000	60.00%	0	0.00%	348,000	60.00%
TECO EV Philippines Corporation	53,999,994	100.00%	0	0.00%	53,999,994	100.00%

**3.10 Procedure of Material Information:** The company has stipulated Rules of Anti Insider Transaction in internal control system, and announced to the employees.

## IV. Capital Overview

### 4.1 Capital and Shares

#### 4.1.1 Source of Capital

A. Type of Stock

April 30, 2019

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Share	2,002,692,886	1,027,857,114	3,030,550,000	-

#### 4.1.2 Status of Shareholders

April 30, 2019

Item	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	3	80	244	90,412	530	91,269
Shareholding (shares)	20,027,528	102,371,260	298,325,645	679,727,369	902,241,084	2,002,692,886
Percentage	1.00%	5.11%	14.90%	33.94%	45.05%	100.00%

#### 4.1.3 Shareholding Distribution Status

The par value for each share is NT\$10

April 30, 2019

Class of Shareholding (Unit : Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	40,798	8,954,015	0.45%
1,000 ~ 5,000	33,944	78,353,931	3.91%
5,001 ~ 10,000	7,717	59,915,925	2.99%
10,001 ~ 15,000	2,552	31,871,051	1.59%
15,001 ~ 20,000	1,596	29,365,171	1.47%
20,001 ~ 30,000	1,553	39,114,935	1.95%
30,001 ~ 40,000	661	23,520,359	1.17%
40,001 ~ 50,000	521	24,058,878	1.20%
50,001 ~ 100,000	909	65,991,874	3.30%
100,001 ~ 200,000	415	59,320,585	2.96%
200,001 ~ 400,000	236	67,323,819	3.36%
400,001 ~ 600,000	82	39,769,416	1.99%
600,001 ~ 800,000	54	37,620,887	1.88%
800,001 ~ 1,000,000	32	29,003,625	1.45%
1,000,001 or over	199	1,408,508,415	70.33%
Total	91,269	2,002,692,886	100.00%

#### 4.1.4 List of Major Shareholders

Shareholder's Name	Shares	Percentage
Silchester International Investors International Value Equity Trust	90,033,000	4.50%
Silchester International Investors International Value Equity Group Trust	46,802,000	2.34%
PJ Asset Management	45,292,000	2.26%
Edgbaston Asian Equity Trust	45,152,000	2.25%
WGI Emerging Markets Smaller Companies Fund, LLC	39,236,000	1.96%
Silchester International Investors International Value Equity Taxable Trust	30,486,000	1.52%
Tong Kuang Investment Co., Ltd.	30,341,364	1.52%
Chunghwa Post Co., Ltd.	30,028,000	1.50%
Yaskawa Electric Corporation	29,541,089	1.48%
Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	29,408,000	1.47%

#### 4.1.5 Market Price, Net Worth, Earnings, and Dividends per Share

Unit: NT\$

Item	2017	2018	April 30, 2019
<b>Market Price per Share (Note 3)</b>			
Highest Market Price	31.85	29.15	23.30
Lowest Market Price	27.10	16.60	16.95
Average Market Price	28.69	22.64	19.87
<b>Net Worth per Share</b>			
Before Distribution	26.17	27.11	28.00
After Distribution	25.29	Note 1	Note 2
<b>Earnings per Share</b>			
Weighted Average Shares (thousand shares)	1,980,250	1,980,250	1,964,298
Earnings Per Share	1.56	1.59	0.34
<b>Dividends per Share</b>			
Cash Dividends	0.86	0.90 (Note1)	Note 2
Stock Dividends			
• Dividends from Retained Earnings	0	0	0
• Dividends from Capital Surplus	0	0	0
Accumulated Undistributed Dividends	0	0	0
<b>Return on Investment</b>			
Price / Earnings Ratio (Note 4)	18.39	14.24	19.48
Price / Dividend Ratio (Note 5)	33.36	25.16	Note 2
Cash Dividend Yield Rate (Note 6)	3.00%	3.98%	Note 2

Note 1: Pending for approval of Shareholders' meeting

Note 2: Pending for approval of Shareholders' meeting and Board of Directors' meeting

Note 3: List the highest and lowest market price in each year and calculate average market price by total trading volume/total trading shares

Note 4: Price / Earnings Ratio = Average Market Price / Earnings per Share

Note 5: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share

Note 6: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price



#### 4.1.6 Dividend Policy and Implementation Status

##### A. Dividend Policy

TECO deals in a line of business characterized by steady growth, but many of its investees have yet to take off. Therefore, its distribution of earnings must take into account the need for further expansion and more reinvestments going forward. After legal and special reserves are set aside. In principle, 80% of the remainder and retained earnings from the previous year will be drawn upon as dividend payments to shareholders. Of all dividend payments, cash generally accounts for 50% but must not run below 5%

##### B. Proposed Distribution of Dividend

Cash dividend of NT\$0.90 per share.

#### 4.1.7 Impact on Company's business performance, EPS and ROI from the stock grant proposed by Shareholders Meeting:

Not applicable.

#### 4.1.8 Employee and Directors' Remuneration

A. The company should allocate 1%-10% of profit for employee remuneration based upon its profit in a given year; less than 5% for the directors.

##### B. Estimate of Employee Remuneration and Directors' Remuneration

###### a. Foundation of estimation

1. Amount of net income
2. Regulations in Article of Corporation
3. Historical record of distribution

b. Foundation of share calculation for stock dividend: Not Applicable

c. No difference between total amount paid and number of estimation

##### C. Profit Distribution of Year 2018 Approved in Board of Directors Meeting for Employee and Directors' Remuneration

###### a. Recommended Distribution of Employee and Directors' Remuneration:

	(NT\$ thousand)
Employee Bonus – in Cash	\$ 255,103
Employee Bonus – in Stock	0
Directors' Remuneration	<u>113,379</u>
No difference from the number of estimation	

###### b. Ratio of Recommended Employee Stock Bonus to Capitalization of Earnings:

Not applicable

###### c. Recounted EPS after Recommended Distribution of Employee Bonus and Directors' and Supervisors' Remuneration: (NT\$ thousands)

Not applicable

##### D. Information of 2016 Earnings Set Aside to Employee Bonus and Directors' and Supervisors' Remuneration:

Unit : NT\$ thousand

	Amount recognized in the previous year	Amount recommended by the Board of Directors	Amount resolved by the Shareholders' Meeting
Employee Bonus - Cash	250,481	250,553	250,553
Directors' Remuneration – Cash	111,325	111,357	111,357
Total	361,806	361,910	361,910

The actual distribution of employee bonus and directors' and supervisors' remuneration above is parallel with the recommended resolution of the Board of Directors.

#### 4.1.9 Buyback of Treasury Stock

None in 2018

### 4.2 Corporate Bonds

#### 4.2.1 Issuance of Corporate Bonds

Type of Corporate Bond	1 <sup>st</sup> Unsecured Ordinary Corporate Bonds in 2015	1 <sup>st</sup> Unsecured Ordinary Corporate Bonds in 2017
Issue date	2015/06/18	2015/09/15
Par value	NT\$ 1,000,000	NT\$ 1,000,000
Issue and Trading Place	Domestic	Domestic
Issue Price	According to face amount	According to face amount
Total Amount	NT\$ 3 billion	NT\$ 10 billion
Interest Rate	1.45%	1.02%
Duration	5 years, Expiration Date: 2019/06/18	5 years, Expiration Date: 2021/09/15
Assurance Institution	None	None
Assignee	Hua Nan Commercial Bank Ltd.	Taishin International Bank Ltd.
Underwriting Institution	None	Yuanta Securities
Signed Lawyer	Handsome Attorneys-at-Law Ya-Wen Chiu	Handsome Attorneys-at-Law Ya-Wen Chiu
Signer Accountants	PricewaterhouseCoopers, Taiwan Audrey Tseng Dexter Chang	PricewaterhouseCoopers, Taiwan Wu, Yu-Lung Chou, Chien-Hung
Repayment	Accrual Bond	Accrual Bond
Outstanding Amount	NTD\$ 3 billion	NTD\$ 10 billion
Redemption or Advanced Repayment	N/A	N/A
Restrictive Clauses	N/A	N/A
Credit Rating Institution, Credit Rating Date and the Outcome of the Rating	Taiwan Ratings Rating Date:2015/2/16 Issuer Ratng: twA+ IssueRating: N/A	Taiwan Ratings Rating Date:2017/3/30 Issuer Ratng: twA+ IssueRating: N/A
Others	None	None
	None	None
Shares Dilution & Influence on Srockholders' Equity	None	None
Entrust Institution of Exchange Object	None	None

#### 4.2.2 Information of the Convertible Bond

None

#### 4.2.3 Information of Shelf Registration Corporate Bond

None

#### 4.2.4 Equity warrant bonds

None

### 4.3 Preferred Sahres with Warrants

None

#### **4.4 Preferred Shares**

None

#### **4.5 Global Depositary Shares**

None

#### **4.6 Employee Stock Options**

##### **4.6.1 Issuance of Employee Stock Options**

None

##### **4.6.2 List of Executives Receiving Employee Stock Options and the Top 10 Employees with Options Valued in Excess of NT\$30 Million**

None

##### **4.6.3 Status on Restricted Share Award**

None

##### **4.6.4 List of Executives and Top 10 Employees Receiving Restrctied Share Award**

None

#### **4.7 Status of New Shares Issuance in Connection with Mergers and Acquisitions**

None

#### **4.8 Financing Plans and Implementation**

None

## V. Operational Highlights

### 5.1 Business Activities

#### 5.1.1 Business Scope

##### A. Business Scope

Business Scope	Sales %
Industrial Products	59%
Home Appliances	12%
Construction	7%
Others	22%
Total	100%

##### B. Products and service nowadays

###### a. Industrial Products Business

- Medium to large voltage motor (100-100,000 HP)
- Low voltage permanent-magnet motor (3-120HP) & Induction motor (1/4-300HP)
- Motor for electric vehicle(1-270 HP)
- Gear reducer
- Medium to large voltage inverter (200-12,000HP)
- Programmable Logic Controller (PLC)
- Human Machine Interface (HMI)
- Circuit breaker (50-1600AF/2.5Ka-100kA)
- Air Circuit breaker (2000-5000AF/85KA-130KA)
- Magnetic Contactor(7-630A)

###### b. Automation and Intelligent System

- System integration for robot
- AGV (automated guided vehicle)

###### c. Home appliance and air conditioner

- Air-conditioning (air conditioner, chiller)
- Large size home appliance (fridge, washer, TV)
- Small size home appliance (inverter DC fan, air purifier, vacuum, blender, microwave, oven )

###### d. Energy& Engineering

- Electrical and mechanical engineering (provide project management, design, procurement, construction and maintenance service)
- Electric equipment (switchboard, generator set, power distribution equipment, management, design and construction service for energy distribution system)
- IDC construction
- Smart Grid and power storage project

###### e. Other

- Electric vehicle
- Photovoltaics
- EMS
- Electrical and mechanical managemnet system
- Energy saving and intelligent supervisor service for air quality

### C. New products development

#### a. Industrial Products Business:

High Power Density general purpose Induction Motor, North America general purpose medium voltage motor, medium voltage Exd explosion-proof motors, High pole-number semi-tight large motor for vertical cyclic pump for power plant and water resources, high voltage exp explosion-proof motor, high speed motor for air compressor, offshore wind power technology, high speed permanent-magnet motor, auto motor, IE3/4 high efficient IMD(Integrated Motor Drive), IE4 permanent-magnet high efficiency motor for industrial machinery, Forced Ventilation(IC416) Ex nA tD Explosion-Proof Motor, Steel rolling motor and yaw motor for wind turbine.

#### b. Home-appliances business:

In line with the core values of "energy conservation, emission reduction, intelligence, and automation" for new product development, the home appliances business division has developed entire-range air conditioners and fully smart home appliances, Offer complete solutions for cloud-end applications. Set up environmental sensing network by combining the environmental temperature/humidity sensors of the company's air conditioners, refrigerators, and dehumidifiers, plus addition of human body-sensing, PM 2.5, and VOC components, according to product features. Establish smart Internet-access modules to furnish home appliances with remote monitoring function by integrating smart communications structure and developing TaiSEIA technology. Provide optimal environment air management. In the establishment of energy information system (EIS), carry out optimal power-demand control and -operation management via the combination of distributed treatment of controllers and combination of graphic-control software and the Internet. Application in social care, public construction, and BEMS and HEMS, leading to materialization of low-carbon society. In the light of the restriction from government, CSPF, the technology and system of domestic and commercial air-conditioner will be upgraded and integrated. Other projects underway:

- I. All variable-frequency home appliance attain the government's grade-1 CSPF in air-conditioning seasonal performance factor and employs high-performance energy-saving R32 refrigerant, enhancing performance and lowering carbon emission, to contribute to slowdown of global warming. Production of energy-saving and environment-friendly products via clean manufacturing and the use of green materials for continuing contribution to energy conservation and emission reduction.
- II. In order to meet the new MEPS (minimum energy performance standard) implemented by the government in 2018 and retain their grade level, existing refrigerators with first-grade performance must enhance their performance by 39%. TECO invests in molds for home appliances and develop energy-conserving refrigerators with performance exceeding the new grade-1 standard, as well as brand new appearance and functions quite different from Japanese brands. One model, a 600 liter/three-door refrigerator, boasting variable temperature, has been eligible for government subsidy after passing screening by Bureau of Energy, the Ministry of Economic Affairs, in Dec. 2017.
- III. R&D on VRF (variable refrigerant flow) system for parallel-connection variable-frequency external unit, with entire series conforming to grade-1 CSPF energy performance, meeting the demands of green buildings and high-class business offices.
- IV. R&D on 500 RT variable-frequency centrifugal chiller, which has been adopted by Taoyuan International Airport for II stage expansion project, serving as a best track record for future promotion. Provision of HVAC (heating, ventilation, and air conditioning) solution, linkage of multiple air conditioning units to a centralized control system, with individual controller for each unit..
- V. R&D on 8 RT and 10 RT direct-current variable-frequency water-cooling packaged air conditioner, the first such model capable of attaining grade-1 CSPF energy performance, which has been granted Taiwan Excellence Awards. It is the optimal choice for medium- and small-sized central air conditioners for use in factories and restaurants.
- VI. Rollout of IPLV (integrated part load value) chiller, centralized control of main engines via central controller, automatic adjustment and control system capable of integrating efficiency curve of main engines, automatic adjustment of the operating units of main engines according to load of the system, coordination of the launch and stoppage of cooling tower and chiller, materialization of system

optimization, and attainment of optimized IPLV operating efficiency of the system. In addition to high energy performance of product, provide check of product health and one-stop integrated service for air conditioning systems via various management and control systems, including visualized power-consumption management and monitoring of indoor air quality.

- c. Solar business undertakes the project and construction of solar power generation, and supply the procurement and installation service.
- d. The power business division integrates the group's multiple industrial products, maximizing synergy effect. For engineering business, the company focuses on the provision of engineering services featuring smart application, green energy, energy conservation, and energy storage, in an extensive range, such as major transportation and aviation projects, and Internet data centers (IDC), biotech/dedicated cancer hospitals, luxury houses, hi-tech factory buildings, green building, PV power and energy storage systems. In line with the development of offshore wind power and green energy, dedicate to engineering works for onshore substation and develop high-quality smart green-energy and energy-conserving products, such as "smart generator," "power distribution board," "smart micro grid," so as to create new development momentum.

## 5.1.2 Industry Overview

### A. Industrial Product Business

With industrial motors featuring extensive applications and steady demand on the global market, Taiwan's industrial motor is a major export item for heavy-electricity products, thanks to the excellent evaluation it enjoys. Under the energy-conservation and carbon abatement policy of governments worldwide, the development of industrial motor centers on high efficiency, environmental protection, and low carbon emission. TECO has been developing low energy-consumption and low material-waste products featuring high speed and permanent magnet, in addition to conformance to the industrial trend of compact wind and hydraulic equipment. In addition, when vehicle suppliers announce to stop production of gasoline engine car, the development of EV motor becomes the target. TECO has also take part in the emerging green energy industry. Taking advantage of its excellent technology for design and production of rotating electrical machine, TECO has become a supplier of wind turbine.

System Automation products are critical for industrial automation, as low-voltage switches which offer basic control and protection functions for control loop of power distribution or motors and inverters which enable motors to attain the requirement of speed control and torsion control, plus energy conservation, for application in various process. In line with the current of industrial IoT (Internet of Things), electric-control products are furnished with the function of high-speed Internet access, whenever possible, facilitating not remote monitoring but also massive data collection and analysis, which leads to improvement of process. In recent years, in addition to application in Industry 4.0, servo products have been gradually applied in daily-life care, such as service-oriented robots and long-term care for the elderly, foraying into the emerging markets of smart home and city.

### B. Home-appliances industry

"In deciding to push smart home appliances, TECO Group has defined its role as a home-appliances brand integrating science, technology, and intelligence." Therefore, TECO has forayed into market from IT angle, integrating the group's internal resources, including industrial drive, motor control, communications, and computing technologies, making TECO not only a home-appliances brand but also a home-appliances technological service provider. With firm grip on the development of industrial energy conservation, the company has developed a whole series of energy-saving products meeting government standard for first-tier energy performance and engaged in joint development with other enterprises and government R&D units. Under the auspices of government-sponsored Technology Development Program, the company has applied cutting-edge energy conservation technology in technological innovation, product innovation, and service innovation, thereby enhancing the international competitiveness of Taiwanese brands.

### C. Energy & Engineering- development of smart grid:

The completed installation of a MW-level PV power station in the premises of Guanyin plant in Taoyuan County. To raise the utilization efficiency of renewable energy, integrate energy generation, storage, and

management systems, leading to smooth operation of PV power generation. In addition to the domestic market, the company has joined hands with energy storage system firms in tapping overseas markets for smart grids, thereby fulfilling the vision of clean energy and the responsibilities of corporate systems.

### 5.1.3 Research and Development

A. The company spent NT\$1,120,748 thousand on R&D in 2018. R&D expense is booked as NT\$369,788 thousand as of the issue deadline in 2019.

#### a. Industrial Motors Category

1. High Power Density Induction Motor Development of series of high power-density inductive motors
2. Development of all-purpose high power-density motor for North America
3. Development of premium energy-performance large-power variable-frequency explosion-proof motor
4. Development of diagnosis technology for motor malfunction
5. Development of high-power permanent-magnet super-cool motor
6. Development of permanent-magnet self-cooling motor for North America

#### b. System Automation Category

1. IP66 protection class inverter product development
2. Network communication applications inverter product development
3. PMSM(Permanent-magnet synchronous motor) control algorithm technical development
4. AFE(Active Front End) technical development
5. Development of MTPA (maximum torque per ampere) technology
6. Slim-type servo drive product development
7. High-frequency response and economical servo drive product development
8. Automated parameter tuning for motor technical development
9. Development of control interface software for servo driver
10. EtherCAT/CANopen communication applications technical development
11. Development network communications cards EtherCat/Profibus/CANopen
12. Development of direct-current servo driver
13. Development of functional-safety certification technology
14. Development of SOC (system on chip) servo control technology
15. Development of control-platform technology for AGV (automated guided vehicle)
16. Development of next-generation servo driver prototype
17. Development of model tracking technology
18. Development of positionfeed forward technology
19. Development of integrated MCU/FPGA technology
20. Development of synchronous bridge-type technology
21. Development of energy recovery technology
22. Development of autonomous power-factory calibration technology
23. Development of autonomous power-source phase/frequency detection technology

24. Development of multi-axis motion control IC
  25. Development of multi-axis motion controller prototype
  26. Development of electronic cam technology
  27. Development of mail-delivery robot prototype
  28. Development of SLAM autopilot technology
  29. Development of AMCL route positioning technology
  30. Development of differential motion control technology
  31. Development of autonomous bias-in-localization calibration technology
- c. Renewable energy- green energy
1. OEM & ODM for electric vehicle motor
  2. Development of offshore wind turbine technology
- d. Freezing and Air-Conditioning Category
1. High CSPF variable-frequency multi-split VRF air conditioner
  2. High CSPF(Cooling Seasonal Performance Factor) inverter air conditioner (split/multi split)
  3. High CSPF water-cooled variable-frequency pack air conditioner
  4. R&D on commercial multi-split air conditioner and smart air conditioner
  5. New refrigerant R32 inverter air conditioner
  6. Inverter air conditioner with intelligent mobile control
  7. Energy-saving inverter refrigerator
  8. High EF(Energy Factor) refrigerator
  9. Air conditioner for elevator
  10. Energy saving management system for air conditioner
  11. Intelligent cloud centrifugal chiller
  12. Commercial air-cooled split conditioner
  13. High efficiency inverter centrifugal chiller
  14. Air handling unit

#### 5.1.4 Long-term and Short-term Development

In heavy electric machinery, create new sales mode, enhancing sales profits and sustaining sales growth. In the long run, dedicated to the goal of selling total solutions for dynamic system and planning the roadmap for TECO "power transmission system." For short-term business development plan, focus on associated sales and service-oriented sales, so as to meet customers' demands for integrated transmission systems. In execution strategy, in order to remove trade barrier caused by geographic position and tariff, the company, in line with global deployment strategy, will gradually expand penetration of the markets of China, Turkey, and India and integrate the production resources of plants in Penang of Malaysia, and Dong Nai and Vietnam. The company has set up a small-motor production base in Penang Province of Vietnam, turning out 300,000 small motors a year, mainly for shipment to Southeast Asia, North America, New Zealand, Australia, and Europe. The company has also set sights on emerging markets, such as Iran, India, the Philippines, Turkey, Africa, and Russia.

For package sales, focus on transmission equipment, food machinery, plastic machinery, rubber manufacturing, air compressor, petroleum/ natural gas, and air conditioning, in addition to foraying into new application fields, such as applications in shipping and rolling stock. For service-oriented sales, offer integrated service with the establishment of rapid maintenance center, capable of offering customers instant maintenance, technological transformation, and replacement services. Under the global current of industrial automation, provide systematic products featuring high efficiency, energy conservation, and precision system control, so as to meet the demands for industrial power safety, automation, and energy conservation.



To respond the trend of IIOT, TECO has started to integrate the selling of electrification, maximize the profit of strategy, and strengthen the customer mastery. Furthermore, TECO can create more potential opportunity on resource integration, so that reach selling target fastly. In the future, the company's heavy-electricity motors will be furnished, as a standard auxiliary, with self-developed sensor meeting Industry 4.0 specification, capable to be linked to customers' monitoring system, thereby providing vibration figures of motors, and motor's operating management system, for monitoring of operation and warning of possible malfunction, which greatly lowers the risk of abrupt equipment breakdown

For home appliances, in the long run, the company aspires to become the leading brand in Taiwan and actively penetrate overseas market. In response to the government's energy-conservation policy, TECO has rolled out household refrigerator featuring proprietary variable-frequency strategy, with flexible compartment arrangement, which has been granted 2019 Taiwan Excellent Awards. The company has also rolled out a variable-frequency DC commercial refrigerator, boasting over 60% energy saving, compared with rival brands, plus cloud-end IoT smart management, which can effectively cut foodstuff waste for commercial establishments. Entire series of washing machine meets the double energy- and water-conservation market and models with capacity exceeding 14 kg are furnished with variable-frequency function, to be followed by rollout of variable-frequency washing machines with small 10-12 kg capacity.

Tapping new markets of clean room for medical-care and electronic industries and high-tier air handling unit. In 2019, the company will roll out updated versions of commercial air conditioners, in several models and energy fields, applicable to different sites and meeting different needs. The company has also launched VRF whole variable-frequency central air conditioners, the most common commercial model, in various sizes for different spaces, attaining one-stop shopping service. Series of chillers featuring "large capacity, small size, and super thinness" are available, capable of being dismantled before reassembly, which facilitates installation. In recent years, in order to foray into the market of high-performance electromagnetic-suspension centrifugal machines, mainly for application in civil engineering works and green buildings, the company has put forth IPLV chillers, with 30% power saving than non-variable frequency models. In addition to high performance, the company's air conditioners are equipped with the functions of product health diagnosis, visualized power-consumption management, and indoor air-quality monitoring. Following passage of TAF certification, the company's Guanyin plant installed a dedicated IPLV testing station in 2018, assuring optimal energy-saving operation for air-conditioner main engines under various loading conditions.

Taking advantage of the successful experience in Taiwan, the company has been actively tapping the Southeast Asian and Chinese markets. As for liquid crystal products, actively augment share in Taiwan's 4 K market by improving and integrating cross-Strait supply chain, expanding product lineup, raising functions and specifications, and significantly augmenting product quality and supply stability. Other noticeable products include small home appliances with fashionable designs, desktop personal purifiers, and three-in-one wireless vacuum cleaner with mopping function. Due to higher living standards, plus the emergence of e-commerce, home delivery, low-temperature foods, and urbanization, cold chain logistics has become an emerging industry.

Due to increased living standards, online business and home-delivery business boom, low-temperature foods multiply, population concentrates in urban areas, leading to emergence of cold-chain logistics. According to the study of the Industrial Technology Research Institute (ITRI), annual output value of low-temperature foods in Taiwan hits NT\$280 billion and output value of cold-chain logistics reaches NT\$50 billion, including over NT\$8 billion for low-temperature logistics. TECO Group will take advantage of refrigerating and heat-insulation technologies, plus IT smart monitoring, in meeting needs of various customers for logistics and home-delivery services, tapping the new blue ocean of low-temperature logistics, whose potential is very promising.

Adhering to the concept of "quality and innovation" and backed by abundance engineering experience in electric machinery of buildings, MRT, and high-speed rail, the power division has spared no effort in soliciting engineering businesses in the fields of large commercial buildings, MRT, and rail. In recent years, the Energy & Engineering division has managed to land businesses for a number of major projects, including construction of IDC central offices and IDC centers for some cloud-end Internet firms, foraying into the booming cloud-end industry. In addition, it aggressively integrate related products in side the group to form smart power supply equipment and installation of energy storagesystem, expanding on-shore substation of offshore wind farm, successfully tapped emerging business opportunities for smart energy conservation and overseas markets.

## 5.2 Market and Sales Overview

### 5.2.1 Market Analysis

#### A. Sales (Service) Region

The company is shipping industrial products to such major regions as America, Europe, Australia, Japan, China and Taiwan, and targets to extend the reach to the Middle East, India and Turkey. Home appliances are shipped mainly to the domestic market, with minor markets including Australia, Southeast Asia, Singapore, and Japan. M&E Construction also positively develops Vietnam and Indonesia markets. The business mode of PV ESCO is mainly in Taiwan.

#### B. Market Share (%) of Major Product Categories

##### (1) Industrial Product

The company boasts 50% domestic market share in general purpose sector; regarding overseas market, TECO takes over high market share in North America, South East Asia and Australia. TECO also offers customers custom motor featuring special usage and specifications, with the capacity reaching 30,000 horsepower in induction motors, ranking Top 5 around the world.

##### (2) Home Appliances and Air Conditioner

The company is one of the top three makers of home appliances and air conditioners in Taiwan, with market share reaching 9% for household air conditioners, 14% for refrigerators, 15% for washing machines, 10% for LCD, and 35% for commercial-use air conditioners.

##### (3) Control Device

The company is Top 2 producer of circuit breaker, widely used in power distribution and machinery market. Domestic market share is around 20%.

#### C. Market Trend of Major Product Categories

##### (1) Industrial Products

TECO originated from motor production, which has remained a core part of the company's operation, offering the dynamism for Taiwan's industrial development. According to the analysis of the International Energy Agency (IEA), industrial machinery with motor as core drive is the industrial equipment with the largest power consumption, such as machine tool, pump, air compressor, and wind turbine, accounting for 46% of the world's total power consumption. In Taiwan, motor accounts for 68% of industrial power consumption. For motor manufacturers, the development of high-efficiency motors is not only out of market consideration but also corporate social responsibility. Therefore, TECO dedicates to the development of energy-conserving products, as evidenced by the rollout of high-efficiency motors conforming to IE3 requirement in July 2014, even before implementation of the standard by the government in 2016. At present, TECO has provided many customers IE4 motors, notably for rubber and plastic industry with the largest power consumption, even though the government has yet to implement the standard.

Teco Electric & Machinery and affiliated companies jointly showcased smart electric machinery solutions based on IoT (Internet of Things) and hardware/software integration. In particular, the company showcased a VHPD (very high power density) motor model with power density exceeding the globally highest level for frame number 355 motors. The model, in addition to ultra-high power density, features high energy efficiency at IE4 level, small weight and dimensions to take less space and a smart health management system, and thereby is suitable for use in match with wind-powered and hydraulic machines in oil refineries and power plants.

In the IE3 era, in addition to its own energy performance, motor has been increasingly coupled with inverter to expand energy-conserving benefit of the system. Therefore, with its price gap with induction motors gradually narrowing, permanent-magnet motors have become increasingly popular on the market, thanks to their higher efficiency. In general, with environment-protection and energy-conservation

demands becoming ever higher, combination motor-inverter market has been growing rapidly. The CEMEP (the European Committee of Manufacturers of Electrical Machines and Power Electronics) forecasts that the market share of combination motor-inverter will top 45% by 2020, up from 22% in 2012.

The aspect of heavy-electric products, the company will continue intensifying integration of marketing and production, in order to boost market share and cut cost, development new products, and develop, via concerted effort of domestic and overseas companies under the group, OEM markets and emerging markets, in addition to aggressively soliciting orders for domestic and overseas civil-engineering works, so as to achieve the high-growth target. To tap the global business opportunities related to energy conservation and carbon abatement. To adapt to the trend of system sale, TECO launched transmission system solution of I+M+G (I: Inverter, M: motor, G: gear reducer), and expects to provide customers with connected sequence of service enhancing customer's satisfaction.

The smart health management system, developed by the company's affiliate Tecom, enables remote and real-time maintenance and is a globally leading technology in line with the company's goals---energy saving, reduction in carbon dioxide emission, intelligent and automation.

## (2) Home Appliances

The company produces air conditioning equipment of diverse models in capacity and purpose of use for sale in Taiwan and overseas markets. In particular, the company had offered new chiller models featuring high capacity as well as small dimensions and thickness, with the models able to be dismantled and then assembled to facilitate installation at some places. The company had been developing magnetic bearing centrifugal chillers with high energy efficiency and offered IPLV (integrated part load value) models catering to green buildings and public construction projects. In 2018, the company aimed at 35% on-year growth in shipment for commercial air conditioning equipment and 25% on-year growth in shipment for home-use air conditioner in the Taiwan market. Besides, the company aimed to export large chillers to the Southeast Asia market.

Among local vendors of commercial air conditioning equipment, the company had maintained leading status. In 2019, the company will upgrade existing models of air conditioning product lines to cover a wide range of capacity for use at various places and to meet different purposes. For VRF (variable refrigerant flow) multi-unit central air conditioning equipment commonly used in commercial space, the company offered a series models of varying sizes to suit various types of commercial space. Such models had been exported to the Southeast Asia market including Malaysia and Singapore.

The company was promoting development of smart home-use electric appliances, including 43- to 65-inch 4K+Smart LCD monitors, high energy-efficiency variable-frequency refrigerators, multi-temperature refrigerators, remotely monitored SAA (Smart Appliance Alliance) air conditioners and air conditioners equipped with HEPA (high-efficiency particulate air) medical-grade filters. The company aimed to increase sales revenues and profitability by product differentiation.

Along with technological development and growing use of Internet, IT products have been increasingly integrated with home-use electric appliances to become IT-enabled home-use electric appliance models. The company will use decades of experience and cutting-edge IT technologies developed by the Teco Group to develop IT-enabled home-use electric appliances to cater to market demand.

Besides domestic market, the company has also made major inroads into the international market, following years of strenuous effort, especially for LCD TV and air conditioner which have enjoyed very good sales to Southeast Asia, Australia, and Europe. In the future, along with increase in national income and the advent of the information age, the company will continue to launch various even more human-friendly new products, so as to meet market demand.

## D. Favorable and Unfavorable Factors in the Long-range Future and Countermeasures

### (1) Industrial Product

The company's industrial product has won very good reputation, in terms of quality and function, in the industry. It has established a far-reaching operation network on both domestic and overseas fronts, including production and marketing bases in the U.S., China, and Southeast Asia, and marketing offices in Japan, Europe, and Australia. However, rapid change in the business climate and the transformation of economic conditions and industrial structure has posed major challenge to the company's future development. The company will seek sustained development on niche basis cultivated over the past years, to cope with rapid change in the business environment.

Favorable and unfavorable factors for industrial product business, along with countermeasures follow:

#### A. Strong sales network

TECO has several sales points globally. After making effort several years, TECO gains high market share in different regions. In addition, the biggest distribution channel would be OEM (Original Equipment Manufacturer) and EPC (Engineering · Procurement · Construction). Therefore, forming a strategic alliance with target local OEM and EPC would be the main way to increase market share. TECO also directly sale to end user and retailer, smaller size sales channel. Therefore, if TECO would like to expand the U.S. and Europe market, cooperation with local large size OEM and EPC is a necessary strategy.

#### B. Solution projects and after service

Providing solution projects for specific industry, product maintenance, efficiency evaluation, complete repair and maintenance can upgrade the add value of motor and ensure the sales of motor. Therefore, the international peers, such as ABB and Siemens, make an effort to integrate system.

#### C. M&A

Many renowned international brands are actively seeking mergers and acquisitions, for the sake of expanding capacity and sales channels, in addition to extending the magnitude and depth of products and establishing motor-related product lines (such as generator, driver, inverter, and gear reducer, etc.), facilitating provision of more complete engineering solutions, and enhancing market shares of motors and related products. Meanwhile, M&A can pave the way for entry into new market, raising brand visibility and awareness on the market. For some M&A targets, TECO will first seek cooperation to augment market share and sales.

Favorable and unfavorable factors for industrial product business, along with countermeasures follow:

##### a. Favorable factors

- R&D and self made ability, good in tailor made
- Leading position in production scale and market share
- Reliable in quality and good brand image
- Complete product offering line, getting certification of every motor with special demand
- Complete sales channel globally

##### b. Unfavorable factors

- Market saturation leading to price competition among machinery firms and increasingly rigorous demand for price and delivery by buyers
- Transplantation of traditional machinery firms to China and other countries
- Tier 1 motor suppliers promote scope by solid capital and M&A
- Due to the low entry barrier of small sized motor, local player in various countries are able to produce. Low price competition results into decreasing market share, and TECO takes stress of dumping from China player.

- Tier 1 motor suppliers sell system or total solution. In fact, more and more customers expect to buy total solution with motor.

- The strategy between motor and set maker would affect order taking.

c. Countermeasures

- Reduce cost, shorten delivery schedule, enhance competitive edge, and boost market share.
- Accelerate new-product development, develop products with high added value, and establish a production system featuring cross-strait division of labor.
- Increase overseas marketing offices and establish an effective service network.
- Strive for emerging business opportunities related to environmental production and energy conservation.
- Join hands with foreign engineering firms in soliciting project orders.

(2) Home Appliances and Air-Conditioning Business

a. Favorable factors

- TECO's home-appliances division has constantly rolled out innovative high-performance products, taking advantage of the company's good brand image, synergy resulting from resource sharing of the group, and its variable-frequency drive technology, which was transformed via re-platform from heavy-electricity variable-frequency drive technology. At the juncture of its 60th anniversary, TECO's home appliances have entered a new era.
- Roll out, one step ahead of peers, around-the-clock service and grasp channel, to augment competitive edge. Establish inverter common platform for products, enabling precision variable-frequency drive for various motor compressors and coordinate the control logics of different products, such as air conditioner, refrigerator, and washing machine, creating dynamism for innovation for the creation of new products and new functions. In addition, commit to the satisfaction of consumers in service quality and stock of materials.
- The company adopts environmentally friendly manufacturing processes and materials to produce green products. The company in 2016 took the initiative among fellow makers to adopt R32 refrigerant air conditioner production lines to produce energy-saving air conditioners. In order for energy saving and reduction in carbon dioxide emission, the company is the first Taiwan-based home-use electric appliance maker to promote green factories.
- The company joined the Smart Appliance Alliance to boost development of smart home-use electric appliance models. Among Taiwan-based fellow makers, the company is the first one to integrate IoT with home-use electric appliances. The company took the initiative to offer cloud computing-based air conditioning systems featuring user-oriented functions including schedule control, visualization of power consumption, remote control, reminding for switching off.
- The company has offered models that meet requirements for energy-saving, environmental protection and excellence product awards, MIT (Made in Taiwan) labels as well as first-grade energy-saving standards,
- The company took the initiative to offer cloud computing-based air conditioning systems and has provided HVAC (heating, ventilation and air conditioning) solutions

b. Unfavorable factors

- To over the Japanese myth among Taiwanese people, TECO has no other choice but augment its product technologies and thereby compete with Japan's common models, boosting production cost.
- Home appliances/household air conditioning market has saturated, featuring acute competition and low margin.
- WTO membership entails tariff cuts, bringing in competition from renowned brands of Japan, the U.S., Korea, and China.
- The Taiwanese market is limited in scale and it's difficult to develop the global branding, due to high expense for marketing own brands and insufficient price competitiveness.

- Competition from hypermarkets and chain sales channels impacts the traditional channel of agents.
- The current of bilateral or regional free-trade agreements in recent years has posed major challenge to Taiwan.

c. Countermeasures

- Make transformation in the direction of the Internet, expand online sales, develop high-performance IoT cloud-end fashion home appliances, and dedicate to the pushing of marketing 4.0, so as to appeal to white-collar workers aged under 40.
- Expand the professional ability of research and marketing, keep innovation.
- Expand product lineup and cut cost via OEM (original equipment manufacturer) strategic alliance, thereby raising market share.
- Create the edge combining Taiwan's innovation and the large-scale cost advantage of mainland China's hardware, via SKD assembly in China.
- Grasp product development trend in domestic and overseas markets via the operation of product panel and new-product review sessions, thereby introducing innovative products timely.

## 5.2.2 The Production Procedures of Main Products

### Industrial Products:

Products	Use	Production Process
High-efficiency motors, single-phase motors, low- and high-voltage 3-phase motors, synchronous motors, explosion-proof motors, brake motors, variable-pole motors, gear-reducing motors, crane motors, high-temperature exhaust gas fan motors, inverter-duty motors, high-thrust motors, steel-cased motors, aluminum-cased motors, eddy-current motors, wound rotor motors, submersible motors, DC motors, ventilation blowers, wind-powered generators.	Provision of power for industrial production	Casting, Stamping, Electrical Engineering, Mechanical Engineering, Design, Planning, Assembly, Matching
Electric vehicle power motioned permanent magnetic motor, Electric vehicle power motioned induction motor, permanent magnetic motor, AC/permanent magnetic servo motor, IE3/4 high efficient IMD(Integrated Motor Drive)	Industrial and electric vehicle used	Stamping, Electrical Engineering, Mechanical Engineering, Magnet, Design, Planning, Assembly, Matching, Integration

### Home Appliances & Air Conditioners:

Products	Use	Production Process
CSPF-first class air conditioner , new environment-friendly coolant inverter duty air conditioner (one to one and VRF type), smart air conditioner, energy-saving inverter duty refrigerator, high EF-value refrigerator, direct-drive inverter duty washing machine, dehumidifier, clothes dryer, small home appliances, home-delivery low-temperature cart, elevator air conditioner, cooling device for machine tool, low-temperature logistics freezer, heat-dissipation module for PC	Household, commercial, industrial use	Design, planning, assembly, and matching
LED Display, small home appliances	Home Entertainment	Design, Planning, Assembly
Chillers for centralized air-conditioning systems, package air conditioners, split-type air conditioners, inverter multi-evaporator VRF air conditioner, train air-conditioning systems, centrifugal chiller, IPLV chiller solution	Commercial, Industrial Applications; Transportation systems	Design, Planning, Assembly, Matching

### 5.2.3 Main Material

	Main Material	Main Source	Supply
Motor	Silicon Steel	At home and abroad	Centralized Procurement by season
	Aluminum Ingot	At home and abroad	Centralized Procurement by season
	Rod Iron	At home and abroad	Procurement by Contract
	Copper Wire	At home and abroad	Procurement by Contract and Order Placing
	Bearing	At home and abroad	Procurement by Contract
	Engine	Abroad	Procurement by Contract

### 5.2.4 Major Suppliers and Clients

#### A. Major Suppliers Information for the Last Two Calendar Years

None

#### B. Major Clients (each commanding 10%-plus share of annual order volume) Information for the Last Two Calendar Years

None

### 5.2.4 Production over the Last Two Years

Unit: Units; NT\$thousand

Output Year	2017			2018		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
Major Products						
Motor	1,328,030	1,210,881	12,353,709	1,328,030	1,078,353	13,373,284
System Automation	12,407,514	7,623,587	4,757,588	12,174,439	7,260,245	4,408,893
Home Appliance	380,661	275,704	4,163,978	301,613	276,015	3,939,173
Others	594,435	594,435	2,466,566	494,066	494,066	2,097,531
Total	14,710,640	9,704,607	23,741,841	14,298,148	9,108,679	23,818,881

### 5.2.5 Shipments and Sales over the Last Two Years

Unit: Units; NT\$thousand

Shipments & Sales Year	2017				2018			
	Local		Export		Local		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Major Products								
Motor & System Automation	1,504,931	6,722,392	3,223,947	20,978,791	1,659,449	7,156,255	3,715,196	22,528,515
Home Appliance & Air Conditioner	857,501	6,819,674	100,710	531,898	691,003	5,427,693	96,414	513,119
Construction		3,141,743				3,348,998		
Other		9,888,890		2,859,133		8,845,859		2,165,952
Total	2,362,431	26,572,700	3,324,657	24,369,821	2,350,452	24,897,341	3,811,610	25,207,586

### 5.3 Human Resources

Year		2017		2018		March 31 2019	
		TECO	Global	TECO	Global	TECO	Global
Number of Employees		2,410	15,438	2,356	14,363	2,295	14,748
Average Age		41.5	40.0	41.8	40.6	42.0	38.5
Average Years of Service		14.2	9.4	14.4	8.76	14.5	8.48
	Masters above	15.2	7.2	14.6	6.8	14.7	6.1
	Bachelor's Degree	51.5	49.1	51.9	47.1	51.9	45.5
	Senior High School	27.2	32.0	27.4	33.5	27.6	34.7
	Below Senior High School	6.1	11.8	6.1	12.6	5.8	13.5

Note: Employees mentioned here refer to those people who are hired by the entities under consolidated financial statements.

### 5.4 Information on Outlays for Environmental Protection

Explain in the recent one year up to the publication of the yearbook, the total amount of the company's loss (including compensation) from pollution and fines, plus possible outlay from countermeasures.

#### 5.4.1 Loss resulted from polluting environment

None

#### 5.4.2 Countermeasures

##### A. Improvement measures planned

##### a. Improvement plan for environmental-protection equipment

Installation of new environmental-protection equipment, waste reduction by strengthening the maintenance of existing equipment and improvement of production process, improvement of workplace, promotion of energy conservation, recycle and reuse of waste water, and reuse of waste materials, so as to prevent emission of pollutants and comply with legal requirements

##### b. Plan for management improvement

Continue pushing ISO14001 environment management system, pinpoint sections in the operational process (covering the entire product life which includes production, sales, the usage of product, and its disposal) which produce impact on the environment and improve the emission of pollutants, thereby alleviating the environmental impact and augmenting environmental performance.

Continue pushing OHSAS 18001 vocational safety and hygiene management system and the passage of the certification of CNS 15506 by the Council of Labor Affairs; incorporate safety and hygiene management into the corporate management culture; regularly hold environmental-protection and safety/hygiene training, fire-fighting drill and drill emergency response; regularly inspect operating environment and physical examination of employees, so as to lower the hazards of risk of workplace and prevent the occurrence of vocational disaster.

##### c. Continue pushing the program for checking and reduction greenhouse-gas emission

In response to global climate change, the company began to check greenhouse-gas emission in 2005 and passed external greenhouse gas inspection (ISO 14064-1) in 2012. The company started to push



energy-conservation and carbon-abatement program, in 2006 and The company has set a goal of reducing carbon dioxide emission by 20% in 10 years, especially power usage in the second category, which has been participated all the factories and staff units. The company has also established energy-conservation task force and hired experts to help with diagnosis and offer advices for the execution of the program.

TECO has been dedicating to the materialization of the strategic vision of “energy conservation, emissions reduction, intelligence and automation,” which calls for the production of energy-saving and environment-friendly products, via efforts in the fields of R&D, production, materials, process technology, and marketing. We also focus on green energy in business expansion and even organize various sci-tech and humanistic events via the foundation, in order to substantiate eco value and induce the company to develop in the direction of sustainability.

d. TECO Corporate Social Responsibility Report

Sustainable development for enterprise is an indispensable mindset for corporate management in the new century. At the time when enterprises are facing rigorous challenges, they need to rethink the direction and strategy for their sustainable development and manifest their management performance via report on corporate social responsibilities. The report covers information on the three major aspects of economy, society, and environment, so as to improve external image and help communicate with stakeholders. Corporate social responsibility is the fifth information report unrelated to financial performance publicized by TECO in 2014, with the purpose of manifesting the company’s methods, achievements, and related strategies and goals of the company in fulfilling social responsibilities in a transparent and open manner for the social public and stakeholders. The report mainly covers various acts and performance figures concerning corporate governance, environmental protection, social participation, and concern for employees, clients, and consumers. In 2017, the company obtained a top-50 Taiwan Corporate Sustainability Award, a Corporate Sustainability Report Award, a Social Inclusion Award and a Transparency and Integrity Award.

e. Projected capital outlay for environmental protection in the next three years

(a)Planned procurement of anti-pollution equipment and outlays

i. Plans in next three years

2019	2020	2021
Change in consumable materials including activated carbon, filters, bio-filter balls and improvement in organic solvent manufacturing process	Change in consumable materials including activated carbon, filters, bio-filter balls and improvement in organic solvent manufacturing process	Change in consumable materials including activated carbon, filters, bio-filter balls and improvement in organic solvent manufacturing process
Replacement of the consumption materials of activated carbon, filtering net, and filtering ball	Replacement of the consumption materials of activated carbon, filtering net, and filtering ball	Replacement of the consumption materials of activated carbon, filtering net, and filtering ball
Energy Monitor	Energy Monitor	Energy Monitor
Replacement of conventional lighting products with energy-saving models, adoption of a smart-control painting system	Examination and founding of gas storage tank and heavy oil steam boiler. Improving surroundings	Examination and founding of gas storage tank and heavy oil steam boiler. Improving surroundings
Kitchen cleaning by removing greasy dirt	Replacement of conventional lighting products with energy-saving models and light hoods	Replacement of conventional lighting products with energy-saving models and light hoods
Improvement of waste-water equipment	Pipeline for waste-water	Pipeline for waste-water

ii. Projected outlays (Unit: NT\$thousand)

2019	2020	2021
\$ 35,793	\$ 48,579	\$ 35,718

## (b) Expected improvements

- i. Cut emission of air pollutants and waste water to the level in compliance with legal requirement.
- ii. Push cut on industrial waste by reducing output of waste materials, strengthening mechanism for the recycle of waste materials, implementing control for emission reduction.
- iii. Establish energy-conservation and carbon-abatement task force, which will pinpoint equipment with larger energy consumption and areas with higher power consumption, as well as formulate feasible energy conservation programs after consulting experts/scholars and push their execution, thereby slashing carbon emission.
- iv. Push to cut emission of greenhouse gas and dedicate to the development of energy-conserving environment-friendly products, to alleviate the impact on the environment and fulfill corporate social responsibility.
- v. Install high-efficiency power-saving lighting to enhance the efficiency of existing lighting equipment and adopt proper power deployment and control circuit to save power.
- vi. Carry out risk evaluation for workplace, so as to assure the provision of a safe workplace.

## f. Expected effect of improvement

## (a) Effect on net profits

- i. Avoidance of loss from fines
- ii. Avoidance of loss from suspension of operation
- iii. Avoidance of disputes for environmental pollution
- iv. Cut production cost via reduction of environmental-protection outlays, thanks to waste abatement and pollution prevention.

## (b) Effect on competitiveness status

- i. Augment the corporate image and meet the expectation of related parties.
- ii. Comply with the global environmental-protection current, avoid trade barriers, and boost sales opportunities.

## B. Failure to adopt countermeasures

- a. Failure to adopt improvement measures: Nil
- b. State of pollution: Nil
- c. Possible loss and compensation amount: Nil

**5.4.3 Workplace and Protection Measures for the Personal Safety of Employees**

## A. The safety and hygiene management system was verified and passage of performance certification.

The safety and hygiene management system of various plants (Plant Chung-Li, Plant Kuan-Yin, and Plant Hu-Kou) has passed the “OHSAS 18001,” “Taiwan Occupational Safety & Health Management System (CNS15506),” and its following check.

## B. Special environmental-protection and safety/hygiene units are presented at the headquarters, every department, and factory.

Complying with “Enforcement Rules of the Occupational Safety and Health Act”, specialized units and staffers are instituted to handle affairs related to environmental protection and safety/hygiene and practices

related to safety/hygiene affairs are carried out regularly, according to legal requirement.

C. Environmental-protection and safety/hygiene training are conducted regularly:

New employees and employees shifted to new positions must undertake safety/hygiene training courses, whose duration and contents comply with legal requirement. Only trained personnel with necessary licenses can operate dangerous machines or equipment, such as overhead traveling crane, forklift, organic solvent, boiler, and high-pressure gases. Specialized staffers or technicians all must undertake retraining regularly. The company conducts training on occupational safety for employees, with the training totaling 3,660 man-hours every year.

D. Workplace safety

In addition to the Occupational Safety and Health Act for machinery equipment and norms for use and safe utilization of personal protective gears, the company has managerial staffers carry out safety inspection regularly, to assure compliance by employees to safety norms in their operation and detect points of further improvement, thereby fostering the safety awareness among all employees and achieve safety protection better than legal requirement, to assure safety of workplace.

E. Pushing Globally Harmonized System of Classification & Labeling of Chemicals

To highlight dangerous and hazardous substances, safety labels for materials have been installed in workplaces, where updated information on safety data sheet (SDS) is available as reference for employees. Change in raw materials and production process cannot be made before the review, collection of information on safety data sheet (SDS), and completion of training of related employees in accordance with the company's management measures.

F. Detection of operating environment

According to "Enforcement Measures for Detecting Laborers' Operating Environment," detect the operating environment for chemical and physical elements, with the former including carbon dioxide, dust particle, and organic solution, and the latter including noise and overall temperature index. Entrust qualified operating-environment detecting institutions to carry out the detection periodically, to assure compliance of the operating environment with law/regulation.

G. Fire-fighting drill and emergency-response drill for special workplaces are held regularly:

Ordinary fire-fighting drill takes place every half a year and covers such training items as team organization, practice, response to emergency, and post-accident handling. Emergency-response drill for special workplaces is conducted every year, in order to train employees' capability in handling accidents.

H. Health care and management

Employee health is the largest assets of the company. The Company respectively exercised health examination for regular task and special dangerous task according to "Labor Safety and Health Act". Organize health classes, publicize health information and organize health-improvement activities. Continue pushing employees to stress self-health management and create a safe and comfortable working environment, so as to enhance employees' health and physical strength and further extend the concept to their families.

I. Carry out the event of environmental-protection and industrial-safety month

TECO carries out the event of environmental-protection and industrial-safety month in June and August every year, consisting of various activities, including hanging of event banners and posting of posters on environmental protection and industrial safety, holding of training on environmental protection and industrial safety and awarded answers for questions, a blending of education and fun for all staffers, so as to augment staffers' knowledge of environmental protection and industrial safety and arouse their awareness of environmental protection and industrial safety, on top of plant inspection by external experts, for enhancing the performance for the execution of environmental protection and industrial safety.

## 5.5 Labor Relations

### 5.5.1 The company's various employee welfare measures, advanced study, training, and retirement system, along with their execution, as well as labor-management agreements and various employee-benefit protection measures follow:

#### A. Employee welfare measures

The company has high regard for employee welfare and work safety constantly, as evidenced by the setup of employee welfare committee back in 1964, which handles various employee welfare measures, so that employees can share the profits of the company. The company's welfare measures follow:

##### a. Employee welfares provided by the company

- (a) Marriage and funeral subsidy
- (b) Physical examination for employees
- (c) Company uniform
- (d) Dividend sharing and stock option
- (e) Year-end bonus
- (f) Pension fund
- (g) Meal subsidy
- (h) Labor insurance, health insurance, group insurance, pension hand over and accident insurance
- (i) Preferential rates for purchase of the company's products

##### b. Welfare measures provided by the employee welfare committee

- (a) Subsidy for travel, marriage, funeral, and hospitalization
- (b) Group parties
- (c) Birthday gift
- (d) Childbirth subsidy
- (e) Gifts for three major festivals
- (f) Scholarship for employees' children
- (g) Other employee welfares

#### B. Advanced study, education, and training

The company appropriates 0.1% of its annual revenue for employee training, which is included in the annual corporate plan, holding regular courses on professional and management knowledge for employees at various positions and cultivating excellent talents with aggressive working attitude and innovative concept, according to training plans for various stages for their career.

In 2018, the company held courses on executive training, common knowledge, professional capability, and company policy, which boasted 17,199 persons of attendance, on top of 221 persons of attendance for outside courses. Every employee received 17.48 hours of training on average.

In order for executive training and succession of executive positions, the company sets managerial functions for basic-, middle- and high-level executives respectively and offers regular education for executives of each level. In addition, the company provides mentor counseling to match important executives' career planning to enhance their competency for succeeding positions of higher levels. The company in 2018 set up Corporate

College, the company's own-use educational system, with management curriculums provided by College of Commerce under National Chengchi University for import executive managers selected by each business unit under the company. The curriculums focus on strategic planning, multinational management, global marketing, innovation management and new economics to strengthen trainees' commercial and operational management capability, and are intended to cultivate potential future business leaders. Among the trainees, 25 ones were under the company's 2018-2019 succession planning.

#### C. Retirement system and its implementation

The company has formulated "measures for labor retirement," in compliance with legal requirements, according to which the company appropriate a certain amount of fund to be deposited into a specialized account at the Central Trust of China for care of employees after their retirement. For employees who embrace labor-pension system after July 1, 2005, the company appropriates a sum equivalent to 6% of their monthly pays, set according to an official pay scale, to their individual accounts at the Labor Insurance Bureau every month.

#### D. Labor-management agreements and protection measures for employee benefits

The company has enjoyed harmonious labor-management relationship, thanks to open-minded management style of executives and the understanding of company policy by laborers.

The company set up TECO employee welfare committee in April 1964, in charge of various employee welfare affairs, which was followed by the establishment of TECO labor union in July, 1974. In March 1980, the company's factories initiated labor-management meeting, in order to boost working efficiency, improve labor conditions, and bridge the opinions of management and labor. The company has reported to the regulator for the establishment of those organizations, which have been functioning normally over the past years.

To safeguard the interests of both labor and management and assure their harmonious relationship, the company signed a group contract with representatives of the labor union on December 28, 1981, which was then forwarded to and approved by the regulator.

In 1999, the company was granted the "national good labor-management relationship business award" and "exemplary labor-management meeting award" by the Council of Labor Affairs and the "good labor-management relationship award" by the Taoyuan County government. In 2009, it passed the certification for healthy workplace by the Bureau of Health Promotion and in 2010 it was granted the award of "national manpower innovation" by the Council of Labor Affairs and "excellent award for healthy workplace" by Taipei city government, in 2012 it was awarded "2012 Corporate Citizen Award" by Common Wealth and was awarded "Happy Corporate Award" by Taiwan City Government in 2013, as well as "Employment Award" by Taoyuan County in 2015, in acknowledgement of the company's effort in achieving a harmonious and co-prosperous relationship between labor and management. The company was granted an excellence enterprise award in resource recycle-based environmental protection by Taoyuan City Government in 2018.

#### E. Guidelines for employee behavior or ethics

a. To uphold the working order at workplace and clearly define the rights and obligations of labor and management, the company has formulated "employee working rules," which has been approved by the regulator and publicized as the guidance for the company in employee management. The rules set out clear regulations on employees' position, title, employment, leave, service, salary, reward and punishment, evaluation, promotion, welfare, layoff, compensation for vocational injuries, and retirement. The company expects every employee to do his/her best to contribute to the achievement of the company's business goal and enhance his/her ethical standard. It, therefore, has formulated "behavioral guidelines," with major contents including:

- (a) The staff in the implementation of the company's business, should avoid by means of its position in the company as of to themselves, spouse, parent, child or any other person to obtain improper benefits.
- (b) The company's internal information (or information related to the company's interest or business), be it in the aspect of technology, finance, or business, is the company's business secret, for which employees have the obligation of confidentiality and cannot leak it to any outside party. In addition, after leaving

the company, employees still have to abide by the confidentiality obligation according to the principle of integrity and refrain from leaking the company's secrets or utilize them in engaging in illegal competition.

- (c) Stake with customers: Employees should obey the law and related regulation of the company to avoid inappropriate present under any other's name or in any way. Trading with customers and suppliers sincerely fairly and transparently with steady, professional attitude.
- (d) Political donation: Employees should not donate to or sponsor via other means political candidates under the name of the company or its affiliated institutions.
- (e) Charitable donation: When making any charitable donation or sponsorship, staffers should check the outlet and purpose of such donation and sponsorship to make sure it doesn't become bribery in disguise.
- (f) Obligation of reporting and informing: The company encourages open communication with staffers and third parties, who can report or inform management or human-resources unit for any question, finding, unfair treatment at worksites, or violation of the guidelines, without vicious fabrication, though. The company will handle such reporting or informing confidentially and protect those who take part in the investigation.

Subjects of the reporting or informing should not revenge or threaten the informants, who can report any revenge, threat, or harassment to human-resources unit upon which the company will act instantly.

#### **5.5.2 Status of the company's staffers related to financial-information transparency in securing certificates designated by the regulator.**

License	Number of People	
	Financial Accounting	Auditing
CPA	3	1
CIA	1	1
Investment trust and consulting representative	3	

#### **5.5.3 The company had not incurred any loss from labor-management dispute as of the date for the publication of the annual report and expects no such loss in the future.**

## 5.6 Important Contracts

Agreement	Counterparty	Period	Major contents	Restrictions
1. Agency contract	Yu-Shih electric and others, totaling 856 companies	One year after the starting of shipment, should any party fail to notify contrary opinion three months before the ending of the contract, the contract will be extended by one year automatically, an arrangement which will be repeated afterwards.	Rights and obligations for agency for home appliances, electric motor, heavy electric products, power device and and air conditioners.	Nil
2. Project Undertaking	Eskyland & Kaohsiung Marriott Hotel	Based upon client's schedule since 2017 1st quarter (estimated to Q2 2019)	New construction of E United Group 1. hydroelectric engineering 2. air conditioning engineering 3. power bus 4. Construction of switchboard in substation 5. Construction of emergency power generation	Nil
3. Project Undertaking	Taiwan Sugar Corp.	Starting from December 28 <sup>th</sup> , 2018 (estimated to October 31 <sup>st</sup> , 2020)	Electric engineering project of Shalun smart & green residence	Nil
4. Joint venture agreement	Tong-An Invesment and Motech Energy System.	The contract comes into effect since March 5, 2018 to termination approved by 3 parties; or one party inform the others to terminate based upon the contract	Joint venture of 3 parties, SPV company for power generation and sales from solar.	Nil

## VI. Financial Information

### 6.1 Five-Year Financial Summary

#### 6.1.1 Balance Sheet

##### A. Condensed Balance Sheet-IFRS

Unit: NT\$thousand

Year Item		Five-Year Financial Summary					Year-to-date 2019.3.31
		2014	2015	2016	2017	2018	
Current assets		12,849,769	10,117,285	10,599,153	9,781,308	10,343,772	N/A
Property, plant and equipment		3,959,960	3,877,206	3,643,481	3,761,489	3,739,530	
Intangible assets		0	0	0	0	0	
Other assets		51,316,696	53,603,223	55,941,991	57,232,136	58,712,398	
Total assets		68,126,425	67,597,714	70,184,630	70,774,933	72,795,700	
Current liabilities	Before distribution	9,362,494	12,426,835	9,029,583	9,350,717	8,468,684	
	After distribution	11,565,456	14,028,989	14,028,989	11,073,033	Note 1	
Non current liabilities		9,493,858	7,706,837	11,423,480	9,594,451	10,648,356	
Total liabilities	Before distribution	18,856,352	20,133,672	20,453,063	18,945,168	19,117,040	
	After distribution	21,059,314	21,735,826	22,215,433	20,667,484	Note 1	
Equity attributable to owners of parent		49,270,073	47,464,042	49,731,567	51,829,765	53,678,660	
Capital stock		20,026,929	20,026,929	20,026,929	20,026,929	20,026,929	
Capital surplus		7,600,552	7,638,417	7,671,889	7,628,542	7,647,215	
Retained earnings	Before distribution	18,444,591	19,363,279	21,187,539	22,469,336	25,221,021	
	After distribution	16,241,629	17,761,125	19,425,169	20,747,020	Note 1	
Other equity interest		3,519,564	756,980	1,166,773	2,026,521	1,105,058	
Treasury Stocks		(321,563)	(321,563)	(321,563)	(321,563)	(321,563)	
Non-Controlling Interest		0	0	0	0	0	
Total shareholders' equity	Before distribution	49,270,073	47,464,042	49,731,567	51,829,765	53,678,660	
	After distribution	47,067,111	45,861,888	47,969,197	50,107,449	Note 1	

Note 1: Earnings allocation has not yet to be passed by shareholders' meeting.



## B. Consolidated Condensed Balance Sheet-IFRS

Unit: NT\$thousand

Item	Year	Five-Year Financial Summary					Year-to-date 2019.3. 31 (note2)
		2014	2015	2016	2017	2018	
Current assets		43,275,334	42,292,402	45,296,310	44,262,768	43,760,371	44,121,114
Fixed assets		14,569,687	15,018,217	18,463,450	17,922,299	17,363,543	17,162,909
Intangible assets		174,250	5,541,844	5,636,766	5,612,315	5,557,343	5,333,841
Other assets		24,693,774	21,581,789	22,977,430	24,219,575	25,300,029	32,255,185
Total assets		82,713,045	84,434,252	92,373,956	92,016,957	91,981,286	98,873,049
Current liabilities	Before distribution	18,075,827	22,715,038	18,958,845	18,742,356	18,141,380	17,725,091
	After distribution	20,278,789	24,317,192	20,721,215	20,464,672	Note 1	Note 1
Non Current liabilities		11,348,496	10,286,710	17,690,568	15,400,464	15,348,991	20,610,889
Total liabilities	Before distribution	29,424,323	33,001,748	36,649,413	34,142,820	33,490,371	38,335,980
	After distribution	31,627,285	34,603,902	38,411,783	35,865,136	Note 1	Note 1
Equity attributable to owners of parent		49,270,073	47,464,042	49,731,567	51,829,765	53,678,660	55,798,754
Capital stock		20,026,929	20,026,929	20,026,929	20,026,929	20,026,929	20,026,929
Capital surplus		7,600,552	7,638,417	7,671,889	7,628,542	7,647,215	7,647,223
Retained earnings	Before distribution	18,444,591	19,363,279	21,187,539	22,469,336	25,221,021	25,607,657
	After distribution	16,241,629	17,761,125	19,425,169	20,747,020	Note 1	Note 1
Other equity interest		3,519,564	756,980	1,166,773	2,026,521	1,105,058	3,514,348
Treasury Stocks		(321,563)	(321,563)	(321,563)	(321,563)	(321,563)	(997,403)
Non-Controll Interesting	Before distribution	4,018,649	3,968,462	5,992,976	6,044,372	4,812,255	4,738,315
	After distribution	4,018,649	3,968,462	5,992,976	6,044,372	Note 1	Note 1
Total shareholders' equity	Before distribution	53,288,722	51,432,504	55,724,543	57,874,137	58,490,915	60,537,069
	After distribution	51,085,760	49,830,350	53,962,173	56,151,821	Note 1	Note 1

Note 1: Earnings allocation has not yet to be passed by shareholders' meeting.

Note 2: Financial data (consolidated) as of March 31, 2019 had been audited by certified public accountants.

## 6.1.2 Condensed Statement of Income

### A. Condensed Statement of Income-IFRS

Unit: NT\$thousand

Item \ Year	Five-Year Financial Summary					Year-to-date 2019.3.31
	2014	2015	2016	2017	2018	
Sales revenue	24,256,762	21,809,717	20,274,047	21,301,208	20,879,719	N/A
Gross profit	5,374,654	4,846,552	4,739,556	4,576,185	4,372,944	
Operating profit	1,949,849	1,617,491	1,615,152	1,507,068	1,410,943	
Non-operating income & expenses	2,497,774	1,888,953	2,007,272	1,797,400	1,883,866	
Profit before income tax	4,447,623	3,506,444	3,622,424	3,304,468	3,294,809	
Income from operations of continued segments - before tax	4,062,960	3,177,291	3,481,480	3,092,358	3,150,089	
Income from discontinued departments	0	0	0	0	0	
Profit for the year	4,062,960	3,177,291	3,481,480	3,092,358	3,150,089	
Other Comprehensive Income for the year	4,385,963	(2,818,225)	354,727	811,557	402,449	
Total Comprehensive Income for the year	8,448,923	359,066	3,836,207	3,903,915	3,552,538	
Profit (loss) attributable to owners of parent	4,062,960	3,177,291	3,481,480	3,092,358	3,150,089	
Profit (loss) attributable to non-controlling interest	0	0	0	0	0	
Total Comprehensive Income for the year profit (loss) attributable to owners of parent	8,448,923	359,066	3,836,207	3,903,915	3,552,538	
Total Comprehensive Income for the year profit (loss) attributable to non-controlling interest	0	0	0	0	0	
Earnings per share	2.05	1.60	1.76	1.56	1.59	

## B. Consolidated Condensed Statement of Income-IFRS

Unit: NT\$thousand

Item \ Year	Five-Year Financial Summary					Year-to-date 2019.3.31 (Note 1)
	2013	2014	2016	2017	2018	
Sales revenue	53,748,466	48,598,573	49,923,836	50,942,521	50,104,927	11,707,047
Gross profit	13,391,803	12,400,311	13,134,395	12,196,268	12,052,674	2,904,711
Operating profit	4,422,836	3,787,627	4,189,481	3,496,200	3,520,486	926,078
Non-operating income & expenses	1,277,135	775,644	743,810	857,704	765,802	43,354
Profit before income tax	5,699,971	4,563,271	4,933,291	4,353,904	4,286,288	969,432
Income from operations of continued segments - before tax	4,402,267	3,514,116	4,036,998	3,544,248	3,475,969	706,422
Income from discontinued departments	0	0	0	0	0	0
Profit for the year	4,402,267	3,514,116	4,036,998	3,544,248	3,475,969	706,422
Other Comprehensive Income for the year	4,589,906	(2,953,958)	323,292	781,789	433,011	2,488,218
Total Comprehensive Income for the year	8,992,173	560,158	4,360,290	4,326,037	3,908,980	3,194,640
Profit (loss) attributable to owners of parent	4,062,960	3,177,291	3,481,480	3,092,358	3,150,089	634,584
Profit (loss) attributable to non-controlling interest	339,307	336,825	555,518	451,890	325,880	71,838
Total Comprehensive Income for the year profit (loss) attributable to owners of parent	8,448,923	359,066	3,836,207	3,903,915	3,552,538	3,065,154
Total Comprehensive Income for the year profit (loss) attributable to non-controlling interest	543,250	201,092	524,083	422,122	356,442	129,486
Earnings per share	2.05	1.60	1.76	1.56	1.59	0.32

Note 1: Financial data (consolidated) as of March 31, 2019 had been audited by certified public accountants.

## 6.1.3 Auditors' Opinions from 2014 to 2018

Year	CPA Firm	CPA's Name	Auditing Opinion
2018	PricewaterhouseCoopers, Taiwan	Wu, Yu-Lung Chou, Chien-Hung	Unqualified Opinion
2017	PricewaterhouseCoopers, Taiwan	Wu, Yu-Lung Chou, Chien-Hung	Unqualified Opinion
2016	PricewaterhouseCoopers, Taiwan	Audrey Tseng Dexter Chang	Modified Unqualified Opinion
2015	PricewaterhouseCoopers, Taiwan	Audrey Tseng Dexter Chang	Modified Unqualified Opinion
2014	PricewaterhouseCoopers, Taiwan	Audrey Tseng Dexter Chang	Modified Unqualified Opinion

## 6.2 Five-Year Financial Analysis

### 6.2.1 Five-Year Financial Analysis-IFRS

Item		Year	Financial analysis in the past five years					Year-to-date 2019.3.31
			2014	2015	2016	2017	2018	
Financial structure (%)	Ratio of liabilities to assets		27.75	29.78	29.14	26.77	26.26	N/A
	Ratio of long-term capital to fixed assets		1,417.72	1,354.68	1,603.47	1,566.42	1,656.05	
Solvency (%)	Current ratio		137.25	81.41	117.38	104.60	122.14	
	Quick ratio		93.80	51.71	71.64	67.15	74.89	
	Times interest earned ratio		47.76	31.27	30.34	36.02	35.78	
Operating ability	Accounts receivable turnover (turns)		6.64	5.24	5.01	5.30	5.63	
	Average collection period		54.97	69.66	72.85	68.87	64.83	
	Inventory turnover (turns)		5.41	5.20	4.89	5.43	5.58	
	Accounts payable turnover (turns)		3.68	3.71	3.50	3.46	3.59	
	Average days in sales		67.47	70.19	74.64	67.22	65.41	
	Fixed assets turnover (turns)		6.42	5.57	5.39	5.75	5.57	
	Total assets turnover (turns)		0.38	0.32	0.29	0.30	0.29	
Profitability	Return on total assets (%)		6.48	4.82	5.20	4.50	4.49	
	Return on stockholders' equity (%)		8.83	6.57	7.16	6.09	5.97	
	Ratio of pre-tax income to issued capital (Note7)		22.23	17.51	18.09	16.50	16.45	
	Profit ratio (%)		16.77	14.57	17.17	14.52	15.09	
	Earnings per share (\$)		2.05	1.60	1.76	1.56	1.59	
Cash flow	Cash flow ratio (%)		32.69	21.81	25.78	30.30	14.06	
	Cash flow adequacy ratio (%)		98.75	86.16	81.11	76.63	67.68	
	Cash reinvestment ratio (%)		1.27	0.80	1.03	1.52	-0.79	
Leverage	Operating leverage		3.40	3.68	3.49	3.68	3.77	
	Financial leverage		1.05	1.08	1.08	1.07	1.07	
Key Indicator	Sales growth (%)		-5.26	-10.09	-7.04	5.07	-1.98	
	Profit after tax growth (%)		8.17	-21.80	9.57	-11.18	1.87	

Explain changes in various financial rates, as well as reasons, in recent two years.

A. Cash flow ratio declined, due to the decreasing net operating cash inflow this year.

B. Cash flow adequacy ratio declined, due to the decreasing net operating cash inflow in recent five years.

C. Cash reinvestment ratio declined, due to the decreasing net operating cash inflow this year.

## 6.2.2 Consolidated Five-Year Financial Analysis-IFRS

Item \ Year		Financial analysis in the past five years					Year-to-date 2019.3.31 (Note1)
		2014	2015	2016	2017	2018	
Financial structure (%)	Ratio of liabilities to assets	35.68	39.09	39.68	37.10	36.41	38.77
	Ratio of long-term capital to fixed assets	408.75	377.76	369.12	381.31	398.75	418.48
Solvency (%)	Current ratio	238.59	186.19	238.92	236.16	241.22	248.92
	Quick ratio	168.66	129.42	170.96	168.32	168.39	173.45
	Times interest earned ratio	27.07	22.99	19.47	19.18	20.66	14.73
Operating ability	Accounts receivable turnover (turns)	5.15	4.62	4.37	4.42	4.64	4.47
	Average collection period	70.87	79.00	83.52	82.58	78.66	81.66
	Inventory turnover (turns)	3.28	2.90	2.98	3.19	3.11	2.88
	Accounts payable turnover (turns)	5.15	4.99	5.03	4.94	4.84	4.77
	Average days in sales	111.28	125.86	122.48	114.42	117.36	126.74
	Fixed assets turnover (turns)	3.60	3.29	2.98	2.80	2.84	2.71
	Total assets turnover (turns)	0.67	0.58	0.56	0.55	0.54	0.49
Profitability	Return on total assets (%)	5.75	4.41	4.82	4.06	3.97	3.20
	Return on stockholders' equity (%)	8.82	6.71	7.53	6.24	5.97	4.75
	Ratio of Pre-tax income to issued capital (%) (Note7)	28.48	22.79	24.63	21.74	21.40	19.36
	Profit ratio (%)	8.19	7.23	8.09	6.96	6.94	6.03
	Earnings per share (\$)	2.05	1.60	1.76	1.56	1.59	0.32
Cash flow	Cash flow ratio (%)	26.38	24.40	25.58	31.43	23.86	(6.17)
	Cash flow adequacy ratio (%)	111.64	118.38	117.84	122.23	116.89	109.73
	Cash reinvestment ratio (%)	3.03	3.86	3.26	4.12	2.57	(1.10)
Leverage	Operating leverage	3.56	3.79	3.57	4.74	3.96	3.59
	Financial leverage	1.05	1.06	1.07	1.07	1.07	1.08
Key Indicator	Sales growth (%)	-4.94	-9.58	2.73	2.04	-1.64	-3.69
	Profit after tax growth (%)	5.48	-20.17	14.88	-12.21	-1.93	19.42

Explain changes in various financial rates, as well as reasons, in recent two years.

A. Cash flow ratio declined, due to cash flow from operating activities this year is less than last year.

B. Cash reinvestment ratio rose, due to cash flow from operating activities this year is less than last year.

Note 1: Financial data (consolidated) as of March 31, 2019 had been audited by certified public accountants.

## **6.3 Inspection Report of Audit Committee**

(This English version is only a translation of the Chinese version.)

The Audit Committee has duly inspected and approved the financial statements for 2018 (include consolidated financial statements), the business report and proposed profit distribution plan prepared and proposed by the Board of Directors, with the financial statements having been audited and certified by Pricewaterhouse Coopers, hereby submit this report pursuant to Article 14 of Securities and Exchange Act and Article 219 of the Company Act.

To

General Shareholders Meeting 2019

TECO Electric & Machinery Co., Ltd

Audit Committee Convener : Ting-Wong, Cheng

Date: March 26, 2019

**TECO ELECTRIC & MACHINERY CO., LTD.**

**PARENT COMPANY ONLY FINANCIAL**

**STATEMENTS AND REPORT OF INDEPENDENT**

**ACCOUNTANTS**

**DECEMBER 31, 2018 AND 2017**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To TECO Electric & Machinery Co., Ltd.

***Opinion***

We have audited the accompanying parent company only balance sheets of TECO Electric & Machinery Co., Ltd. as at December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the audit reports of other independent accountants, as described in the other matter section of our report, the parent company only financial statements present fairly, in all material respects, the financial position of TECO Electric & Machinery Co., Ltd. as of December 31, 2018 and 2017, and its 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 opinion***

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (“ROC GAAS”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and audit reports of other independent accountants, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Key audit matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our



audit of the parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Company's financial statements of the current period are stated as follows:

***Revenue recognition of export sales of heavy industrial products group***

Description

Refer to Note 4(31) of the parent company only financial statements for the accounting policies on revenue recognition. Heavy industrial products group handles the manufacturing and sales of various machinery, equipment and motors. Aside from domestic sales in Taiwan, the customers of heavy industrial products group are from China, America, Southeast Asia and Europe and the sales terms vary for different customers. Thus, we consider the revenue recognition of export sales of heavy industrial products group as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Obtained an understanding of and validated the internal controls over revenue recognition of export sales of heavy industrial products group to assess the effectiveness of the internal control process.
2. Validated selected samples of export sales revenue transactions of heavy industrial products group to confirm the existence of export sales revenue transactions.

***Investment accounted for under equity method – impairment assessment of premium generated from the acquisition of subsidiaries***

Description

Motovario S.p.A. is headquartered in Italy, and is engaged in the manufacturing and sales of gear reducers and other power transmission equipment. Motovario S.p.A. is considered a minor cash-generating unit of TECO Electric & Machinery Co., Ltd.. As of December 31, 2018, the balance of

goodwill was NT\$5,207,755 thousand. Refer to Note 4(18) of the parent company only financial statement for the accounting policies on the impairment of non-financial assets and Note 5(2) for the uncertainty of the accounting estimate regarding impairment of investment in premium. TECO Electric & Machinery Co., Ltd. assesses the impairment of investment in premium using the recoverable amount generated from the cash flow forecast discounted using a reasonable discount rate.

The aforesaid recoverable amount includes several assumptions such as the discount rate used and the preparation of financial projections to estimate the cash flows for the next three years. The discount rate and financial projections relating to the future operations of Motovario S.p.A. are subject to management judgement which have a significant impact on the measurement of the recoverable amount, thus affecting the results of the impairment assessment. Accordingly, we consider management's impairment assessment of investments accounted for under equity method as a key audit matter.

#### How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Obtained an understanding and assessed the Company's policies and procedures in relating to the goodwill impairment assessment.
2. Assessed whether the future cash flows adopted in the valuation model was in accordance with Motovario S.p.A's operation plan, and reviewed the results of the previous operating plans prepared by management.
3. Evaluated the reasonableness of major assumptions (including the expected growth rate and discount rate) used in the model.
4. Reviewed the sensitivity analysis for the above significant assumptions and parameters prepared by management and confirmed whether management has adequately addressed the possible impact of the estimation uncertainty on the impairment assessment.

#### ***Reclassification from investments accounted for under equity method - subsidiaries into associates due to loss of control***

##### Description

Refer to Note 4(13) for accounting policies adopted when losing control over subsidiaries accounted for

under equity method. As mentioned in Note 6(7) of the parent company only financial statements, Kuen Ling Machinery Refrigerating Co., Ltd. (“Kuen Ling”) was a subsidiary accounted for under equity method and included in the parent company only financial statements given a control over the Kuen Ling’s Board of Directors through 19.98% of equity previously held by TECO Electric & Machinery Co., Ltd.. However, based on the management’s assessment, TECO Electric & Machinery Co., Ltd. has lost control and yet still retained significant influence over the Board of Directors of Kuen Ling following the re-election of directors by shareholders held on May 23, 2018. On the same date, the investments in Kuen Ling were remeasured at fair value. Kuen Ling was then accounted for under equity method but no longer a consolidated entity thereafter. In addition, Kuen Ling does not meet the criteria of Level 1 fair value because of its small stock trading amounts although it is an OTC company based on the management’s assessment. Per management’s request, external experts valued its fair value to be Level 3. Given that significant judgements exercised by both the management and valuers’ pertaining to the valuation techniques and parameters in Level 3 significantly affect accounting treatment for losing control, we consider it as a key audit matter.

#### How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Assessed the management’s judgements regarding the loss of control and yet still retaining significant influence over the Board of Directors of Kuen Ling.
2. Confirmed that the valuation models, assumptions and parameters used by external experts are justified.
3. Assessed the relevance between the investments and the comparable companies used in the valuation report in terms of their business traits and financial information; reviewed referenced information and supporting documentation of the comparable companies.
4. Verified that the amount of gain on remeasurement recognised by the management is accurate.

#### ***Other matter – Reports of other independent accountants***

As described in Notes 6(6) of the parent company only financial statements, we did not audit the financial

statements of certain investee accounted for under the equity method. Those financial statements were audited by other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements and the information on the investee disclosed in Note 13 was based solely on the reports of other independent accountants. The investments accounted for under the equity method amounted to NT\$4,076,536 thousand and NT\$4,043,134 thousand, both constituting 6% of the related total assets as of December 31, 2018 and 2017, respectively, and the comprehensive income amounting to NT\$176,754 thousand and NT\$89,767 thousand, constituting 5% and 2% of the total comprehensive income for the years then ended, respectively.

***Responsibilities of management and those charged with governance for the parent company only financial statements***

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the Audit Committee, are responsible for overseeing the Company’s financial reporting process.

***Auditor’s responsibilities for the audit of the parent company only financial statements***

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee

that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company only financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

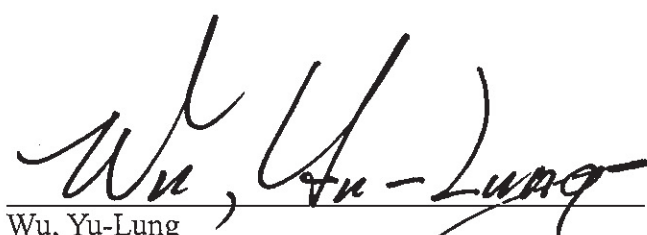
1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
2. Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause TECO Electric & Machinery Co., Ltd. to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within TECO Electric & Machinery Co., Ltd. to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned

scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Wu, Yu-Lung



Chou, Chien-Hung

For and on behalf of PricewaterhouseCoopers, Taiwan

March 28, 2019

The accompanying parent company only financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying parent company only financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.



TECO ELECTRIC & MACHINERY CO., LTD.  
PARENT COMPANY ONLY BALANCE SHEETS  
DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1) and 8	\$ 1,232,796	2	\$ 887,185	1
1140	Current contract assets		1,074,420	1	-	-
1150	Notes receivable, net	6(4) and 12(2)	405,734	1	289,239	1
1160	Notes receivable - related parties	7	326,842	-	316,590	1
1170	Accounts receivable, net	6(4) and 12(2)	1,528,892	2	1,567,629	2
1180	Accounts receivable - related parties	6(6) and 7	1,284,953	2	1,641,299	2
1190	Receivables from customers on construction contracts	12(4)	-	-	836,338	1
1200	Other receivables		62,938	-	143,086	-
1210	Other receivables - related parties	6(6) and 7	1,293,359	2	1,257,512	2
130X	Inventory	6(5)	2,758,641	4	2,612,493	4
1410	Prepayments		168,385	-	53,287	-
1470	Other current assets	6(1) and 8	206,812	-	176,650	-
11XX	Total current assets		10,343,772	14	9,781,308	14
Non-current assets						
1510	Non-current financial assets at fair value through profit or loss	6(2)(21)	1,835,790	3	-	-
1517	Non-current financial assets at fair value through other comprehensive income	6(3)	5,983,461	8	-	-
1523	Available-for-sale financial assets - non-current	12(4)	-	-	6,609,115	10
1550	Investments accounted for under equity method	6(6) and 7	47,877,378	66	47,511,672	67
1600	Property, plant and equipment	6(7) and 7	3,739,530	5	3,761,489	5
1760	Investment property - net	6(8)	2,060,182	3	2,167,540	3
1840	Deferred income tax assets	6(24)	803,739	1	794,842	1
1900	Other non-current assets	6(9)	151,848	-	148,967	-
15XX	Total non-current assets		62,451,928	86	60,993,625	86
1XXX	Total assets		\$ 72,795,700	100	\$ 70,774,933	100

(Continued)

**TECO ELECTRIC & MACHINERY CO., LTD.**  
**PARENT COMPANY ONLY BALANCE SHEETS**  
**DECEMBER 31, 2018 AND 2017**  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity			December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(10)	\$ 49,110	-	\$ 275,784	-
2120	Financial liabilities at fair value through profit or loss - current	6(11)(21)	-	-	2,529	-
2130	Current contract liabilities	6(19)	356,457	-	-	-
2150	Notes payable		6,861	-	19,630	
2160	Notes payable - related parties	7	162,340	-	169,104	-
2170	Accounts payable		3,371,424	5	3,321,297	5
2180	Accounts payable - related parties	7	876,705	1	1,275,730	2
2190	Payables to customers on construction contracts	12(4)	-	-	164,333	-
2200	Other payables		2,590,466	4	2,554,240	4
2220	Other payables - related parties	7	635,479	1	711,805	1
2230	Current income tax liabilities	6(24)	269,312	-	548,103	1
2250	Provisions for liabilities - current		91,679	-	83,418	-
2300	Other current liabilities		58,851	-	224,744	-
21XX	Total current liabilities		8,468,684	11	9,350,717	13
Non-current liabilities						
2530	Corporate bonds payable	6(12)	4,000,000	6	4,000,000	6
2540	Long-term borrowings	6(13)	4,249,725	6	3,090,794	5
2570	Deferred income tax liabilities	6(24)	814,098	1	893,369	1
2600	Other non-current liabilities	6(14)	1,584,533	2	1,610,288	2
25XX	Total non-current liabilities		10,648,356	15	9,594,451	14
2XXX	Total liabilities		19,117,040	26	18,945,168	27
Equity						
Share capital						
3110	Common stock	6(15)	20,026,929	28	20,026,929	28
Capital surplus						
3200	Capital surplus	6(16)	7,647,215	10	7,628,542	10
Retained earnings						
3310	Legal reserve	6(17)	6,387,454	9	6,078,219	9
3320	Special reserve		3,640,779	5	3,640,779	5
3350	Unappropriated retained earnings		15,192,788	21	12,750,338	18
Other equity interest						
3400	Other equity interest	6(18)	1,105,058	1	2,026,521	3
3500	Treasury stocks	6(6)(15)	( 321,563)	-	( 321,563)	-
3XXX	Total equity		53,678,660	74	51,829,765	73
Commitments and Contingent Liabilities						
Extraordinary Items						
Subsequent Events						
3X2X	Total liabilities and equity		\$ 72,795,700	100	\$ 70,774,933	100

The accompanying notes are an integral part of these parent company only financial statements.



TECO ELECTRIC & MACHINERY CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Items	Notes	Year ended December 31			
		2018		2017	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(19) and 7	\$ 20,879,719	100	\$ 21,301,208	100
5000 Operating costs	6(5)(14)(23) and 7	( 16,506,775)	( 79)	( 16,655,569)	( 78)
5900 Net operating margin		4,372,944	21	4,645,639	22
5910 Unrealized profit from sales	7	( 614,532)	( 3)	( 653,779)	( 3)
5920 Realized profit from sales		653,779	3	584,325	2
5950 Net operating margin		4,412,191	21	4,576,185	21
Operating expenses	6(14)(23) and 7				
6100 Selling expenses		( 1,879,790)	( 9)	( 1,898,343)	( 9)
6200 General and administrative expenses		( 552,893)	( 2)	( 536,338)	( 2)
6300 Research and development expenses		( 568,565)	( 3)	( 634,436)	( 3)
6000 Total operating expenses		( 3,001,248)	( 14)	( 3,069,117)	( 14)
6900 Operating profit		1,410,943	7	1,507,068	7
Non-operating income and expenses					
7010 Other income	6(2)(8)(20) and 7	548,375	3	602,694	3
7020 Other gains and losses	6(2)(3)(6)(11)(21)				
	and 7	( 548,547)	( 3)	( 344,071)	( 2)
7050 Finance costs	6(22) and 7	( 99,181)	-	( 109,565)	( 1)
7070 Share of profit of subsidiary, associates and joint ventures accounted for under equity method	6(6)	1,983,219	9	1,648,342	8
7000 Total non-operating income and expenses		1,883,866	9	1,797,400	8
7900 Profit before income tax		3,294,809	16	3,304,468	15
7950 Income tax expense	6(24)	( 144,720)	( 1)	( 212,110)	( 1)
8200 Profit for the year		\$ 3,150,089	15	\$ 3,092,358	14

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

		Year ended December 31			
		2018		2017	
Items	Notes	AMOUNT	%	AMOUNT	%
<b>Other comprehensive income</b>					
<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>					
8311	Other comprehensive income, before tax, actuarial losses on defined benefit plans	6(14)			
		( \$	34,335)	-	( \$ 34,361)
8316	Unrealised gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	6(18)			
			1,251,661	6	-
8330	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss				
		(	692,289)	( 3)	( 13,830)
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(24)			
			19,779	-	-
8310	<b>Components of other comprehensive loss that will not be reclassified to profit or loss</b>				
			544,816	3	( 48,191)
<b>Components of other comprehensive loss that will be reclassified to profit or loss</b>					
8361	Other comprehensive income, before tax, exchange differences on translation	6(18)			
		(	185,820)	( 1)	( 775,713)
8362	Other comprehensive income, before tax, available-for-sale financial assets	6(18) and 12(4)			
			-	-	1,133,547
8380	Share of other comprehensive income of subsidiary, associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss				
			-	-	433,805
8399	Income tax relating to the components of other comprehensive income	6(18)(24)			
			43,453	-	68,109
8360	<b>Components of other comprehensive (loss) income that will be reclassified to profit or loss</b>				
		(	142,367)	( 1)	859,748
8300	<b>Other comprehensive (loss) income for the year</b>				
		\$	402,449	2	\$ 811,557
8500	<b>Total comprehensive income for the year</b>				
		\$	3,552,538	17	\$ 3,903,915
<b>Earnings per share (in dollars)</b>					
9750	<b>Basic earnings per share</b>	6(25)			
			\$ 1.59		\$ 1.56
9850	<b>Diluted earnings per share</b>				
			\$ 1.59		\$ 1.56

The accompanying notes are an integral part of these parent company only financial statements.

**TECO ELECTRIC & MACHINERY CO., LTD.**  
**PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**  
(Expressed in thousands of New Taiwan dollars)

	Notes	Share capital - common stock	Total capital surplus	Retained Earnings			Other equity interest			Treasury stocks	Total equity
				Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets		
<b>2017</b>											
Balance at January 1, 2017		\$ 20,026,929	\$ 7,671,889	\$ 5,730,071	\$ 3,640,779	\$ 11,816,689	\$ 1,051,753	\$ -	\$ 2,218,526	(\$ 321,563)	\$ 49,731,567
Profit for the year		-	-	-	-	3,092,358	-	-	-	-	3,092,358
Other comprehensive income (loss) for the year	6(18)	-	-	-	-	( 48,191)	( 707,604)	-	1,567,352	-	811,557
Total comprehensive income		-	-	-	-	3,044,167	( 707,604)	-	1,567,352	-	3,903,915
Appropriations of 2016 earnings	6(17)	-	-	-	-	-	-	-	-	-	-
Legal reserve		-	-	348,148	-	( 348,148)	-	-	-	-	-
Cash dividends		-	-	-	-	( 1,762,370)	-	-	-	-	( 1,762,370)
Effect of changes in net equity of associates and joint ventures amount for under the equity method		-	( 43,347)	-	-	-	-	-	-	-	( 43,347)
Balance at December 31, 2017		\$ 20,026,929	\$ 7,628,542	\$ 6,078,219	\$ 3,640,779	\$ 12,750,338	(\$ 1,759,357)	\$ -	\$ 3,785,878	(\$ 321,563)	\$ 51,829,765
<b>2018</b>											
Balance at January 1, 2018		\$ 20,026,929	\$ 7,628,542	\$ 6,078,219	\$ 3,640,779	\$ 12,750,338	(\$ 1,759,357)	\$ -	\$ 3,785,878	(\$ 321,563)	\$ 51,829,765
Effect of retrospective application		-	-	-	-	1,937,121	-	1,848,757	( 3,785,878)	-	-
Balance at 1 January after adjustments	12(4)	20,026,929	7,628,542	6,078,219	3,640,779	14,687,459	( 1,759,357)	1,848,757	-	( 321,563)	51,829,765
Profit (loss)		-	-	-	-	3,150,089	-	-	-	-	3,150,089
Other comprehensive income	6(18)	-	-	-	-	( 40,562)	( 142,367)	585,378	-	-	402,449
Total comprehensive income		-	-	-	-	3,109,527	( 142,367)	585,378	-	-	3,552,538
Appropriations of 2017 earnings	6(17)	-	-	-	-	-	-	-	-	-	-
Legal reserve		-	-	309,235	-	( 309,235)	-	-	-	-	-
Cash dividends		-	-	-	-	( 1,722,316)	-	-	-	-	( 1,722,316)
Effect of changes in net equity of associates and joint ventures accounted for under the equity method		-	18,673	-	-	-	-	-	-	-	18,673
Disposal of investment in equity instrument at fair value through other comprehensive income	6(3)(6)	-	-	-	-	( 572,647)	-	572,647	-	-	-
Balance at December 31, 2018		\$ 20,026,929	\$ 7,647,215	\$ 6,387,454	\$ 3,640,779	\$ 15,192,788	(\$ 1,901,724)	\$ 3,006,782	-	(\$ 321,563)	\$ 53,678,660

The accompanying notes are an integral part of these parent company only financial statements.

TECO ELECTRIC & MACHINERY CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 3,294,809	\$ 3,304,468
Adjustments			
Adjustments to reconcile profit (loss)			
Net loss on financial assets at fair value through profit or loss	6(2)(21)	103,280	19,806
Net (gain) loss on financial liabilities at fair value through profit or loss	6(11)(21)	( 2,529 )	2,529
Impairment loss determined in accordance with IFRS 9	12(2)	513	-
Gain on reversal of bad debts	12(4)	-	( 3,738 )
Interest income	6(20)	( 8,879 )	( 13,550 )
Interest expense	6(22)	94,730	94,354
Dividend income	6(20)	( 223,794 )	( 187,217 )
Loss on disposal of investments	6(21)	( 1,385 )	( 25,874 )
Gain on remeasurement	6(21)	( 46,515 )	-
Changes in unrealized (gain) loss from downstream sales		( 39,247 )	69,454
Share of profit of associates and joint ventures accounted for under the equity method	6(6)	( 1,983,219 )	( 1,648,342 )
Depreciation, amortization and net gain or loss on disposal of property, plant and equipment, net	6(7)(8)(21)(23)	436,151	412,618
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		-	11,026
Current contract assets	(	238,082 )	-
Notes receivable	(	116,473 )	65,852
Notes receivable - related parties	(	10,252 )	21,892
Accounts receivable		38,202	377,433
Accounts receivable - related parties		321,893	( 159,426 )
Receivables from customers on construction contract		-	275,897
Other receivables		80,148	( 85,009 )
Other receivables - related parties	(	97,285 )	( 27,098 )
Inventories	(	146,148 )	381,189
Prepayments	(	115,098 )	( 29,293 )
Other current asset	(	22,011 )	85,850
Financial assets at fair value through profit or loss - non-current	(	39,765 )	-
Changes in operating liabilities			
Contract liabilities - current		84,127	-
Notes payable	(	12,769 )	10,489
Notes payable - related parties	(	6,764 )	( 618 )
Accounts payable		50,127	( 84,995 )
Accounts payable - related parties	(	399,025 )	17,258
Payables to customers on construction contract		-	( 18,265 )
Other payables		55,208	( 59,991 )
Other payables - related parties	(	5,876 )	37,489
Provisions for liabilities		8,261	11,640
Other current liabilities	(	57,896 )	40,609
Other non-current liabilities	(	21,613 )	( 187,248 )
Cash inflow generated from operations		972,824	2,709,189
Interest received	6(20)	8,879	13,550
Dividends received		752,339	277,809
Payment of interest	(	94,730 )	( 94,354 )
Payment of income tax	(	448,447 )	( 72,890 )
Net cash flows from operating activities		1,190,865	2,833,304

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Decrease in other receivables - related parties	7	\$ 61,438	\$ 21,023
Increase in pledged fixed deposit	8	( 8,151 )	( 3,338 )
Increase in financial assets at fair value through other comprehensive income - non-current		( 21,990 )	-
Proceeds from disposal of available-for-sale financial assets - non-current		-	240,756
Increase in investments accounted for under equity method		( 208,226 )	( 35,848 )
Proceeds from disposal of property, plant and equipment		46,307	892
Acquisition of property, plant and equipment	6(7)(26)	( 352,913 )	( 451,717 )
Increase in deferred expenses		( 19,691 )	( 15,061 )
(Increase) decrease in refundable deposits		( 9,331 )	822
Dividends received		223,794	635,789
Proceeds from disposal of investments accounted for under equity method		297,087	8,889
Decrease in other non-current assets		6,931	157,552
Net cash flows from investing activities		15,255	559,759
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term loans		( 226,674 )	( 201,886 )
(Decrease) increase in other payables - related parties financing	7	( 70,450 )	297,600
Proceeds from issuance of bonds payable		-	1,000,000
Increase (decrease) in long-term loans		1,158,931	( 2,599,804 )
Cash dividends paid	6(17)	( 1,722,316 )	( 1,762,370 )
Net cash flows used in financing activities		( 860,509 )	( 3,266,460 )
Net increase in cash and cash equivalents		345,611	126,603
Cash and cash equivalents at beginning of year		887,185	760,582
Cash and cash equivalents at end of year		\$ 1,232,796	\$ 887,185

The accompanying notes are an integral part of these parent company only financial statements.

TECO ELECTRIC & MACHINERY CO., LTD.NOTES TO THE FINANCIAL STATEMENTSDECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANIZATION

Teco Electric & Machinery Co., Ltd. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.). The Company primarily engages in the manufacture, installation, wholesale, retail of various types of electronic equipment, telecommunication equipment, office equipment, and home appliances.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on March 26, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15 Revenue from contracts with customers’	January 1, 2018
Amendments to IAS 7, ‘Disclosure initiative’	January 1, 2017
Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealised losses’	January 1, 2017
Amendments to IAS 40, ‘Transfers of investment property’	January 1, 2018
IFRIC 22, ‘Foreign currency transactions and advance consideration’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, ‘First-time adoption of International Financial Reporting Standards’	January 1, 2018

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

A. IFRS 9, 'Financial instruments'

- (a) Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- (c) The Company has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Notes 12(4) and 12(4) C.

B. IFRS 15, 'Revenue from contracts with customers' and amendments

- (a) IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognized when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s)



Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

- (b) The Company has elected not to restate prior period financial statements and recognized the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The significant effects of adopting the modified transition as of January 1, 2018 are summarized below:

<u>Affected items</u>	<u>Book value under previous revenue standard</u>	<u>Adjustment for initial application of IFRS 15</u>	<u>Adjusted amount after IFRS 15 adoption</u>	<u>Remark</u>
<u>January 1, 2018</u>				
Contract assets	\$ -	\$ 836,338	\$ 836,338	(a)
Construction contracts receivable	836,338	( 836,338)	-	(a)
Total affected assets	<u>\$ 836,338</u>	<u>\$ -</u>	<u>\$ 836,338</u>	
Contract liabilities	\$ -	\$ 272,330	\$ 272,330	(a)(b)
Construction contracts payable	164,333	( 164,333)	-	(a)
Other current liabilities	224,744	( 107,997)	116,747	(b)
Total affected liabilities	<u>\$ 389,077</u>	<u>\$ -</u>	<u>\$ 389,077</u>	

i. Presentation of assets and liabilities in relation to contracts with customers

In line with IFRS 15 requirements, the Company changed the presentation of certain accounts in the balance sheet as follows:

- (a) Under IFRS 15, net outcome of contract revenue, received amount and receivables in relation to construction contracts are recognized in contract assets (liabilities). Progress billings on each construction contract and the net outcome of recognized cost and profit (loss) in previous reporting period are recognized in receivables from (payables to) customers on construction contracts in accordance with IAS 11, 'Construction Contracts'. As a result of above stated differences, receivables from customers on construction contracts and payables to customers on construction contracts were decreased by \$836,338 and \$164,333, respectively, and contract assets and contract liabilities were increased by \$836,338 and \$164,333, respectively, on January 1, 2018.
- (b) Under IFRS 15, liabilities in relation to sales contracts are recognized as contract liabilities, but were previously presented as advance sales receipts in the balance sheet. As of January 1, 2018, the balance amounted to \$107,997.



ii. Please refer to Note 12(4) for other disclosures in relation to the first application of IFRS 15.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

The Company expects to recognise the lease contract of lessees in line with IFRS 16. However, the Company intends not to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"). On January 1, 2019, it is expected that 'right-of-use asset' and lease liability will be increased by \$90,869 and \$92,022, respectively, and (6) the investments accounted for under the equity method and retained earnings will be decreased by \$305,667 and \$306,820, respectively.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### (1) Compliance statement

The financial statements have been prepared in accordance with the "Rules Governing the Preparation of Financial Statements by Securities".

##### (2) Basis of preparation

- A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:
  - (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
  - (b) Financial assets and liabilities at fair value through other comprehensive income / Available-for-sale financial assets measured at fair value.
  - (c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with "IFRSs" requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 11 ('IAS 11'), International Accounting Standard 18 ('IAS 18')

and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Company's presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

- (a) The operating results and financial position of all the Company entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
  - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
  - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
  - iii. All resulting exchange differences are recognized in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is an associate or jointly joint arrangements exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, even the Company still retains partial interest in the former foreign associate or joint arrangements

entity after losing significant influence over the former foreign associate, or losing joint control of the former joint arrangements such transactions should be accounted for as disposal of all interest in these foreign operations.

- (c) When the foreign operation is partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling in this foreign operation. In addition, even the Company still retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.
- (d) Good will and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at balance sheet date.

(4) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realized within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. 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.

(5) Cash equivalents

Cash equivalents refer to 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. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

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

Effective 2018

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Company measures the financial liabilities at fair value. All related transaction costs are recognized in profit or loss. The Company subsequently measures these financial liabilities at fair value with any gain or loss recognized in profit or loss.
- D. The Company recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

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

Effective 2018

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value:  
The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(8) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

For financial assets at amortized cost, at each reporting date, the Company recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Company recognises the impairment provision for lifetime ECLs.

(10) Derecognition of financial assets

The Company derecognizes a financial asset when one of the following conditions is met:

- A. The contractual rights to receive cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows from the financial asset have been transferred and the Company has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The Company neither retains nor transfers substantially all risks and rewards of ownership of the financial asset; however, it has not retained control of the financial asset.

(11) Operating leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(12) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted-average method. The cost of finished goods and work in process comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Investments accounted for under the equity method - associates

- A. Subsidiaries are all entities (including structured entities) controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
- B. Unrealized profit (loss) arising from the transactions between the Company and subsidiaries have been offset. The accounting policies of the subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company's.
- C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company continues to recognize losses proportionate to its ownership.
- D. If changes in shareholdings in subsidiaries do not result to loss of control (transaction with non-controlling interest), transactions shall be considered as equity transactions, which are transactions between owners. Difference of adjustment of non-controlling interest and fair value of consideration paid or received is recognized in equity.
- E. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or



indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.

The Company's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss arising through subsequent assessments.

- F. The Company's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- G. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Company's ownership percentage of the associate, the Company recognizes the Company's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- H. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- I. In the case that an associate issues new shares and the Company does not subscribe or acquire new shares proportionately, which results in a change in the Company's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Company's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- J. When the Company disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.
- K. The Company accounts for its interest in a joint venture using equity method. Unrealized profits and losses arising from the transactions between the Company and its joint venture are eliminated to the extent of the Company's interest in the joint venture. The Company's share of joint

ventures' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. However, when the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, all such losses shall be recognized immediately. When the Company's share of losses in a joint venture equals or exceeds its interest in the joint venture together with any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

- L. Pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," profit (loss) of the current period and other comprehensive income in the financial statements shall equal to the amount attributable to owners of the parent in the financial statements prepared with basis for consolidation. Owners' equity in the financial statements shall equal to equity attributable to owners of the parent in the financial statements prepared with basis for consolidation.

(14) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:



Buildings and structures	10 ~ 50 years
Machinery and equipment	3 ~ 15 years
Transportation equipment	3 ~ 5 years
Other equipment	2 ~ 15 years
Leasehold assets	3 ~ 5 years
Leasehold improvements	3 ~ 5 years

(15) Leased assets/ operating leases (lessee)

A. Based on the terms of a lease contract, a lease is classified as a finance lease if the Company assumes substantially all the risks and rewards incidental to ownership of the leased asset.

(a) A finance lease is recognized as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

(b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Company will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.

B. Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(16) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 15 to 60 years.

(17) Intangible assets

A. Goodwill arises in a business combination accounted for by applying the acquisition method.

B. Intangible assets except goodwill are mainly computer software, which is stated at cost and amortized on the straight-line basis over the estimated economic useful life.

(18) Impairment of non-financial assets

A. The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the

impairment had not been recognized.

- B. The recoverable amounts of goodwill and intangible assets with an indefinite useful life are evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognized in profit or loss shall not be reversed in the following years.
- C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or Companies of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or Company of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(19) Borrowings

- A. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.
- B. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

(20) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

- A. Financial liabilities are classified in this category of held for trading. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.
- B. At initial recognition, the Company measures the financial liabilities at fair value. All related transaction costs are recognized in profit or loss. The Company subsequently measures these financial liabilities at fair value with any gain or loss recognized in profit or loss.

(22) Bonds payable

Ordinary corporate bonds issued by the Company are initially recognized at fair value less transaction costs. Any difference between the proceeds (net of transaction costs) and the redemption value is presented as an addition to or deduction from bonds payable, which is amortized to profit or loss over the period of bond circulation using the effective interest method as an adjustment to 'finance costs'.

(23) Derecognition of financial liabilities

A financial liability is derecognized when the obligation specified in the contract is either discharged or cancelled or expires.

(24) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(25) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. At initial recognition, the Company measures financial guarantee contracts at fair value and subsequently at the higher of the amount of provisions determined by the expected credit losses and the cumulative gains that were previously recognized.

(26) Provisions for other liabilities

Provisions (including product warranties, etc.) are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognized as interest expense. Provisions are not recognized for future operating losses.

(27) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the Company pays fixed contributions to an independent, publicly or privately administered pension fund. The Company has no further legal or constructive obligations once the contributions have been paid. The contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company

in current period or prior period. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rates of government bonds (at the balance sheet date) instead.

- ii. Remeasurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

#### C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Company's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Company recognizes expense when it can no longer withdraw an offer of termination benefits or it recognizes related restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

#### D. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

### (28) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the inappropriate retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

- C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, and associates except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. Based on the “Income Basic Tax Act”, if the regular income tax is equal or more than the basic tax, the income tax payable shall be calculated in accordance with the Income Tax Act and other relevant laws. Whereas, if the regular income tax is less than basic tax, the income tax payable shall be equal to the basic tax. The difference between the regular income tax and basic tax shall not be subject to deductions of investment tax credits granted under the provisions of other laws.

(29) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(30) Dividends

Dividends are recorded in the Company’s financial statements in the period in which they are resolved by the Company’s shareholders. Cash dividends are recorded as liabilities.

(31) Revenue recognition

A. Sales of goods—wholesale

- (a) The Company manufactures and sells various types of mechanical equipment, air-conditioning units and electronic equipment products.. Sales are recognized when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no



unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.

- (b) Electronic and machinery, electronic equipment and power generation equipment are often sold with volume discounts based on aggregate sales over a 12-month period. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts and sales discounts and allowances. Accumulated experience is used to estimate and provide for the volume discounts and sales discounts and allowances, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognized for expected volume discounts and sales discounts and allowances payable to customers in relation to sales made until the end of the reporting period. The sales are made with a credit term of 30 days. As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Company does not adjust the transaction price to reflect the time value of money.
- (c) The Company's obligation to provide a refund for faulty products under the standard warranty terms is recognized as a provision.
- (d) A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

**B. Installation and construction service of electrification products**

- (a) The Company provides installation and construction service of electrification products. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual cost spent relative to the total cost. The customer pays at the time specified in the payment schedule. If the services rendered exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized.
- (b) Some contracts include sales and installation services of equipment. The equipment and the installation services provided by the Company are not distinct and are identified to be one performance obligation satisfied over time since the installation services involve significant customisation and modification. The Company recognises revenue on the basis of costs incurred relative to the total expected costs of that performance obligation. Conversely, the Company recognises revenue at an amount equal to the cost of a good if the good is not

distinct and its cost is significant relative to the total expected costs, the customer is expected to obtain control of the good significantly before receiving services related to the good, and the Company procures the good from a third party and is not involved in designing and manufacturing the good by acting as a principal.

- (c) The Company's estimate about revenue, costs and progress towards complete satisfaction of a performance obligation is subject to a revision whenever there is a change in circumstances. Any increase or decrease in revenue or costs due to an estimate revision is reflected in profit or loss during the period when the management become aware of the changes in circumstances.

#### C. Incremental costs of obtaining a contract

Given that the contractual period lasts less than one year, the Company recognises the incremental costs of obtaining a contract as an expense when incurred although the Company expects to recover those costs.

#### (32) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Company will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes expenses for the related costs for which the grants are intended to compensate.

#### (33) Business combinations

- A. The Company uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Company measures at the acquisition date components of non-controlling interests in the acquire that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the recognized amounts of the acquirer's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.
- B. The excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the fair value of any previous equity interest in the acquire over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date. If the total of consideration transferred, non-controlling interest in the acquire recognized and the fair value of previously held equity interest in the acquire is less than the fair value of the identifiable assets acquired and the liabilities assumed, the difference is recognized directly in

profit or loss on the acquisition date.

## 5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

### (1) Critical judgements in applying the Company's accounting policies

None.

### (2) Critical accounting estimates and assumptions

Impairment assessment of goodwill

The impairment assessment of goodwill relies on the Company's subjective judgment, including identifying cash-generating units, allocating assets and liabilities as well as goodwill to related cash-generating units, and determining the recoverable amounts of related cash-generating units.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and revolving funds	\$ 306	\$ 275
Checking accounts and demand deposits	916,396	738,110
Time deposits and notes issued under repurchase agreement	316,094	148,800
	<u>\$ 1,232,796</u>	<u>\$ 887,185</u>

A. The Company transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. As of December 31, 2018 and 2017, cash and cash equivalents amounting to \$16,308 and \$8,157 as purchase loans were pledged to others as collateral (listed as '1470 Other current assets'). Please refer to Note 8.



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

Items	December 31, 2018
Current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Listed and OTC stocks	\$ 879,780
Emerging stocks	811,774
Money Market Fund	192,807
	1,884,361
Valuation adjustment	( 48,571)
	<u>\$ 1,835,790</u>

A. Amounts recognized in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

	For the year ended December 31, 2018
Financial assets mandatorily measured at fair value through profit or loss	
Equity instruments	(\$ 103,280)

B. As of December 31, 2018, for the transaction and contract of derivative instruments not held for hedge, please refer to Note 6(11).

C. Information relating to credit risk of financial assets at fair value through profit or loss is provided in Note 12(2).

D. The information on financial assets at fair value through profit or loss as of December 31, 2017 is provided in Note 12(4).

(3) Financial assets at fair value through other comprehensive income

Items	December 31, 2018
Non-current items:	
Listed and OTC stocks	\$ 5,229,631
Non-listed and OTC stocks	32,151
	5,261,782
Valuation adjustment	721,679
	<u>\$ 5,983,461</u>

A. The Company has elected to classify Taiwan High Speed Rail's stocks that are considered to be steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$5,983,461 as at December 31, 2018.

B. Amounts recognized in other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

For the year ended  
December 31, 2018

Equity instruments at fair value through other comprehensive income	
Fair value change recognized in other comprehensive income	\$ 1,251,661
Cumulative gains (losses) reclassified to retained earnings due to derecognition	\$ 659,293
Dividend income recognised in profit or loss	
Held at end of year	155,889
Derecognised during the year	\$ -

C. The Company has no financial assets at fair value through other comprehensive income pledged to others.

D. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(3).

(4) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable	\$ 406,437	\$ 289,964
Less: Allowance for bad debts	( 703)	( 725)
	<u>\$ 405,734</u>	<u>\$ 289,239</u>
Accounts receivable	1,556,001	1,594,388
Less: Allowance for bad debts	( 27,109)	( 26,759)
	<u>\$ 1,528,892</u>	<u>\$ 1,567,629</u>

A. The ageing analysis of notes and accounts receivable that were past due but not impaired is as follows:

	December 31, 2018	December 31, 2017
Not past due	\$ 1,321,932	\$ 1,416,391
Up to 30 days	256,184	110,434
31 to 90 days	83,583	41,644
91 to 180 days	47,159	13,060
Over 180 days	225,768	275,339
	<u>\$ 1,934,626</u>	<u>\$ 1,856,868</u>

The above ageing analysis was based on past due date.

B. Details of the Company's notes receivable pledged to others are provided in Note 8.

C. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(5) Inventories

December 31, 2018			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 830,044	(\$ 82,142)	\$ 747,902
Work in progress	499,395	( 3,074)	496,321
Finished goods	1,576,129	( 177,415)	1,398,714
Inventory in transit	115,704	-	115,704
	<u>\$ 3,021,272</u>	<u>(\$ 262,631)</u>	<u>\$ 2,758,641</u>
December 31, 2017			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 774,227	(\$ 47,879)	\$ 726,348
Work in progress	417,222	( 27)	417,195
Finished goods	1,490,107	( 238,643)	1,251,464
Inventory in transit	217,486	-	217,486
	<u>\$ 2,899,042</u>	<u>(\$ 286,549)</u>	<u>\$ 2,612,493</u>

The cost of inventories recognized as expense for the years ended December 31, 2018 and 2017 was \$13,741,971 and \$13,974,811, respectively, including \$82,454 and \$61,427 that the Company wrote down from cost to the net realizable value accounted for as cost of goods sold for the years ended December 31, 2018 and 2017, respectively.

(6) Investments accounted for under the equity method

	December 31, 2018	December 31, 2017
Subsidiaries:		
1.Teco International Investment Co., Ltd. \$	1,064,316 \$	1,156,169
2.Teco Holding USA Inc.	9,858,588	9,166,670
3.Teco Electric & Machinery (Pte) Ltd.	3,302,731	3,159,088
4.Tong-An Investment Co., Ltd.	7,997,267	8,587,611
5.United View Global Investment Co., Ltd.	7,489,862	7,389,874
6.Micropac Worldwide Investment (BVI)	1,451,867	1,521,289
7.Tong-An Assets Management & Development Co., Ltd.	5,252,807	5,296,447
8.Eagle Holding Co.	4,311,420	4,131,154
9.Century Development Corporation	1,377,232	1,344,150
10.Others	3,346,998	3,488,922
	<u>45,453,088</u>	<u>45,241,374</u>
Associates:		
1. Tung Pei Industrial Co., Ltd. \$	2,087,582 \$	2,045,704
2. Lien Chang Electronic Enterprise Co., Ltd.	440,000	526,975
3. Kuen Ling Machinery Refrigerating Co., Ltd. (Note 1)	347,255	-
4. Others	163,985	175,826
	<u>3,038,822</u>	<u>2,748,505</u>
Joint Venture:		
1. Senergy Wind Power Co., Ltd. (Note 2)	-	169,815
2. ROTECO (Note 3)	-	5,757
	<u>-</u>	<u>175,572</u>
	48,491,910	48,165,451
Less: Credit balance of long-term investments (gross amount before offset of notes receivable-related parties, accounts receivable-related parties, other receivables-related parties and other non-current liabilities)	( <u>614,532</u> )	( <u>653,779</u> )
	47,877,378	47,511,672
Less: Credit balance of investments accounted for using equity method	( <u>79,804</u> )	( <u>83,828</u> )
	<u>\$ 47,797,574</u>	<u>\$ 47,427,844</u>

The share of profit/loss of associates and joint ventures accounted for under equity method for the years ended December 31, 2018 and 2017 are as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Subsidiaries:		
1.Teco Holding USA Inc.	\$ 576,350	\$ 394,871
2.Teco Electric & Machinery (Pte) Ltd.	137,869	251,563
3.Tong-An Investment Co., Ltd.	181,547	405,409
4.United View Global Investment Co., L	247,200 (	233,098)
5.Eagle Holding Co.	205,744	116,775
6.Others	480,016	542,876
	<u>\$ 1,828,726</u>	<u>\$ 1,478,396</u>
Associates:		
1. Tung Pei Industrial Co., Ltd.	\$ 174,843	\$ 193,260
3. Lien Chang Electronic Enterprise Co., Ltd.	( 64,244) (	13,165)
4.Kuen Ling Machinery Refrigerating Co., Ltd.	41,264	-
5. Others	2,630	3,045
	<u>154,493</u>	<u>183,140</u>
Joint Venture:		
1. Senergy Wind Power Co., Ltd. (Note 1)	- (	7,427)
2. Others (Note 2)	- (	5,767)
	- (	13,194)
	<u>\$ 1,983,219</u>	<u>\$ 1,648,342</u>

Note 1: The investee was transferred to an associate from a subsidiary and continuously adopted equity method assessment as the Company remained significant influence over the investee after losing its control in the second quarter of 2018.

Note 2: In 2018, the Company acquired 50% shares of the company so that the company became a subsidiary of the Company. AS the amount of total assets and total operating revenue did not meet the criteria of significance to the Company, the company was not included in the Company's consolidated financial statements.

Note 3: The investee became a subsidiary after the Company acquired 50% ownership of the investee for the year ended December 31, 2018.

A. Subsidiaries:

- (a) For the years ended December 31, 2018 and 2017, partial investments accounted for using equity method are valued based on the financial statements audited by the companies' independent accountants. Gain on investment accounted for using equity method and other comprehensive income, net were \$176,754 and \$89,767 for the years ended December 31,

2017 and 2016, respectively. The related balance of investment accounted for using equity method was \$4,076,536 and \$4,043,134 as of December 31, 2018 and 2017, respectively.

- (b) As of December 31, 2018 and 2017, the Company's common stocks owned by its subsidiaries, Tong-An Investment Co., Ltd. and others, totalling \$321,563 (22,443 thousand shares), were transferred from the investments accounted for using equity method to treasury stock.
- (c) Please refer to Note 4(3) of the 2018 consolidated financial statements for related information about subsidiaries of the Company.

#### B. Associates

- (a) The basic information of the associates that are material to the Company is as follows:

Company name	Principal place of business	Shareholding ratio		Nature of relationship	Method of measurement
		December 31, 2018	December 31, 2017		
Tung Pei Industrial Co., Ltd.	R.O.C	31.14%	31.14%	Financial investment	Equity method
Lien Chang Electronic Enterprise Co., Ltd.	R.O.C	33.84%	33.84%	"	Equity method
Kuen Ling Machinery Refrigerating Co., Ltd. (Note)	R.O.C	17.61%	19.98%	"	Equity method

Note: The investee was transferred to an associate from a subsidiary and continuously adopted equity method assessment as the Company remained significant influence over the investee after losing its control in the second quarter of 2018.

- (b) The summarized financial information of the associates that are material to the Company is shown below:

Balance sheet

Tung Pei Industrial Co., Ltd.		
	December 31, 2018	December 31, 2017
Current assets	\$ 5,460,372	\$ 5,420,336
Non-current assets	7,845,439	7,841,618
Current liabilities	( 3,716,167)	( 3,491,249)
Non-current liabilities	( 2,144,772)	( 2,431,291)
Total assets	<u>\$ 7,444,872</u>	<u>\$ 7,339,414</u>
Share in associate's net assets	\$ 2,087,582	\$ 2,045,704
Goodwill	-	-
Carrying amount of the associate	<u>\$ 2,087,582</u>	<u>\$ 2,045,704</u>
Lien Chang Electronic Enterprise Co., Ltd.		
	December 31, 2018	December 31, 2017
Current assets	\$ 1,684,611	\$ 1,687,297
Non-current assets	603,290	682,745
Current liabilities	( 948,729)	( 764,895)
Non-current liabilities	( 39,090)	( 48,077)
Total assets	<u>\$ 1,300,082</u>	<u>\$ 1,557,070</u>
Share in associate's net assets	\$ 440,000	\$ 526,975
Goodwill	-	-
Carrying amount of the associate	<u>\$ 440,000</u>	<u>\$ 526,975</u>
Kuen Ling Machinery Refrigerating Co., Ltd		
	December 31, 2018	December 31, 2017
Current assets	\$ 1,972,061	\$ 1,757,267
Non-current assets	617,860	630,524
Current liabilities	( 955,868)	( 816,774)
Non-current liabilities	( 163,951)	( 152,935)
Total assets	<u>\$ 1,470,102</u>	<u>\$ 1,418,082</u>
Share in associate's net assets	\$ 241,171	\$ 262,887
Goodwill	106,084	73,560
Carrying amount of the associate	<u>\$ 347,255</u>	<u>\$ 336,447</u>

Statement of comprehensive income

Tung Pei Industrial Co., Ltd.		
	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenue	\$ 7,913,408	\$ 7,173,122
Profit for the period from continuing operations	\$ 564,485	\$ 629,397
Other comprehensive loss, net of tax	( 74,911)	( 157,344)
Total comprehensive income	\$ 489,574	\$ 472,053
Dividends received from associates	\$ 117,435	\$ 78,290

Lien Chang Electronic Enterprise Co., Ltd.		
	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenue	\$ 2,428,431	\$ 2,303,239
(Loss) profit for the period from continuing operations	(\$ 189,823)	(\$ 38,262)
Other comprehensive loss, net of tax	( 67,165)	( 3,017)
Total comprehensive (loss) income	(\$ 256,988)	(\$ 41,279)
Dividends received from associates	\$ -	\$ 28,907

Kuen Ling Machinery Refrigerating Co., Ltd		
	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenue	\$ 2,975,329	\$ 2,692,408
Profit for the period from continuing operations	\$ 214,794	\$ 196,063
Other comprehensive loss, net of tax	( 9,266)	( 27,554)
Total comprehensive income	\$ 205,528	\$ 168,509
Dividends received from associates	\$ 30,223	\$ 33,481

- (c) The carrying amount of the Company's interests in all individually immaterial associates and the Company's share of the operating results are summarized below:

As of December 31, 2018 and 2017, the carrying amount of the Company's individually immaterial associates amounted to \$163,985 and \$175,826, respectively.

	For the year ended December 31, 2018	For the year ended December 31, 2017
Profit for the period from continuing operations	\$ 2,630	\$ 3,045
Total comprehensive income	\$ 2,630	\$ 3,045



- (d) The fair values of the Company's material associates with quoted market prices are as follows:

	December 31, 2018	December 31, 2017
1.Lien Chang Electronic Enterprise Co., Ltd.	\$ 334,125	\$ 583,781
2.Kuen Ling Machinery Refrigerating Co., Ltd.	410,304	-
	<u>\$ 744,429</u>	<u>\$ 583,781</u>

### C. Joint venture

- (a) The basic information of the joint venture that is material to the Company is as follows:

Company name	Principal place of business	Shareholding ratio		Nature of relationship	Method of measurement
		December 31, 2018	December 31, 2017		
Senergy Wind Power Co., Ltd. (Note)	R.O.C	-	50.00%	Joint venture	Equity method

- (b) The summarized financial information of the joint venture that is material to the Company is shown below:

#### Balance sheet

	Senergy Wind Power Co., Ltd.	
	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ -	\$ 339,587
Other current assets	-	1,004
Current assets	-	340,591
Non-current assets	-	53
Total assets	-	340,644
Current liabilities	-	(1,000)
Total liabilities	-	(1,000)
Total net assets	<u>\$ -</u>	<u>\$ 339,644</u>
Share in joint venture's net assets	\$ -	\$ 169,825
Goodwill	-	-
Carrying amount of the joint venture	<u>\$ -</u>	<u>\$ 169,825</u>

Note: The company was liquidated in 2018.

Statement of comprehensive income

	Senergy Wind Power Co., Ltd.	
	For the year ended December 31, 2018	For the year ended September 30, 2017
Revenue	\$ -	\$ -
Depreciation and amortization	\$ -	(\$ 42)
Interest income	\$ -	\$ 5,932
Interest expense	\$ -	\$ -
Profit before income tax	\$ -	(\$ 143,204)
Income tax	\$ -	(\$ 471)
Profit (loss)-net of tax	\$ -	(\$ 143,675)
Total comprehensive income	\$ -	(\$ 143,675)
Dividends received from joint venture	\$ -	\$ -

(c) The carrying amount of the Company's interests in all individually immaterial associates and the Company's share of the operating results are summarized below:

As of December 31, 2018 and 2017, the carrying amount of the Company's individually immaterial associates amounted to \$0 and \$5,757, respectively.

	For the year ended December 31, 2018	For the year ended December 31, 2017
Loss for the period from continuing operations	\$ -	(\$ 5,767)
Total comprehensive loss	\$ -	(\$ 5,767)

D. On May 23, 2018, the shareholders of Kuen Ling Machinery Refrigerating Co., Ltd. (Kuen Ling) during their meeting re-elected directors and supervisors. The Company had 2 seats, and has lost control over the Board of Directors of Kuen Ling, therefore, Kuen Ling and its subsidiaries are no longer included in the Company's consolidated financial statements. In addition, remaining shares were remeasured based on fair value, resulting to a gain on remeasurement amounting to \$46,515. Kuen Ling will be assessed by using equity method subsequently as the Company still has significant influence over to it.

E. Details of the Company's investments accounted for under the equity method pledged to others as collateral are provided in Note 8.

(7) Property, plant and equipment

	Land	Buildings and structures	Machinery and equipment	Transportation equipment	Leasehold improvements	Miscellaneous equipment	Rental assets	Total
<u>At January 1, 2018</u>								
Cost	\$ 1,636,564	\$ 1,485,582	\$ 5,017,032	\$ 5,047	\$ 131,154	\$ 3,879,633	\$ 870,492	\$ 13,025,504
Accumulated depreciation and impairment	( 34,697)	( 667,037)	( 4,476,195)	( 3,666)	( 101,640)	( 3,239,061)	( 741,719)	( 9,264,015)
	<u>\$ 1,601,867</u>	<u>\$ 818,545</u>	<u>\$ 540,837</u>	<u>\$ 1,381</u>	<u>\$ 29,514</u>	<u>\$ 640,572</u>	<u>\$ 128,773</u>	<u>\$ 3,761,489</u>
<u>2018</u>								
Opening net book amount	\$ 1,601,867	\$ 818,545	\$ 540,837	\$ 1,381	\$ 29,514	\$ 640,572	\$ 128,773	\$ 3,761,489
Additions	-	1,700	139,452	572	12,677	179,530	-	333,931
Disposals	( 807)	( 1)	( 22,168)	( 109)	( 299)	( 41,677)	-	( 65,061)
Reclassifications	-	64,305	25,297	-	-	54,573	( 79,870)	64,305
Depreciation charge	-	( 31,851)	( 122,403)	( 484)	( 18,018)	( 172,894)	( 9,484)	( 355,134)
Closing net book amount	<u>\$ 1,601,060</u>	<u>\$ 852,698</u>	<u>\$ 561,015</u>	<u>\$ 1,360</u>	<u>\$ 23,874</u>	<u>\$ 660,104</u>	<u>\$ 39,419</u>	<u>\$ 3,739,530</u>
<u>At December 31, 2018</u>								
Cost	\$ 1,635,757	\$ 1,448,204	\$ 4,797,238	\$ 4,863	\$ 141,121	\$ 3,698,390	\$ 656,797	\$ 12,382,370
Accumulated depreciation and impairment	( 34,697)	( 595,506)	( 4,236,223)	( 3,503)	( 117,247)	( 3,038,286)	( 617,378)	( 8,642,840)
	<u>\$ 1,601,060</u>	<u>\$ 852,698</u>	<u>\$ 561,015</u>	<u>\$ 1,360</u>	<u>\$ 23,874</u>	<u>\$ 660,104</u>	<u>\$ 39,419</u>	<u>\$ 3,739,530</u>

<u>At January 1, 2017</u>	Land	Buildings and structures	Machinery and equipment	Transportation equipment	Leasehold improvements	Miscellaneous equipment	Rental assets	Total
Cost	\$ 1,636,564	\$ 1,481,532	\$ 4,842,953	\$ 5,047	\$ 111,035	\$ 3,887,344	\$ 861,917	\$ 12,826,392
Accumulated depreciation and impairment	( 34,697)	( 633,872)	( 4,493,421)	( 3,160)	( 84,553)	( 3,200,979)	( 732,229)	( 9,182,911)
	<u>\$ 1,601,867</u>	<u>\$ 847,660</u>	<u>\$ 349,532</u>	<u>\$ 1,887</u>	<u>\$ 26,482</u>	<u>\$ 686,365</u>	<u>\$ 129,688</u>	<u>\$ 3,643,481</u>
<u>2017</u>								
Opening net book amount	\$ 1,601,867	\$ 847,660	\$ 349,532	\$ 1,887	\$ 26,482	\$ 686,365	\$ 129,688	\$ 3,643,481
Additions	-	4,050	304,037	-	20,119	141,836	-	470,042
Disposals	-	-	( 4,079)	-	-	( 19,691)	-	( 23,770)
Reclassification	-	-	( 7,769)	-	-	( 806)	8,575	-
Depreciation charge	-	( 33,165)	( 100,884)	( 506)	( 17,087)	( 167,132)	( 9,490)	( 328,264)
Closing net book amount	<u>\$ 1,601,867</u>	<u>\$ 818,545</u>	<u>\$ 540,837</u>	<u>\$ 1,381</u>	<u>\$ 29,514</u>	<u>\$ 640,572</u>	<u>\$ 128,773</u>	<u>\$ 3,761,489</u>

At December 31, 2017

Cost	\$ 1,636,564	\$ 1,485,582	\$ 5,017,032	\$ 5,047	\$ 131,154	\$ 3,879,633	\$ 870,492	\$ 13,025,504
Accumulated depreciation and impairment	( 34,697)	( 667,037)	( 4,476,195)	( 3,666)	( 101,640)	( 3,239,061)	( 741,719)	( 9,264,015)
	<u>\$ 1,601,867</u>	<u>\$ 818,545</u>	<u>\$ 540,837</u>	<u>\$ 1,381</u>	<u>\$ 29,514</u>	<u>\$ 640,572</u>	<u>\$ 128,773</u>	<u>\$ 3,761,489</u>

A. For the years ended December 31, 2018 and 2017, no borrowing cost was capitalized as part of property, plant and equipment.

B. The Company was unable to transfer the title of certain farmland to the Company's name due to legal restrictions. The land title was registered under an individual's name. Accordingly, the Company entered into an agreement with the said individual to secure the title and the first mortgage right.

(8) Investment property

	Land	Buildings and structures	Total
<u>At January 1, 2018</u>			
Cost	\$ 1,162,511	\$ 1,822,836	\$ 2,985,347
Accumulated depreciation and impairment	-	( 817,807)	( 817,807)
	<u>\$ 1,162,511</u>	<u>\$ 1,005,029</u>	<u>\$ 2,167,540</u>
<u>2018</u>			
Opening net book amount	\$ 1,162,511	\$ 1,005,029	\$ 2,167,540
Reclassifications (transfer during the year)	-	( 64,305)	( 64,305)
Depreciation charge	-	( 43,053)	( 43,053)
Closing net book amount	<u>\$ 1,162,511</u>	<u>\$ 897,671</u>	<u>\$ 2,060,182</u>
<u>At December 31, 2018</u>			
Cost	\$ 1,162,511	\$ 1,861,764	\$ 3,024,275
Accumulated depreciation and impairment	-	( 964,093)	( 964,093)
	<u>\$ 1,162,511</u>	<u>\$ 897,671</u>	<u>\$ 2,060,182</u>
	Land	Buildings and structures	Total
<u>At January 1, 2017</u>			
Cost	\$ 1,162,511	\$ 1,822,836	\$ 2,985,347
Accumulated depreciation and impairment	-	( 775,919)	( 775,919)
	<u>\$ 1,162,511</u>	<u>\$ 1,046,917</u>	<u>\$ 2,209,428</u>
<u>2017</u>			
Opening net book amount	\$ 1,162,511	\$ 1,046,917	\$ 2,209,428
Depreciation charge	-	( 41,888)	( 41,888)
Closing net book amount	<u>\$ 1,162,511</u>	<u>\$ 1,005,029</u>	<u>\$ 2,167,540</u>
<u>At December 31, 2017</u>			
Cost	\$ 1,162,511	\$ 1,822,836	\$ 2,985,347
Accumulated depreciation and impairment	-	( 817,807)	( 817,807)
	<u>\$ 1,162,511</u>	<u>\$ 1,005,029</u>	<u>\$ 2,167,540</u>

- A. Rental income from the lease of the investment property and direct operating expenses arising from the investment property are shown below:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Rental income from investment property	\$ 124,185	\$ 117,812
Direct operating expenses arising from the investment property that generated rental income during the period	\$ 20,450	\$ 19,679
Direct operating expenses arising from the investment property that did not generate rental income during the period	\$ -	\$ -

- B. The fair value of the investment property held by the Company as at December 31, 2018 and 2017 was \$3,565,391 and \$3,427,204 respectively. The valuation is based on average closing prices of investment property at the area where the property is located.

(9) Other non-current assets

	December 31, 2018	December 31, 2017
Prepayment for property	\$ 4,644	\$ 11,575
Guarantee deposits paid	84,001	74,670
Deferred expenses	61,996	61,515
Other assets	1,207	1,207
	\$ 151,848	\$ 148,967

(10) Short-term borrowings

Type of borrowings	December 31, 2018	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	\$ 49,110	0.89%~0.98%	None
Type of borrowings	December 31, 2017	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	\$ 275,784	0.87%~0.98%	None

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

Items	December 31, 2018	December 31, 2017
Current items:		
Financial liabilities held for trading		
Non-hedging derivatives	\$ -	\$ 2,529

- A. The Company recognized net income (loss) of \$2,529 and (\$2,529) on financial liabilities held for trading for the years ended December 31, 2018 and 2017, respectively.

- B. Explanations of the transactions and contract information in respect of derivative financial liabilities for which the Company does not adopt hedge accounting are as follows:

December 31, 2017			
Financial instrument	Contract period	Contract amount (notional principal)	Fair value
Forward exchange contract			
SELL USD/BUY JPY	Feb. 2, 2018	JPY 300,000,000	\$ 213
SELL EUR/BUY USD	Feb. 1, 2018	EUR 3,000,000	2,316
			<u>\$ 2,529</u>

On December 31, 2018 the Company has no non-hedging derivative financial liabilities transaction.

- C. The Company entered into forward foreign exchange contracts to sell to hedge exchange rate risk of export proceeds. However, these forward foreign exchange contracts and foreign currency loan are not accounted for under hedge accounting.

(12) Bonds payable

	December 31, 2018	December 31, 2017
Issuance of bonds payable	<u>\$ 4,000,000</u>	<u>\$ 4,000,000</u>

- A. The terms of the first domestic unsecured ordinary corporate bonds issued by the Company in 2015 are as follows:

The Company issued \$3,000,000, 1.45% first domestic unsecured ordinary corporation bonds, as approved by the regulatory authority on June 18, 2015. The bonds mature 5 years from the issue date (June 18, 2015 ~ June 18, 2020) and will be redeemed at face value at the maturity date.

- B. The terms of the first domestic unsecured ordinary corporate bonds issued by the Company in 2017 are as follows:

The Company issued \$1,000,000, 1.02% first domestic unsecured ordinary corporation bonds, as approved by the regulatory authority on September 15, 2017. The bonds mature 5 years from the issue date (September 15, 2017 ~ September 15, 2022) and will be redeemed at face value at the maturity date.

(13) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2018
Long-term bank borrowings				
HSBC Bank	Borrowing period is from Apr. 13, 2018 to Apr. 13, 2020; payable at maturity	0.94%	None	\$ 1,000,000
Mizuho Bank	Borrowing period is from Oct. 25, 2018 to Oct. 30, 2020; payable at maturity	0.88%	None	950,000
Sumitomo Mitsui Banking Corporation	Borrowing period is from Nov. 30, 2018 to Nov. 30, 2020; payable at maturity	0.92%	None	500,000
Hua Nan Commercial Bank	Borrowing period is from Jul. 13, 2018 to Jul. 13, 2020; payable at maturity	0.96%	None	600,000
Bank of Taiwan	Borrowing period is from Jun. 20, 2018 to Jun. 20, 2020; payable at maturity	0.80%	None	400,000
				<u>3,450,000</u>



Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2018
Commercial papers payable				
International Bills Corporation	Borrowing period is from Oct. 15, 2018 to Oct. 14, 2020; payable at maturity	0.35%~0.65%	None	\$ 500,000
Grand Bills Finance Corporation	Borrowing period is from Mar. 27, 2018 to Mar. 26, 2020; payable at maturity	0.62%~0.78%	None	300,000
				800,000
Less: Discount on commercial papers payable				( 275)
				799,725
				<u>\$ 4,249,725</u>

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2017
Long-term bank borrowings				
The Company:				
HSBC Bank	Borrowing period is from Apr. 18, 2017 to Apr. 18, 2019; payable at maturity	0.93%	None	\$ 1,000,000
Mizuho Bank	Borrowing period is from Oct. 15, 2017 to Oct. 15, 2019; payable at maturity	0.80%	None	\$ 452,000
Sumitomo Mitsui Banking Corporation	Borrowing period is from Nov. 30, 2016 to Nov. 30, 2019; payable at maturity	0.94%	Note	300,000
Mizuho Bank	Borrowing period is from Oct. 15, 2017 to Oct. 15, 2019; payable at maturity	0.80%	None	39,000
				1,791,000
Commercial papers payable				
International Bills Finance Corporation	Borrowing period is from May 16, 2017 to May 16, 2019; payable at maturity	0.33%~0.62%	None	\$ 200,000
China Bills Finance Corporation	Borrowing period is from Mar. 29, 2017 to Mar. 28, 2019; payable at maturity	0.36%~0.60%	None	500,000
Taiwan Finance Corporation	Borrowing period is from Jun. 23, 2017 to Jun. 22, 2019; payable at maturity	0.48%~0.85%	None	200,000
Grand Bills Finance Corporation	Borrowing period is from Mar. 27, 2017 to Mar. 26, 2019; payable at maturity	0.60%~0.81%	None	400,000
				1,300,000
Less: Discount on commercial papers payable				( 206)
				1,299,794
				<u>\$ 3,090,794</u>

A. Under the long-term contracts with certain financial institutions, the Company is required to maintain certain financial ratios and capital requirements as well as meet certain restrictions relative to significant asset acquisitions or disposals.

B. As of December 31, 2018 and 2017, the Company has undrawn borrowing facilities of \$16,556,434 and \$17,337,150 respectively.

#### (14) Pensions

A.(a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly



salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contribution for the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	(\$ 1,774,505)	(\$ 1,809,652)
Fair value of plan assets	227,916	248,067
Net defined benefit liability	(\$ 1,546,589)	(\$ 1,561,585)

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
For the year ended December 31, 2018			
Balance at January 1	(\$ 1,809,652)	\$ 248,067	(\$ 1,561,585)
Current service cost	( 12,157)	-	( 12,157)
Interest (expense) income	( 30,628)	4,082	( 26,546)
	( 1,852,437)	252,149	( 1,600,288)
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	6,201	6,201
Change in financial assumptions	( 55,883)	-	( 55,883)
Experience adjustments	15,347	-	15,347
	( 40,536)	6,201	( 34,335)
Pension fund contribution	-	81,050	81,050
Paid pension	111,484	( 111,484)	-
Paid from the account	6,984	-	6,984
Balance at December 31	(\$ 1,774,505)	\$ 227,916	(\$ 1,546,589)

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
For the year ended December 31, 2017			
Balance at January 1	(\$ 1,838,969)	\$ 188,999	(\$ 1,649,970)
Current service cost	( 15,688)	-	( 15,688)
Interest (expense) income	( 30,474)	3,623	( 26,851)
	( 1,885,131)	192,622	( 1,692,509)
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	( 1,279)	( 1,279)
Change in financial assumptions	7,694	-	7,694
Experience adjustments	( 40,776)	-	( 40,776)
	( 33,082)	( 1,279)	( 34,361)
Pension fund contribution	-	141,284	141,284
Paid pension	84,560	( 84,560)	-
Paid from the account	24,001	-	24,001
Balance at December 31	(\$ 1,809,652)	\$ 248,067	(\$ 1,561,585)

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company and its domestic subsidiaries defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company and its domestic subsidiaries has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

- (e) The principal actuarial assumptions used were as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Discount rate	1.35%	1.75%
Future salary increases	2.00%	2.00%

Assumptions regarding future mortality experience are set based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.5%	Decrease 0.5%	Increase 0.5%	Decrease 0.5%
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 69,417)	\$ 73,992	\$ 73,162	(\$ 69,338)
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 79,259)	\$ 74,256	\$ 74,455	(\$ 78,689)

The sensitivity analysis above was arrived at based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- (f) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2019 are \$28,041.

B.(a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

- (b) The pension costs under the defined contribution pension plans of the Company for the years ended December 31, 2018 and 2017 were \$72,264 and \$72,082, respectively.

(15) Share capital

A. As of December 31, 2018, the Company's authorized capital was \$30,305,500, consisting of 3,030,550 thousand shares of ordinary stock, including 100 million shares reserved for employee stock options, and the paid-in capital was \$20,026,929 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

For the years ended December 31, 2018 and 2017, there was no change to the Company's outstanding ordinary shares.

B. On December 17, 1996, the Board of Directors of the Company adopted a resolution that allows certain stockholders to issue 5,540 thousand units of global depository receipts (GDRs), represented by 55,399 thousand shares of common stock. A unit of GDR represents 10 shares of common stock. After obtaining approval from SFB, these GDRs were listed on the Securities Exchange of London on March 28, 1997, with total proceeds of US\$107,644,000. The issuance

of GDRs was presented by issuing common shares, therefore, there is about 7% dilutive effect on the common shares' equity. The main terms and conditions of the GDRs are as follows:

(a) Voting rights

GDR holders may, pursuant to the Depositary Agreement and the relevant laws and regulations of the R.O.C., exercise the voting rights pertaining to the underlying common shares represented by the GDRs.

(b) Redemption of the underlying common shares represented by the GDRs

When the holders of the GDRs request the Depositary to redeem the GDRs in accordance with the relevant R.O.C. regulations and the provisions in the Depositary Agreement, the Depositary may (i) deliver the underlying common shares represented by the GDRs to the GDR holders, or (ii) sell the underlying common shares represented by the GDRs in the R.O.C. stock market on behalf of the GDR holder. The payment of proceeds from such sale shall be made subject to the relevant R.O.C. laws and regulations and the provisions in the Depositary Agreement.

(c) Distribution of dividends, preemptive rights and other rights

GDR holders own the same rights as common shareholders.

(d) As of December 31, 2018, the Company has redeemed all depository receipts.

C. All of the shares of the Company held by the Company's subsidiaries—Tong-An Investment Co., Ltd. and An-Tai International Investment Co., Ltd. were acquired in or before 2000 for the purpose of general investment. After a regulation of the Company Act was amended in 2000 wherein the shares of the holding company shall not be purchased nor be accepted as a security or pledge by its subsidiary, the two subsidiaries did not acquire additional shares of the Company. In addition, Top-Tower Enterprises Co., Ltd. also held the Company's shares before the Company obtained control of Top-Tower Enterprises Co., Ltd. in August, 2013, and did not acquire additional shares of the Company again after the Company obtained its control. As of December 31, 2018 and 2017, book value of the shares of the Company held by the three subsidiaries amounted to \$321,563.

Details are as follows:

	December 31, 2018		
	Shares (in thousands)	Cost (in dollars)	Market value (in dollars)
Tong-An Investment Co., Ltd.	19,540	\$ 14.92	17.45
An-Tai International Investment Co., Ltd.	2,826	10.37	17.45
Top-Tower Enterprises Co., Ltd.	77	9.37	17.45
	<u>22,443</u>		
	December 31, 2017		
	Shares (in thousands)	Cost (in dollars)	Market value (in dollars)
Tong-An Investment Co., Ltd.	19,540	\$ 14.92	\$ 28.50
An-Tai International Investment Co., Ltd.	2,826	10.37	28.50
Top-Tower Enterprises Co., Ltd.	77	9.37	28.50
	<u>22,443</u>		

(16) Capital surplus

Pursuant to the R.O.C Company Law, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C Securities and Exchange Law requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the

paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(17) Retained earnings and legal reserve

- A. As stipulated in the Company's Articles of Incorporation, the current earnings, if any, shall be distributed in the following order:
  - (a) Payment of taxes and duties.
  - (b) Covering prior years' accumulated deficit, if any.
  - (c) After deducting items (a) and (b), set aside 10% of the remaining amount as legal reserve.
  - (d) Set aside a certain amount as special reserve, if any.
  - (e) Distributing the remaining amount plus prior years' retained earnings to shareholders according to their shareholding percentage. The distribution rate is principally 80%, of which cash dividend shall account for 5% ~ 50% of the distributed amount.
- B. The Company's dividend policy is summarized below:  
The Company's operating environment is in the stable growth stage. However, investee companies are still in the growth stage. In view of the future plant expansion and investment plans, the appropriations of earnings are based on the distributable earnings and appropriate principally 80% to shareholders as dividends. Cash dividends shall account for at least 5% up to maximum of 50% of total dividends distributed.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.  
(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land.
- E. The Company recognized dividends distributed to owners amounting to \$1,722,316 (\$0.86 (in dollars) per share) and \$1,762,370 (\$0.88 (in dollars) per share) for the years ended December 31, 2018 and 2017, respectively. On March 26, 2019, the Board of Directors proposed for the distribution of dividends from 2018 earnings in the amount of \$0.9 with \$1,770,924 (in dollars) per share.
- F. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6 (23).

(18) Other equity items

	Unrealized gains on valuation	Currency translation	Total
At January 1, 2018	\$ -	(\$ 1,759,357)	(\$ 1,759,357)
IFRS opening balance adjustment	1,848,757	-	1,848,757
Unrealized gains and losses on financial assets:			
–Group	605,558	-	605,558
–Associates	( 20,180)	-	( 20,180)
Revaluation transferred to retained earnings	572,647	-	572,647
Currency translation differences:			
–Group	-	( 142,367)	( 142,367)
At December 31, 2018	<u>\$ 3,006,782</u>	<u>(\$ 1,901,724)</u>	<u>\$ 1,105,058</u>
	Unrealized gains on valuation	Currency translation	Total
At January 1, 2017	\$ 2,218,526	(\$ 1,051,753)	\$ 1,166,773
Unrealized gains and losses on financial assets:			
–Group	1,563,333	-	1,563,333
–Associates	4,019	-	4,019
Currency translation differences:			
–Group	-	( 707,604)	( 707,604)
At December 31, 2017	<u>\$ 3,785,878</u>	<u>(\$ 1,759,357)</u>	<u>\$ 2,026,521</u>

(19) Operating revenue

	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenue from customers	<u>\$ 20,879,719</u>	<u>\$ 21,301,208</u>

## A. Disaggregation of revenue from customers

The Company derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

For the year ended December 31, 2018	external customer contracts
Sales of heavy industrial products	\$ 12,814,190
Sales of home appliances	4,806,609
Others	54,902
Service revenue	424,159
Construction contract	2,779,859
	<u>\$ 20,879,719</u>



## B. Contract assets and liabilities

For the year ended  
December 31, 2018

Revenue recognized that was included  
in the contract liability balance at the  
beginning of the period

Advance sales receipts \$ 35,076

C. Related disclosures on operating revenue for 2017 are provided in Note 12(5) B.

(20) Other income

	For the year ended December 31, 2018	For the year ended December 31, 2017
Rental revenue	\$ 141,768	\$ 139,079
Dividend income	223,794	187,217
Interest income:		
Interest income from bank deposits	2,847	7,614
Other interest income	6,032	5,936
Insurance claims income	-	83,897
Other non-operating income	173,934	178,951
	<u>\$ 548,375</u>	<u>\$ 602,694</u>

(21) Other gains and losses

	For the year ended December, 2018	For the year ended December, 2017
Net gain (loss) on financial liabilities at fair value through profit or loss	\$ 2,529	(\$ 2,529)
Net loss on financial assets at fair value through profit or loss	( 103,280)	( 19,806)
Net currency exchange gain (loss)	2,456	( 12,946)
(Loss) gain on disposal of property, plant and equipment	( 18,754)	( 22,878)
Gain on disposal of investments	1,385	25,874
Gain on remeasurement	46,515	-
Reversal of impairment loss recognized in profit or loss	( 20,841)	-
Fire loss	-	( 97,615)
Miscellaneous disbursements	( 458,557)	( 214,171)
	<u>(\$ 548,547)</u>	<u>(\$ 344,071)</u>

Because the Company lost control over Kuen Ling Machinery Refrigerating Co. (Kuen Ling), the Company measured Kuen Ling's shares which were held before the Company lost control over Kuen Ling based on fair value, and recognized the related gain on measurement. Please refer to Note 6(6) for more information.

(22) Finance costs

	For the year ended December 31, 2018	For the year ended December 31, 2017
Interest expense:		
Bank borrowings	\$ 35,910	\$ 30,971
Corporate bonds	53,303	46,518
Others	5,517	16,865
	<u>94,730</u>	<u>94,354</u>
Finance expenses	<u>4,451</u>	<u>15,211</u>
	<u>\$ 99,181</u>	<u>\$ 109,565</u>

(23) Expenses by nature (Include employee benefit expense)

	For the year ended December 31, 2018	For the year ended December 31, 2017
Wages and salaries	\$ 1,768,065	\$ 1,806,651
Employees' compensation and directors' and supervisors' remuneration	368,483	361,806
Labor and health insurance fees	156,420	158,717
Pension costs	110,967	114,621
Other personnel expenses	96,913	99,757
Depreciation charges on property, plant and equipment	345,650	318,774
Amortization charges on intangible assets	<u>18,697</u>	<u>19,063</u>
	<u>\$ 2,865,195</u>	<u>\$ 2,879,389</u>

- A. The Company's employee benefit expenses are recognized under operating costs, operating expenses and other gains and losses.
- B. According to the Articles of Incorporation of the Company, a ratio of profit of the current year distributable, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall be 1%~10% for employees' compensation and shall not be higher than 5% for directors' and supervisors' remuneration.
- C. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at \$255,103 and \$250,481, respectively; while directors' and supervisors' remuneration was accrued at \$113,379 and \$111,325, respectively. The aforementioned amounts were recognized in salary expenses.
- D. For the years ended December 31, 2018 and 2017, after considering each year's earnings, the employee benefit expenses were accrued based on past experience and ratio. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were \$255,103 and \$113,379, and the employees' compensation will be distributed in the form of cash. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.



(24) Income tax

## A. Income tax expense

## (a) Components of income tax expense:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Current tax:		
Current tax on profits for the period	\$ 68,376	\$ 207,022
Tax on undistributed surplus earnings	101,261	131,590
Prior year income tax under (over) estimation	19	(14,772)
Total current tax	169,656	323,840
Deferred tax:		
Origination and reversal of temporary differences	(178,783)	(111,730)
Impact of change in tax rate	153,847	-
Total deferred tax	(24,936)	(111,730)
Income tax expense	\$ 144,720	\$ 212,110

## (b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Currency translation differences	(\$ 3,000)	(\$ 68,109)
Impact of change in tax rate	(60,232)	-
	(\$ 63,232)	(\$ 68,109)

## B. Reconciliation between income tax expense and accounting profit

	For the year ended December 31, 2018	For the year ended December 31, 2017
Tax calculated based on profit before tax and statutory tax rate	\$ 658,962	\$ 561,874
Effects from items disallowed by tax regulation	(593,709)	(338,592)
Overestimation of prior year's net deferred tax assets and liabilities	(175,660)	(111,730)
Additional 10% tax on undistributed earnings	101,261	131,590
Effects by Investment tax credits	-	(16,260)
Prior year income tax overestimation (underestimation)	19	(14,772)
Impact of change in tax rate	153,847	-
Income tax expense	\$ 144,720	\$ 212,110

C. Amounts of deferred tax assets or liabilities as a result of temporary differences and tax losses are as follows:

	For the year ended December 31, 2018			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences				
— Deferred tax assets:				
Unrealized intercompany profit	\$ 212,262	(\$ 59,157)	\$ -	\$ 153,105
Impairment loss	90,530	( 3,804)	19,779	106,505
Currency translation differences	229,231	0	43,453	272,684
Difference resulting from different usefullives of property, plant and equipment between financial and tax basis	43,205	6,391	-	49,596
Unrealized expenses	58,642	15,067	-	73,709
Permanent loss on investments	29,817	5,263	-	35,080
Loss on inventory	48,713	4,590	-	53,303
Over provision of allowance for doubtful accounts	17,009	( 3,408)	-	13,601
Others	65,433	( 19,277)	-	46,156
	<u>794,842</u>	<u>( 54,335)</u>	<u>63,232</u>	<u>803,739</u>
— Deferred tax liabilities:				
Investment income from foreign investments	785,897	( 79,271)	-	706,626
Land value incremental reserve	107,472	-	-	107,472
	<u>893,369</u>	<u>( 79,271)</u>	<u>-</u>	<u>814,098</u>
	<u>(\$ 98,527)</u>	<u>\$ 24,936</u>	<u>\$ 63,232</u>	<u>(\$ 10,359)</u>

For the year ended December 31, 2017

	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences				
— Deferred tax assets:				
Unrealized intercompany profit	\$ 191,490	\$ 20,772	\$ -	\$ 212,262
Impairment loss	91,548	( 1,018)	-	90,530
Currency translation differences	161,122	-	68,109	229,231
Difference resulting from different usefullives of property, plant and equipment between financial and tax basis	43,357	( 152)	-	43,205
Unrealized expenses	57,455	1,187	-	58,642
Permanent loss on investments	29,817	-	-	29,817
Loss on inventory	41,622	7,091	-	48,713
Over provision of allowance for doubtful accounts	13,685	3,324	-	17,009
Others	103,190	( 37,757)	-	65,433
	<u>733,286</u>	<u>( 6,553)</u>	<u>68,109</u>	<u>794,842</u>
— Deferred tax liabilities:				
Investment income from foreign investments	888,883	( 102,986)	-	785,897
Land value incremental reserve	107,472	-	-	107,472
Others	15,297	( 15,297)	-	-
	<u>1,011,652</u>	<u>( 118,283)</u>	<u>-</u>	<u>893,369</u>
	<u>(\$ 278,366)</u>	<u>\$ 111,730</u>	<u>\$ 68,109</u>	<u>(\$ 98,527)</u>

D. The amounts of deductible temporary differences that were not recognized as deferred tax assets are as follows:

	December 31, 2018	December 31, 2017
Deductible temporary differences	<u>\$ 547,202</u>	<u>\$ 469,069</u>

E. The Company has not recognized taxable temporary differences associated with investment in certain subsidiaries as deferred tax liabilities. As of December 31, 2018 and 2017, the amounts of temporary difference unrecognized as deferred tax liabilities were \$3,603,720 and \$4,630,372, respectively.

F. The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

G. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.

(25) Earnings per share

For the year ended December 31, 2018			
	Amount after tax	Weighted average number of ordinary shares outstanding (in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 3,150,089	1,980,250	\$ 1.59
For the year ended December 31, 2017			
	Amount after tax	Weighted average number of ordinary shares outstanding (in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 3,092,358	1,980,250	\$ 1.56

(26) Supplemental cash flow information

Investing activities with partial cash payments:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Acquisition of property, plant and equipment	\$ 333,931	\$ 470,042
Add:		
Payables at beginning of the period	131,025	112,700
Less:		
Payables at end of the period	(112,043)	(131,025)
Cash paid	<u>\$ 352,913</u>	<u>\$ 451,717</u>

## 7. RELATED PARTY TRANSACTIONS

### (1) Names of related parties and relationship

Names of related parties	Relationship with the Company	Names of related parties	Relationship with the Company
Teco Nanotech Co., Ltd. (Teco Nanotech)	The subsidiary	Yatec Engineering Corporation (Yatec)	The subsidiary
Teco International Investment Co., Ltd. (Teco International)	"	An-Tai International Investment Co., Ltd. (An-Tai)	"
Tong-An Assets Management & Development Co., Ltd. (Tong-An Assets)	"	Micropac Worldwide Investment (BVI) (Micropac)	"
Tong Dai Co., Ltd. (Tong Dai)	"	A-Ok Technical Co., Ltd. (A-Ok Technical)	"
Tesen Electric & Machinery Co., Ltd. (Tesen)	"	Taian-Etacom Technology Co., Ltd. (Taian-Etacom)	"
Information Technology Total Services Co., Ltd. (ITTS)	"	Perkilangen Elektrik Taian Jaya Sdn. Bhd. (Perkilangen)	"
Tong Tai Jung Co., Ltd. (Tong Tai Jung)	"	Taian (Subic) Electric Co., Inc. (Taian Subic)	"
Teco Electro Devices Co., Ltd. (Teco Electro)	"	Taian (Malaysia) Electric Sdn., Bhd. (Taian Malaysia)	"
Teco Electric & Machinery (Pte) Ltd. (Teco Singapore)	"	E-Joy International Co., Ltd. (E-Joy International)	"
Teco Electric Co., Ltd. (Teco Europe)	"	An-Sheng Travel Co., Ltd. (An Sheng)	"
Teco Holding USA Inc. (Teco Holding)	"	Teco Vietnam Electric Co., Ltd. (Teco Vietnam)	"
GD Teco Taiwan Co., Ltd. (GD Teco)	"	Teco Appliance (H.K.) Co., Ltd. (Teco Appliance)	"
Tecom Co., Ltd. (Tecom)	"	TECO (PHILIPPINES) 3C & APPLIANCES, INC. (TECO 3C)	"
Tecnos International Consultant Co., Ltd. (Tecnos)	"	Tecoson Industrial Development Ltd. (Tecoson)	"
Tong-An Investment Co., Ltd. (Tong-An)	"	Teco Electronic Devices Co., Ltd. (Teco Devices)	"
Taiwan Pelican Express Co., Ltd. (Pelican)	"		"
Teco Westinghouse Motor Industrial-Canada (Teco Westinghouse Canada)	"	Tasia (PTE) Ltd. (Tasia)	"
Teco Westinghouse Motor Company (Teco Westinghouse)	"	P.T Teco Multiguna Electro (Teco Multiguna)	"
Information Technology Total			"
Service (Hang Zhu) Co., Ltd. (ITTS Hang Zhu)	"	Great Teco, S.L. (Great Teco, S.L.)	"
Teco Industrial (Malaysia) Sdn. Bhd. (Teco Malaysia)	"	Asia Air Tech Industrial Co., Ltd. (AAT)	"
Tecoson HK Co., Ltd. (Tecoson HK)	"	Great Teco Motor Ltd. (GTM)	"
Wuxi Teco Electric & Machinery Co., Ltd. (Wuxi Teco)	"	Teco Electronic & Machinery (THAI) Co., Ltd. (Teco THAI)	"
Nan Chang Teco Electronic & Machinery Co., Ltd. (Nanchang Teco)	"	Information Technology Total Services (BVI) (ITTS BVI)	"

Names of related parties	Relationship with the Company	Names of related parties	Relationship with the Company
Wuxi Teco Precision Industry Co. Ltd (Wuxi Teco)	The subsidiary	Asia Electric & Machinery (PTE) LTD. (AEM)	The subsidiary
Jiangxi Teco Electric and Machinery Co., Ltd. (Jiangxi Teco)	"	STE Marketing SDN. BHD (STEM)	"
QingDao Teco Precision Mechtronics Co., Ltd. (QingDao Teco)	"	Sankyo Co., Ltd. (Sankyo)	"
Xiamen Teco Technology Co., Ltd. (Xiamen Teco)	"	Teco Electric & Machinery B.V. (Teco Netherlands)	"
Asia Innovative Technology Co., Ltd. (Xiamen An-Tai)	"	TYM Electric & Machinery Sdn. Bhd. (TYM)	"
An-Tai International Investment (Pte) Ltd. (An-Tai Singapore)	"	Teco (Dong Guang) Air Conditioning Equipment Co., Ltd. (Teco Dong Guang)	"
Antech Automation Corp. (Antech)	"	Unison Service Corporation (Unison)	"
An-Hubbell-Taian Co., Ltd. (An-Hubbell)	"	Kuenling Machinery Refrigerating Co., Ltd. (Kuenling Refrigerating)	Note
Universal Mailing Service Co., Ltd. (Universal)	"	Baycom Opto-Electronics Technology Co., Ltd. (Baycom)	The subsidiary
Teco Australia Pty. Ltd. (Teco Australia)	"	Tecom International Investment Co., Ltd. (Tecom International)	"
Jack Property Service & Management Company (Jack Property)	"	Teco Sichuan Trading Co., Ltd. (Teco Sichuan)	"
Tai-An Technology (Wuxi) Co., Ltd. (Tai-An Wuxi)	"	Qingdao Teco Precision Mechatronics Co., Ltd. (QingDao Teco)	"
P.T Teco Elektro Indonesia (P.T Teco)	"	Shanghai Teco Electric & Machinery Co., Ltd. (Shanghai Teco)	"
Teco Group Science-Technology (Hang Zhou) Co., Ltd. (Teco Hang Zhou)	"	TECO Elektrik Turkey A.S. (Turkey Teco)	"
Information Technology Total Services (Xiamen) Ltd. (ITTS Xiamen)	"	Hunan TECO WindEnergy Limited (Hunan Teco)	"
Fujian Teco Precision Co., Ltd. (Fujian Teco)	"	Taian Electric Co., Ltd. (Taian)	"
United View Global Investment Co., Ltd. (UVG)	"	Information Technology Total Services (Wuxi) Co., Ltd. (ITTS Wuxi)	"
Jiangxi TECO Air Conditioning Equipment Co., Ltd. (Jiangxi Teco Air)	The subsidiary	Tension Envelope Taiwan Co., Ltd. (Tension)	Associate
Tianjin Teco Technology Co., Ltd. (Tianjin Teco)	"	Don-Zi International Investment Co., Ltd.	"
Top-Tower Enterprises Co., Ltd. (Top-Tower)	"	Qingdao TECO Century Advance High-tech Mechtronics Co., Ltd. (TECO Century )	"
Ching Chi International Limited (Ching Chi)	(Note 4)	Teco Middle East Electrical & Machinery Co., Ltd. (TME)	"
Teco Yaskawa Motor Engineering Co. (Yaskawa)	(Note 2)	TG Teco Vacuum Insulated Glass Corp. (TG Teco)	"
Motovario S.p.A. (Motovario)	The subsidiary	Jiangxi Teco-Lead PM Generator Manufacturing Co., Ltd. (Jiangxi Teco-Lead)	"
TA Associates International Pte Ltd. (TA Associates)	(Note 1)	Lien Chang Electronic Enterprise Co., Ltd. (Lien Chang)	"
United Development Corporation Ltd. (United Development)	The subsidiary	Taian Shen Electric Co., Ltd. (Taian Shen)	"

Note: The investee continued as the Company's associate since the Company remained significant influence over the investee after losing its control in quarter of 2018.

Names of related parties	Relationship with the Company	Names of related parties	Relationship with the Company
Century Development Corporation Ltd. (Century Development)	The subsidiary	Tecma Information Systems Sdn. Bhd. (TECMA)	Associate
TEMICO INTERNATIONAL PTE. LTD. (TEMICO)	"	Gen Mao International Corp.	"
Century Tech. C&M Corp.	"	Electrical Trading Co., Ltd. (Shanghai Xiangseng)	"
TWMM	"	Genmao Electronics (Suzhou) Co., Ltd.	"
AM SMART Technology CO., LTD	"	Teco-Motech Co., Ltd. (Teco-Motech)	"
Teco.Sun Energy Co., Ltd.	"	Fujio Food System Taiwan Co., Ltd. (Fujio Food)	"
ROPALI - TECO CORPORATION (ROTECO)	"	Le-Li Co., Ltd. (Le-Li)	"
Royal Host Taiwan Co., Ltd. (Royal)	Associate	Nanobit Tech Co., Ltd. (Nanobit)	(Note 3)
Tung Pei Industrial Co., Ltd. (Tung Pei)	"	Senergy Wind Power Co., Ltd. (Senergy Wind Power)	Jointarrangement
Creative Sensor Inc. (Creative Sensor)	"	Teco Image System Co., Ltd. (Teco Image)	Other relatedparty
		An-Shin Food Service Co., Ltd. (An-Shin )	"

Note 1: This company was dissolved in 2017.

Note 2: This company was dissolved in 2018.

Note 3: The Company lost its significant control over the investee as a result of stock disposals during the second quarter of 2017. Since then, the investee became a non-related party.

Note 4: The investee continued as the Company's associate since the Company remained significant influence over the investee after losing its control in the second quarter of 2018..

## (2) Significant related party transactions

### A. Sales

	Year ended December 31, 2018	Year ended December 31, 2017
Sales of goods and services:		
—Subsidiaries		
Teco Westinghouse	\$ 3,479,182	\$ 3,515,735
Others	6,010,148	6,282,659
—Associates	298,558	315,196
—Other related parties	347	323
	<u>\$ 9,788,235</u>	<u>\$ 10,113,913</u>
	Year ended December 31, 2018	Year ended December 31, 2017
Royalty income (shown as 'other income'):		
—Subsidiaries		
Wuxi Teco	\$ 60,828	\$ 41,875
Tai-An Wuxi	26,261	11,945
Motovario	10,969	31,023
QingDao Teco	7,635	2,699
Other	5,466	7,074
—Associates	390	73
—Other related parties	90	199
	<u>\$ 111,639</u>	<u>\$ 94,888</u>

(a) The sales terms, including pricing and collection, were negotiated in consideration of cost, market, competitors and other factors. The unrealized gain from downstream sales

amounting to \$614,532 and \$653,779 (shown as ‘1550 investments accounted for under equity method’) for the years ended December 31, 2018 and 2017, respectively, had been eliminated and listed as investments accounted for under equity method.

(b) Royalty income consisted of consulting service income and endorsements and guarantees provided by the Company. The fee was determined in accordance with mutual agreements and collected within the contractual period.

B. Purchases of goods and services

	Year ended December 31, 2018	Year ended December 31, 2017
Purchases of goods:		
—Subsidiaries		
Tesen	\$ 2,270,807	\$ 2,245,090
Others	3,429,466	3,659,896
—Associates	389,790	73,418
—Other related parties	190	-
	<u>\$ 6,090,253</u>	<u>\$ 5,978,404</u>

	Year ended December 31, 2018	Year ended December 31, 2017
Shipping expense:		
—Subsidiaries	\$ 96,031	\$ 107,776

	Year ended December 31, 2018	Year ended December 31, 2017
Service expense:		
—Subsidiaries	\$ 102,787	\$ 100,909

(a) The purchase terms, including pricing and payments, were negotiated in consideration of the general market price and other factors.

(b) The shipping terms, including pricing and payments, were negotiated in consideration of the market price and other factors.

(c) The service terms, including pricing and payments, were negotiated in consideration of the cost, market, competitors and other factors.



## C. Notes and accounts receivable

	December 31, 2018	December 31, 2017
Accounts and notes receivables		
—Subsidiaries		
Teco Westinghouse	\$ 374,166	\$ 463,325
Others	1,851,535	2,046,671
—Associates	52,092	56,903
—Other related parties	337	127
	<u>2,278,130</u>	<u>2,567,026</u>
Add: foreign exchange loss	( 10,874)	( 26,908)
	2,267,256	2,540,118
Less: reclassified to other receivables	( 579,125)	( 540,346)
	1,688,131	1,999,772
Less: balance of long-term equity investments	( 76,336)	( 41,883)
	<u>1,611,795</u>	<u>1,957,889</u>

(a) The receivables from related parties arise mainly from sale transactions. The receivables are due 30 to 90 days after the date of sale, unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

(b) The aforementioned accounts receivable that were past due were \$579,125 and \$540,346 as of December 31, 2018 and 2017, respectively. The ageing of the past due accounts receivable is beyond 90 days.

## D. Payables to related parties:

	December 31, 2018	December 31, 2017
Accounts and notes payable		
—Subsidiaries		
Wuxi Teco	\$ 406,218	\$ 762,090
Others	428,908	626,502.00
—Associates	203,719	56,242.00
—Other related parties	200	-
	<u>\$ 1,039,045</u>	<u>\$ 1,444,834</u>

The payables to related parties arise mainly from purchase transactions and are due 30 to 180 days after the date of purchase. The payables bear no interest.

## E. Loan to related parties:

## (a) Receivables from related parties – credit line

	December 31, 2018	December 31, 2017
Subsidiaries	<u>\$ 225,724</u>	<u>\$ 222,661</u>

## (b) Interest income

	December 31, 2018	December 31, 2017
Subsidiaries	<u>\$ 6,022</u>	<u>\$ 5,927</u>

As of December 31, 2018 and 2017, the Company had loans to subsidiaries amounting to \$161,223 and \$222,661, respectively. The loans to subsidiaries are repayable monthly over 2 years and carry interest at 2.3%~3.5% per annum for the years ended December 31, 2017 and 2016, respectively.

## F. Other receivables

## (a) Transfer of accounts receivable that were past due

	December 31, 2018	December 31, 2017
—Subsidiaries		
Teco Netherlands	\$ 280,930	\$ 321,282
Sankyo	178,201	181,364
Others	119,542	37,700.00
—Associates	452	-
	<u>\$ 579,125</u>	<u>\$ 540,346</u>

## (b) Others

	December 31, 2018	December 31, 2017
—Subsidiaries		
QinDao Teco	\$ 268,144	\$ 251,159
Others	451,504	479,836.00
—Associates	30,313	12,331.00
—Other related parties	1,468	20,875
	<u>751,429</u>	<u>764,201</u>
Less : Allowance for doubtful	( 37,192)	( 47,035)
	<u>\$ 714,237</u>	<u>\$ 717,166</u>

The above represents other receivables for rental.

## G. Other payables

	December 31, 2018	December 31, 2017
Accounts and notes receivables		
—Subsidiaries		
Teco Westinghouse	\$ 307,150	\$ 320,126
Tong-An Assets	212,563	287,520
Others	112,979	100,443
—Associates	2,552	3,588
—Other related parties	235	128
	<u>635,479</u>	<u>711,805</u>

Other payables mainly consist of rent payable, etc.

## H. Financing with related parties

## (a) Payables to related parties - credit line

	December 31, 2018	December 31, 2017
Subsidiaries	<u>\$ 509,550</u>	<u>\$ 577,600</u>

## (b) Interest expense

	December 31, 2018	December 31, 2017
Subsidiaries	<u>\$ 5,311</u>	<u>\$ 2,255</u>

As of December 31, 2018 and 2017, the actual amount of loan that the Company has drawn from subsidiaries amounted to \$507,150 and \$577,600, respectively. The loans are repayable monthly over 2 years and bear interest both at 1.05~1.1% per annum for the years ended December 31, 2018 and 2017, respectively.

## I. Endorsements and guarantees provided to related parties

	December 31, 2018	December 31, 2017
—Subsidiaries	\$ 2,311,022	\$ 2,976,456
—Associates	41,772	40,474
	<u>\$ 2,352,794</u>	<u>\$ 3,016,930</u>

## J. Property transactions

(a) The Company rented assets in Quanying and Chungli of Taoyuan County from Tong-An Assets for self-use or rentals. For the years ended December 31, 2018 and 2017, the rent expense was \$77,713 and \$78,407, respectively. As of December 31, 2018 and 2017, unpaid rent amounted to \$12,384 and \$7,270 (listed as other payables – related parties), respectively. The rent amount was based on mutual agreement and collected based on the terms of the contract.

(b) The Company sold a number of compressors (shown as ‘1600 property, plant and equipment’) to QingDao Teco in July, 2011. The contract amounted to \$54,558 and collection progress is in accordance with mutual agreement. After the inspection, the Company accepted the compressors with discounted payments based on mutual agreement in 2014. As of December 31, 2018, remaining receivable amounted to \$29,716 (shown as 1210 ‘Other receivable – related party’).

(3) Key management compensation

	For the year ended December 31, 2018	For the year ended December 31, 2017
Salaries and other short-term employee benefits	\$ 205,009	\$ 210,044
Post-employment benefits	1,748	1,759
	<u>\$ 206,757</u>	<u>\$ 211,803</u>

8. PLEDGED ASSETS

Pledged asset	Book value		Purpose
	December 31, 2018	December 31, 2017	
Other current assets - bank deposits	<u>\$ 16,308</u>	<u>\$ 8,157</u>	Special bank account for government grant

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS(1) Contingencies

None.

(2) Commitments

A. Capital expenditures contracted for at the balance sheet date but not yet incurred are as follows:

	December 31, 2018	December 31, 2017
Property, plant and equipment	\$ 13,808	\$ 35,223

B. As of December 31, 2018, the outstanding usance L/C used for acquiring raw materials and equipment was \$415,477.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors during its meeting on December 22, 2018, resolved a plan to repurchase the Company's shares. As of March 26, 2019, the repurchase plan was completed and the Company has accumulated treasury shares of 35 million amounting to \$675,840.

12. OTHERS

(1) Capital management

The Company's objectives when managing capital are based on the industrial scale, considering industrial future growth and product development, and setting appropriate market share, as well as plan of corresponding capital expenditure, calculation of operating capital needed for financial operations, and considering operating profit and cash inflows arising from product competitiveness, to determine appropriate capital structure.

(2) Financial instruments

A. Financial instruments by category

	December 31, 2018	December 31, 2017
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 1,835,790	\$ -
Financial assets at fair value through other comprehensive income Designation of equity instrument	\$ 5,983,461	\$ -
Available-for-sale financial assets	\$ -	\$ 6,609,115
Financial assets at amortised cost /Loans and receivables		
Cash and cash equivalents	\$ 1,232,796	\$ 887,185
Notes receivable	732,576	605,829
Accounts receivable	2,813,845	3,208,928
Other receivables	1,356,297	1,400,598
Guarantee deposits paid	84,001	74,670
	<u>\$ 6,219,515</u>	<u>\$ 6,177,210</u>
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	\$ -	\$ 2,529
Short-term borrowings	49,110	275,784
Notes payable	169,201	188,734
Accounts payable	4,248,129	4,597,027
Other payables	3,225,945	3,266,045
Bonds payable	4,000,000	4,000,000
Long-term borrowings (including current portion)	4,249,725	3,090,794
Guarantee deposits received	22,496	23,712
	<u>\$ 15,964,606</u>	<u>\$ 15,444,625</u>

## B. Financial risk management policies

- (a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. To minimise any adverse effects on the financial performance of the Company, derivative financial instruments, such as foreign exchange forward contracts are used to hedge certain exchange rate risk. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.
- (b) Risk management is carried out by a central treasury department (Company treasury) under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.
- (c) Information about derivative financial instruments that are used to hedge certain exchange rate risk are provided in Note 6(11).

## C. Significant financial risks and degrees of financial risks

### (a) Market risk

#### Foreign exchange risk

- i. The Company operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and RMB. Foreign exchange risk arises from recognized assets and liabilities.
- ii. Management has set up a policy to require Company companies to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Company treasury. Exchange rate risk is measured through a forecast of highly probable USD and RMB expenditures. Forward foreign exchange contracts are adopted to minimise the volatility of the exchange rate affecting cost of forecast inventory purchases.
- iii. The Company hedges foreign exchange rate by using forward exchange contracts. However, the Company does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 6(13).
- iv. The Company's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2018

Sensitivity Analysis											
Foreign currency amount (In thousands)			Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income				
(Foreign currency: functional)											
Financial assets											
Monetary items											
USD:NTD	USD	\$	69,991	30.7150	\$	2,149,774	1%	\$	21,498	\$	-
EUR:NTD	EUR		16,479	35.2000		580,061	1%		5,801		-
JPY:NTD	JPY		926,465	0.2782		257,743	1%		2,577		-
RMB:NTD	RMB		71,380	4.4720		319,211	1%		3,192		-
AUD:NTD	AUD		4,328	21.6650		93,766	1%		938		-
Non-monetary items											
USD:NTD	USD		617,947	30.7150		18,980,249					
EUR:NTD	EUR		122,484	35.2000		4,311,420					
SGD:NTD	SGD		146,919	22.4800		3,302,731					
VND:NTD	VND		259,989,231	0.0013		337,986					
MYR:NTD	MYR		19,661	7.3789		145,076					
Financial liabilities											
Monetary items											
USD:NTD	USD		38,323	30.7150		1,177,091	1%		11,771		-
EUR:NTD	EUR		2,123	35.2000		74,730	1%		747		-
JPY:NTD	JPY		64,815	0.2782		18,032	1%		180		-

(Foreign currency: functional

Financial assets

Monetary items

USD:NTD

EUR:NTD

JPY:NTD

RMB:NTD

AUD:NTD

Non-monetary items

USD:NTD

EUR:NTD

SGD:NTD

VND:NTD

MYR:NTD

Financial liabilities

Monetary items

USD:NTD

EUR:NTD

JPY:NTD

December 31, 2017

		Sensitivity Analysis			
		Foreign		Effect on other	
		currency amount	Exchange	Book value	Effect on comprehensive
		(In thousands)	rate	(NTD)	income
				Degree of	profit or loss
				variation	
(Foreign currency: functional)	<u>Financial assets</u>				
	<u>Monetary items</u>				
	USD:NTD	USD \$ 69,960	29.7600	\$ 2,082,010	\$ 20,820
	EUR:NTD	EUR 14,490	35.5700	515,409	5,154
	JPY:NTD	JPY 1,367,608	0.2642	361,322	3,613
	RMB:NTD	RMB 7,103	4.5650	324,252	3,243
	AUD:NTD	AUD 4,495	23.1850	104,217	1,042
	<u>Non-monetary items</u>				
	USD:NTD	USD 612,940	29.7600	18,241,096	-
	EUR:NTD	EUR 116,142	35.5700	4,131,154	-
	<u>Financial liabilities</u>				
	<u>Monetary items</u>				
	USD:NTD	USD 58,242	29.7600	1,733,282	17,333
	EUR:NTD	EUR 620	35.5700	22,053	221
	JPY:NTD	JPY 338,065	0.2642	89,317	893
					-
					-
					-
					-
					-



- v. Total exchange gain (loss) including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2018 and 2017 amounted to \$2,456 and (\$12,946), respectively.

Price risk

- i. The Company's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.
- ii. The Company's investments in equity securities comprise shares and open-end funds issued by domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 5% with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have increased/decreased by \$91,790, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$ \$299,173 and \$330,456, respectively, as a result of other comprehensive income classified as equity investment and available-for-sale equity investment at fair value through other comprehensive income.

Cash flow and fair value interest rate risk

- i. The Company's main interest rate risk arises from long-term borrowings with variable rates, which expose the Company to cash flow interest rate risk. Company policy is to maintain at least 30% of its borrowings at fixed rate using interest rate swaps to achieve this when necessary. For the years ended December 31, 2018 and 2017, the Company's borrowings at variable rate were mainly denominated in NTD, USD and RMB.
- ii. The Company's borrowings are measured at amortized cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.
- iii. At December 31, 2018 and 2017, if interest rates at that date had been 0.25% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have been \$8,598 and \$6,986 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortized cost.
- ii. The Company manages their credit risk taking into consideration the entire Company's concern. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. According to the Company's credit policy, each local entity in the Company is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. The Company adopts the following assumption under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition: If the contract payments were past due over 30 days based on the terms, there has been



- a significant increase in credit risk on that instrument since initial recognition.
- iv. The Company adopts the assumption under IFRS 9, whereby the default occurs when the contract payments are past due over 90 days.
  - v. The Company classifies customer's accounts receivable, contract assets and rents receivable in accordance with credit rating of customer and credit risk on trade. The Company applies the simplified approach using loss rate methodology to estimate expected credit loss under the provision matrix basis.
  - vi. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
    - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
    - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
    - (iii) Default or delinquency in interest or principal repayments;
    - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
  - vii. As at December 31, 2018 and 2017, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes and accounts receivable were \$405,734 and \$289,239, \$1,528,892 and \$1,567,629, respectively.
  - viii. The Company uses the forecastability of Taiwan Institute of Economic Research boom observation report to adjust historical and timely information to assess the default possibility of accounts receivable and contract assets. On December 31, 2018, the loss rate methodology is as follows:

December 31, 2018			
	Expected credit loss rate	Total book value	Loss allowance
Not past due	0%~1%	\$ 1,321,932	\$ -
Up to 30 days	0%~2%	256,184	-
31 to 90 days	1%~20%	84,455	( 872)
91 to 180 days	1%~100%	48,013	( 854)
Over 180 days	1%~100%	251,854	( 26,086)
		<u>\$ 1,962,438</u>	<u>(\$ 27,812)</u>
December 31, 2018			
	Expected credit loss rate	Total book value	Loss allowance
Individual	100%	\$ 25,250	(\$ 25,250)
Group A	0%~5%	1,370,395	( 55)
Group B	1%~10%	40,235	( 13)
Group C	1%~20%	110,643	( 98)
Group D	1%~40%	88,260	( 305)
Group E	1%~100%	327,655	( 2,091)
		<u>\$ 1,962,438</u>	<u>(\$ 27,812)</u>

- ix. Movements in relation to the Company applying the simplified approach to provide loss allowance for notes receivable and accounts receivable are as follows:

	For the year ended 'December 31, 2018 Notes receivable and accounts receivable	For the year ended 'December 31, 2017 Notes receivable and accounts receivable
At January 1_IAS 39	\$ 27,484	\$ 31,222
Adjustments under new standards	-	-
At January 1_IFRS 9	27,484	31,222
Provision (reversal) for impairment	441 (	3,738)
Write-offs during the period (	113)	-
At December 31	<u>\$ 27,812</u>	<u>\$ 27,484</u>

## (c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Company and aggregated by Company treasury. Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements, for example, currency restrictions.
- ii. As of December 31, 2018 and 2017, the undrawn credit amounts are \$16,556,434 and \$17,337,150, respectively.
- iii. The table below analyses the Company's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity Companyings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

<u>December 31, 2018</u>	<u>Up to 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 3 years</u>	<u>Between 3 and 5 years</u>	<u>Over 5 years</u>
Short-term borrowings	\$ 49,110	\$ -	-	\$ -	\$ -
Notes payable	169,201	-	-	-	-
Accounts payable	4,248,129	-	-	-	-
Other payables	3,225,945	-	-	-	-
Bonds payable	-	3,000,000	1,000,000	-	-
Long-term borrowings (including current portion)	4,249,725	-	-	-	-

<u>December 31, 2017</u>	<u>Up to 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 3 years</u>	<u>Between 3 and 5 years</u>	<u>Over 5 years</u>
Short-term borrowings	\$ 275,784	\$ -	-	\$ -	-
Notes payable	188,734	-	-	-	-
Accounts payable	4,597,027	-	-	-	-
Other payables	3,266,045	-	-	-	-
Bonds payable	-	-	3,000,000	1,000,000	-
Long-term borrowings (including current portion)	3,090,794	-	-	-	-

- iv. As of December 31, 2017, the derivative financial liabilities which were executed by the Company were all due within one year.

(3) Fair value information

- A. Details of the fair value of the Company's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A. Details of the fair value of the Company's investment property measured at cost are provided in Note 6(8).
- B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company's investment in listed stocks, beneficiary certificates and others is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Company's investment in derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Company's investment in derivative instruments is included in Level 3.

- C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 917,591	\$ -	\$ 918,199	\$ 1,835,790
Financial assets at fair value through other comprehensive income				
Equity securities	<u>5,976,234</u>	<u>-</u>	<u>7,227</u>	<u>5,983,461</u>
	<u>\$ 6,893,825</u>	<u>\$ -</u>	<u>\$ 925,426</u>	<u>\$ 7,819,251</u>
<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	<u>\$ 5,731,495</u>	<u>-</u>	<u>\$ 877,620</u>	<u>\$ 6,609,115</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	<u>\$ -</u>	<u>\$ 2,529</u>	<u>\$ -</u>	<u>\$ 2,529</u>

D. The methods and assumptions the Company used to measure fair value are as follows:

- (a) The instruments the Company used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Open-end fund</u>
Market quoted price	Closing price

- (b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques method can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).
- (c) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate.
- (d) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Company's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Company's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
- (e) The Company takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Company's credit quality.
- E. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.
- F. The following table presents the changes in level 3 instruments.

	Non-derivative equity	
	For the years ended December 31, 2018	For the years ended December 31, 2017
Beginning balance	\$ 877,620	\$ 914,778
Gains and losses recognized in profit or loss	10,938	-
Gain and loss recognized in other comprehensive income (Note)	( 24,886)	( 12,811)
Acquired during the year	61,754	-
Sold during the year	-	( 24,347)
Ending balance	<u>\$ 925,426</u>	<u>\$ 877,620</u>

- G. Finance and Accounting Department is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the source of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.
- H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement.

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity:					
Unlisted shares	\$ 925,426	Market comparable companies	Price to earnings ratio multiple	0.99~3.46	The higher the multiple and control premium, the higher the fair value
Private equity fund			Discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value

	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity:					
Unlisted shares	\$ 877,620	Market comparable companies	Price to earnings ratio multiple	1.13~3.42	The higher the multiple and control premium, the higher the fair value
Private equity fund			Discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value

J. The Company has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorized within Level 3 if the inputs used to valuation models have changed:

December 31, 2018						
			Recognized in profit or loss		Recognized in other comprehensive income	
			Favourable change	Unfavourable change	Favourable change	Unfavourable change
Input	Change					
Financial assets						
Equity instrument	Discount for lack of marketability	±5%	\$ 45,910	(\$ 45,910)	\$ 361	(\$ 361)
December 31, 2017						
			Recognized in profit or loss		Recognized in other comprehensive income	
			Favourable change	Unfavourable change	Favourable change	Unfavourable change
Input	Change					
Financial assets						
Equity instrument	Discount for lack of marketability	±5%	\$ -	\$ -	\$ 43,881	(\$ 43,881)

(4) Effects on initial application of IFRS 9, 'Financial instruments'

A. Summary of significant accounting policies adopted in 2017:

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

- They are financial assets held for trading. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term.



Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.

- ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- iii. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss.

(b) Available-for-sale financial assets

- i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.
- ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
- iii. They are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(c) Loans and receivables

i. Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

ii. Investment in debt instrument without active market

(i) Investments in debt instrument without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:

- a. Not designated on initial recognition as at fair value through profit or loss;
- b. Not designated on initial recognition as available-for-sale;
- c. Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(ii) On a regular way purchase or sale basis, investments in debt instrument without active



market are recognized and derecognized using trade date accounting.

- (iii) Investments in debt instruments without active market held by the Company are those time deposits with a short maturity period but do not qualify as cash equivalents, and they are measured at initial investment amount as the effect of discounting is immaterial.

(d) Impairment of financial assets

- i. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a Company of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Company of financial assets that can be reliably estimated.
- ii. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:
  - (i) Significant financial difficulty of the issuer or debtor;
  - (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
  - (iii) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
  - (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
  - (v) The disappearance of an active market for that financial asset because of financial difficulties;
  - (vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a Company of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the Company, including adverse changes in the payment status of borrowers in the Company or national or local economic conditions that correlate with defaults on the assets in the Company;
  - (vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
  - (viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- iii. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:
  - (i) Financial assets at amortized cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

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

- i. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.
- ii. Financial liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss.

(f) Financial guarantee contracts

Financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract is initially recognized at its fair value adjusted for transaction costs on the trade date. After initial recognition, the financial guarantee is measured at the higher of the initial fair value less cumulative amortisation and the best estimate of the amount required to settle the present obligation on each balance sheet date.

C. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

	Measured at fair value through profit or loss	Available- for-sale- equity	Measured at fair value through other comprehensive income-equity	Total	Retained earnings	Other equity
<b>IAS 39</b>	\$ -	\$ 6,609,115	\$ -	\$ 6,609,115	\$ 12,750,338	\$ 2,026,521
Transferred into and measured at fair value through profit	1,899,305	( 1,899,305)	-	\$ -	689,725	( 689,725)
Transferred into and measured at fair value through other comprehensive income-equity	-	( 4,709,810)	4,709,810	-	1,247,396	( 1,247,396)
Impairment loss adjustment	-	-	-	-	-	-
<b>IFRS 9</b>	<u>\$ 1,899,305</u>	<u>\$ -</u>	<u>\$ 4,709,810</u>	<u>\$ 6,609,115</u>	<u>\$ 14,687,459</u>	<u>\$ 89,400</u>

(a) Under IAS 39, because the equity instruments, which were classified as available-for-sale financial assets amounting to \$4,709,810, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)" amounting to \$4,709,810, which resulted to a decrease in other equity interest and increase in retained earnings in the amounts of \$1,247,396 and \$1,247,396 on initial application of IFRS 9, respectively.

(b) Under IAS 39, the equity instruments, which were classified as available-for-sale financial assets amounting to \$1,899,305, were reclassified as "financial assets at fair value through profit or loss (equity instruments)" amounting to \$1,899,305, which resulted to a decrease in other equity interest and increase in retained earnings in the amounts of \$689,725 and \$689,725 under IFRS 9, respectively.

D. The significant accounts as of December 31, 2017 and for the year ended December 31, 2017 are as follows:

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

Items	December 31, 2017
Current items:	
Financial assets held for trading	
Financial assets not for hedging	\$ 2,529

i. The Company recognized net loss amounting to \$2,529 on financial assets held for trading for the year ended December 31, 2017.

- ii. The non-hedging derivative instruments transaction and contract information are as follows:

<u>Financial instruments</u>	<u>Maturity date</u>	<u>December 31, 2017</u>	
		<u>Contract amount</u> <u>(Notional principal)</u>	<u>Fair value</u>
Forward foreign exchange contracts			
SELL USD/BUY JPY	2018.02.02	JPY 300,000,000	(\$ 213)
SELL EUR/BUY USD	2018.02.01	EUR 3,000,000	( 2,316)
			(\$ 2,529)

- iii. The Company entered into forward foreign exchange contracts to hedge exchange rate risk of foreign currency financing and export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

(b) Available-for-sale financial assets

<u>Items</u>	<u>December 31, 2017</u>
Non-current items :	
Listed stocks	\$ 5,839,708
Emerging stocks	407,234
Unlisted shares	596,469
	6,843,411
Valuation adjustment of available-for-sale financial assets	3,280,754
Accumulated impairment	( 394,039)
	\$ 6,609,115

- A. The Company recognized \$1,133,547 in other comprehensive income for fair value change and reclassified \$25,874 from equity to profit or loss for the year ended December 31, 2017.
- B. The Company has no available-for-sale financial assets pledged to others .
- E. Credit risk information for the year ended December 2017 are as follows:
- (a) Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including

outstanding receivables. Only banks and financial institutions with optimal credit ratings are accepted.

- (b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Company's Credit Quality Control Policy:

	December 31, 2017
Group 1	\$ 867,482
Group 2	220,456
Group 3	145,746
Group 4	111,588
Group 5	71,119
	<u>\$ 1,416,391</u>

Company 1: Clients without substantial risk, such as government institutions and listed Companies.

Company 2: Clients with extremely low risk, which have excellent reputation and prospect, as ratified by the director of credit management of the Company.

Company 3: Clients with low risk, which operate well and have had business relationships with the Company for many years with normal payment condition.

Company 4: Clients with risk at an acceptable level, where the Company shall monitor their credit condition regularly.

Company 5: Clients with fewer transactions with the Company, which have lower transaction amounts and their management shall be continuously monitored.

- (d) The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	December 31, 2017
Up to 30 days	\$ 110,434
31 to 90 days	41,644
91 to 180 days	13,060
Over 180 days	275,339
	<u>\$ 440,477</u>

The above ageing analysis was based on past due date.

- (e) Movement analysis of financial assets that were impaired is as follows:

- i. As of December 31, 2017 the Company's impaired notes and accounts receivable amounted to \$27,484.

ii. Movements on allowance for uncollectible accounts are as follows:

	2017		
	Individual provision	Group provision	Total
At January 1	\$ 25,250	\$ 5,972	\$ 31,222
Gains on doubtful debt recoveries during the period	-	(3,738)	(3,738)
At December 31	<u>\$ 25,250</u>	<u>\$ 2,234</u>	<u>\$ 27,484</u>

(5) Effects of initial application of IFRS 15

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below:

(a) Sales of goods

- i. The Company manufactures and sells various types of mechanical equipment, air-conditioning units and electronic equipment products. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods is recognized when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.
- ii. The Company offers customers volume discounts and right of return for defective products. The Company estimates such discounts and returns based on historical experience. Provisions for such liabilities are recorded when the sales are recognized. The volume discounts are estimated based on the anticipated annual sales quantities.

(b) Sales of services

The Company provides products repair services. Revenue from delivering services is recognized under the percentage-of-completion method when the outcome of services provided can be estimated reliably. The stage of completion of a service contract is measured by the percentage of the actual services performed as of the financial reporting date to the total services to be performed. If the outcome of a service contract cannot be estimated reliably, contract revenue should be recognized only to the extent that contract costs incurred are likely to be recoverable.

(c) Construction revenue

If the result of a construction contract can be estimated reliably and it is probable that this



contract would make a profit, contract revenue and cost should be recognized by reference to the stage of completion of the contract activity in the end of the reporting period in revenue and expense.

(d) A sale agreement comprising of multiple components

A sale agreement offered by the the Company might comprise of multiple components, including sale of goods and subsequent maintenance services, etc. If a sale agreement comprises of multiple identifiable components, the fair value of the consideration received or receivable in respect of the sale agreement is allocated among those components based on the relative fair value of each component. The amount of proceeds allocated to each component is recognized as revenue in profit or loss following the revenue recognition criteria applied to each component. The fair value of each component is determined by its market value when it is sold separately.

(e) Construction contracts

- i. IAS 11, 'Construction Contracts', defines a construction contract as a contract specifically negotiated for the construction of an asset. If the outcome of a construction contract can be estimated reliably and it is probable that this contract would make a profit, contract revenue is recognized by reference to the stage of completion of the contract activity, using the percentage-of-completion method of accounting, over the contract term. Contract costs are expensed as incurred. The stage of completion of a contract is measured by the proportion of contract costs incurred for work performed up to the balance date to the estimated total costs for the contract. An expected loss where total contract costs will exceed total contract revenue on a construction contract should be recognized as an expense as soon as such loss is probable. If the outcome of a construction contract cannot be estimated reliably, contract revenue should be recognized only to the extent of contract costs incurred that are likely to be recoverable.
- ii. Contract revenue should include the revenue arising from variations from the original contract work, claims and incentive payments that are agreed by the customer and can be measured reliably.
- iii. The excess of the cumulative costs incurred plus recognized profits (less recognized losses) over the progress billings on each construction contract is presented as an asset within 'receivables from customers on construction contracts'. While, the excess of the progress billings over the cumulative costs incurred plus recognized profits (less recognized losses) on each construction contract is presented as a liability within 'payables to customers on construction contracts'.

- B. The revenue recognized by using above accounting policies for the year ended December 31 and for the nine-month period ended September 30, 2017 are as follows:

		For the year ended December 31, 2017
Sales of goods	\$	18,316,697
Sales of services		329,645
Construction contract revenue		2,654,866
	\$	<u>21,301,208</u>

- C. The construction contract receivable/payable recognized by using above construction contract accounting policies for the year ended December 31, 2017 are as follows:

		December 31, 2017
Aggregate costs incurred plus recognized profits (less recognized losses)	\$	12,838,960
Less: Progress billings	(	12,166,955)
Net balance sheet position for construction in progress	\$	<u>672,005</u>
Presented as:		
Construction contracts receivable	\$	836,338
Construction contracts payable	(	164,333)
	\$	<u>672,005</u>

- D. The effects and description of current balance sheet and comprehensive income statement if the Company continues adopting above accounting policies for the year ended December 31, 2018 are as follows:

Balance sheet items	Description	December 31, 2018		
		Balance by using IFRS 15	Balance by using previous accounting policies	Effects from changes in accounting policies
Construction contracts receivable		\$ -	\$ 1,074,420	(\$ 1,074,420)
Contract assets		1,074,420	-	1,074,420
Contract liabilities		( 356,457)	-	( 356,457)
Construction contracts payable		-	( 219,308)	219,308
Sales revenue received in advance		-	( 137,149)	137,149

There is no significant impact to the comprehensive income statement if the Company continues adopting above accounting policies for the year ended December 31, 2018.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

- A. Loans to others: Please refer to table 1.



- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: Please refer to table 4
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 6
- I. Trading in derivative financial instruments undertaken during the reporting periods ended: Please refer to Notes 6(11).
- J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 8.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 9.
- B. Significant transactions, either directly or indirectly through a third party, transactions with the investee companies in Mainland Area: Please refer to table 10.

14. SEGMENT FINANCIAL INFORMATION

Not applicable

## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

## Loans to others

For the year ended December 31, 2018

Table 1

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Creditor	Borrower	General ledger account	Related party	December 31, 2018	Balance at December 31, 2018 (Note 9)	Actual amount drawn down	Interest rate (%)	Nature of loans	Amount of transactions with the borrower	Reason for short-term financing capital	Allowance for doubtful accounts	Collateral			Footnote	
													Item	Value	Limit on loans granted to a single party		Ceiling on total loans granted
0	TECO ELECTRIC & MACHINERY CO., LTD.	Xiamen An-Tai	Other receivables	Yes	\$ 92,865	\$ 92,145	\$ 27,644	2.3	Short-term financing	\$ -	For operating capital	\$ -	-	\$ -	\$ 1,610,360	\$ 5,367,866	Note 2
0	TECO ELECTRIC & MACHINERY CO., LTD.	QingDao Teco	"	"	139,971	133,579	133,579	3.5	Short-term financing	-	For operating capital	-	-	-	1,610,360	5,367,866	Note 2
1	CO LTD U.V.G.	Teco Netherlands	"	"	253,680	246,400	246,400	1.5	Short-term financing	-	For operating capital	-	-	-	450,722	751,203	Note 3
2	Tai-An Wuxi	Fujian Teco	"	"	11,715	-	-	-	Short-term financing	-	For operating capital	-	-	-	64,978	129,957	Note 4
3	Teco Westinghouse	TWMM	"	"	67,012	67,012	43,922	2.51~ 3.53	Short-term financing	-	For operating capital	-	-	-	768,918	1,537,837	Note 5
3	Teco Westinghouse	TECO ELECTRIC & MACHINERY CO., LTD.	"	"	309,550	309,550	307,150	1.1	Short-term financing	-	For operating capital	-	-	-	768,918	1,537,837	Note 5
4	Tong-An Assets	TECO ELECTRIC & MACHINERY CO., LTD.	"	"	280,000	200,000	200,000	1.05	Short-term financing	-	For operating capital	-	-	-	525,281	525,281	Note 6
5	Motovario S.p.A.	CO., LTD. Motovario S.A (Spain)	"	"	162,536	-	-	-	Short-term financing	-	For operating capital	-	-	-	212,194	424,388	Note 7

Number (Note 1)	Creditor	Borrower	General ledger account	Related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018 (Note 9)	Actual amount drawn down	Interest rate (%)	Nature of loans	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Footnote
													Item	Value	
6	Baycom	Tecom	"	"	40,000	-	-	-	Short-term financing	-	Repayments of debt	-	-	-	Note 8
														46,182	92,365
														granted	granted
														total loans	total loans
														Limit on	Limit on
														loans	loans
														granted to a	granted to a
														single party	single party
														Value	Value
														Item	Item
														Allowance	Allowance
														for	for
														doubtful	doubtful
														accounts	accounts
														Amount of	Amount of
														transactions	transactions
														with the	with the
														borrower	borrower
														Nature of	Nature of
														loans	loans
														Short-term	Short-term
														financing	financing
														Repayments	Repayments
														of debt	of debt

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1) The Company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: In accordance with the Company's policy, limit on total loans shall not exceed 10% of the Company's net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 3% of the Company's net assets based on the latest financial statements (December 31, 2018).

Note 3: In accordance with U.V.G.'s policy, limit on total loans shall not exceed 10% of U.V.G.'s net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 6% of U.V.G.'s net assets based on the latest financial statements (December 31, 2018).

Note 4: In accordance with Tai-An Wuxi's policy, limit on total loans shall not exceed 10% of Tai-An Wuxi's net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 5% of Tai-An Wuxi's net assets based on the latest financial statements (December 31, 2018).

Note 5: In accordance with Teco Westinghouse's policy, limit on total loans shall not exceed 20% of Teco Westinghouse's net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 10% of Teco Westinghouse's net assets based on the latest financial statements (December 31, 2018).

Note 6: In accordance with Tong-An Assets' policy, limit on total loans shall not exceed 10% of Tong-An Assets' net assets based on the latest audited financial statement (December 31, 2018), and limit on loans to a single party shall not exceed 10% of Tong-An Assets' net assets based on the latest audited financial statement (December 31, 2018).

Note 7: In accordance with Motovario S.p.A.'s policy, limit on total loans shall not exceed 10% of Motovario S.p.A.'s net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 5% of Motovario S.p.A.'s net assets based on the latest financial statements (December 31, 2018).

Note 8: According to the policy of the Tecom subsidiaries, limit on loans to Baycom is 20% of the granting company's net assets based on the latest audited financial statements (December 31, 2018); limit on loans to a single party is 10% of the granting company's net assets based on the latest audited financial statements (December 31, 2018).

Note 9: The credit line approved by the Board of Directors.

## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

Provision of endorsements and guarantees to others  
For the year ended December 31, 2018

Table 2

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Company name	Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company (%)	Ceiling on total amount of endorsements/ guarantees provided	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements / guarantees to the party in Mainland China	Footnote
0	TECO ELECTRIC & MACHINERY CO., LTD.	TECO Smart Technologies Co., Ltd.	(2)	\$ 10,735,732	\$ 100,000	\$ 100,000	\$ -	0.19	\$ 32,207,196	Y	N	N	Note 3
0	TECO	Teco International	(2)	10,735,732	100,000	100,000	-	0.19	32,207,196	Y	N	N	"
0	TECO ELECTRIC & MACHINERY CO., LTD.	Motovario S. P. A.	(2)	10,735,732	2,763,662	2,078,208	-	3.87	32,207,196	Y	N	N	"
0	TECO ELECTRIC & MACHINERY CO., LTD.	Others	(2),(5),(6)	10,735,732	4,118,437	74,586	-	0.14	32,207,196	Y	N	N	"
1	Teco Westinghouse	TWMM	(4)	768,918	26,193	7,320	-	0.10	1,537,837	Y	N	N	Note 4
2	Motovario S.p.A.	TECNOFIB SRL	(1)	848,775	576	498	-	0.01	2,546,325	N	N	N	Note 5
3	Yatec Engineering Corporation	Yatec Engineering (VN) Company Limited	(4)	89,209	32,321	32,321	-	14.49	178,418	Y	N	N	Note 6
4	Century Development	CDC DEVELOPMENT INDIA PRIVATE LIMITED	(6)	436,241	211,291	211,291	-	4.84	872,481	Y	N	N	Note 7

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1) The Company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.



Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories:

- (1) Having business relationship.
- (2) The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.
- (3) The endorsed/guaranteed company owns directly and indirectly more than 50% voting shares of the endorser/guarantor parent company.
- (4) The endorser/guarantor parent company owns directly and indirectly more than 90% voting shares of the endorsed/guaranteed company.
- (5) Mutual guarantee of the trade as required by the construction contract.
- (6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.
- (7) Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

Note 3: In accordance with the Company's policy, the total guarantee amount shall not exceed 60% of Company's net assets based on the latest financial statements (December 31, 2018), and the guarantee to a single party shall not exceed 20% of the

Note 4: In accordance with the Teco Westinghouse's policy, the total guarantee amount shall not exceed 20% of Teco Westinghouse's net assets based on the latest financial statements (December 31, 2018), and the guarantee to a single party shall not

Note 5: In accordance with Motovario S.p.A.'s policy, the total guarantee amount shall not exceed 60% of Motovario S.p.A.'s net assets based on the latest financial statements (December 31, 2018), and the guarantee to a single party shall not exceed

Note 6: In accordance with Yatec Engineering Corporation's policy, the total guarantee amount shall not exceed 80% of Yatec Engineering Corporation's net assets based on the latest financial statements (December 31, 2018), and the guarantee to a

Note 7: In accordance with Century Development's policy, the total guarantee amount shall not exceed 20% of Century Development's net assets based on the latest financial statements (December 31, 2018), and the guarantee to a single party shall not exceed 10% of Century Development's net assets. If the guarantee amount is denominated in foreign currency, the amount shall be translated at the exchange rate prevailing on the date of approval by the Board of Directors to assess

## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2018

Table 3

Expressed in thousands of NTD  
(Except as otherwise indicated)

Securities held by TECO ELECTRIC & MACHINERY CO., LTD.	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018			Ownership (%)	Fair value	Footnote
				Number of shares	Book value				
	Stock 1	The Company is a director of the investee	Note 1	190,061	\$ 5,806,351		3.38	\$ 5,806,351	
	Stock 2	None	"	9,610	93,411		0.10	93,411	
	Stock 3, etc.	The Company is a director of the investee	"	5,098	83,700		-	83,700	
	Stock 4	None	Note 4	10,084	113,449		0.08	113,449	
	Stock 5	The Company is a director of the investee	"	11,527	288,762		1.96	288,762	
	Stock 6	None	"	47,839	382,711		1.98	382,711	
	Stock 7	"	"	2,710	18,699		0.06	18,699	
	Stock 8	The Company is a director of the investee	"	32,980	308,552		10.99	308,552	
	Stock 9, etc.	None	"	7,500	314,775		5.00	314,775	
	Stock 10, etc.	"	"	43,654	233,757		-	233,757	
	Fund 1, etc.	"	"	-	175,084		-	175,084	
Teco International	Stock 11	"	Note 1	275	51,700		0.20	51,700	
	Stock 12, etc.	"	"	13,715	267,455		-	267,455	
	Stock 13, etc.	"	Note 3	4,589	197,350		-	197,350	
	Stock 10, etc.	"	Note 2	665	27,698		-	27,698	
Tong-an Investment	Stock 14	An investee company accounted by the Company using equity method	Note 1	19,540	340,974		0.98	340,974	
	Stock 15	Related party in substance	"	9,197	128,751		8.17	128,751	
	Stock 16	None	"	8,502	649,549		0.26	649,549	
	Stock 17	"	"	1,285	136,853		0.04	136,853	
	Stock 11	The Company is a director of the investee	"	14,050	2,641,400		10.03	2,641,400	
	Stock 18	None	"	555	78,243		2.25	78,243	
	Stock 19, etc.	"	"	26,166	309,656		-	309,656	
	Stock 11, etc.	"	Note 2	5,228	387,460		-	387,460	
	Stock 20, etc.	"	Note 3	15,145	698,071		-	698,071	
	Fund 2, etc.	"	Note 2	-	14,494		-	14,494	
	Fund 3, etc.	"	Note 4	-	37,453		-	37,453	
U.V.G	Stock 21, etc.	"	Note 1	118	5,723		-	5,723	
An-Tai International	Stock 14	An investee company accounted by the Company using equity method	"	2,826	49,309		0.14	49,309	
	Stock 15	Related party in substance	"	1,270	17,782		1.13	17,782	
	Stock 19	"	"	2,756	178,568		8.51	178,568	
	Stock 22	None	"	195	8,986		-	8,986	
	Stock 23, etc.	"	Note 3	1,545	68,930		-	68,930	
	Stock 10, etc.	"	Note 2	170	7,990		-	7,990	
	Fund 4, etc.	"	Note 2	-	30,811		-	30,811	
Jie-Zheng Property	Stock 15	Related party in substance	Note 1	200	2,803		0.18	2,803	
Teco Electro	Stock 15	None	"	3,238	32,488		-	32,488	
Information Technology	Stock 24, etc.								

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
Teco Singapore	Stock 11, etc.	"	"	304	\$ 58,031	-	\$ 58,031	
Taiwan Pelican express	Stock 11, etc.	"	"	459	86,292	-	86,292	
Teco Australia	Stock 11	"	"	460	86,896	0.33	86,896	
Teco Nanotech	Stock 15	Related party in substance	"	81	1,127	0.07	1,127	
	Fund 5	None	Note 2	62	11,036	-	11,036	
Sankyo	Stock 25	"	Note 1	68	5,959	-	5,959	
Tecom	Stock 2	"	"	2,175	21,144	0.02	21,144	
	Stock 1	The Company is a corporate director of the investee	"	16,222	495,585	0.29	495,585	
Tecom International	Stock 29	None	Note 3	3,354	31,560	1.69	31,560	
	Stock 30, etc.	"	Note 1	758	680	-	680	
	Fund 6	"	Note 2	1,735	18,879	-	18,879	
Top-Tower	Stock 14	An investee company accounted by the Company using equity method	Note 3	77	1,348	-	1,348	
	Stock 31, etc.	None	"	3	40	-	40	

Note 1: Available-for-sale financial assets - non-current.

Note 2: Financial assets at fair value through profit or loss - current.

Note 3: Available-for-sale financial assets - current.

Note 4: Financial assets at fair value through profit or loss - non-current.

## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more

For the year ended December 31, 2018

Table 4

Expressed in thousands of NTD  
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction			Differences in transaction terms compared to third party transactions			Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
TECO ELECTRIC & MACHINERY	Tesen	An investee accounted for under the equity method	Purchases	2,270,807	14%	30 days	Note	Note			
	Taian Subic	"	"	189,986	1%	"	"	"	( 60,289)	(1%)	
	Kuen Ling	"	"	191,610	1%	"	"	"	( 152,966)	(3%)	
	Tai-An Wuxi	An indirect investee accounted for under the equity method	"	521,565	3%	"	"	"	( 36,917)	(1%)	
	Wuxi Teco	"	"	1,118,801	7%	"	"	"	( 406,218)	(9%)	
	Qing Dao Teco	"	"	670,305	4%	"	"	"	( 54,176)	(1%)	
	Teco Industrial (Malaysia) Sdn. Bhd.	"	"	424,788	3%	"	"	"	( 75,318)	(2%)	
	Jiangxi Teco	"	"	146,972	1%	"	"	"	( 24,504)	(1%)	
	Genmao Electronics (Suzhao)	"	"	121,540	1%	"	"	"	-	-	
	Taian Shen Electric Co., Ltd.	An investee accounted for under the equity method	Sales	( 206,950)	(1%)	90 days	"	"	25,409	1%	
	E-Joy International	"	"	( 169,524)	(1%)	"	"	"	-	-	
	Tong Dai	"	"	( 957,327)	(5%)	"	"	"	203,900	6%	
	Tong Tai Jung	"	"	( 697,700)	(3%)	"	"	"	179,604	5%	
	Teco Singapore	An indirect investee accounted for under the equity method	"	( 776,836)	(4%)	"	"	"	157,105	4%	
	Teco Westinghouse	"	"	( 3,479,182)	(17%)	"	"	"	374,166	11%	
	Teco Westinghouse Canada	"	"	( 806,834)	(4%)	"	"	"	71,701	2%	
	Teco Australia	"	"	( 1,110,099)	(5%)	"	"	"	210,585	6%	
	Top-Tower	"	"	( 312,742)	(1%)	"	"	"	75,357	2%	
	Motovario S.P.A.	"	"	( 206,672)	(1%)	"	"	"	129,778	4%	

Note: Comparable with other types of transactions, trading conditions are handled in accordance with the agreement of the conditions.



## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

Receivables from related parties reaching \$100 million or 20% of paid-in capital or more  
December 31, 2018

Table 5

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Overdue receivables		Amount collected subsequent to the balance sheet date	Expressed in thousands of NTD (Except as otherwise indicated)
				Turnover rate	Amount		
TECO ELECTRIC & MACHINERY CO., LTD.	Tong Dai	An investee accounted for under the equity method	\$ 204,029	4.59	\$ -	\$	83,748
"	Tong Tai Jung	"	180,115	3.85	-	-	63,827
"	Teco Singapore	"	157,446	5.95	-	-	139,288
"	Teco Westinghouse	An indirect investee accounted for under the equity method	374,289	8.29	-	-	349,870
"	QingDao Teco	"	269,250	0.03	-	-	942
"	Wuxi Teco	"	103,173	0.36	-	-	6,312
"	Teco Australia	"	213,722	4.21	-	-	92,599
"	Sankyo	"	221,618	0.39	178,201	In the process of collection	16,412
"	Teco Netherlands	"	327,132	0.20	280,930	"	8,762
"	Teco Westinghouse Canada	"	71,701	7.54	-	-	61,744
"	Motovario S. P. A.	"	172,814	1.96	-	-	24,653
Kuen Ling	TECO ELECTRIC & MACHINERY CO., LTD.	An investee accounted for under the equity method	152,966	2.11	-	-	19,541
Tong-An Assets	"	"	212,563	-	-	-	-
Teco Westinghouse	"	An indirect investee accounted for under the equity method	307,150	-	-	-	12,953
Wuxi Teco	"	"	406,218	1.92	-	-	158,245
U.V.G.	Teco Netherlands	"	246,400	-	-	-	-
							Total amount was \$18,245

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES  
Significant inter-company transactions during the reporting period  
For the year ended December 31, 2018

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 6

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	TECO ELECTRIC & MACHINERY CO., LTD.	Tong Dai	(1)	Notes receivable, accounts receivable and other receivables	\$ 204,029	Because there is no transaction in same type which can be compared with, it is based on the condition and the period specified in the agreement.	-
0	"	Tong Tai Jung	"	"	180,115	"	-
0	"	Teco Westinghouse	"	Accounts receivable and other receivables	374,289	"	-
0	"	QingDao Teco	"	"	269,250	"	-
0	"	Teco Australia	"	"	213,722	"	-
0	"	Teco Netherlands	"	"	327,132	"	-
0	"	Sankyo	"	"	221,618	"	-
0	"	Teco Singapore	"	"	157,446	"	-
0	"	Wuxi Teco	"	"	103,173	"	-
0	"	Motovario S. P. A.	"	"	172,814	"	-
1	Wuxi Teco	TECO ELECTRIC & MACHINERY CO., LTD.	(2)	Accounts receivable	406,218	"	-
2	Tong-An Assets	"	"	Other receivables	212,563	"	-
3	Teco Westinghouse	"	"	"	307,150	"	-
4	U.V.G	Teco Netherlands	(3)	"	246,400	"	-
0	TECO ELECTRIC & MACHINERY CO., LTD.	Teco westinghouse	(1)	Sales	3,479,182	"	7%
0	"	Teco Westinghouse Canada	"	"	806,834	"	2%
0	"	Teco Singapore	"	"	776,836	"	2%
0	"	Tong Dai	"	"	957,327	"	2%
0	"	Tong Tai Jung	"	"	697,700	"	1%
0	TECO ELECTRIC & MACHINERY CO., LTD.	Teco Australia	"	"	1,110,099	"	2%
0	"	Top-Tower	"	"	312,742	"	1%
0	"	E-Joy International	"	"	169,524	"	-
0	"	Motovario S. P. A.	"	"	206,672	"	-
5	Tesen	TECO ELECTRIC & MACHINERY CO., LTD.	(2)	"	2,270,807	"	5%

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
6	Tai-An Wuxi	TECO ELECTRIC & MACHINERY CO., LTD.	(2)	Sales	\$ 521,565	Because there is no transaction in same type which can be compared with, it is based on the condition and the period specified in the agreement.	1%
1	Wuxi Teco	"	"	"	1,118,801	"	2%
2	QingDao Teco	"	"	"	670,305	"	1%
7	Teco Malaysia	"	"	"	424,788	"	1%
8	Taian Subic	"	"	"	189,986	"	-
9	Jiangxi Teco	"	"	"	146,972	"	-

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship with the transaction company:

(1) The parent company to the subsidiary.

(2) The subsidiary to the parent company.

(3) The subsidiary to another subsidiary.

Note 3: Regarding percentage of transaction amount to total operating revenues or total assets, it is computed based on period-end balance of transaction to total assets for balance sheet accounts and based on accumulated transaction amount for the period to total operating revenues for income statement accounts.

## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

## Information on investees

For the year ended December 31, 2018

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 7

Investor	Investee	Location	Main business activities	Initial investment amount			Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017		Number of shares	Ownership (%)	Book value			
TECO ELECTRIC & MACHINERY CO., LTD.	Tung Pei	Taiwan	Manufacturing of bearings	\$ 12,293	\$ 12,293		39,145,044	31.14	\$ 2,087,582	\$ 561,598	\$ 174,843	None
	Tecom	Taiwan	Manufacturing of key telephone system and monkey service unit telephone system	431,109	631,410		200,301,025	63.52	209,755 (	46,435) (	29,068)	None 1
	Teco International	Taiwan	Investment holdings, investments in securities and construction of commercial buildings	100,013	100,013		57,533,521	100	1,064,316	34,515	34,280	None
	Teco Holdings and its subsidiaries	U.S.A	Manufacturing and distribution of motors and generators, and investment and trading in USA	726,428	726,428		1,680	100	9,858,588	576,103	576,350	None
	Teco Singapore and its subsidiaries	Singapore	Distribution of the Company's motor products in Singapore	112,985	112,985		7,200,000	90	3,302,731	173,316	137,869	None
	Tong-An	Taiwan	Investment holdings	2,490,000	2,490,000		444,134,422	99.60	7,997,267	182,276	181,547	None
	Teco Electro	Taiwan	Manufacturing of Stepping	128,496	128,496		15,386,949	62.57	241,857	26,550	16,704	None
	UVG and its subsidiaries	Cayman Islands	Manufacturing and distribution of the Company's motor products and home appliances, and investment holdings	8,505,434	8,505,434		195,416,844	100	7,489,862	246,687	247,200	None
	Information Technology Service	Taiwan	E-business service, mailing and data management	121,232	121,232		111,723,248	57.64	161,139	45,197	27,195	None
	Tesen	Taiwan	Manufacturing and sales of home appliance	200,000	200,000		20,000,000	100	216,783	19,179	17,823	None

Initial investment amount				Shares held as at December 31, 2018				Investment income (loss) recognized by the Company for the year ended December 31, 2018			Footnote	
Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018	2018		
TECO ELECTRIC & MACHINERY CO., LTD.	Lien Chang	Taiwan	Manufacturing of color flybacks transformers, mono flyback transformers and mono deflection yokes	\$ 117,744	\$ 117,744	37,542,159	33.84	\$ 440,000	189,823	(\$ 64,244)	None	
	Tong Dai	Taiwan	Distribution of the Company's motor products in Taichung	22,444	22,444	5,290,800	92.63	262,353	62,121		57,540	None
	Teco Vietnam	Vietnam	Manufacturing and sales of motors	352,252	264,111	20,405,297	100	337,986	2,034		2,108	None
	Yatec	Taiwan	Development and maintenance of various electric appliances	92,389	92,389	7,799,996	64.95	144,794	21,328		13,903	None
	Tong-An Assets	Taiwan	Real estate business	2,111,889	2,111,889	388,423,711	100	5,252,807	56,566		56,566	None
	Taian Subic	Philippines	Manufacturing and sales of switches	165,819	165,819	17,131,155	76.70	169,000	10,574		7,809	None
	Micropac (BVI) and its subsidiaries	British Virgin Islands	Manufacturing and distribution of optical fiber apparatus and international trading	454,923	454,923	14,883,591	100	1,451,867	58,069		58,604	None
	Century Development	Taiwan	Development and management of industrial park	951,141	673,801	96,353,338	28.67	1,377,232	218,953		61,169	None
	An-Tai	Taiwan	Investment holdings	150,000	150,000	25,018,661	100	472,934	28,814		28,814	None
	Pelican	Taiwan	Logistics and distribution services	255,116	255,116	24,121,700	25.27	407,863	68,475		17,302	None
	Kuen Ling	Taiwan	Manufacturing, installation, repair, domestic and export sales and leasing of condenser, water cooling, watercooled chiller and freezer	230,541	296,003	13,408,642	17.61	347,255	214,794		41,264	None
	Taian-Etacom Technology Co., Ltd.	Taiwan	Bus bar and manufacturing of its components	70,330	70,330	7,033,000	84.73	141,071	28,529		24,174	None

Initial investment amount				Shares held as at December 31, 2018					Investment income (loss) recognized by the Company for the year ended December 31, 2018		Footnote
Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018		
TECO ELECTRIC & MACHINERY CO., LTD. Eagle Holding Co.	Eagle Holding Co.	Cayman Islands	Investment holdings	\$ 3,691,723	\$ 3,691,723	1	100	\$ 4,311,420	\$ 205,744	\$ 205,744	None
	TECO MOTOR B.V.	Netherlands	Investment holdings	3,691,723	3,691,723	1	100	4,311,420	205,744	205,744	None
	Motovario S.p.A	Italy	Production and sale of gear reducers and motors	3,989,850	3,989,850	18,010,000	100	4,311,420	205,744	205,744	None
	Tung Pei (SAMOA) Industrial Co., Ltd.	Samoa	Investment holdings and establishment of overseas distribution channel	646,343	646,343	23,031,065	100	1,529,147	85,640	85,640	None
Tecom	Tecom International	Taiwan	Investment holdings	100,000	100,000	12,000,000	100	241,425 (	752) (	752) (	None
Tong-An Investments	Baycom	Taiwan	Manufacturing and sales of optical telecom products	359,656	359,656	9,619,819	28.64	121,532 (	582) (	167) (	None
	Creative Sensor Inc.	Taiwan	Manufacturing and sales of electronic components	87,464	87,464	7,913,289	6.23	201,681	205,800	12,818	None
	Century Development	Taiwan	Development and management of industrial park	420,646	420,646	44,266,526	13.17	669,137	218,953	31,415	None
	Pelican	Taiwan	Logistics and distribution services	54,874	54,874	6,474,468	6.78	109,474	68,475	4,644	None
Lien Chang	Century Biotech Development Corp.	Taiwan	Development and construction of real estate	200,000	-	20,000,000	28.57	196,517 (	12,191) (	3,483) (	None
	Century Real Estate	Singapore	Investing in other areas	274,856	-	9,120,000	30	261,579 (	25,227) (	7,568) (	None
	Gen Mao	Taiwan	Investment holdings	92,000	92,000	11,720,000	100	133,786	8,637	8,637	None
	Gen Mao (Singapore)	Singapore	Investment holdings	582,246	582,246	27,502,354	84.97	714,974	67,051	47,029	None
Gen Mao International	Gen Mao (Singapore)	Singapore	Investment holdings	91,079	91,079	4,866,045	15.03	126,459	67,051	8,321	None
Century Development	Centurytech Construction and Management Corp.	Taiwan	Construction and sales of related raw materials	98,170	98,170	10,000,000	100	121,237 (	21,555) (	20,315) (	None
	Jack Property Service & Management	Taiwan	Building management servicing	13,750	13,750	1,512,500	50	66,838	30,817	15,470	None

Initial investment amount			Shares held as at December 31, 2018					Investment income (loss) recognized by the Company for the year ended December 31, 2018			Footnote
Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018		
Century Development	United Development	Taiwan	Investment consultancy service for domestic and foreign industrial parks and land	\$ 25,536	\$ 25,536	3,850,997	51.60	\$ 64,104	\$ 6,544	\$ 3,377	None
	Century Biotech Development Corp.	Taiwan	Development and construction of real estate	300,000	-	30,000,000	42.86	294,775	( 12,191)	( 5,225)	None
	Greyback International Property	Philippines	Housing project in Subic	9,912	9,912	144,600	30.11	10,838	35	11	None
	Century Real Estate (International) Pte. Ltd.	Singapore	Investing in other areas	365,820	30,070	12,160,000	40.00	348,773	( 25,227)	( 10,091)	None
Teco Electro	Teco Electro Devices Co., Ltd.	British Virgin Islands	Trading and investment holdings	88,108	88,108	2,510	100	120,885	17,878	18,248	None
Teco Singapore	Century Development	Taiwan	Development and management of industrial park	179,222	179,222	20,368,652	6.06	264,362	218,953	14,416	None
Teco International Kuen Ling	Creative Sensor Inc.	Taiwan	Manufacturing and sales of electronic components	52,560	52,560	4,326,447	3.41	110,265	205,800	7,008	None
	CHING CHI INTERNATIONAL LIMITED	British Virgin Islands	Investing in other areas	201,467	201,467	6,200,000	83	467,264	577	579	None
Tong-An Assets	Century Development	Taiwan	Leasing of real estate	184,893	184,893	16,301,644	4.85	211,511	218,953	11,534	None
	Century Biotech Development Corp.	Taiwan	Development and construction of real estate	200,000	-	20,000,000	28.57	196,517	( 12,191)	( 3,483)	None
	Century Real Estate (International) Pte. Ltd.	Singapore	Investing in other areas	274,856	-	9,120,000	30	261,579	( 25,227)	( 7,568)	None

Note 1: The Company has reduced capital by the ratio of 50% to offset losses.

## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

## Information on investments in Mainland China

For the year ended December 31, 2018

Table 8

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital \$	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
					Mainland China	Remitted to back to Taiwan							
Teco (Dong Guang)	Manufacturing and sales of air conditioners mechanical equipment	268,799	Note 2	\$ 188,139	\$ -	\$ -	\$ 188,139	\$ 5,486	100	\$ 5,486	\$ 139,614	\$ -	Note 15
Wuxi Teco	Manufacturing and sales of motors	1,697,276	Note 1	768,259	-	-	768,259	158,174	82.35	130,256	1,604,689	-	Note 15
Taian (Wuxi)	Manufacturing and sales of optical fiber	495,213	Note 11	205,551	-	-	205,551	62,625	100	62,625	1,299,537	-	Note 15
Nanchang Teco	Manufacturing and sales of home appliances	456,293	Note 3	456,293	-	-	456,293	963	100	963	( 7,252)	-	Note 15
Jiangxi Teco	Manufacturing and sales of motors	1,481,569	Note 1	1,383,653	-	-	1,383,653	34,095	98.07	30,386	1,431,028	-	Note 15
QingDao Teco	Manufacturing and sales of dyes	947,331	Note 1	1,648,510	-	-	1,648,510	( 10,808)	87.6	( 9,468)	334,065	-	Note 15
Xiamen Teco	Sales of motors and home appliances	20,590	Note 3	20,590	-	-	20,590	1,705	100	1,705	28,437	-	Note 15
Xiamen An-Tai	Development, manufacturing and sales of LCD monitors. Plant rentals and related real estate	678,681	Note 3	467,577	-	-	467,577	( 12,824)	100	( 12,824)	258,457	-	Note 15



Investee in Mainland China	Main business activities	Paid-in capital \$	Investment method	Investment Note 1	Amount remitted from Taiwan to			Accumulated amount of remittance from Taiwan		Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018		Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
					Remitted to Mainland China	Remitted to Taiwan for the year ended December 31, 2018	Remitted back to Taiwan	to Mainland China as of December 31, 2018	Net income of the year ended December 31, 2018						
Teco Han Zou	Development and consulting of device products	9,837		Note 1	\$	\$	\$	\$	\$	100	\$	\$	\$	-	Note 15
Teco Century	Manufacturing and sales of compressor	680,938		Note 3				340,469	( 2,137)	100	( 513)	30,450		-	Note 16
Fujian Teco	Manufacturing and sales of electronic components	391,843		Note 1				391,843	( 11,051)	100	( 11,051)	73,394		-	Note 16
Ecoelectric International Teco (Tianjin)	Distribution of air conditioner	24,004		Note 2				-	( 23,447)	39.9	( 9,355)	( 5,414)		-	Note 16
Innovation Teco (Jiang Xi)	Central China area Operation center	15,990		Note 3				15,990	88	100	88	14,799		-	Note 15
	Manufacturing and sales of air conditioning mechanical equipment	79,813		Note 3				79,813	7,150	100	7,150	126,712		-	Note 15
Teco Sichuan Trading	Sales of home appliances	26,522		Note 11				-	768	100	768	7,408		-	Note 15
Jiangxi Teco- Lead	Manufacturing and sales of wind generator	141,079		Note 1				-	( 1,184)	45	( 2,566)	971		-	Note 16
Qingdao Teco Innovation	Science Park development and business operations and consulting services	59,444		Note 13				-	510	100	510	33,337		-	Note 16
Shanghai Teco	Sales of home appliances	23,829		Note 1				-	67,946	100	67,946	23,464		-	Note 15
Hunan TECO	Manufacturing, sales and technical services of 2.0 megawatt and above aerogenerator, wheel bay and other components	240,818		Note 11				-	( 2,476)	100	( 2,476)	158,099		-	Note 15
Wing Energy Limited	Manufacturing and sales of motors, winding and related parts	119,840		Note 12				-	8,498	100	8,498	119,819		-	Note 15
Jiangxi TECO Westinghouse Motor Coil Co., Ltd.	Production and sale of industrial motors and applications	656,500		Note 14				-	( 10,144)	100	( 10,144)	799,052		-	Note 15

Investee in Mainland China	Main business activities	Paid-in capital \$	Investment method	Investment 1, 2018	Accumulated amount of remitance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
Beijing Pelican Express	Storage services	26,422	Note 4	\$ 26,422	-	-	\$ 26,422	( 2,395)	100	( 2,395)	\$ 2,756	\$ -	Note 15
Fubon Gehua (Beijing) Trading Co., Ltd.	Merchandise wholesale	344,643	Note 5	24,746	-	-	24,746	-	1.63	-	-	-	Note 17,18
Wuhan Tecom	Communication network information, technology development, sales and technology services business	6,950	Note 6	6,950	-	-	6,950	( 4,450)	100	( 4,450)	2,560	-	Note 15
Tecom Tech (Wuxi)	R & D, manufacture of broadband access network communication system	485,455	Note 7	485,455	-	-	485,455	( 54)	100	( 54)	3,089	-	Note 15
Tecom Tech Investment (BVI)	to provide technology services Flat panel displays, IT products, printed circuit board	34,990	Note 8	34,990	-	-	34,990	-	100	-	-	-	Note 20
Beijing Tecom Innovation Technology Co., Ltd.	assembly, manufacture, testing Intelligent home systems and spare parts of the Internet of things, wholesale, import and export of goods and technology import and export, import and export agency, to provide technical advice, technical training and technical services	14,566	Note 8	14,566	-	-	14,566	436	100	436	221	-	Note 15
Information Technology (Wuxi)	ERP building, system maintenance and purchases of information appliance	10,167	Note 9	10,167	-	-	10,167	( 2,501)	100	( 2,501)	15,496	-	Note 15
Information Technology Total Service (Hang Zhou)	ERP building, system maintenance and purchases of information appliance	2,257	Note 9	2,257	-	-	2,257	( 303)	100	( 303)	132	-	Note 15
Information Technology Total Service (Xiamen)	ERP building, system maintenance and purchases of information appliance	1,000	Note 9	-	-	-	-	( 2,084)	100	( 2,084)	597	-	Note 15

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Accumulated amount of remittance from Taiwan to Mainland China		Amount remitted from Taiwan to Mainland China/Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of the investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018		Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
				2018	\$	2018	\$	2018	\$	2018	\$	2018	\$	2018	
Wuxi TECO Precision Industry Co. Ltd.	R&D, manufacturing and sales of motors and provide products sales skills	\$ 115,125	Note 10	\$ 86,101	\$ -	\$ -	\$ -	\$ 86,101	\$ 17,878	100	\$ 17,878	\$ 121,617	\$ -	\$ 43,266	Note 15

Note 1: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through United View Global Investment Co., Ltd. and Great Teco Motor (Pte) Ltd. and then invest in Mainland China.

Note 2: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through United View Global Investment Co., Ltd. and Asia Air Tech Industrial (Pte) Ltd. and then invest in Mainland China.

Note 3: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through United View Global Investment Co., Ltd. and Asia Electric & Machinery (Pte) Ltd. and then invest in Mainland China.

Note 4: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Pelecanus Express Pte. Ltd., and then invest in Mainland China.

Note 5: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Asian Crown International Co., Ltd., Fortune Kingdom Corporation and Hong Kong Fubon Multimedia Technology Co., Ltd. and then invest in Mainland China.

Note 6: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Tecom Global Tech Investment (B.V.I) Limited and then invest in Mainland China.

Note 7: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Tecom Global Tech Investment Pte Limited and then invest in Mainland China.

Note 8: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Tecom Tech Investment (B.V.I) Limited and then invest in Mainland China.

Note 9: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Information Technology Total Service (BVI) Co., Ltd. and then invest in Mainland China.

Note 10: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Teco Electro Devices Co., Ltd. and then invest in Mainland China.

Note 11: Through investing in investees in the third areas, which then invested in the investee in Mainland China: Invest through Micropac Worldwide (B.V.I) and then invest in Mainland China.

Note 12: Through investing in investees in the third areas, which then invested in the investee in Mainland China: Invest through Teco Holding USA Inc. and Teco Westinghouse Motor Company and then invest in Mainland China.

Note 13: Through investing in investees in the third areas, which then invested in the investee in Mainland China: Invested through Tecocapital Investment (Samoa) Co., Ltd. and then invest in Mainland China.

Note 14: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Great Teco Motor (Pte) Ltd., Teco Australia Pty. Ltd. and Teco Electric & Machinery (Pte) Ltd. and then invest in Mainland China.

Note 15: The amount recognized was based on the financial statements that were audited by R.O.C. parent company's CPA firm.

Note 16: The amount recognized was based on the financial statements that were audited by the other CPA firm.

Note 17: Financial assets at fair value through other comprehensive income.

Note 18: As of December 31, 2018, accumulated impairment of \$24,746 was accrued.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
TECO Electric & Machinery Co., Ltd.	\$ 6,487,880	\$ 8,713,487	\$ 35,094,549
Taiwan Pelican Express Co., Ltd.	51,168	51,168	968,526
Tecom Co., Ltd.	541,961	754,000	359,405
Information Technology Total	12,424	12,424	167,723
Services Co., Ltd.			
Teco Electro Devices Co., Ltd.	86,101	104,259	232,262

Note 1: The accounts of the Company are expressed in New Taiwan dollars. Income statement accounts denominated in foreign currencies are translated into New Taiwan dollars at the weighted average exchange rates prevailing at the transaction dates and balance sheet accounts at spot exchange rates prevailing at the transaction dates.

Note 2: The amount disclosed was based on Investment Commission, MOEA Regulation No. 09704604680 announced on August 29, 2008.

Note 3: Tecom completed the investment in Mainland China in the third quarter of 2010 and the ceiling on investments was \$1,760,251 which was calculated based on Tecom's net assets of \$2,933,752 in the third quarter of 2010.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES  
Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas  
For the year ended December 31, 2018

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 9

Investee in Mainland China	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements and guarantees		Financing		Interest during the year ended	
	Amount		Amount		Balance at December 31, 2018		Balance at December 31, 2018		Balance at December 31, 2018		December 31, 2018	
	%	%	%	%	%	%	Purpose	Maximum balance during the year ended December 31, 2018	Interest rate	Others		
Wuxi Teco	\$	42,211	-	-	13,902	-	-	\$	-	\$	-	-
Taian (Wuxi)		59,185	-	-	11,243	-	-		-		-	-
Jiangxi Teco		72,335	-	-	19,031	-	-		-		-	-
QingDao Teco		7,118	-	-	1,106	-	-	139,971	3.5%	133,579	4,649	-
Xiamen An-Tai		-	-	-	-	-	-	92,985	2.3%	92,145	1,373	-
Shanghai Teco		3,176	-	-	-	-	-	-	-	-	-	-
Xiamen Teco		161	-	-	-	-	-	-	-	-	-	-
Teco (Jiang Xi)		345	-	-	-	-	-	-	-	-	-	-
Wuxi Teco Precision		757	-	-	149	-	-	-	-	-	-	-
Wuxi Teco	(	1,118,801	(7%)	-	(	406,218	(9%)	-	-	-	-	-
Taian (Wuxi)	(	521,565	(3%)	-	(	36,917	(1%)	-	-	-	-	-
Jiangxi Teco	(	146,972	-	-	(	24,504	(1%)	-	-	-	-	-
QingDao Teco	(	670,305	(4%)	-	(	54,176	(1%)	-	-	-	-	-
Xiamen An-Tai	(	16,252	-	-	-	-	-	-	-	-	-	-
Teco (Jiang Xi)	(	32,498	-	-	(	12,489	-	-	-	-	-	-
Hunan TECO Wind	(	681	-	-	-	-	-	-	-	-	-	-
Wuxi Teco Precision	(	58,565	-	-	-	-	-	-	-	-	-	-

**TECO ELECTRIC & MACHINERY CO., LTD.  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT ACCOUNTANTS**

**DECEMBER 31, 2018 AND 2017**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To TECO Electric & Machinery Co., Ltd.

***Opinion***

We have audited the accompanying consolidated balance sheets of TECO Electric & Machinery Co., Ltd. and its subsidiaries (the “Group”) as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the audit reports of other independent accountants, as described in the Other matter section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

***Basis for opinion***

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (“ROC GAAS”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and audit reports of other independent accountants, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## ***Key audit matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

### ***Revenue recognition of export sales of heavy industrial products group***

#### Description

Refer to Note 4(34) of the consolidated financial statements for the accounting policies on revenue recognition and Note 14 for the segment financial information. The Group disclosed the financial information of heavy industrial products group and home electric appliance division in the segment financial information. Heavy industrial products group handles the manufacturing and sales of various machinery, equipment and motors. The sales revenue of the heavy industrial products group amounted to NT\$33,448,989 thousand, representing 66.76% of the consolidated total sales revenue for the year ended December 31, 2018. Aside from domestic sales in Taiwan, the customers of heavy industrial products group are from China, America, Southeast Asia and Europe and the sales terms vary for different customers. Thus, we consider the revenue recognition of export sales of heavy industrial products group as a key audit matter.

#### How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Obtained an understanding of and validated the internal controls over revenue recognition of export sales of heavy industrial products group to assess the effectiveness of the internal control process.



2. Validated selected samples of export sales revenue transactions of heavy industrial products group to confirm the existence of export sales revenue transactions.

### ***Impairment assessment of goodwill from the acquisition of Motovario S.p.A.***

#### Description

Motovario S.p.A. is headquartered in Italy, and is engaged in the manufacturing and sales of gear reducers and other power transmission equipment. Motovario S.p.A. is considered a minor cash-generating unit of the Group. As of December 31, 2018, the balance of goodwill was NT\$5,207,755 thousand. Refer to Note 6(10) of the consolidated financial statements for information of goodwill, Note 4(21) for the accounting policies on the impairment of non-financial assets and Note 5(2) for the uncertainty of the accounting estimate regarding impairment of goodwill. The Group assesses the impairment of goodwill using the recoverable amount generated from the cash flow forecast discounted using a reasonable discount rate.

The aforesaid recoverable amount includes several assumptions such as the discount rate used and the preparation of financial projections to estimate the cash flows for the next three years. The discount rate and financial projections relating to the future operations of Motovario S.p.A. are subject to management judgement which have a significant impact on the measurement of the recoverable amount, thus affecting the results of the impairment assessment. Accordingly, we consider management's impairment assessment of goodwill as a key audit matter.

#### How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Obtained an understanding and assessed the Group's policies and procedures in relating to the goodwill impairment assessment.
2. Assessed whether the future cash flows adopted in the valuation model was in accordance with Motovario S.p.A's operation plan, and reviewed the results of the previous operating plans prepared by management.
3. Evaluated the reasonableness of major assumptions (including the expected growth rate and

discount rate) used in the model.

4. Reviewed the sensitivity analysis for the above significant assumptions and parameters prepared by management and confirmed whether management has adequately addressed the possible impact of the estimation uncertainty on the impairment assessment.

***Reclassification from investments accounted for under equity method - subsidiaries into associates due to loss of control***

Description

Refer to Note 4(3) for accounting policies adopted when losing control over subsidiaries accounted for under equity method. As mentioned in Note 6(7) of the consolidated financial statements, Kuen Ling Machinery Refrigerating Co., Ltd. (“Kuen Ling”) was a subsidiary accounted for under equity method and included in the consolidated financial statements given a control over the Kuen Ling’s Board of Directors through 19.98% of equity previously held by the Group. However, based on the management’s assessment, the Group has lost control and yet still retained significant influence over the Board of Directors of Kuen Ling following the re-election of directors by shareholders held on May 23, 2018. On the same date, the investments in Kuen Ling were remeasured at fair value. Kuen Ling was then accounted for under equity method but no longer a consolidated entity thereafter. In addition, Kuen Ling does not meet the criteria of Level 1 fair value because of its small stock trading amounts although it is an OTC company based on the management’s assessment. Per management’s request, external experts valued its fair value to be Level 3. Given that significant judgements exercised by both the management and valuers’ pertaining to the valuation techniques and parameters in Level 3 significantly affect accounting treatment for losing control, we consider it as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Assessed the management’s judgements regarding the loss of control and yet still retaining significant

influence over the Board of Directors of Kuen Ling.

2. Confirmed that the valuation models, assumptions and parameters used by external experts are justified.
3. Assessed the relevance between the investments and the comparable companies used in the valuation report in terms of their business traits and financial information; reviewed referenced information and supporting documentation of the comparable companies.
4. Verified that the amount of gain on remeasurement recognised by the management is accurate.

### ***Other matter – Reports of other independent accountants***

As described in Notes 4(3) and 6(7) of the consolidated financial statements, we did not audit the financial statements of certain subsidiaries and investments accounted for under the equity method. Those financial statements were audited by other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements and the information on the investee disclosed in Note 13 was based solely on the reports of other independent accountants. Total assets amounted to NT\$2,630,617 thousand and NT\$2,363,784 thousand, both constituting 3% of the consolidated total assets as of December 31, 2018 and 2017, respectively, and total operating revenues amounted to NT\$2,475,154 thousand and NT\$2,156,230 thousand, constituting 5% and 4% of consolidated total operating revenues for the years then ended, respectively. The investments accounted for under the equity method amounted to NT\$2,630,962 thousand and NT\$2,490,857 thousand, both constituting 3% of consolidated total assets as of December 31, 2018 and 2017, respectively, the credit balance of investments accounted for under the equity method amounted to NT\$83,459 thousand and NT\$66,393 thousand, both constituting 0% of consolidated total assets as of December 31, 2018 and 2017, respectively, and the share of profit of associates and joint ventures accounted for under the equity method amounted to NT\$143,935 thousand and NT\$187,682 thousand, both constituting 4% of the consolidated total comprehensive income for the years then ended, respectively.

***Other matter –Parent company only financial reports***

We have audited and expressed an unqualified opinion with other matter section on the parent company only financial statements of TECO Electric & Machinery Co., Ltd. as of and for the years ended December 31, 2018 and 2017.

***Responsibilities of management and those charged with governance for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the Audit Committee, are responsible for overseeing the Group’s financial reporting process.

***Auditor’s responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

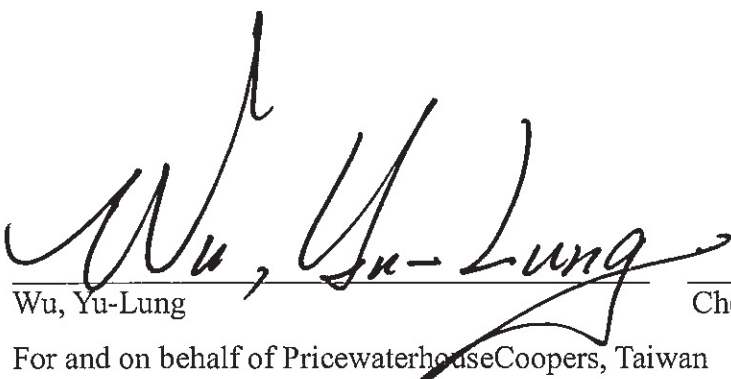
1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
2. Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

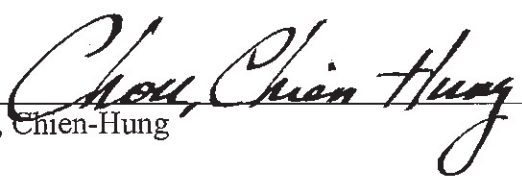
We communicate with those charged with governance regarding, among other matters, the planned

scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

  
Wu, Yu-Lung

  
Chou, Chien-Hung

For and on behalf of PricewaterhouseCoopers, Taiwan

March 28, 2019

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.



**TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2018 AND 2017**

(Expressed in thousands of New Taiwan dollars)

Assets			December 31, 2018		December 31, 2017			
			AMOUNT	%	AMOUNT	%		
Current assets								
1100	Cash and cash equivalents	6(1) and 8	\$	17,535,566	19	\$	14,129,330	16
1110	Financial assets at fair value through profit or loss - current	6(2)		193,955	-		254,003	-
1120	Current financial assets at fair value through other comprehensive income	6(3)		995,951	1		-	-
1125	Available-for-sale financial assets - current	8 and 12(4)		-	-		871,041	1
1140	Current contract assets	6(22)		1,350,238	2		-	-
1147	Bond investments without active markets - current	12(4)		-	-		3,794,570	4
1150	Notes receivable, net	6(5) and 8		1,063,991	1		1,188,761	1
1160	Notes receivable - related parties	7		2,641	-		931	-
1170	Accounts receivable, net	6(5)		9,102,428	10		9,439,077	10
1180	Accounts receivable - related parties	7		241,272	-		183,701	-
1190	Receivables from customers on construction contracts	12(5)		-	-		1,030,504	1
1200	Other receivables			360,606	-		601,279	1
1210	Other receivables - related parties	7		70,979	-		34,844	-
130X	Inventories, net	6(6) and 8		11,429,685	13		11,336,492	12
1410	Prepayments			432,419	1		422,892	1
1470	Other current assets	6(1) and 8		980,640	1		975,343	1
11XX	Total current assets			43,760,371	48		44,262,768	48
Total Non-current assets								
1510	Financial assets at fair value through profit or loss - noncurrent	6(2)		2,140,203	2		-	-
1517	Non-current financial assets at fair value through other comprehensive income	6(3) and 8		11,354,525	12		-	-
1523	Available-for-sale financial assets - non-current	8 and 12(4)		-	-		12,925,119	14
1535	Non-current financial assets at amortised cost, net	6(4) and 8		182,725	-		-	-
1550	Investments accounted for under the equity method	6(7) and 8		4,207,360	5		4,022,455	4
1600	Property, plant and equipment, net	6(8) and 8		17,363,543	19		17,922,299	20
1760	Investment property, net	6(9)		2,783,774	3		2,883,477	3
1780	Intangible assets	6(10)		5,557,343	6		5,612,315	6
1840	Deferred income tax assets	6(28)		1,250,743	1		1,382,884	2
1900	Other non-current assets	6(11) and 8		3,380,699	4		3,005,640	3
15XX	Non-current assets			48,220,915	52		47,754,189	52
1XXX	Total assets		\$	91,981,286	100	\$	92,016,957	100

(Continued)

**TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2018 AND 2017**  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(12) and 8	\$ 1,994,360	2	\$ 2,187,621	3
2120	Financial liabilities at fair value through profit or loss - current	6(13)	-	-	2,528	-
2130	Current contract liabilities	6(22)	899,728	1	-	-
2150	Notes payable		73,105	-	195,407	-
2160	Notes payable - related parties	7	136,874	-	1,368	-
2170	Accounts payable		7,517,824	8	7,589,788	8
2180	Accounts payable - related parties	7	90,047	-	123,271	-
2190	Payables to customers on construction contracts	12(5)	-	-	178,165	-
2200	Other payables	6(14)	4,720,360	5	4,839,917	5
2230	Current income tax liabilities	6(28)	690,853	1	917,494	1
2250	Provisions for liabilities - current		269,254	1	308,744	-
2300	Other current liabilities	6(16) and 8	1,748,975	2	2,398,053	3
21XX	Total current liabilities		18,141,380	20	18,742,356	20
Non-current liabilities						
2530	Corporate bonds payable	6(15)	4,000,000	4	4,000,000	4
2540	Long-term borrowings	6(16) and 8	6,746,354	7	6,466,239	7
2550	Provisions for liabilities - non-current		113,947	-	179,189	-
2570	Deferred income tax liabilities	6(27)	2,254,076	3	2,423,023	3
2600	Other non-current liabilities	6(7)(17)	2,234,614	2	2,332,013	3
25XX	Total non-current liabilities		15,348,991	16	15,400,464	17
2XXX	Total liabilities		33,490,371	36	34,142,820	37
Equity attributable to owners of parent						
Share capital						
3110	Common stock	6(18)	20,026,929	22	20,026,929	22
Capital surplus						
3200	Capital surplus	6(19)	7,647,215	8	7,628,542	8
Retained earnings						
3310	Legal reserve	6(20)	6,387,454	7	6,078,219	6
3320	Special reserve		3,640,779	4	3,640,779	4
3350	Unappropriated retained earnings		15,192,788	17	12,750,338	14
Other equity interest						
3400	Other equity interest	6(21)	1,105,058	1	2,026,521	2
3500	Treasury stocks	6(18) and 8	( 321,563 )	-	( 321,563 )	-
31XX	Equity attributable to owners of the parent		53,678,660	59	51,829,765	56
36XX	Non-controlling interest	6(31)	4,812,255	5	6,044,372	7
3XXX	Total equity		58,490,915	64	57,874,137	63
Commitments and contingent liabilities						
Significant events after the balance sheet date						
3X2X	Total liabilities and equity		\$ 91,981,286	100	\$ 92,016,957	100

The accompanying notes are an integral part of these consolidated financial statements.



TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Items	Notes	Year ended December 31			
		2018		2017	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(8)(9)(22), 7 and 12(5)	\$ 50,104,927	100	\$ 50,942,521	100
5000 Operating costs	6(6)(17)(26) and 7	( 38,052,253)	( 76)	( 38,743,733)	( 76)
5900 Net operating margin		12,052,674	24	12,198,788	24
5910 Unrealized loss from sales		( 9,160)	-	( 9,145)	-
5920 Realized profit from sales		9,145	-	6,625	-
5950 Net operating margin		12,052,659	24	12,196,268	24
Operating expenses	6(17)(26)				
6100 Selling expenses		( 4,636,195)	( 9)	( 4,702,844)	( 9)
6200 General and administrative expenses		( 2,735,191)	( 6)	( 2,716,018)	( 5)
6300 Research and development expenses		( 1,120,748)	( 2)	( 1,281,206)	( 3)
6450 Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9	12(2)	( 40,039)	-	-	-
6000 Total operating expenses		( 8,532,173)	( 17)	( 8,700,068)	( 17)
6900 Operating profit		3,520,486	7	3,496,200	7
Non-operating income and expenses					
7010 Other income	6(4)(9)(23) and 7	1,264,083	3	1,506,936	3
7020 Other gains and losses	6(2)(7)(13)(24)(26)	( 389,884)	( 1)	( 628,521)	( 1)
7050 Finance costs	6(25)	( 222,540)	-	( 254,638)	-
7060 Share of profit of associates and joint ventures accounted for under the equity method	6(7)	114,143	-	233,927	-
7000 Total non-operating income and expenses		765,802	2	857,704	2
7900 Profit before income tax		4,286,288	9	4,353,904	9
7950 Income tax expense	6(27)	( 810,319)	( 2)	( 809,656)	( 2)
8200 Profit for the period		\$ 3,475,969	7	\$ 3,544,248	7

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

		Year ended December 31			
		2018		2017	
Items	Notes	AMOUNT	%	AMOUNT	%
<b>Other comprehensive income</b>					
<b>Other comprehensive income that will not be reclassified to profit or loss</b>					
8311	Other comprehensive income, before tax, actuarial losses on defined benefit plans	( \$ 39,123)	-	( \$ 58,868)	-
8316	Unrealized gain on investments in equity instruments at fair value through other comprehensive income	615,645	1	-	-
8320	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	( 24,384)	-	( 2,751)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	21,442	-	3,037	-
8310	<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>	573,580	1	( 58,582)	-
<b>Other comprehensive income that will be reclassified to profit or loss</b>					
8361	Currency translation differences of foreign operations	( 185,642)	-	( 803,071)	( 2)
8362	Unrealized gain on valuation of available-for-sale financial assets	-	-	1,570,454	3
8370	Share of other comprehensive income of associates and joint ventures accounted for under the equity method - other comprehensive income that will be reclassified to profit or loss	-	-	4,019	-
8399	Income tax relating to the components of other comprehensive income that will be reclassified to profit or loss	45,073	-	68,969	-
8360	<b>Components of other comprehensive income that will be reclassified to profit or loss</b>	( 140,569)	-	840,371	1
8300	<b>Other comprehensive income for the period</b>	\$ 433,011	1	\$ 781,789	1
8500	<b>Total comprehensive income for the period</b>	\$ 3,908,980	8	\$ 4,326,037	8
<b>Profit attributable to:</b>					
8610	Owners of the parent	\$ 3,150,089	6	\$ 3,092,358	6
8620	Non-controlling interest	325,880	1	451,890	1
		\$ 3,475,969	7	\$ 3,544,248	7
<b>Comprehensive income attributable to:</b>					
8710	Owners of the parent	\$ 3,552,538	7	\$ 3,903,915	7
8720	Non-controlling interest	356,442	1	422,122	1
		\$ 3,908,980	8	\$ 4,326,037	8
<b>Earnings per share (in dollars)</b>					
9750	<b>Basic earnings per share</b>	\$ 1.59		\$ 1.56	
9850	<b>Diluted earnings per share</b>	\$ 1.58		\$ 1.55	

The accompanying notes are an integral part of these consolidated financial statements.

**TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**  
(Expressed in thousands of New Taiwan dollars)

Notes	Equity attributable to owners of the parent					Other equity interest		Non-controlling interest	Total equity	
	Retained Earnings					Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets			
	Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings					Financial statements translation differences of foreign operations
2017										
Balance at January 1, 2017	\$ 20,026,929	\$ 7,671,889	\$ 5,730,071	\$ 3,640,779	\$ 11,816,689	\$ 1,051,753 )	\$ -	\$ 2,218,526	\$ 5,992,976	\$ 55,724,543
Profit for the year	-	-	-	-	3,092,358	-	-	-	451,890	3,544,248
Other comprehensive income (loss) for the year	-	-	-	-	( 48,191 )	( 707,604 )	-	1,567,352	( 29,768 )	781,789
Total comprehensive income	-	-	-	-	3,044,167	( 707,604 )	-	1,567,352	422,122	4,326,037
Appropriations of 2016 earnings	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	348,148	-	( 348,148 )	-	-	-	-	-
Cash dividends	-	-	-	-	( 1,762,370 )	-	-	-	-	( 1,762,370 )
Effect of changes in net equity of associates and joint ventures amount for under the equity method	-	( 43,347 )	-	-	-	-	-	-	-	( 43,347 )
Changes in non-controlling interests	-	-	-	-	-	-	-	-	( 370,726 )	( 370,726 )
Balance at December 31, 2017	\$ 20,026,929	\$ 7,628,542	\$ 6,078,219	\$ 3,640,779	\$ 12,750,338	\$ 1,759,357 )	\$ -	\$ 3,785,878	\$ 6,044,372	\$ 57,874,137
2018										
Balance at January 1, 2018	\$ 20,026,929	\$ 7,628,542	\$ 6,078,219	\$ 3,640,779	\$ 12,750,338	\$ 1,759,357 )	\$ -	\$ 3,785,878	\$ 6,044,372	\$ 57,874,137
Effect of retrospective application adjustments	-	-	-	-	1,937,121	-	-	( 3,785,878 )	-	-
Balance at 1 January after Profit (loss)	20,026,929	7,628,542	6,078,219	3,640,779	14,687,459	( 1,759,357 )	1,848,757	-	6,044,372	57,874,137
Other comprehensive income	-	-	-	-	( 3,150,089 )	( 142,367 )	585,378	-	325,880	3,475,969
Total comprehensive income	-	-	-	-	( 3,109,527 )	( 142,367 )	585,378	-	30,562	433,011
Appropriations of 2017 earnings	-	-	-	-	-	-	-	-	356,442	3,908,980
Legal reserve	-	-	309,235	-	( 309,235 )	-	-	-	-	-
Cash dividends	-	-	-	-	( 1,722,316 )	-	-	-	-	( 1,722,316 )
Effect of changes in net equity of associates and joint ventures accounted for under the equity method	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	18,673	-	-	-	-	-	-	( 1,588,559 )	18,673
Disposal of investment in equity instrument at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	( 1,588,559 )
Balance at December 31, 2018	\$ 20,026,929	\$ 7,647,215	\$ 6,387,454	\$ 3,640,779	\$ 15,192,788	\$ 1,901,724 )	\$ 572,647	\$ -	\$ 4,812,255	\$ 58,490,915

The accompanying notes are an integral part of these consolidated financial statements.

## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 4,286,288	\$ 4,353,904
Adjustments			
Adjustments to reconcile profit (loss)			
Net loss on financial assets at fair value through profit or loss	6(2)(22)(24)	160,975	4,573
Net (gain) loss on financial liabilities at fair value through profit or loss	6(13)(24)	( 2,528 )	2,528
Provision for allowance for doubtful accounts	12(4)	-	39,339
Impairment loss determined in accordance with IFRS 9	12(2)	40,039	-
Provision for decline in value of inventories	6(6)	88,300	114,196
Interest income	6(23)	( 219,986 )	( 150,197 )
Dividend income	6(23)	( 553,818 )	( 508,613 )
Interest expense	6(25)	222,540	254,638
Depreciation and amortization	6(8)(9)(26)	1,528,540	1,483,888
Gain on disposal of investments	6(22)(24)	( 631 )	( 239,595 )
Gain on remeasurement	6(7)(24)	( 46,515 )	-
Loss on disposal of property, plant and equipment	6(24)	29,086	( 150,541 )
(Reversal of) provision for impairment loss	6(8)(24)	( 32,335 )	889
Share of profit of associates and joint ventures accounted for under the equity method	6(7)	( 114,143 )	( 233,927 )
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		106,333	( 25,068 )
Current contract assets	(	363,976 )	-
Notes receivable	(	40,235 )	29,665
Notes receivable - related parties	(	88,707 )	4,468
Accounts receivable	(	211,181 )	945,770
Accounts receivable - related parties	(	82,463 )	51,054
Receivables from customers on construction contracts		-	205,452
Other receivables		233,001	( 358,975 )
Other receivables - related parties	(	36,135 )	407,881
Inventories	(	729,564 )	( 273,647 )
Prepayments	(	94,809 )	48,308
Other current assets		196,526	366,416
Changes in operating liabilities			
Current contract liabilities		170,447	-
Notes payable	(	54,021 )	32,246
Notes payable - related parties		136,981	( 6,243 )
Accounts payable		266,296	78,435
Accounts payable - related parties	(	33,031 )	24,154
Payables to customers on construction contracts		-	( 23,856 )
Other payables		155,244	( 143,811 )
Provisions for liabilities	(	34,934 )	( 34,618 )
Other current liabilities		31,178	287,157
Other non-current liabilities	(	50,020 )	( 257,468 )
Cash inflow generated from operations		4,862,742	6,328,402
Interest received		219,986	150,197
Dividend received		443,772	289,350
Interest paid	6(25)	( 222,540 )	( 254,638 )
Income tax paid	6(27)	( 975,268 )	( 621,659 )
Net cash flows from operating activities		4,328,692	5,891,652

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Increase in financial assets at fair value through other comprehensive income - current		( \$ 424,082 )	\$ -
Decrease in available-for-sale financial assets - current		-	552,833
Decrease in other receivables-related parties	7	-	55,071
Decrease (increase) decrease in bond investments without active market		3,794,570	( 963,998 )
(Increase) decrease in pledged demand and fixed deposits	6(1) and 8	( 201,823 )	8,847
Increase in financial assets at fair value through other comprehensive income - non-current		( 76,384 )	-
Decrease in financial assets at fair value through other comprehensive income - non-current		184,067	-
Proceeds from disposal of available-for-sale financial assets - non-current		-	549,407
Acquisition of available-for-sale financial assets - non-current		-	( 128,435 )
Increase in financial assets at amortised cost - non-current	6(4)	( 182,725 )	-
Increase in investments accounted for under the equity method		( 149,083 )	( 38,001 )
Acquisition of property, plant and equipment	6(8)(29)	( 1,190,647 )	( 1,021,817 )
Proceeds from disposal of property, plant and equipment		90,173	619,976
Acquisition of intangible assets		( 242,354 )	( 103,174 )
Increase in restricted assets		-	( 425 )
(Increase) decrease in other non-current assets		( 450,185 )	102,313
Net cash outflow on acquisitions of subsidiaries	6(29)	( 434,442 )	-
Cash dividends received		287,870	351,648
Net cash flows from (used in) investing activities		1,004,955	( 15,755 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in short-term loans		( 121,466 )	( 890,740 )
Increase (decrease) in long-term loans		311,897	( 2,927,291 )
Proceeds from issuance of bonds payable		-	1,000,000
Cash dividends paid to non-controlling interest		( 156,477 )	( 265,099 )
Cash dividends paid	6(20)	( 1,722,316 )	( 1,762,370 )
Net cash flows used in financing activities		( 1,688,362 )	( 4,845,500 )
Exchange rate effect		( 239,049 )	( 890,893 )
Net increase in cash and cash equivalents		3,406,236	139,504
Cash and cash equivalents at beginning of year		14,129,330	13,989,826
Cash and cash equivalents at end of year		\$ 17,535,566	\$ 14,129,330

The accompanying notes are an integral part of these consolidated financial statements.

**TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

**1. HISTORY AND ORGANIZATION**

Teco Electric & Machinery Co., Ltd. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.). The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in the manufacture, installation, wholesale, retail of various types of electronic equipment, telecommunication equipment, office equipment, and home appliances.

**2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION**

These consolidated financial statements were authorized for issuance by the Board of Directors on March 26, 2019.

**3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS**

**(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)**

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15 Revenue from contracts with customers’	January 1, 2018
Amendments to IAS 7, ‘Disclosure initiative’	January 1, 2017
Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealised losses’	January 1, 2017
Amendments to IAS 40, ‘Transfers of investment property’	January 1, 2018
IFRIC 22, ‘Foreign currency transactions and advance consideration’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, ‘First-time adoption of International Financial Reporting Standards’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, ‘Disclosure of interests in other entities’	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IAS 28, ‘Investments in associates and joint ventures’	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, 'Financial instruments'

- (a) Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- (c) The Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Notes 12(4) and 12(4) C.

B. IFRS 15, 'Revenue from contracts with customers' and amendments

- (a) IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognized when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s)

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.



- (b) The Group has elected not to restate prior period financial statements and recognized the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The significant effects of adopting the modified transition as of January 1, 2018 are summarized below:

<u>Affected items</u>	<u>Book value under previous revenue standard</u>	<u>Adjustment for initial application of IFRS 15</u>	<u>Adjusted amount after IFRS 15 adoption</u>	<u>Remark</u>
<u>January 1, 2018</u>				
Contract assets	\$ -	\$ 1,030,504	\$ 1,030,504	(a)
Construction contracts receivable	1,030,504	( 1,030,504)	-	(a)
Total affected assets	<u>\$ 1,030,504</u>	<u>\$ -</u>	<u>\$ 1,030,504</u>	
Contract liabilities	\$ -	\$ 825,123	\$ 825,123	(a)(b)
Construction contracts payable	178,165	( 178,165)	-	(a)
Other current liabilities	<u>2,398,053</u>	<u>( 646,958)</u>	<u>1,751,095</u>	(b)
Total affected liabilities	<u>\$ 2,576,218</u>	<u>\$ -</u>	<u>\$ 2,576,218</u>	

i. Presentation of assets and liabilities in relation to contracts with customers

In line with IFRS 15 requirements, the Group changed the presentation of certain accounts in the balance sheet as follows:

- (a) Under IFRS 15, net outcome of contract revenue, received amount and receivables in relation to construction contracts are recognized in contract assets (liabilities). Progress billings on each construction contract and the net outcome of recognized cost and profit (loss) in previous reporting period are recognized in receivables from (payables to) customers on construction contracts in accordance with IAS 11, 'Construction Contracts'.

As a result of above stated differences, receivables from customers on construction contracts and payables to customers on construction contracts were decreased by \$1,030,504 and \$178,165, respectively, and contract assets and contract liabilities were increased by \$1,030,504 and \$178,165, respectively, on January 1, 2018.

- (b) Under IFRS 15, liabilities in relation to sales contracts are recognized as contract liabilities, but were previously presented as advance sales receipts in the balance sheet. As of January 1, 2018, the balance amounted to \$646,958.

ii. Please refer to Note 12(4) for other disclosures in relation to the first application of IFRS 15.



(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors. The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group intends not to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"). On January 1, 2019, it is expected that 'right-of-use asset', lease liability and deferred tax assets will be increased by \$8,690,519, \$6,779,455 and \$96,037, respectively, and long-term lease prepayments, non-controlling interests and retained earnings will be decreased by \$2,532,370, \$218,449 and \$306,820, respectively.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### (1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

##### (2) Basis of preparation

- A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:
  - (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
  - (b) Financial assets and liabilities at fair value through other comprehensive income / Available-for-sale financial assets measured at fair value.
  - (c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with “IFRSs” requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 11 (‘IAS 11’), International Accounting Standard 18 (‘IAS 18’) and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

##### (3) Basis of consolidation

- A. Basis for preparation of consolidated financial statements:
  - (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
  - (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
  - (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
  - (d) Changes in a parent’s ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of

the consideration paid or received is recognized directly in equity.

- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss or transferred directly to retained earnings as appropriate, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

## B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Teco Electric & Machinery Co., Ltd.	Teco Holding USA Inc.	Holding company	100	100	
Teco Electric & Machinery Co., Ltd.	United View Global Investment Co., Ltd.	Holding company	100	100	
Teco Electric & Machinery Co., Ltd.	Temico International Pte.Ltd.	Holding company	60	-	Note 1
Teco Electric & Machinery Co., Ltd.	Tesen Electric & Machinery Co., Ltd.	Manufacturing and sales of home appliances	100	100	
Teco Electric & Machinery Co., Ltd.	Tong-An Assets Management & Development Co., Ltd.	Real estate business	100	100	
Teco Electric & Machinery Co., Ltd.	Teco Electric Europe Limited	Distribution of motors	100	100	
Teco Electric & Machinery Co., Ltd.	Teco Electric & Machinery (Pte) Ltd.	Distribution of motors	100	100	
Teco Electric & Machinery Co., Ltd.	Tong Dai Co., Ltd.	Distribution of motors	92.63	92.63	
Teco Electric & Machinery Co., Ltd.	Tong Tai Jung Co., Ltd.	Expanding the distribution of motors	60	60	
Teco Electric & Machinery Co., Ltd.	Teco Electro Devices Co., Ltd.	Manufacturing and sales of step-servo motor	64.08	64.08	
Teco Electric & Machinery Co., Ltd.	Yatec Engineering Corporation	Development and maintenance of various electric appliances	64.95	64.95	
Yatec Engineering Corporation	Yatec Engineering (VN) Company Limited	Development of various electric appliances	100	100	
Teco Electric & Machinery Co., Ltd.	Taian (Subic) Electric Co., Inc.	Manufacturing and sales of switches	76.7	76.7	
Teco Electric & Machinery Co., Ltd.	Taian-Etacom Technology Co., Ltd.	Manufacturing of busway and related components	84.73	84.73	

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Teco Electric & Machinery Co., Ltd.	Taian (Malaysia) Electric Sdn. Bhd.	Manufacturing of switches	66.85	66.85	
Teco Electric & Machinery Co., Ltd.	Micropac Worldwide (BVI)	International trading	100	100	
Teco Electric & Machinery Co., Ltd.	E-Joy International Co., Ltd.	Wholesale and retail of electric appliances	98.5	98.5	
Teco Electric & Machinery Co., Ltd.	A-Ok Technical Co., Ltd.	Repair of electric appliances	86.67	86.67	
Teco Electric & Machinery Co., Ltd.	Tecom Co., Ltd.	Manufacturing and sales of touch-tone phone system and billing box	63.52	63.52	
Teco Electric & Machinery Co., Ltd.	Information Technology Total Services Co., Ltd.	Import sales, leases of franking machines and mail processing and delivery	67.11	71.3	
Teco Electric & Machinery Co., Ltd.	Teco Smart Technologies Co., Ltd.	Commissioned sales of phone cards and IC cards, and production of data storage and processing equipment	100	100	
Teco Electric & Machinery Co., Ltd.	Teco International Investment Co., Ltd.	Various productions, investments in securities and construction of commercial buildings	100	100	
Teco Electric & Machinery Co., Ltd.	Tong-An Investment Co., Ltd.	Various investments	100	100	
Teco Electric & Machinery Co., Ltd.	Tecnos International Consultant Co., Ltd.	Business management consulting	73.54	73.54	
Teco Electric & Machinery Co., Ltd.	An-Tai International Investment Co., Ltd.	Various investments	100	100	
Teco Electric & Machinery Co., Ltd.	Taiwan Pelican Express Co., Ltd.	Delivery and logistics services	32.15	32.15	Note 2

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Teco Electric & Machinery Co., Ltd.	Teco Technology (Vietnam) Co., Ltd.	Manufacturing and sales of motors	100	100	
Teco Electric & Machinery Co., Ltd.	Teco Nanotech Co., Ltd.	Manufacturing and sales of nanotech material products	86.83	86.83	
Teco Electric & Machinery Co., Ltd.	Kuen Ling Machinery Refrigerating Co., Ltd.	Manufacturing, installation, repair, domestic and export sales and leasing of condenser, water cooling, water-cooled chiller and freezer	17.61	19.98	Note 3
Teco Electric & Machinery Co., Ltd.	Yaskawa Teco Motor Engineering Co.	Manufacturing and sales of motors	-	70	Note 4
Teco Electric & Machinery Co., Ltd.	Eagle Holding Co.	Holding company	100	100	
Teco Electric & Machinery Co., Ltd.	Century Development Corporation	Real estate and industrial park management and development	52.75	52.75	
Teco Electric & Machinery Co., Ltd.	Teco.Sun Energy Co., Ltd.	Energy technical services	60	-	Note 1
Century Development Corporation	Century Tech. C&M Corp.	Construction industry as well as trades and related operation and investment of materials and sandstone used in construction and machinery	100	100	
Century Development Corporation	United Development Corporation	Investment consultancy service for domestic and foreign industrial parks and land	100	100	
Century Development Corporation	Century Biotech Development Corp.	Consultancy service for domestic industrial parks and land	100	-	Note 1

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Century Development Corporation	Century Real Estate (International) Pet. Ltd.	Investments in other areas	100	100	
Century Peal Estate (International) Pte Ltd.	CDC Development India Private Limited	Investment consultancy service for domestic and foreign industrial parks and land	100	100	
Eagle Holding Co.	TECO MOTOR B.V.	Holding company	100	100	
TECO MOTOR B.V.	Motovario S.p.A.	Sales of motors and reducers	100	100	
Motovario S.p.A.	Motovario S.A (Spain)	Sales of motors and reducers	100	100	
Motovario S.p.A.	Motovario Ltd.	Sales of motors and reducers	100	100	
Motovario S.p.A.	Motovario GMBH	Sales of motors and reducers	100	100	
Motovario S.p.A.	Motovario Corp.	Sales of motors and reducers	75	75	
Motovario S.p.A.	Motovario S.A (France)	Sales of motors and reducers	100	100	
Motovario S.p.A.	Motovario Int. Trading Co. Ltd.	Sales of motors and reducers	100	100	
Motovario S.p.A.	Motovario Power Transmission Co. Ltd.	Sales of motors and reducers	100	100	



Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Motovario S.p.A.	Motovario Gear Solution Private Ltd.	Sales of motors and reducers	100	100	
Teco Holding USA Inc.	Teco Westinghouse Motor Company Company	Manufacturing and sales of motors and generators	100	100	
Teco Holding USA Inc.	Teco Westinghouse Motor Industrial Canada Industrial Canada	Manufacturing and sales of motors and generators	100	100	
United View Global Investment Co., Ltd.	Great Teco Motor (Pte) Ltd.	Holding company	100	100	
United View Global Investment Co., Ltd.	Asia Air Tech Industrial (Pte) Ltd.	Holding company	100	100	
United View Global Investment Co., Ltd.	Teco Australia Pty. Ltd.	Manufacturing and sales of motors and home appliances	99.99	99.99	
United View Global Investment Co., Ltd.	P.T Teco Elektro Indonesia	Manufacturing and sales of motors and home appliances	100	100	
United View Global Investment Co., Ltd.	Teco Industrial (Malaysia) Sdn. Bhd.	Manufacturing and sales of motors	100	100	
United View Global Investment Co., Ltd.	Tecoston Industrial Development (Pte) Ltd.	Investment in Southeast Asia and Hong Kong	100	100	



Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
United View Global Investment Co., Ltd.	Asia Electric & Machinery (Pte) Ltd.	Holding company	100	100	
United View Global Investment Co., Ltd.	Great Teco, S.L.	Sales of motors	100	100	
United View Global Investment Co., Ltd.	Teco Electric & Machinery B.V.	Sales of motors, green power and electric control products	100	100	
United View Global Investment Co., Ltd.	Teco Elektrik Turkey A. S.	Sales of motors and home appliances	100	100	
Teco Electric & Machinery (Pte) Ltd.	P.T Teco Multiguna Electro	Sales of motors in Singapore and neighbouring countries	87.5	87.5	
Teco Electric & Machinery (Pte) Ltd.	Teco (Thai) Co.	Sales of motors in Singapore and neighbouring countries	55	55	
Teco Electric & Machinery (Pte) Ltd.	Teco Electric & Machinery Sdn. Bhd.	Sales of motors in Singapore and neighbouring countries	100	100	
Teco Electric & Machinery (Pte) Ltd.	Teco (Vietnam) Electric & Machinery Company Ltd.	Manufacturing of motors	60	60	
Teco Electric & Machinery (Pte.) Ltd.	Teco Industrial System Private Limited	Sales of motors in India and neighbouring countries	100	100	
Teco Electric & Machinery (Pte.) Ltd.	Teco Electrical Industries Private Limited	Manufacturing of motors	100	100	
Teco Electric & Machinery (Pte) Ltd.	TYM Electric and Machinery Sdn. Bhd.	Distribution of motors	100	100	

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Tong Dai Co., Ltd.	Top-Tower Enterprises Co., Ltd.	Sales of motors	40	40	Note 5
Tong-Dai Co., Ltd.	AM SMART Technology CO., LTD.	Sales of motors	80	-	Note 1
Teco Electro Devices Co., Ltd.	Teco Electro Devices Co., Ltd.	Trading and various investments	100	100	
Micropac Worldwide (BVI)	An-Tai International Investment (Singapore) Co., Ltd.	Investment holdings	100	100	
Teco International Investment Co., Ltd.	Tasia (Pte) Ltd.	Various investments	100	100	
Tong-An Investment Co., Ltd.	Jie-Zheng Property Service & Management Co., Ltd.	Building management servicing	100	100	
Tong-An Investment Co., Ltd.	Tecocapital Investment (Samoa) Co., Ltd.	Holding company	100	100	
Tong-An Investment Co., Ltd.	Tecocapital Investment Co., Ltd.	Holding company	100	100	
Taiwan Pelican Express Co., Ltd.	Pelecanus Express Pte. Ltd.	Holding company	100	100	
Teco Westinghouse Motor Company	Teco Westinghouse Motor Company S. A. de C.V.	Manufacturing and sales of motors and generators	100	100	
Tecom Co., Ltd.	Tecom International Investment Co., Ltd.	Investments in various undertakings	100	100	

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Tecom Co., Ltd.	Baycom Opto-Electronics Technology Co., Ltd.	Manufacture of fiber optic communications products, providing a full range of fiber optical cables, interconnect, Transceiver/Media converter, patch cord, LC connectors & adapter	51.19	51.19	
Tecom Co., Ltd.	Tecom Global Tech Investment (B.V.I.) Limited	Investments in various undertakings	100	100	
Tecom Co., Ltd.	Tecom Global Tech Investment Pte Limited	Investments in various undertakings	100	100	
Tecom Co., Ltd.	Tecom Tech Investment (B.V.I.) Limited	Investments in various undertakings	100	100	
Kuen Ling Machinery Refrigerating Co., Ltd.	Ching Chi International Limited	Investments in other areas	-	100	Note 6
Kuen Ling Machinery Refrigerating Co., Ltd.	K.A. Corp.	Commodity sales and trading business	-	100	Note 6
Kuen Ling Machinery Refrigerating Co., Ltd.	I Chi Industrial Co., Ltd.	General manufacturing	-	70	Note 6
Kuen Ling Machinery Refrigerating Co., Ltd.	Cozy Air-Conditioning Co., Ltd.	General manufacturing	-	100	Note 6

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Great Teco Motor (Pte) Ltd.	Wuxi Teco Electric & Machinery Co., Ltd.	Manufacturing and sales of motors and generators	82.35	82.35	
Great Teco Motor (Pte) Ltd.	Jiangxi Teco Electric & Machinery Co., Ltd.	Coil-wound motors and hydroelectric power	98.07	98.07	
Great Teco Motor (Pte) Ltd.	Qingdao Teco Precision Mechatronics Co., Ltd.	Manufacturing and sales of motors	87.60	87.60	
Great Teco Motor (Pte) Ltd.	Fujian Teco Precision Co., Ltd.	Manufacturing and sales of electric components	100	100	
Great Teco Motor (Pte) Ltd.	Shanghai Teco Electric & Machinery Co., Ltd.	Agents and sales of motors and electrical appliances	100	100	
Great Teco Motor (Pte) Ltd.	Wuxi Teco Precision Machinery Co., Ltd.	Manufacturing and sales of motors and components	100	100	
Asia Air Tech Industrial (Pte) Ltd.	Teco (Dong Guang) Air Conditioning Equipment Co., Ltd.	Manufacturing and sales of air-conditioning mechanical equipment	100	100	
Teco Australia Pty. Ltd.	Teco (New Zealand) Limited	Manufacturing and sales of motors and home appliances	100	100	
Tecoson Industrial Development (Pte) Ltd.	Tecoson HK Co., Ltd.	Various investments	100	100	

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Tecoson HK Co., Ltd.	Dongguan Tecoson Electric Co., Ltd	Distribution of home appliances	-	100	Note 4
Asia Electric & Machinery (Pte) Ltd.	Nanchang Teco Electric & Machinery Co., Ltd.	Manufacturing and sales of air-conditioning equipment	100	100	
Asia Electric & Machinery (Pte) Ltd.	Xiamen Teco Technology Co., Ltd.	Distribution and research of motors and home appliances	100	100	
Asia Electric & Machinery (Pte) Ltd.	Asia Innovative Technology Co., Ltd.	Research, development, manufacturing and sales of home appliances	100	100	
Asia Electric & Machinery (Pte) Ltd.	Tianjin Teco Technology Co., Ltd.	Operations center in Central China	100	100	
Asia Electric & Machinery (Pte) Ltd.	Jiangxi TECO Air Conditioning Equipment Co., Ltd.	Manufacturing and sales of various air-conditioning units	100	100	
Teco Electric & Machinery B.V.	Teco Electric & Machinery GmbH.	Manufacturing and sales of motors	100	100	
Teco Electro Devices Co., Ltd.	Wuxi TECO Precision Industry Co., Ltd.	Manufacturing and sales of motors	100	100	
Teco Westinghouse Motor Company	Jiangxi TECO Westinghouse Motor Coil Co., Ltd.	Manufacturing and sales of motors, winding and related parts	100	100	
An-Tai International Investment (Singapore) Co., Ltd.	Tai-An Technology (Wuxi) Co., Ltd.	Manufacturing and sales of fiber electric equipment	100	100	

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
An-Tai International Investment (Singapore) Co., Ltd.	Hunan TECO Wind Energy Limited	Manufacturing, sales and technical services of 2.0 megawatt and above aerogenerator, wheel bay and other components	100	100	
Tecom International Investment Co., Ltd.	WondaLink Inc.	Wired communication equipment and apparatus, manufacturing of telecommunication equipment and apparatus, manufacturing of electronic parts and design of products	68.08	68.08	
Tecom International Investment Co., Ltd.	MOCET Networks Inc.	Sale of phones and peripherals	100	100	
Tecom Global Tech Investment (B.V.I.) Limited	Wuhan Tecom Co., Ltd.	Communication network information technology development, sales and technology services business	100	100	
Tecom Global Tech Investment Pte Limited	Tecom Tech (Wuxi) Co., Ltd.	R & D, manufacture of broadband access network communication system equipment, asynchronous transfer mode, IP data communication systems, mobile communication handsets, base stations, switching equipment and digital trunking system equipment, high-end routers, Gigabit switch than the above network, program-controlled switchboards; sale of products to provide technology services	100	100	

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Tecom Investment (B.V.I.) Limited	Tecom Tech (Xiamen) Co., Ltd.	Flat panel displays, IT products, printed circuit board assembly, manufacture, testing and communication products and equipment, R & D reproduction	-	100	Note 4
Tecom Investment (B.V.I.) Limited	Beijing Tecom Innovation Technology Co., Ltd.	Wireless network communication system hardware and software, provide technical advice, technical training and technical services	100	100	
Tasia (Pte) Ltd.	Sankyo Co., Ltd.	Sales of home appliances	100	100	
Tecocapital Investment (Samoa) Co., Ltd.	Qingdao TECO Innovation Co., Ltd.	Science Park development and business operations consulting services	100	100	
Tecocapital Investment Co., Ltd.	Technical Information International Co., Ltd.	Development and sales of software	70	70	
Pelecanus Express Pte. Ltd.	Beijing Pelican Express Co., Ltd.	Storage services	100	100	
Ching Chi International Limited	Kuen Ling Machinery Refrigerating (Shanghai) Co., Ltd.	Manufacturing and sales of water-cooled chiller, etc.	-	100	Note 6
Ching Chi International Limited	Suzhou Kuen Yuan Refrigerating Equipment Co., Ltd.	General manufacturing	-	100	Note 6

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
K.A. Corp.	Kuen Ling Machinery Refrigerating (Vietnam) Co., Ltd.	General manufacturing	-	100	Note 6
K.A. Corp.	Kuen Ling Machinery Refrigerating (Indonesia) Co.,	Manufacturing and sales of motors and generators	-	100	Note 6
Teco Westinghouse Motor Company S.A. de C.V.	Teco Westinghouse Colombia S.A.S.	Manufacturing and sales of motors and generators	100	100	
Tai-An Technology (Wuxi) Co., Ltd.	Teco Sichuan Trading Co., Ltd.	Distribution of motors and home appliances	100	100	
Information Technology Total Services Co., Ltd.	Information Technology Total Service (BVI) Co., Ltd.	Holding company	100	100	
Information Technology Total Services Co., Ltd.	Universal Mail Service Ltd.	Engaged in various business documents management, printing and other mail services	100	100	
Information Technology Total Services Co., Ltd.	Unison Service Corporation	Engaged in services related to information software, data processing and electronic information supply	100	100	



Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Information Technology Total Service (BVI) Co., Ltd.	Information Technology Total Service (Hang Zhou) Co., Ltd.	Engaged in services related to information software, data processing and electronic information supply	100	100	
Information Technology Total Service (BVI) Co., Ltd.	Information Technology (Wuxi) Co., Ltd.	Engaged in services related to information software, data processing and electronic information supply	100	100	
Information Technology (Wuxi) Co., Ltd.	Information Technology Total Service (Xiamen) Co, Ltd.	Engaged in services related to information software, data processing and electronic information supply	100	100	

Note 1: Newly established subsidiary in current year.

Note 2: The Company sold part of its ownership in Taiwan Pelican Express Co., Ltd. in August, 2012, and accordingly, its ownership fell below 50% of the voting shares of Taiwan Pelican Express Co., Ltd.. However, the Company still has control over the finance, operations and personnel affairs of Taiwan Pelican Express Co., Ltd., thus Taiwan Pelican Express Co., Ltd. continues to be included in the consolidated financial statements.

Note 3: The Group has lost control over the company since May 23, 2018 due to the company re-elected directors and supervisors. Therefore, the company is no longer included in the Group's consolidated financial statements.

Note 4: This company was liquidated in 2018.

Note 5: The Company has control over the Board of Directors of the subsidiary, and has absolute control over the subsidiary. Thus, the subsidiary was included in the consolidated financial statements.

Note 6: The Group has lost control over the parent company since May 23, 2018, and the Group lost control over the company at the same time.

We did not audit the financial statements of certain consolidated subsidiaries which statements reflect total assets of \$2,630,617 and \$2,363,784 as December 31, 2018 and 2017, respectively, and net operating revenue of \$2,475,154 and \$2,156,230 for the years ended December 31, 2018 and 2017, respectively.

## C. Subsidiaries not included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Teco Electric & Machinery Co., Ltd.	Teco Appliance (HK) Co., Ltd.	Sales of home appliances	99.99	99.99	Note 1
Teco Electric & Machinery Co., Ltd.	Taian Electric Co., Ltd.	Manufacturing and sales of switches	100	100	Note 1
Teco Electric & Machinery Co., Ltd.	An-Sheng Travel Co., Ltd.	Travel agency services	96	96	Note 1
Teco Electric & Machinery Co., Ltd.	Taian-Jaya Electric Sdn. Bhd.	Manufacturing and sales of air-conditioning equipment	95	95	Note 1
Teco Electric & Machinery Co., Ltd.	Teco (Philippines) 3C & Appliances, Inc.	Sales of air conditioning and electrical appliances	60	60	Note 1
Teco Electric & Machinery Co., Ltd.	Ropali-TECO Corporation	Sales of vehicles	100	50	Notes 1 and 2
Great Teco Motor (Pte) Ltd.	Teco Group Science-Technology (Hang Zhou) Co., Ltd.	Electrical machinery electric and automatic control technology development and consultation service	100	100	Note 1
An-Tai International Investment Co., Ltd.	Hubbell-Taian Co., Ltd.	Import, export and sales of electric wiring devices, lighting, explosion proofing and other accessory products	49.99	49.99	Note 1

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Hubbell-Taian Co., Ltd.	Hubbell-Anmex International(s) Pte. Ltd.	Distribution of electronic products	100	100	Note 1
Tong-An Assets Management & Development Co., Ltd.	Grey Back International Property Inc.	Real estate management and development	100	100	Note 1
Tasia (Pte) Ltd.	TTMC Co., Ltd.	Engaged in a variety of investment businesses	100	100	Note 1
Jack Property Service & Management Company	Qingdao Jie Zheng Property Service & Management Company	Property management and related services	100	100	Note 1

Note 1 : The above subsidiaries were not included in the consolidated financial statements as their respective total assets and operating revenues did not exceed the materiality threshold of the Company's total assets and operating revenues.

Note 2 : On August 20, 2018, the Company acquired the entire shares of joint venture for business development purpose.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Details of significant non-controlling interests: Please refer to Note 6(32).

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value

through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

**B. Translation of foreign operations**

- (a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- iii. All resulting exchange differences are recognized in other comprehensive income.

- (b) When the foreign operation partially disposed of or sold is an associate or jointly joint arrangements exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, even the Group still retains partial interest in the former foreign associate or joint arrangements entity after losing significant influence over the former foreign associate, or losing joint control of the former joint arrangements such transactions should be accounted for as disposal of all interest in these foreign operations.

- (c) When the foreign operation is partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling in this foreign operation. In addition, even the Group still retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

- (d) Good will and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at balance sheet date.

**(5) Classification of current and non-current items**

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:**

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realized within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:**

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;

- (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. 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.

(6) Cash equivalents

Cash equivalents refer to 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. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

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

Effective 2018

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognized in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognized in profit or loss.
- D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

Effective 2018

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:
- D. The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(9) Financial assets at amortised cost

Effective 2018

- A. Financial assets at amortised cost are those that meet all of the following criteria:
  - (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
  - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.
- D. The Group's time deposits which do not fall under cash equivalents are those with a short

maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(10) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(11) Impairment of financial assets

For financial assets at amortized cost, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(12) Derecognition of financial assets

The Group derecognizes a financial asset when one of the following conditions is met:

- A. The contractual rights to receive cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows from the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The Group neither retains nor transfers substantially all risks and rewards of ownership of the financial asset; however, it has not retained control of the financial asset.

(13) Operating leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(14) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted-average method. The cost of finished goods and work in process comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(15) Investments accounted for under the equity method - associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss arising through subsequent assessments.
- B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred statutory/constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Group's



ownership percentage of the associate, the Group recognizes the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.

- D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- F. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(16) Investment accounted for under the equity method-joint ventures

The Group accounts for its interest in joint ventures under the equity method. Unrealized profits and losses arising from the transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. However, when the transaction provides evidence of a reduction in the net realizable value of current assets or an impairment loss, all such losses shall be recognized immediately. When the Group's share of losses in joint venture equal or exceeds its interest in joint venture together with any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

(17) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies,

Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	10 ~ 50 years
Machinery and equipment	3 ~ 15 years
Transportation equipment	3 ~ 5 years
Other equipment	2 ~ 15 years
Leasehold assets	3 ~ 5 years
Leasehold improvements	3 ~ 5 years

(18) Leased assets/ operating leases (lessee)

A. Based on the terms of a lease contract, a lease is classified as a finance lease if the Group assumes substantially all the risks and rewards incidental to ownership of the leased asset.

(a) A finance lease is recognized as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

(b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Group will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.

B. Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(19) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 15 to 60 years.

(20) Intangible assets

A. Goodwill arises in a business combination accounted for by applying the acquisition method.

B. Intangible assets except goodwill are mainly computer software, which is stated at cost and amortized on the straight-line basis over the estimated economic useful life.

(21) Impairment of non-financial assets

A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

B. The recoverable amounts of goodwill and intangible assets with an indefinite useful life are evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognized in profit or loss shall not be reversed in the following years.

C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are



expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(22) Borrowings

- A. Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.
- B. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

(23) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

- A. Financial liabilities are classified in this category of held for trading. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.
- B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognized in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognized in profit or loss.

(25) Bonds payable

Ordinary corporate bonds issued by the Group are initially recognized at fair value less transaction costs. Any difference between the proceeds (net of transaction costs) and the redemption value is presented as an addition to or deduction from bonds payable, which is amortized to profit or loss over the period of bond circulation using the effective interest method as an adjustment to 'finance costs'.

(26) Derecognition of financial liabilities

A financial liability is derecognized when the obligation specified in the contract is either discharged or cancelled or expires.

(27) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(28) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. At initial recognition, the Group measures financial guarantee contracts at fair value and subsequently at the higher of the amount of provisions determined by the expected credit losses and the cumulative gains that were previously recognized.

(29) Provisions for other liabilities

Provisions (including product warranties, etc.) are recognized when the Group has a present

legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognized as interest expense. Provisions are not recognized for future operating losses.

(30) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the Group pays fixed contributions to an independent, publicly or privately administered pension fund. The Group has no further legal or constructive obligations once the contributions have been paid. The contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior period. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

ii. Remeasurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognizes expense when it can no longer withdraw an offer of termination benefits or it recognizes related restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or

constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(31) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the inappropriate retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, and associates except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. Based on the “Income Basic Tax Act”, if the regular income tax is equal or more than the basic tax, the income tax payable shall be calculated in accordance with the Income Tax Act and other relevant laws. Whereas, if the regular income tax is less than basic tax, the income tax payable shall be equal to the basic tax. The difference between the regular income tax and basic tax shall not be subject to deductions of investment tax credits granted under the provisions of other laws.

(32) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(33) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities.

(34) Revenue recognition

## A. Sales of goods—wholesale

- (a) The Group manufactures and sells various types of mechanical equipment, air-conditioning units and electronic equipment products.. Sales are recognized when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.
- (b) Electronic and machinery, electronic equipment and power generation equipment are often sold with volume discounts based on aggregate sales over a 12-month period. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts and sales discounts and allowances. Accumulated experience is used to estimate and provide for the volume discounts and sales discounts and allowances, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognized for expected volume discounts and sales discounts and allowances payable to customers in relation to sales made until the end of the reporting period. The sales are made with a credit term of 30 days, As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Group does not adjust the transaction price to reflect the time value of money.
- (c) The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognized as a provision.
- (d) A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

## B. Installation and construction service of electrification products

- (a) The Group provides installation and construction service of electrification products. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual cost spent relative to the total cost. The customer pays at the time specified in the payment schedule. If the services rendered exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized.
- (b) Some contracts include sales and installation services of equipment. The equipment and the installation services provided by the Group are not distinct and are identified to be one performance obligation satisfied over time since the installation services involve significant customisation and modification. The Group recognises revenue on the basis



of costs incurred relative to the total expected costs of that performance obligation. Conversely, the Group recognises revenue at an amount equal to the cost of a good if the good is not distinct and its cost is significant relative to the total expected costs, the customer is expected to obtain control of the good significantly before receiving services related to the good, and the Group procures the good from a third party and is not involved in designing and manufacturing the good by acting as a principal.

- (c) The Group's estimate about revenue, costs and progress towards complete satisfaction of a performance obligation is subject to a revision whenever there is a change in circumstances. Any increase or decrease in revenue or costs due to an estimate revision is reflected in profit or loss during the period when the management become aware of the changes in circumstances.

C. Incremental costs of obtaining a contract

Given that the contractual period lasts less than one year, the Group recognises the incremental costs of obtaining a contract as an expense when incurred although the Group expects to recover those costs.

(35) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate.

(36) Business combinations

A. The Group uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquire that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the recognized amounts of the acquirer's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.

B. The excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the fair value of any previous equity interest in the acquire over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date. If the total of consideration transferred, non-controlling interest in the acquire recognized and the fair value of previously held equity interest in the acquire is less than the fair value of the identifiable assets acquired and the liabilities assumed, the difference is recognized directly in profit or loss on the acquisition date.

(37) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

## 5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

Impairment assessment of goodwill

The impairment assessment of goodwill relies on the Group's subjective judgment, including identifying cash-generating units, allocating assets and liabilities as well as goodwill to related cash-generating units, and determining the recoverable amounts of related cash-generating units.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and revolving funds	\$ 21,153	\$ 19,719
Checking accounts and demand deposits	6,646,689	9,544,248
Time deposits and notes issued under repurchase agreement	10,867,724	4,565,363
	<u>\$ 17,535,566</u>	<u>\$ 14,129,330</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. As of December 31, 2018 and 2017, cash and cash equivalents amounting to \$620,329 and \$418,506 as purchase loans were pledged to others as collateral (listed as '1470 Other current assets'). Please refer to Note 8.

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

Items	December 31, 2018
Current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Listed and OTC stocks	\$ 110,677
Emerging stocks	29,319
Money Market Fund	<u>79,326</u>
	219,322
Valuation adjustment	( <u>25,367</u> )
	<u>\$ 193,955</u>
Non-current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Listed and OTC stocks	\$ 910,270
Non-listed and OTC stocks	811,773
Privately-placed funds	<u>230,260</u>
	1,952,303
Valuation adjustment	<u>187,900</u>
	<u>\$ 2,140,203</u>

A. Amounts recognized in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

For the year ended  
December 31, 2018

Financial assets mandatorily measured  
at fair value through profit or loss

Equity instruments (\$ 160,975)

B. As of December 31, 2018, for the transaction and contract of derivative instruments not held for hedge, please refer to Note 6(13).

C. Information relating to credit risk of financial assets at fair value through profit or loss is provided in Note 12(2).

D. The information on financial assets at fair value through profit or loss as of December 31, 2017 is provided in Note 12(4).

(3) Financial assets at fair value through other comprehensive income

Items	December 31, 2018
Current items:	
Listed and OTC stocks	\$ 1,093,955
Valuation adjustment	( 98,004)
	<u>\$ 995,951</u>
Non-current items:	
Listed and OTC stocks	\$ 7,993,650
Non-listed and OTC stocks	<u>494,449</u>
	8,488,099
Valuation adjustment	<u>2,866,426</u>
	<u>\$ 11,354,525</u>

- A. The Group has elected to classify Taiwan High Speed Rail's stocks that are considered to be steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$12,350,476 as at December 31, 2018.
- B. For the year ended December 31, 2018, the Group sold stocks with fair value of \$338,594 to raise the capital expenditure for operations, and the cumulative gain on disposal is \$86,646 (shown as '8316 unrealized gain (loss) on valuation of equity instrument at fair value through other comprehensive income'), respectively.
- C. Amounts recognized in other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

For the year ended  
December 31, 2018

Equity instruments at fair value through other comprehensive income

Fair value change recognized in other comprehensive income	(\$ <u>635,424</u> )
Cumulative gains (losses) reclassified to retained earnings due to derecognition	(\$ <u>572,647</u> )
Dividend income recognised in profit or loss	\$ 413,891
Held at end of year	<u>483</u>
Derecognised during the year	<u>\$ 414,374</u>

- D. Details of the Group's financial assets at fair value through other comprehensive income pledged to others as collateral are provided in Note 8.
- E. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).

(4) Financial assets at amortised cost  
Effective 2018

Items	December 31, 2018
Non-current items:	
Time deposits	<u>\$ 182,725</u>



- A. Amounts recognised in profit or loss in relation to financial assets at amortised cost are listed below:

	For the year ended December 31, 2018
Interest income	\$ 1,766
B. As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at amortised cost held by the Group was \$182,725.	
C. Details of the Group's financial assets at amortised cost pledged to others as collateral are provided in Note 8.	
D. Information relating to credit risk of financial assets at amortised cost is provided in Note 12(4).	

(5) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable	\$ 1,066,484	\$ 1,191,312
Less: Allowance for bad debts	( 2,493)	( 2,551)
	<u>\$ 1,063,991</u>	<u>\$ 1,188,761</u>
Accounts receivable	9,283,282	9,621,741
Less: Allowance for bad debts	( 180,854)	( 182,664)
	<u>\$ 9,102,428</u>	<u>\$ 9,439,077</u>

- A. The ageing analysis of notes and accounts receivable that were past due but not impaired is as follows:

	December 31, 2018	December 31, 2017
Not past due	\$ 7,098,505	\$ 8,258,785
Up to 30 days	1,476,443	1,281,979
31 to 90 days	952,553	506,645
91 to 180 days	267,598	203,360
Over 180 days	371,320	377,069
	<u>\$ 10,166,419</u>	<u>\$ 10,627,838</u>

The above ageing analysis was based on past due date.

- B. As at December 31, 2018 and 2017, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes receivable were \$1,063,991 and \$1,188,761 and accounts receivable were \$9,102,428 and \$9,439,077 respectively.
- C. Details of the Group's notes receivable pledged to others are provided in Note 8.
- D. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(6) Inventories

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 2,553,819	(\$ 193,552)	\$ 2,360,267
Work in progress	1,385,554	( 48,969)	1,336,585
Finished goods	6,415,087	( 526,363)	5,888,724
Inventory in transit	548,312	-	548,312
Merchandise inventories	<u>1,304,962</u>	<u>( 9,165)</u>	<u>1,295,797</u>
	<u>\$ 12,207,734</u>	<u>(\$ 778,049)</u>	<u>\$ 11,429,685</u>
	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 2,595,232	(\$ 173,775)	\$ 2,421,457
Work in progress	1,263,854	( 48,493)	1,215,361
Finished goods	6,563,685	( 656,148)	5,907,537
Inventory in transit	709,757	-	709,757
Merchandise inventories	<u>1,093,438</u>	<u>( 11,058)</u>	<u>1,082,380</u>
	<u>\$ 12,225,966</u>	<u>(\$ 889,474)</u>	<u>\$ 11,336,492</u>

A. The cost of inventories recognized as expense for the years ended December 31, 2018 and 2017 was \$28,198,312 and \$29,727,688, respectively, including \$88,300 and \$114,196 that the Group wrote down from cost to the net realizable value accounted for as cost of goods sold for the years ended December 31, 2018 and 2017, respectively.

B. The Group has no inventory pledged to others.

(7) Investments accounted for under the equity method

	December 31, 2018	December 31, 2017
Associates:		
1. Tung Pei Industrial Co., Ltd.	\$ 2,087,582	\$ 2,045,704
2. Creative Sensor Inc.	391,646	410,737
3. Lien Chang Electronic Enterprise Co., Ltd.	440,000	526,975
4. Kuen Ling Machinery Refrigerating Co., Ltd.	347,255	-
5. Others	940,877	863,457
	<u>4,207,360</u>	<u>3,846,873</u>
Joint Venture:		
1. Senergy Wind Power Co., Ltd. (Note 1)	-	169,825
2. Others (Note 2)	-	5,757
	<u>-</u>	<u>175,582</u>
	4,207,360	4,022,455
Less: Credit balance of long-term investments (gross amount before offset of notes receivable-related parties, accounts receivable-related parties, other receivables-related parties and other non-current liabilities)	( 86,926)	( 66,393)
	<u>\$ 4,120,434</u>	<u>\$ 3,956,062</u>

The share of profit/loss of associates and joint ventures accounted for under equity method for the years ended December 31, 2018 and 2017 are as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
1. Tung Pei Industrial Co., Ltd.	\$ 174,843	\$ 193,260
2. Creative Sensor Inc.	23,640	24,129
3. Lien Chang Electronic Enterprise Co., Ltd.	( 64,244)	( 13,165)
4. Kuen Ling Machinery Refrigerating Co., Ltd.	27,931	-
5. Others	( 49,437)	42,897
Joint Venture:		
1. Senergy Wind Power Co., Ltd. (Note 1)	1,410	( 7,427)
2. Others (Note 2)	-	( 5,767)
	<u>\$ 114,143</u>	<u>\$ 233,927</u>

Note 1: The Company was liquidated in 2018.

Note 2: In 2018, the Group acquired 50% shares of the company so that the company became a subsidiary of the Group. AS the amount of total assets and total operating revenue did not meet the criteria of significance to the Group, the company was not included in the Group's consolidated financial statements.

A. Associates

(a) The basic information of the associates that are material to the Group is as follows:

Company name	Principal place of business	Shareholding ratio		Nature of relationship	Method of measurement
		December 31, 2018	December 31, 2017		
Tung Pei Industrial Co., Ltd.	R.O.C	31.14%	31.14%	Financial investment	Equity method
Creative Sensor Inc.	R.O.C	11.50%	11.50%	"	Equity method
Lien Chang Electronic Enterprise Co., Ltd.	R.O.C	33.84%	33.84%	"	Equity method
Kuen Ling Machinery Refrigerating Co., Ltd.	R.O.C	17.61%	19.98%	"	Equity method

(Note)

Note: The company is no longer included in the Group's consolidated entities as the Group lost control over it in the second quarter of 2018. However, the Group still has significant influence on the company, therefore, remaining shares will be accounted for using equity method.

(b) The summarized financial information of the associates that are material to the Group is shown below:

Balance sheet

	Tung Pei Industrial Co., Ltd.	
	December 31, 2018	December 31, 2017
Current assets	\$ 5,460,372	\$ 5,420,336
Non-current assets	7,845,439	7,841,618
Current liabilities	( 3,716,167)	( 3,491,249)
Non-current liabilities	( 2,144,772)	( 2,431,291)
Total assets	<u>\$ 7,444,872</u>	<u>\$ 7,339,414</u>
Share in associate's net assets	\$ 2,087,582	\$ 2,045,704
Goodwill	-	-
Carrying amount of the associate	<u>\$ 2,087,582</u>	<u>\$ 2,045,704</u>

	Creative Sensor Inc.	
	December 31, 2018	December 31, 2017
Current assets	\$ 3,466,786	\$ 3,168,989
Non-current assets	1,167,518	1,427,060
Current liabilities	( 1,284,592)	( 1,131,231)
Non-current liabilities	( 111,553)	( 60,458)
Total net assets	<u>\$ 3,238,159</u>	<u>\$ 3,404,360</u>
Share in associate's net assets	\$ 391,646	\$ 410,737
Goodwill	<u>-</u>	<u>-</u>
Carrying amount of the associate	<u>\$ 391,646</u>	<u>\$ 410,737</u>

	Lien Chang Electronic Enterprise Co., Ltd.	
	December 31, 2018	December 31, 2017
Current assets	\$ 1,684,611	\$ 1,687,297
Non-current assets	603,290	682,745
Current liabilities	( 948,730)	( 764,895)
Non-current liabilities	( 39,089)	( 48,077)
Total net assets	<u>\$ 1,300,082</u>	<u>\$ 1,557,070</u>
Share in associate's net assets	\$ 440,000	\$ 526,975
Goodwill	-	-
Carrying amount of the associate	<u>\$ 440,000</u>	<u>\$ 526,975</u>
	Kuen Ling Machinery Refrigerating Co., Ltd.	
	December 31, 2018	December 31, 2017
Current assets	\$ 1,972,061	\$ 1,757,267
Non-current assets	617,860	630,524
Current liabilities	( 955,868)	( 816,774)
Non-current liabilities	( 163,951)	( 152,935)
Total net assets	<u>\$ 1,470,102</u>	<u>\$ 1,418,082</u>
Share in associate's net assets	\$ 241,171	\$ 262,887
Goodwill	106,084	73,560
Carrying amount of the associate	<u>\$ 347,255</u>	<u>\$ 336,447</u>
<u>Statement of comprehensive income</u>		
	Tung Pei Industrial Co., Ltd.	
	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenue	<u>\$ 7,913,408</u>	<u>\$ 7,173,122</u>
Profit for the period from continuing operations	\$ 564,485	\$ 629,397
Other comprehensive loss, net of tax	( 74,911)	( 157,344)
Total comprehensive income	<u>\$ 489,574</u>	<u>\$ 472,053</u>
Dividends received from associates	<u>\$ 117,435</u>	<u>\$ 78,290</u>

Creative Sensor Inc.		
	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenue	\$ 4,576,761	\$ 3,957,862
Profit for the period from continuing operations	\$ 205,800	\$ 210,020
Other comprehensive (loss) income, net of tax	( 168,712)	( 16,812)
Total comprehensive (loss) income	\$ 37,088	\$ 193,208
Dividends received from associates	\$ 23,352	\$ 23,352

Lien Chang Electronic Enterprise Co., Ltd.		
	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenue	\$ 2,428,431	\$ 2,303,239
(Loss) profit for the period from continuing operations	(\$ 189,823)	(\$ 38,262)
Other comprehensive loss, net of tax	( 67,165)	( 3,017)
Total comprehensive (loss) income	(\$ 256,988)	(\$ 41,279)
Dividends received from associates	\$ -	\$ 28,907

Kuen Ling Machinery Refrigerating Co., Ltd		
	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenue	\$ 2,975,329	\$ 2,692,408
Profit for the period from continuing operations	\$ 214,794	\$ 196,063
Other comprehensive loss, net of tax	( 9,266)	( 27,554)
Total comprehensive income	\$ 205,528	\$ 168,509
Dividends received from associates	\$ 30,223	\$ 33,481

- (c) The carrying amount of the Group's interests in all individually immaterial associates and the Group's share of the operating results are summarized below:  
As of December 31, 2018 and 2017, the carrying amount of the Group's individually immaterial associates amounted to \$940,877 and \$863,457, respectively.

	For the year ended December 31, 2018	For the year ended December 31, 2017
(Loss) profit for the period from continuing operations	(\$ 49,437)	\$ 42,897
Total comprehensive income (loss)	(\$ 49,437)	\$ 42,897

- (a) The fair values of the Group's material associates with quoted market prices are as follows:

	December 31, 2018	December 31, 2017
1.Lien Chang Electronic Enterprise Co., Ltd.	\$ 334,125	\$ 583,781
2.Creative Sensor Inc.	290,437	378,005
3.Kuen Ling Machinery Refrigerating Co., Ltd.	410,304	-
	<u>\$ 1,034,866</u>	<u>\$ 961,786</u>

B. Joint venture

- (a) The basic information of the joint venture that is material to the Group is as follows:

Company name	Principal place of business	Shareholding ratio		Nature of relationship	Method of measurement
		December 31, 2018	December 31, 2017		
Senergy Wind Power Co., Ltd. (Note)	R.O.C	-	50.00%	Joint venture	Equity method

- (b) The summarized financial information of the joint venture that is material to the Group is shown below:

Balance sheet

	Senergy Wind Power Co., Ltd.	
	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ -	\$ 339,587
Other current assets	-	1,004
Current assets	-	340,591
Non-current assets	-	53
Total assets	-	340,644
Current liabilities	-	( 1,000)
Total liabilities	-	( 1,000)
Total net assets	<u>\$ -</u>	<u>\$ 339,644</u>
Share in joint venture's net assets	\$ -	\$ 169,825
Goodwill	-	-
Carrying amount of the joint venture	<u>\$ -</u>	<u>\$ 169,825</u>

Note: The company was liquidated in 2018.



Statement of comprehensive income

	Senergy Wind Power Co., Ltd.	
	For the year ended December 31, 2018	For the year ended September 30, 2017
Revenue	\$ -	\$ -
Depreciation and amortization	\$ -	(\$ 42)
Interest income	\$ -	\$ 5,932
Interest expense	\$ -	\$ -
Profit before income tax	\$ -	(\$ 143,204)
Income tax	\$ -	(\$ 471)
Profit (loss)-net of tax	\$ -	(\$ 143,675)
Total comprehensive income	\$ -	(\$ 143,675)
Dividends received from joint venture	\$ -	\$ -

(c) The carrying amount of the Group's interests in all individually immaterial associates and the Group's share of the operating results are summarized below:

As of December 31, 2018 and 2017, the carrying amount of the Group's individually immaterial associates amounted to \$0 and \$5,757, respectively.

	For the year ended December 31, 2018	For the year ended December 31, 2017
Loss for the period from continuing operations	\$ -	(\$ 5,767)
Total comprehensive loss	\$ -	(\$ 5,767)

C. Investments accounted for using equity method for the years ended December 31, 2018 and 2017, are based on investees' financial statements audited by independent accountants. Gains on investments accounted for using equity method and other comprehensive net income for the years ended December 31, 2018 and 2017 were \$143,935 and \$187,682. As of December 31, 2018 and 2017, the balances of investments accounted for using equity method were \$2,630,962 and \$2,490,857, respectively. The credit balances of investments accounted for using equity method were \$83,459 及 \$66,393, respectively.

D. On May 23, 2018, the shareholders of Kuen Ling Machinery Refrigerating Co., Ltd. (Kuen Ling) during their meeting re-elected directors and supervisors. The Group had 2 seats, and has lost control over the Board of Directors of Kuen Ling, therefore, Kuen Ling and its subsidiaries are no longer included in the Group's consolidated financial statements. In addition, remaining shares were remeasured based on fair value, resulting to a gain on remeasurement amounting to \$46,515. Kuen Ling will be assessed by using equity method subsequently as the Group still has significant influence over to it.

E. Details of the Group's investments accounted for under the equity method pledged to others as collateral are provided in Note 8.

(8) Property, plant and equipment

	Land	Buildings and structures	Machinery and equipment	Transportation equipment	Leased assets	Leasehold improvements	Miscellaneous equipment	Rental assets	Total
<u>At January 1, 2018</u>									
Cost	\$ 5,669,729	\$ 8,903,839	\$ 14,015,941	\$ 1,080,293	\$ 5,275,736	\$ 580,986	\$ 7,978,335	\$ 870,543	\$ 44,375,402
Accumulated depreciation and impairment	( 34,697)	( 4,236,401)	( 12,042,721)	( 741,640)	( 1,688,713)	( 429,093)	( 6,538,067)	( 741,771)	( 26,453,103)
<u>2018</u>	<u>\$ 5,635,032</u>	<u>\$ 4,667,438</u>	<u>\$ 1,973,220</u>	<u>\$ 338,653</u>	<u>\$ 3,587,023</u>	<u>\$ 151,893</u>	<u>\$ 1,440,268</u>	<u>\$ 128,772</u>	<u>\$ 17,922,299</u>
Opening net book amount	\$ 5,635,032	\$ 4,667,438	\$ 1,973,220	\$ 338,653	\$ 3,587,023	\$ 151,893	\$ 1,440,268	\$ 128,772	\$ 17,922,299
Additions	-	284,122	382,834	148,933	8,074	24,817	386,588	-	1,235,368
Disposals	( 807)	( 1)	( 60,974)	( 2,893)	-	( 300)	( 54,284)	-	( 119,259)
Effect of decrease in consolidated entities	( 110,783)	( 295,697)	( 75,452)	( 13,850)	-	( 356)	( 6,091)	-	( 502,229)
Reversal of impairment loss	-	-	32,335	-	-	-	-	-	32,335
Reclassifications	-	33,304	129,251	( 42)	-	( 45)	92,221	( 79,870)	174,819
Depreciation charge	-	( 233,139)	( 382,486)	( 63,750)	( 185,201)	( 40,065)	( 413,666)	( 9,483)	( 1,327,790)
Net exchange differences	( 960)	( 23,178)	( 21,535)	( 1,569)	( 5)	254	( 5,007)	-	( 52,000)
<u>Closing net book amount</u>	<u>\$ 5,522,482</u>	<u>\$ 4,432,849</u>	<u>\$ 1,977,193</u>	<u>\$ 405,482</u>	<u>\$ 3,409,891</u>	<u>\$ 136,198</u>	<u>\$ 1,440,029</u>	<u>\$ 39,419</u>	<u>\$ 17,363,543</u>
<u>At December 31, 2018</u>									
Cost	\$ 5,557,179	\$ 8,602,994	\$ 13,572,413	\$ 1,116,937	\$ 5,283,793	\$ 578,721	\$ 7,828,161	\$ 656,849	\$ 43,197,047
Accumulated depreciation and impairment	( 34,697)	( 4,170,145)	( 11,595,220)	( 711,455)	( 1,873,902)	( 442,523)	( 6,388,132)	( 617,430)	( 25,833,504)
	<u>\$ 5,522,482</u>	<u>\$ 4,432,849</u>	<u>\$ 1,977,193</u>	<u>\$ 405,482</u>	<u>\$ 3,409,891</u>	<u>\$ 136,198</u>	<u>\$ 1,440,029</u>	<u>\$ 39,419</u>	<u>\$ 17,363,543</u>

	Land	Buildings and structures	Machinery and equipment	Transportation equipment	Leased assets	Leasehold improvements	Miscellaneous equipment	Rental assets	Total
<u>At January 1, 2017</u>									
Cost	\$ 5,765,210	\$ 9,547,990	\$ 14,714,940	\$ 1,015,168	\$ 5,260,389	\$ 594,998	\$ 7,048,564	\$ 877,983	\$ 44,825,242
Accumulated depreciation and impairment	( 34,697)	( 4,418,938)	( 12,810,915)	( 691,223)	( 1,502,322)	( 429,246)	( 5,726,156)	( 748,295)	( 26,361,792)
	<u>\$ 5,730,513</u>	<u>\$ 5,129,052</u>	<u>\$ 1,904,025</u>	<u>\$ 323,945</u>	<u>\$ 3,758,067</u>	<u>\$ 165,752</u>	<u>\$ 1,322,408</u>	<u>\$ 129,688</u>	<u>\$ 18,463,450</u>
<u>2017</u>									
Opening net book amount	\$ 5,730,513	\$ 5,129,052	\$ 1,904,025	\$ 323,945	\$ 3,758,067	\$ 165,752	\$ 1,322,408	\$ 129,688	\$ 18,463,450
Additions	-	55,727	490,403	55,491	7,690	37,637	359,907	-	1,006,855
Disposals	( 129,976)	( 265,039)	( 38,468)	( 887)	-	( 9,796)	( 25,269)	-	( 469,435)
Reclassifications	39,543	35,773	39,298	18,671	6,621	6,493	194,516	8,575	349,490
Depreciation charge	-	( 236,364)	( 363,514)	( 57,487)	( 185,372)	( 40,994)	( 409,733)	( 9,491)	( 1,302,955)
Net exchange differences	( 5,048)	( 51,711)	( 58,524)	( 1,080)	17	( 7,199)	( 1,561)	-	( 125,106)
Closing net book amount	<u>\$ 5,635,032</u>	<u>\$ 4,667,438</u>	<u>\$ 1,973,220</u>	<u>\$ 338,653</u>	<u>\$ 3,587,023</u>	<u>\$ 151,893</u>	<u>\$ 1,440,268</u>	<u>\$ 128,772</u>	<u>\$ 17,922,299</u>

<u>At December 31, 2017</u>									
Cost	\$ 5,669,729	\$ 8,903,839	\$ 14,015,941	\$ 1,080,293	\$ 5,275,736	\$ 580,986	\$ 7,978,335	\$ 870,543	\$ 44,375,402
Accumulated depreciation and impairment	( 34,697)	( 4,236,401)	( 12,042,721)	( 741,640)	( 1,688,713)	( 429,093)	( 6,538,067)	( 741,771)	( 26,453,103)
	<u>\$ 5,635,032</u>	<u>\$ 4,667,438</u>	<u>\$ 1,973,220</u>	<u>\$ 338,653</u>	<u>\$ 3,587,023</u>	<u>\$ 151,893</u>	<u>\$ 1,440,268</u>	<u>\$ 128,772</u>	<u>\$ 17,922,299</u>

A. For the years ended December 31, 2018 and 2017, no borrowing cost was capitalized as part of property, plant and equipment.

B. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

C. The Group was unable to transfer the title of certain farmland to the Group's name due to legal restrictions. The land title was registered under an individual's name. Accordingly, the Group entered into an agreement with the said individual to secure the title and the first mortgage right.

D. On September 8, 2017, the Company's subsidiary, Century Development Corporation, entered into a trading contract of land and buildings in the phase II of Nankang Software Park with Bank Taiwan Life Insurance for a total contract price (before tax) of \$426,500 (shown as 4000 Operating income) as described in Note 6. The transfer had been completed in 2017, and gain on disposal of \$80,970 was recognized for the year ended December 31, 2017. All proceeds had been collected

(9) Investment property

	Land	Buildings and structures	Total
<u>At January 1, 2018</u>			
Cost	\$ 1,429,333	\$ 2,626,469	\$ 4,055,802
Accumulated depreciation and impairment	-	(1,172,325)	(1,172,325)
	<u>\$ 1,429,333</u>	<u>\$ 1,454,144</u>	<u>\$ 2,883,477</u>
<u>2018</u>			
Opening net book amount	\$ 1,429,333	\$ 1,454,144	\$ 2,883,477
Reclassifications (transfer during the year)	-	(33,304)	(33,304)
Depreciation charge	-	(64,894)	(64,894)
Net exchange differences	5,845	(7,350)	(1,505)
Closing net book amount	<u>\$ 1,435,178</u>	<u>\$ 1,348,596</u>	<u>\$ 2,783,774</u>
<u>At December 31, 2018</u>			
Cost	\$ 1,435,178	\$ 2,705,183	\$ 4,140,361
Accumulated depreciation and impairment	-	(1,356,587)	(1,356,587)
	<u>\$ 1,435,178</u>	<u>\$ 1,348,596</u>	<u>\$ 2,783,774</u>
	Land	Buildings and structures	Total
<u>At January 1, 2017</u>			
Cost	\$ 1,444,572	\$ 2,780,013	\$ 4,224,585
Accumulated depreciation and impairment	-	(1,151,199)	(1,151,199)
	<u>\$ 1,444,572</u>	<u>\$ 1,628,814</u>	<u>\$ 3,073,386</u>
<u>2017</u>			
Opening net book amount	\$ 1,444,572	\$ 1,628,814	\$ 3,073,386
Reclassifications	-	(95,156)	(95,156)
Depreciation charge	-	(70,928)	(70,928)
Net exchange differences	(15,239)	(8,586)	(23,825)
Closing net book amount	<u>\$ 1,429,333</u>	<u>\$ 1,454,144</u>	<u>\$ 2,883,477</u>
<u>At December 31, 2017</u>			
Cost	\$ 1,429,333	\$ 2,626,469	\$ 4,055,802
Accumulated depreciation and impairment	-	(1,172,325)	(1,172,325)
	<u>\$ 1,429,333</u>	<u>\$ 1,454,144</u>	<u>\$ 2,883,477</u>

- A. Rental income from the lease of the investment property and direct operating expenses arising from the investment property are shown below:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Rental income from investment property	\$ 165,527	\$ 155,147
Direct operating expenses arising from the investment property that generated rental income during the period	\$ 34,543	\$ 67,769
Direct operating expenses arising from the investment property that did not generate rental income during the period	\$ -	\$ -

- B. The fair value of the investment property held by the Group as at December 31, 2018 and 2017 was \$4,767,717 and \$4,496,128 respectively, which is categorized within Level 3 in the fair value hierarchy.

(10) Goodwill (listed as '1780 Intangible assets')

	2018	2017
<u>At January 1</u>		
Cost	\$ 5,396,065	\$ 5,146,709
Accumulated amortization and impairment	-	-
	<u>\$ 5,396,065</u>	<u>\$ 5,146,709</u>
Opening net book amount	\$ 5,396,065	\$ 5,146,709
Disposals	( 107,799)	-
Net exchange differences	( 54,640)	249,356
Closing net book amount	<u>\$ 5,233,626</u>	<u>\$ 5,396,065</u>
<u>At December 31</u>		
Cost	\$ 5,233,626	\$ 5,420,066
Accumulated amortization and impairment	-	-
	<u>\$ 5,233,626</u>	<u>\$ 5,420,066</u>

Goodwill is allocated as follows to the Group's cash-generating units identified according to operating segment:

	December 31, 2018	December 31, 2017
Heavy industrial products division	\$ 5,233,626	\$ 5,288,266
Home electric appliance division	-	107,799
	<u>\$ 5,233,626</u>	<u>\$ 5,396,065</u>

- A. The Group derecognized goodwill which was acquired before it lost control over Kuen Ling Machinery Refrigerating Co., Ltd. amounting to \$107,799 as Kuen Ling Machinery Refrigerating Co., Ltd. was no longer included in the Group's consolidated financial statements starting from May 23, 2018.

- B. On October 15, 2015, the Group acquired 100% equity and obtained control over Motovario S.p.A., which is headquartered in Italy and is primarily engaged in manufacturing and sales of power transmission equipment such as motors and gear reducers, and its subsidiaries for a cash consideration of \$3,989,850 (EUR 108,214 thousand). As of December 31, 2018, the goodwill arising from the merger amounted to \$5,207,755.

(11) Other non-current assets

	December 31, 2018	December 31, 2017
Long-term prepaid rent	\$ 2,532,370	\$ 1,801,943
Refundable deposits	292,542	307,023
Prepayment for property	-	162,834
Prepayment for equipment	219,776	321,884
Long-term notes and accounts receivable	164,345	197,373
Deferred expenses	81,084	93,473
Other assets	90,582	121,110
	<u>\$ 3,380,699</u>	<u>\$ 3,005,640</u>

- A. The Group signed a land use right contract for the use of land. The Group recognized rental expenses of \$79,210 and \$78,434 for years ended December 31, 2018 and 2017, respectively.
- B. On January 14, 2005, the Group's subsidiary, Century Development Corporation, completed the registration of right of superficies and paid royalties to Taipei City Government for acquiring land used for construction of the Nankang Software Park. The right of superficies is available for 50 years from the registration date. Land and building shall be returned to Taipei City Government unconditionally upon expiry of the right of superficies. Century Development Corporation's prepaid rents are amortized over the useful life of right of superficies of 50 years.
- C. The Group's subsidiary, CDC Development India Private Limited, acquired the land use right from the local government agency, KIADB, for India industrial park development. As of December 31, 2018, the total amount remitted for the land use right was INR \$1,750,350. Acquisition of land use right.



(12) Short-term borrowings

Type of borrowings	December 31, 2018	Interest rate range	Collateral
Bank borrowings			
The Company:			
Unsecured borrowings	\$ 49,110	0.89%~0.98%	None
Subsidiary:			
Secured borrowings	529,306	0.92%~2.48%	Financial assets at fair value through other comprehensive income, notes receivable, investments accounted for under the equity method, land, buildings, treasury stocks

Unsecured borrowings	1,415,944	0.65%~3.75%	None
	<u>\$ 1,994,360</u>		

Type of borrowings	December 31, 2017	Interest rate range	Collateral
Bank borrowings			
The Company:			
Unsecured borrowings	\$ 477,670	0.88%~1.46%	None
Subsidiary:			
Secured borrowings	565,316	0.90%~4.57%	Available-for-sale financial assets, notes receivable, investments accounted for under the equity method, land, buildings, treasury stocks
Unsecured borrowings	1,144,635	0.65%~5.21%	None
	<u>\$ 2,187,621</u>		

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

Items	December 31, 2018	December 31, 2017
Current items:		
Financial liabilities held for trading		
Non-hedging derivatives	\$ -	\$ 2,528

A. The Group recognized net income (loss) of \$2,528 and (\$2,528) on financial liabilities held for trading for the years ended December 31, 2018 and 2017, respectively.

B. Explanations of the transactions and contract information in respect of derivative financial liabilities for which the Group does not adopt hedge accounting are as follows:

December 31, 2017			
Financial instrument	Contract period	Contract amount (notional principal)	Fair value
Forward exchange contract			
SELL USD/BUY JPY	Feb. 2, 2018	JPY 300,000,000	(\$ 213)
SELL EUR/BUY USD	Feb. 1, 2018	EUR 3,000,000	( 2,315)
			<u>(\$ 2,528)</u>

On December 31, 2018 the Group has no non-hedging derivative financial liabilities transaction.

- C. The Group entered into forward foreign exchange contracts to sell to hedge exchange rate risk of export proceeds. However, these forward foreign exchange contracts and foreign currency loan are not accounted for under hedge accounting.

(14) Other payables

	December 31, 2018	December 31, 2017
Salary and wages payable	\$ 1,938,276	\$ 1,831,013
Employees' compensation payable	569,487	593,215
Dealers' bonus commission payable	226,860	249,511
Equipment payable	181,192	136,471
Directors' and supervisors' remuneration payable	135,793	149,494
Dividends payable	25,711	25,934
Others	1,643,041	1,854,279
	<u>\$ 4,720,360</u>	<u>\$ 4,839,917</u>

(15) Bonds payable

	December 31, 2018	December 31, 2017
Issuance of bonds payable	<u>\$ 4,000,000</u>	<u>\$ 4,000,000</u>

- A. The terms of the first domestic unsecured ordinary corporate bonds issued by the Company in 2015 are as follows:

The Company issued \$3,000,000, 1.45% first domestic unsecured ordinary corporation bonds, as approved by the regulatory authority on June 18, 2015. The bonds mature 5 years from the issue date (June 18, 2015 ~ June 18, 2020) and will be redeemed at face value at the maturity date.

- B. The terms of the first domestic unsecured ordinary corporate bonds issued by the Company in 2017 are as follows:

The Company issued \$1,000,000, 1.02% first domestic unsecured ordinary corporation bonds, as approved by the regulatory authority on September 15, 2017. The bonds mature 5 years from the issue date (September 15, 2017 ~ September 15, 2022) and will be redeemed at face value at the maturity date.



## (16) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2018
Long-term bank borrowings				
The Company:				
HSBC Bank	Borrowing period is from Apr. 13, 2018 to Apr. 13, 2020; payable at maturity	0.94%	None	\$ 1,000,000
Mizuho Bank	Borrowing period is from Oct. 25, 2018 to Oct. 25, 2020; payable at maturity	0.88%	None	950,000
Sumitomo Mitsui Banking Corporation	Borrowing period is from Nov. 30, 2018 to Nov. 30, 2020; payable at maturity	0.92%	None	500,000
Hua Nan Commercial Bank	Borrowing period is from Jul. 13, 2018 to Jul. 13, 2020; payable at maturity	0.96%	None	600,000
Bank of Taiwan	Borrowing period is from Jun. 20, 2018 to Jun. 20, 2020; payable at maturity	0.80%	None	400,000
Subsidiary:				
Guaranteed syndicated loans	Borrowing period is from Aug. 4, 2016 to Aug. 4, 2021; principal payable semi-	Floating interest rate, EURIBOR plus 1.2%	None	2,079,090
Cathay United Bank	Borrowing period is from March 16, 2011 to March 16, 2021; principal is payable every 6 months in 20 installments	1.53%	Note	876,949
King's Town Bank	Borrowing period is from Aug. 21, 2017 to Feb. 21, 2020; principal is payable in three installments from Aug. 21, 2018	2.10%	Note	300,000
Hua Nan Commercial Bank	Borrowing period is from Dec. 28, 2018 to Dec. 27, 2020; payable at maturity	1.50%	None	40,000
E. Sun Bank	Borrowing period is from Jun. 27, 2016 to Jun. 26, 2021; principal is payable monthly	2.27%	Note	5,142
				6,751,181
Less: Current portion (listed as "2300 other current liabilities")				( 904,492)
				5,846,689
Commercial papers payable				
The Company:				
International Bills Corporation	Borrowing period is from Oct. 15, 2018 to Oct. 14, 2020; payable at maturity	0.35%~0.65%	None	\$ 500,000
Grand Bills Finance Corporation	Borrowing period is from Mar. 27, 2018 to Mar. 26, 2020; payable at maturity	0.62%~0.78%	None	300,000
Subsidiary:				
International Bills Corporation	Borrowing period is from Jan. 9, 2018 to Jan. 8, 2020; payable at maturity	0.64%	None	50,000
China Bills Finance Corporation	Borrowing period is from Feb. 1, 2018 to Jan. 31, 2020; payable at maturity	0.53%	None	50,000
				900,000
Less: Discount on commercial papers payable				( 335)
				899,665
				\$ 6,746,354

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2017
Long-term bank borrowings				
The Company:				
Mizuho Bank	Borrowing period is from Oct. 15, 2017 to Oct. 15, 2019; payable at maturity	0.80%	None	\$ 452,000
King's Town Bank	Borrowing period is from Aug. 21, 2017 to Feb. 21, 2020; principal is payable in three installments from Aug. 21, 2018	2.00%	Note	350,000
Sumitomo Mitsui Banking Corporation	Borrowing period is from Nov. 30, 2016 to Nov. 30, 2019; payable at maturity	0.94%	None	300,000
Subsidiary:				
Guaranteed syndicated loans	Borrowing period is from Aug. 4, 2016 to Aug. 4, 2021; principal is payable semi-annually	Floating interest rate, EURIBOR plus 1.2%	None	2,506,812
Cathay United Bank	Borrowing period is from March 16, 2011 to March 16, 2021; principal is payable every 6 months in 20 installments	1.53%	Note	1,267,442
HSBC Bank	Borrowing period is from Apr. 18, 2017 to Apr. 18, 2019; payable at maturity	0.93%	None	1,000,000
Hua Nan Commercial Bank	Borrowing period is from Dec. 28, 2017 to Dec. 28, 2019; payable at maturity	1.50%	None	40,000
Mizuho Bank	Borrowing period is from Oct. 15, 2017 to Oct. 15, 2019; payable at maturity	0.80%	None	39,000
Taiwan Cooperative Bank	Principal is payable from Dec. 2017 to Jan 2022; in accordance with mutual agreements	1.575%~1.795%	Note	19,578
Chailease Finance Bank	Principal is payable monthly from Oct. 26, 2016 to Sep. 26, 2018	2.61%	Note	12,150
E. Sun Bank	Principal is payable monthly from Jun 27, 2016 to Jun. 26, 2021	2.27%	Note	7,119
				4,892,101
Less: Current portion (listed as "2300 other current liabilities")				( 877,626)
				<u>4,014,475</u>
Commercial papers payable				
The Company:				
International Bills Finance Corporation	Borrowing period is from May 16, 2017 to May 16, 2019; payable at maturity	0.33%~0.60%	None	\$ 200,000
China Bills Finance Corporation	Borrowing period is from Mar. 29, 2017 to Mar. 28, 2019; payable at maturity	0.36%~0.60%	None	500,000
Taiwan Finance Corporation	Borrowing period is from Jun. 23, 2017 to Jun. 22, 2019; payable at maturity	0.48%~0.85%	None	200,000
Grand Bills Finance Corporation	Borrowing period is from Mar. 27, 2017 to Mar. 26, 2019; payable at maturity	0.60%~0.81%	None	400,000
Subsidiary:				
International Bills Finance Corporation	Borrowing period is from Dec. 22, 2017 to Jan. 19, 2019; payable at maturity	0.61%	None	50,000
				1,300,000
Less: Discount on commercial papers payable				( 236)
				<u>1,299,764</u>
				<u>\$ 6,466,239</u>

Note: Details of the Group's assets pledged to others as collateral for borrowings are provided in Note 8.

A. Under the long-term contracts with certain financial institutions, the Group is required to maintain certain financial ratios and capital requirements as well as meet certain restrictions relative to significant asset acquisitions or disposals.

B. As of December 31, 2018 and 2017, the Group has undrawn borrowing facilities of \$18,253,982 and \$19,571,220 respectively.

(17) Pensions

A.(a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contribution for the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	(\$ 2,209,928)	(\$ 2,421,192)
Fair value of plan assets	346,370	377,752
Net defined benefit liability	(\$ 1,863,558)	(\$ 2,043,440)

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
For the year ended December 31, 2018			
Balance at January 1	(\$ 2,421,192)	\$ 377,752	(\$ 2,043,440)
Current service cost	( 56,242)	-	( 56,242)
Interest (expense) income	( 34,144)	5,891	( 28,253)
Past service cost	<u>2,089</u>	<u>-</u>	<u>2,089</u>
	<u>( 2,509,489)</u>	<u>383,643</u>	<u>( 2,125,846)</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	9,862	9,862
Change in demographic assumptions	( 472)	-	( 472)
Change in financial assumptions	( 62,998)	-	( 62,998)
Experience adjustments	<u>14,485</u>	<u>-</u>	<u>14,485</u>
	<u>( 48,985)</u>	<u>9,862</u>	<u>( 39,123)</u>
Pension fund contribution	-	97,091	97,091
Paid pension	184,419	( 124,290)	60,129
Paid from the account	7,841	( 4,168)	3,673
Effect of decrease in consolidated entities	121,942	( 15,780)	106,162
Others	<u>34,344</u>	<u>12</u>	<u>34,356</u>
Balance at December 31	<u>(\$ 2,209,928)</u>	<u>\$ 346,370</u>	<u>(\$ 1,863,558)</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
For the year ended December 31, 2017			
Balance at January 1	(\$ 2,436,114)	\$ 307,621	(\$ 2,128,493)
Current service cost	( 19,220)	-	( 19,220)
Interest (expense) income	( 36,141)	5,422	( 30,719)
Past service cost	695	-	695
Others	<u>2,301</u>	<u>-</u>	<u>2,301</u>
	<u>( 2,488,479)</u>	<u>313,043</u>	<u>( 2,175,436)</u>
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	( 1,817)	( 1,817)
Change in demographic assumptions	( 601)	-	( 601)
Change in financial assumptions	( 2,095)	-	( 2,095)
Experience adjustments	<u>( 54,355)</u>	<u>-</u>	<u>( 54,355)</u>
	<u>( 57,051)</u>	<u>( 1,817)</u>	<u>( 58,868)</u>
Pension fund contribution	-	157,301	157,301
Paid pension	100,337	( 100,337)	-
Paid from the account	24,001	( 520)	23,481
Others	<u>-</u>	<u>10,082</u>	<u>10,082</u>
Balance at December 31	<u>(\$ 2,421,192)</u>	<u>\$ 377,752</u>	<u>(\$ 2,043,440)</u>

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company and its domestic subsidiaries defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company and its domestic subsidiaries has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

- (e) The principal actuarial assumptions used were as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Discount rate	0.80%~6.85%	0.90%~6.85%
Future salary increases	0.50%~8.16%	0%~8%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.5%	Decrease 0.5%	Increase 0.5%	Decrease 0.5%
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 80,367)	\$ 85,374	\$ 84,512	(\$ 80,199)
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 85,912)	\$ 91,388	\$ 90,833	(\$ 85,947)

The sensitivity analysis above was arrived at based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- (f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 are \$42,583.
- B.(a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) The Company’s mainland subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on certain percentage of employees’ monthly salaries and wages. The contribution percentage for the years ended December 31, 2018 and 2017 was 13%~20%. Other than the monthly contributions, the Group has no further obligations.
- (c) Monthly contributions to an independent fund administered by the local pension managing agency are based on a certain percentage of monthly salaries and wages of the Group’s other overseas subsidiaries’ employees.
- (d) The pension costs under the defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017 were \$472,119 and \$457,329, respectively.



(18) Share capital

A. As of December 31, 2018, the Company's authorized capital was \$30,305,500, consisting of 3,030,550 thousand shares of ordinary stock, including 100 million shares reserved for employee stock options, and the paid-in capital was \$20,026,929 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

For the years ended December 31, 2018 and 2017, there was no change to the Company's outstanding ordinary shares.

B. On December 17, 1996, the Board of Directors of the Company adopted a resolution that allows certain stockholders to issue 5,540 thousand units of global depository receipts (GDRs), represented by 55,399 thousand shares of common stock. A unit of GDR represents 10 shares of common stock. After obtaining approval from SFB, these GDRs were listed on the Securities Exchange of London on March 28, 1997, with total proceeds of US\$107,644,000. The issuance of GDRs was presented by issuing common shares, therefore, there is about 7% dilutive effect on the common shares' equity. The main terms and conditions of the GDRs are as follows:

(a) Voting rights

GDR holders may, pursuant to the Depositary Agreement and the relevant laws and regulations of the R.O.C., exercise the voting rights pertaining to the underlying common shares represented by the GDRs.

(b) Redemption of the underlying common shares represented by the GDRs

When the holders of the GDRs request the Depositary to redeem the GDRs in accordance with the relevant R.O.C. regulations and the provisions in the Depositary Agreement, the Depositary may (i) deliver the underlying common shares represented by the GDRs to the GDR holders, or (ii) sell the underlying common shares represented by the GDRs in the R.O.C. stock market on behalf of the GDR holder. The payment of proceeds from such sale shall be made subject to the relevant R.O.C. laws and regulations and the provisions in the Depositary Agreement.

(c) Distribution of dividends, preemptive rights and other rights

GDR holders own the same rights as common shareholders.

(d) As of December 31, 2018, the Company has redeemed all depository receipts.

C. All of the shares of the Company held by the Company's subsidiaries—Tong-An Investment Co., Ltd. and An-Tai International Investment Co., Ltd. were acquired in or before 2000 for the purpose of general investment. After a regulation of the Company Act was amended in 2000 wherein the shares of the holding company shall not be purchased nor be accepted as a security or pledge by its subsidiary, the two subsidiaries did not acquire additional shares of the Company. In addition, Top-Tower Enterprises Co., Ltd. also held the Company's shares before the Company obtained control of Top-Tower Enterprises Co., Ltd. in August, 2013, and did not acquire additional shares of the Company again after the Company obtained its control. As of December 31, 2018 and 2017, book value of the shares of the Company held by the three subsidiaries amounted to \$321,563.

Details are as follows:

	December 31, 2018		
	Shares (in thousands)	Cost (in dollars)	Market value (in dollars)
Tong-An Investment Co., Ltd.	19,540	\$ 14.92	17.45
An-Tai International Investment Co., Ltd.	2,826	10.37	17.45
Top-Tower Enterprises Co., Ltd.	77	9.37	17.45
	<u>22,443</u>		
	December 31, 2017		
	Shares (in thousands)	Cost (in dollars)	Market value (in dollars)
Tong-An Investment Co., Ltd.	19,540	\$ 14.92	\$ 28.50
An-Tai International Investment Co., Ltd.	2,826	10.37	28.50
Top-Tower Enterprises Co., Ltd.	77	9.37	28.50
	<u>22,443</u>		

(19) Capital surplus

Pursuant to the R.O.C Company Law, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C Securities and Exchange Law requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(20) Retained earnings and legal reserve

- A. As stipulated in the Company's Articles of Incorporation, the current earnings, if any, shall be distributed in the following order:
  - (a) Payment of taxes and duties.
  - (b) Covering prior years' accumulated deficit, if any.
  - (c) After deducting items (a) and (b), set aside 10% of the remaining amount as legal reserve.
  - (d) Set aside a certain amount as special reserve, if any.
  - (e) Distributing the remaining amount plus prior years' retained earnings to shareholders according to their shareholding percentage. The distribution rate is principally 80%, of which cash dividend shall account for 5% ~ 50% of the distributed amount.
- B. The Company's dividend policy is summarized below:  
The Company's operating environment is in the stable growth stage. However, investee companies are still in the growth stage. In view of the future plant expansion and investment plans, the appropriations of earnings are based on the distributable earnings and appropriate principally 80% to shareholders as dividends. Cash dividends shall account for at least 5% up to maximum of 50% of total dividends distributed.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.  
(b) The amounts previously set aside by the Company as special reserve on initial application



of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land. As of December 31, 2018, the amount previously set aside as special reserve on initial application of IFRSs and yet to be reversed amounted to \$3,640,779.

E. The Company recognized dividends distributed to owners amounting to \$1,722,316 (\$0.86 (in dollars) per share) and \$1,762,370 (\$0.88 (in dollars) per share) for the years ended December 31, 2018 and 2017, respectively. On March 26, 2019, the Board of Directors proposed for the distribution of dividends from 2018 earnings in the amount of \$0.9 with \$1,770,924 (in dollars) per share.

F. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6 (27).

(21) Other equity items

	Unrealized gains on valuation	Currency translation	Total
At January 1, 2018	\$ -	(\$ 1,759,357)	(\$ 1,759,357)
IFRS opening balance adjustment	1,848,757	-	1,848,757
Unrealized gains and losses on financial assets:			
–Group	605,558	-	605,558
–Associates	( 20,180)	-	( 20,180)
Revaluation transferred to retained earnings	572,647	-	572,647
Currency translation differences:			
–Group	-	( 142,367)	( 142,367)
At December 31, 2018	<u>\$ 3,006,782</u>	<u>(\$ 1,901,724)</u>	<u>\$ 1,105,058</u>
	Unrealized gains on valuation	Currency translation	Total
At January 1, 2017	\$ 2,218,526	(\$ 1,051,753)	\$ 1,166,773
Unrealized gains and losses on financial assets:			
–Group	1,563,333	-	1,563,333
–Associates	4,019	-	4,019
Currency translation differences:			
–Group	-	( 707,604)	( 707,604)
At December 31, 2017	<u>\$ 3,785,878</u>	<u>(\$ 1,759,357)</u>	<u>\$ 2,026,521</u>

(22) Operating revenue

	For the year ended December 31, 2018
Revenue from customers	\$ 49,361,180
Others-rental revenue	794,813
Others-(loss) gain on financial assets at fair value through profit or loss	( 51,066)
	<u>\$ 50,104,927</u>

## A. Disaggregation of revenue from customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

For the year ended December 31, 2018	Revenue from external customer contracts
Sales of heavy industrial products	\$ 29,684,770
Sales of home appliances	5,940,812
Others	2,866,510
Service revenue	7,520,090
Construction contract	3,348,998
	<u>\$ 49,361,180</u>

## B. Contract assets and liabilities

The Group has recognized the following revenue-related contract assets and liabilities:

Revenue recognized that was included in the contract liability balance at the beginning of the period

	For the year ended December 31, 2018
Revenue recognized that was included in the contract liability balance at the beginning of the period	
Electromechanical engineering contracts	\$ -
Advance sales receipts	871,551
Royalty received in advance	1,768
	<u>\$ 873,319</u>

## C. Related disclosures on operating revenue for 2017 are provided in Note 12(5) B.

(23) Other income

	For the year ended December 31, 2018	For the year ended December 31, 2017
Interest income from bank deposits	\$ 219,986	\$ 150,197
Rental revenue	197,825	188,565
Dividend income	553,818	508,613
Insurance claims income	-	346,186
Other non-operating income	292,454	313,375
	<u>\$ 1,264,083</u>	<u>\$ 1,506,936</u>

(24) Other gains and losses

	For the year ended December 31, 2018	For the year ended December 31, 2017
(Loss) gain on disposal of property, plant and equipment	(\$ 29,086)	\$ 150,541
Gain on disposal of investments	631	112,619
Net currency exchange gain (loss)	76,925	( 235,383)
Net loss on financial assets at fair value through profit or loss	( 109,909)	( 4,573)
Impairment loss on financial assets	-	( 889)
Net gain (loss) on financial liabilities at fair value through profit or loss	2,528	( 2,528)
Gain on remeasurement	46,515	-
Reversal of impairment loss recognized in profit or loss	32,335	-
Fire loss	-	( 262,216)
Miscellaneous disbursements	( 409,823)	( 386,092)
	<u>(\$ 389,884)</u>	<u>(\$ 628,521)</u>

Because the Group lost control over Kuen Ling Machinery Refrigerating Co. (Kuen Ling), the Group measured Kuen Ling's shares which were held before the Group lost control over Kuen Ling based on fair value, and recognized the related gain on measurement. Please refer to Note 6(7) for more information.

(25) Finance costs

	For the year ended December 31, 2018	For the year ended December 31, 2017
Interest expense	\$ 218,005	\$ 239,427
Other finance expenses	4,535	15,211
	<u>\$ 222,540</u>	<u>\$ 254,638</u>

(26) Expenses by nature (Include employee benefit expense)

	For the year ended December 31, 2018	For the year ended December 31, 2017
Wages and salaries	\$ 8,850,328	\$ 8,786,630
Employees' compensation and directors' and supervisors' remuneration	691,645	594,404
Labor and health insurance fees	926,335	899,806
Pension costs	554,525	504,272
Other personnel expenses	445,182	429,812
Depreciation charges on property, plant and equipment	1,392,684	1,373,883
Amortization charges on intangible assets	135,856	110,005
	<u>\$ 12,996,555</u>	<u>\$ 12,698,812</u>

- A. According to the Articles of Incorporation of the Company, a ratio of profit of the current year distributable, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall be 1%~10% for employees' compensation and shall not be higher than 5% for directors' and supervisors' remuneration.
- B. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at \$255,103 and \$250,481, respectively; while directors' and supervisors' remuneration was accrued at \$113,379 and \$111,325, respectively. The aforementioned amounts were recognized in salary expenses.
- C. For the years ended December 31, 2018 and 2017, after considering each year's earnings, the employee benefit expenses were accrued based on past experience and ratio.

The employees' remuneration and directors' and supervisors' remuneration for 2017 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2017 financial statements. As of December 31, 2018, abovementioned earnings of prior year have not yet been distributed.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(27) Income tax

## A. Income tax expense

## (a) Components of income tax expense:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Current tax:		
Current tax on profits for the period	\$ 657,519	\$ 843,869
Tax on undistributed surplus earnings	102,786	137,354
Prior year income tax under (over) estimation	4,498 (	( 203)
Effect from Alternative Minimum tax	6,456	7,692
Total current tax	771,259	988,712
Deferred tax:		
Origination and reversal of temporary differences	( 135,392) (	( 179,056)
Impact of change in tax rate	174,452	-
Total deferred tax	39,060 (	( 179,056)
Income tax expense	\$ 810,319	\$ 809,656

## (b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Currency translation differences	(\$ 4,532)	(\$ 68,969)
Remeasurement of defined benefit obligations	(\$ 1,534)	\$ -
Impact of change in tax rate	( 60,449)	( 3,037)
	(\$ 66,515)	(\$ 72,006)

## B. Reconciliation between income tax expense and accounting profit

	For the year ended December 31, 2018	For the year ended December 31, 2017
Tax calculated based on profit before tax and statutory tax rate	\$ 1,388,411	\$ 1,226,085
Effects from items disallowed by tax regulation	( 615,121)	( 422,809)
Effect from investment tax credits	( 3,159)	( 35,723)
Prior year income tax under (over) estimation	4,498	( 203)
Underestimation of prior year's net deferred tax assets and liabilities earnings	( 172,071)	( 111,730)
Additional 10% tax on undistributed earnings	102,786	137,354
Effect from Alternative Minimum Tax	6,456	7,692
Others	( 75,933)	8,990
Impact of change in tax rate	174,452	-
Income tax expense	<u>\$ 810,319</u>	<u>\$ 809,656</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences and tax losses are as follows:

	For the year ended December 31, 2018				
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	Effect of decrease in consolidated entities	December 31
Temporary differences					
— Deferred tax assets:	\$ 90,530	(\$ 3,804)	\$ 19,779	\$ -	\$ 106,505
Impairment loss	231,223	( 790)	45,073	-	275,506
Currency translation differences					
Difference resulting from different usefullives of property, plant and equipment between financial and tax basis	50,602	9,906	-	-	60,508
Unrealized expenses	375,724	( 43,707)	-	( 12,059)	319,958
Permanent loss on investments	29,817	5,263	-	-	35,080
Loss on inventory	126,258	( 39,931)	-	( 3,070)	83,257
Over provision of allowance for doubtful accounts	33,166	( 13,498)	-	( 3,381)	16,287
Others	311,034	( 63,291)	1,663	( 17,774)	231,632
Tax losses	134,530	( 12,520)	-	-	122,010
	<u>1,382,884</u>	<u>( 162,372)</u>	<u>66,515</u>	<u>( 36,284)</u>	<u>1,250,743</u>
— Deferred tax liabilities:					
Investment income from foreign investments	829,815	( 77,523)	-	( 45,381)	706,911
Land value incremental reserve	1,050,369	-	-	-	1,050,369
Trademark right	347,341	( 51,660)	-	-	295,681
Others	195,498	5,871	-	( 254)	201,115
	<u>2,423,023</u>	<u>( 123,312)</u>	<u>-</u>	<u>( 45,635)</u>	<u>2,254,076</u>
	<u>(\$ 1,040,139)</u>	<u>(\$ 39,060)</u>	<u>\$ 66,515</u>	<u>\$ 9,351</u>	<u>(\$ 1,003,333)</u>

For the year ended December 31, 2017

	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences				
— Deferred tax assets:	\$ 91,548	(\$ 1,018)	\$ -	\$ 90,530
Impairment loss	161,971	283	68,969	231,223
Currency translation differences				
Difference resulting from different usefullives of property, plant and equipment between financial and tax basis	56,322	( 5,720)	-	50,602
Unrealized expenses	342,575	33,149	-	375,724
Permanent loss on investments	29,817	-	-	29,817
Loss on inventory	142,317	( 16,059)	-	126,258
Over provision of allowance for doubtful accounts	35,206	( 2,040)	-	33,166
Others	209,040	98,957	3,037	311,034
Tax losses	125,446	9,084	-	134,530
	<u>1,194,242</u>	<u>\$ 116,636</u>	<u>\$ 72,006</u>	<u>1,382,884</u>
— Deferred tax liabilities:				
Investment income from foreign investments	929,393	( 99,578)	-	829,815
Land value incremental reserve	1,050,369	-	-	1,050,369
Trademark right	331,034	16,307	-	347,341
Others	174,647	20,851	-	195,498
	<u>2,485,443</u>	<u>( 62,420)</u>	<u>-</u>	<u>2,423,023</u>
	<u>(\$ 1,291,201)</u>	<u>\$ 179,056</u>	<u>\$ 72,006</u>	<u>(\$ 1,040,139)</u>



D. Expiration dates of unused tax losses and amounts of unrecognized deferred tax assets are as follows:

December 31, 2018				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognized deferred tax assets	Usable until year
2008	Amount assessed	\$ 124,261	\$ 82,620	2019
2009	Amount assessed	936,512	913,411	2020
2010	Amount assessed	588,631	588,631	2021
2011	Amount assessed	305,820	305,820	2022
2012	Amount assessed	407,619	407,619	2023
2013	Amount assessed	198,582	198,582	2024
2014	Amount filed	157,772	157,772	2025
2015	Amount filed	339,701	172,811	2026
2016	Amount filed	203,007	203,007	2027
2017	Amount filed	277,069	277,069	2028
		<u>\$ 3,538,974</u>	<u>\$ 3,307,342</u>	
December 31, 2017				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognized deferred tax assets	Usable until year
2008	Amount assessed	\$ 298,917	\$ 279,502	2018
2009	Amount assessed	970,642	970,642	2019
2010	Amount assessed	585,213	585,213	2020
2011	Amount assessed	335,411	335,411	2021
2012	Amount assessed	361,498	361,498	2022
2013	Amount assessed	199,182	199,182	2023
2014	Amount filed	135,719	122,978	2024
2015	Amount filed	347,093	347,093	2025
2016	Amount filed	303,404	245,436	2026
2017	Amount filed	225,643	155,172	2027
		<u>\$ 3,762,722</u>	<u>\$ 3,602,127</u>	

E. The amounts of deductible temporary differences that were not recognized as deferred tax assets are as follows:

	December 31, 2018	December 31, 2017
Deductible temporary differences	<u>\$ 1,949,343</u>	<u>\$ 1,911,927</u>

F. As of December 31, 2018, the Company and its subsidiaries' income tax returns through various years between 2014 and 2017, respectively, have been assessed and approved by the Tax Authority.

G. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

H. Under the amendments to the US Income Tax Act which was promulgated on December 22, 2017, the federal corporate tax rate decreased from 35% to 21%. The Company assessed that

there was no significant impact on the balance of deferred tax assets and deferred tax liabilities.

(28) Earnings per share

	For the year ended December 31, 2018		
	Amount after tax	Weighted average number of ordinary shares outstanding (in thousands)	Earnings per share (in dollars)
<u>Basic(Diluted) earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 3,150,089	1,980,250	\$ 1.59
	For the year ended December 31, 2017		
	Amount after tax	Weighted average number of ordinary shares outstanding (in thousands)	Earnings per share (in dollars)
<u>Basic(Diluted) earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 3,092,358	1,980,250	\$ 1.56

(29) Supplemental cash flow information

A. Investing activities with partial cash payments:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Acquisition of property, plant and equipment	\$ 1,235,368	\$ 1,006,855
Add:		
Payables at beginning of the period	136,471	151,433
Less:		
Payables at end of the period	(181,192)	(136,471)
Cash paid	\$ 1,190,647	\$ 1,021,817

- On May 23, 2018, Kuen Ling Machinery Refrigerating Co., Ltd. re-elected directors and supervisors, and therefore the Group lost control over the subsidiary (please refer to Note 6(7) and Note 4(3)). The details of the consideration received from the transaction (including cash and cash equivalent) and assets and liabilities relating to the subsidiary are as follows:

	May 23, 2018		
Consideration received			
Equity instruments	\$		392,186
Non-controlling interest			1,100,697
Total consideration			1,492,883
Carrying amount of the assets and liabilities of the subsidiary			
Cash	\$		434,442
Notes and accounts receivable			782,661
Contract assets			44,242
Inventories			548,071
Other current assets			108,104
Property, plant and equipment			502,229
Other non-current assets			227,677
Short-term borrowings	(		71,795)
Notes and accounts receivable	(		408,209)
Other current liabilities	(		563,431)
Long-term borrowings	(		4,916)
Other non-current liabilities	(		152,707)
Total net assets			1,446,368
Gain on remeasurement	\$		46,515
<b>(30) <u>Changes in liabilities from financing activities</u></b>			
	Short-term borrowings	Long-term borrowings (Note)	Liabilities from financing activities-gross
January 1, 2018	\$ 2,187,621	\$ 7,343,865	\$ 9,531,486
Changes in cash flow from financing activities	( 121,466)	311,897	190,431
Changes in loss of control in subsidiaries	( 71,795)	( 4,916)	( 76,711)
December 31, 2018	<u>\$ 1,994,360</u>	<u>\$ 7,650,846</u>	<u>\$ 9,645,206</u>
	Short-term borrowings	Long-term borrowings (Note)	Liabilities from financing activities-gross
January 1, 2017	\$ 3,078,361	\$ 10,271,156	\$ 13,349,517
Changes in cash flow from financing activities	( 890,740)	( 2,927,291)	( 3,818,031)
December 31, 2017	<u>\$ 2,187,621</u>	<u>\$ 7,343,865</u>	<u>\$ 9,531,486</u>

Note: Including current portion

**(31) Details of significant non-controlling interests**

As of December 31, 2018 and 2017, the non-controlling interest amounted to \$4,812,255 and \$6,044,372 respectively. The information on non-controlling interest and respective subsidiaries is as follows:

		Non-Controlling Interest			
		December 31, 2018		December 31, 2017	
Name of subsidiary	Principal place of business	Amount	Ownership	Amount	Ownership
Tecom Co., Ltd.	R.O.C	\$ 343,717	36.48%	\$ 316,178	36.48%
Taiwan Pelican Express Co., Ltd.	R.O.C	1,095,193	67.85%	1,128,238	67.85%
Kuen Ling Machinery Refrigerating Co., Ltd.(Note)	R.O.C	-	-	1,081,634	80.02%
Century Development Corporation	R.O.C	2,122,394	47.25%	2,021,418	47.25%

Note: On May 23, 2018, the shareholders of Kuen Ling Machinery Refrigerating Co., Ltd. (Kuen Ling) during their meeting re-elected directors and supervisors. The Group had 2 seats, and had lost control over the Board of Directors of Kuen Ling. Accordingly, Kuen Ling and its subsidiaries are no longer included in the Group's consolidated financial statements. In addition, remaining shares were remeasured based on fair value, and the Group recognized gain on remeasurement amounting to \$46,515. Kuen Ling will be assessed by using equity method subsequently as the Group still has significant control over it.

## Summarized financial information of the subsidiaries:

Balance sheets

	Tecom Co., Ltd.	
	December 31, 2018	December 31, 2017
Current assets	\$ 1,310,189	\$ 1,513,819
Non-current assets	794,441	724,220
Current liabilities	( 1,145,990)	( 1,245,590)
Non-current liabilities	( 359,631)	( 442,489)
Total net assets	<u>\$ 599,009</u>	<u>\$ 549,960</u>
	Taiwan Pelican Express Co., Ltd.	
	December 31, 2018	December 31, 2017
Current assets	\$ 1,638,107	\$ 1,787,139
Non-current assets	744,434	654,569
Current liabilities	( 741,776)	( 759,856)
Non-current liabilities	( 26,555)	( 19,010)
Total net assets	<u>\$ 1,614,210</u>	<u>\$ 1,662,842</u>
	Kuen Ling Machinery Refrigerating Co., Ltd.	
	December 31, 2018	December 31, 2017
Current assets	\$ 1,917,520	\$ 1,757,267
Non-current assets	622,107	630,524
Current liabilities	( 1,043,435)	( 816,774)
Non-current liabilities	( 157,623)	( 152,935)
Total net assets	<u>\$ 1,338,569</u>	<u>\$ 1,418,082</u>
	Century Development Corporation	
	December 31, 2018	December 31, 2017
Current assets	\$ 901,156	\$ 1,139,718
Non-current assets	5,697,648	4,764,686
Current liabilities	( 588,627)	( 561,768)
Non-current liabilities	( 671,449)	( 1,062,833)
Total net assets	<u>\$ 5,338,728</u>	<u>\$ 4,279,803</u>

Statements of comprehensive income

Tecom Co., Ltd.		
	For the year ended ended December 31, 2018	For the year ended ended December 31, 2017
Revenue	\$ 2,428,662	\$ 3,085,255
Loss before income tax	( 51,258)	( 67,057)
Income tax expense	( 4,248)	( 66)
Loss for the year	( 55,506)	( 67,123)
Other comprehensive income (net of tax)	110,905	82,218
Total comprehensive income for the year	<u>\$ 55,399</u>	<u>\$ 15,095</u>
Comprehensive income (loss) attributable to non- controlling interest	<u>\$ 14,829</u>	<u>\$ 14,426</u>
Taiwan Pelican Express Co., Ltd.		
	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenue	\$ 3,360,947	\$ 3,059,610
Profit before income tax	78,919	134,661
Income tax expense	( 10,444)	( 16,250)
Profit for the year	68,475	118,411
Other comprehensive loss (net of tax)	( 16,867)	( 36,608)
Total comprehensive income for the year	<u>\$ 51,608</u>	<u>\$ 81,803</u>
Comprehensive income attributable to non-controlling interest	<u>\$ 46,458</u>	<u>\$ 80,338</u>
Dividends paid to non- controlling interests	<u>\$ 68,010</u>	<u>\$ 32,105</u>

	Kuen Ling Machinery Refrigerating Co., Ltd.	
	For the period from January 1 to May 23, 2018	For the year ended December 31, 2017
Revenue	\$ 1,087,532	\$ 2,692,408
Profit before income tax	87,655	253,110
Income tax expense	( 20,451)	( 57,047)
Profit for the period	67,204	196,063
Other comprehensive income (loss) (net of tax)	5,984	( 27,554)
Total comprehensive income for the period	<u>\$ 73,188</u>	<u>\$ 168,509</u>
Comprehensive income attributable to non-controlling interest	<u>\$ -</u>	<u>\$ 135,645</u>
Dividends paid to non- controlling interests	<u>\$ -</u>	<u>\$ 134,054</u>

Note: The summarized financial information of Kuen Ling, which is attributable to the Group, had been disclosed up to the date that the Group lost control.

	Century Development Corporation	
	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenue	\$ 1,050,641	\$ 1,310,846
Profit before income tax	287,386	379,464
Income tax expense	( 68,433)	( 64,590)
Profit for the year	218,953	314,874
Other comprehensive loss (net of tax)	( 8,789)	( 10,089)
Total comprehensive income for the year	<u>\$ 210,164</u>	<u>\$ 304,785</u>
Comprehensive income attributable to non-controlling interest	<u>\$ 106,174</u>	<u>\$ 167,574</u>
Dividends paid to non-controlling interests	<u>\$ 50,903</u>	<u>\$ 76,447</u>

Statements of cash flows

	Tecom Co., Ltd.	
	For the year ended December 31, 2018	For the year ended December 31, 2017
Net cash provided by operating activities	\$ 171,452	\$ 442,105
Net cash used in investing activities	( 149,562)	( 40,743)
Net cash used in financing activities	( 146,222)	( 359,266)
(Decrease) increase in cash and cash equivalents	( 124,332)	42,096
Cash and cash equivalents, beginning of year	306,221	275,120
Cash and cash equivalents, end of year	<u>\$ 181,889</u>	<u>\$ 317,216</u>
	Taiwan Pelican Express Co., Ltd.	
	For the year ended December 31, 2018	For the year ended December 31, 2017
Net cash provided by operating activities	\$ 123,630	\$ 109,282
Net cash used in investing activities	( 181,505)	( 73,672)
Net cash used in financing activities	( 95,148)	( 42,907)
Effect of exchange rates on cash and cash equivalents	( 30)	( 51)
Decrease in cash and cash equivalents	( 153,053)	( 7,348)
Cash and cash equivalents, beginning of year	1,041,321	1,048,669
Cash and cash equivalents, end of year	<u>\$ 888,268</u>	<u>\$ 1,041,321</u>



Kuen Ling Machinery Refrigerating Co., Ltd.			
		For the period from	For the year ended
		January 1 to May 23, 2018	December 31, 2017
Net cash provided by operating activities	\$	116,389	\$ 229,941
Net cash provided by (used in) investing activities		5,890 (	66,650)
Net cash used in financing activities	(	48,898) (	186,819)
Effect of exchange rates on cash and cash equivalents		338 (	18,824)
Increase (decrease) in cash and cash equivalents		73,719 (	42,352)
Cash and cash equivalents, beginning of period		360,723	403,075
Cash and cash equivalents, end of period	\$	434,442	\$ 360,723

Note: The summarized financial information of Kuen Ling, which is attributable to the Group, had been disclosed up to the date that the Group lost control.

Century Development Corporation			
		For the year ended	For the year ended
		December 31, 2018	December 31, 2017
Net cash provided by operating activities	\$	373,434	\$ 471,486
Net cash (used in) provided by investing activities	(	1,074,898)	453,948
Net cash provided by (used in) financing activities		457,951 (	739,282)
Effect of exchange rates on cash and cash equivalents	(	14,048) (	312)
(Decrease) increase in cash and cash equivalents	(	257,561)	185,840
Cash and cash equivalents, beginning of year		808,457	622,617
Cash and cash equivalents, end of year	\$	550,896	\$ 808,457

## 7. RELATED PARTY TRANSACTIONS

### (1) Names of related parties and relationship

Names of related parties	Relationship with the Group	Names of related parties	Relationship with the Group
Teco Middle East Electrical & Machinery Co., Ltd. (TME)	Associates	Nano Bit Tech Co., Ltd. (Nano Bit) (Note 2)	Associates
Teco (PHILIPPINES) 3C & Appliances, Inc (Teco 3C)	"	Shanghai Xiangseng Mechanical and Electrical Trading Co., Ltd. (Shanghai Xiangseng)	"
Jiangxi Teco - Lead PM Generator (Jiangxi Teco - Lead)	"	Xianlaoman Food Services Co., Ltd. (Xianlaoman )	"
Taian-Jaya Electric Sdn. Bhd. (Taian-Jaya)	"	Teco Group Science Technology (Han Zou) Co., Ltd. (Teco Group)	"
Nanchang Dong-Huan Management & Consulting Co., Ltd. (Nanchang Dong-Huan)(Note 1)	"	Shanghai Tungpei Enterprise Co., Ltd. (Shanghai Tungpei)	"
Hubbell-Taian Co., Ltd. (Hubbell)	"	Greyback International Property, Inc. (Greyback)	"
An-Sheng Travel Co., Ltd. (An-Sheng)	"	ABC Cooking Studio Taiwan Co., Ltd.	"
Le-Li Co., Ltd. (Le-Li)	"	Qingdao Teco Century Advanced High Tech Mechatronics Co., Ltd. (Teco Century)	"
Lien Chang Electronic Enterprise Co., Ltd. (Lien Chang)	"	Senergy Wind Power Co., Ltd. (Senergy Wind Power) (Note 4)	"
Tung Pei Industrial Co., Ltd. (Tung Pei)	"	Ropali-Teco Corporation (ROTECO)	"
Taian Electric Co., Ltd. (Taian Electric)	"	Fujio Food System Taiwan Co., Ltd. (Fujio Food)	"
Royal Host Taiwan Co., Ltd. (Royal Host)	"	Foremost International Food & Beverage Co., Ltd. (Foremost Food)	"
Taisan Electric Co.,Ltd. (Taisan Electric)	"	Teco Technology & Marketing Center Co., Ltd. (TTMC)	"
Tension Envelope Taiwan Co., Ltd. (Tension)	"	An-shin Food Service Co., Ltd. (An-shin)	Other related parties
Creative Sensor Inc. (Creative Senso)	"	Teco Image System Co., Ltd. (Teco Image)	"
Kogle Foods Co., Ltd. (Kogle)	"	Ming Full Ltd. (Ming Food)	"
TG Teco Vacuum Insulated Glass (TG Teco Vacuum Insulated Glass)	"	Taiwan Art & Bussiness Inyerdisplinary Foundation (Taiwan Art )	"
TA Associates International Pte Ltd. (TA Assotiates) (Note 1)	"	Xia Men An-Shin Food Management Co., Ltd. (Xia Men An-Shin)	"
Teco-Motech Co., Ltd. (Teco-Motech)	"	Teco Technology Foundation (Teco Found)	"
Kuen Ling Machinery Refrigerating Co., Ltd. (Kuen Ling) (Note 3)	"	Koryo Electronics Co., Ltd. (Koryo)	"

Note 1: This company was dissolved in 2017.

Note 2: The Group lost its significant control over the investee as a result of stock disposals during the second quarter of 2017. Since then, the investee became a non-related party.

Note 3: The Group had lost control over the company since May 23, 2018 as the company re-elected directors and supervisors. Therefore, the company was no longer included in the Group's consolidated financial statements. The investee became associates.

Note 4: The Company has been liquidated in 2018.

(2) Significant related party transactions

A. Operating revenue:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Sales of goods and services:		
Associates	\$ 433,304	\$ 468,099
Other related parties	<u>391,833</u>	<u>321,382</u>
	<u>\$ 825,137</u>	<u>\$ 789,481</u>

The Group sells commodities and services to related parties based on mutually agreed selling price and terms as there is no similar transaction to be compared with.

B. Purchases of goods:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Purchases of goods:		
Associates	\$ 461,603	\$ 163,057
Other related parties	<u>207</u>	<u>59</u>
	<u>\$ 461,810</u>	<u>\$ 163,116</u>

The purchase terms, including pricing and payments, were based on mutual agreement and have no similar transaction to be compared with.

## C. Receivables from related parties:

	December 31, 2018	December 31, 2017
Receivables from related parties:		
Associates	\$ 154,346	\$ 101,112
Other related parties	94,273	88,859
Less: Reclassified to other receivables	(4,706)	(5,339)
	<u>243,913</u>	<u>184,632</u>
Other receivables - transfer of accounts receivable that were past due		
Associates	<u>4,706</u>	<u>5,339</u>
Other receivables - others		
Associates		
Le-Li Co., Ltd.	\$ 15,738	\$ 9,862
Others	46,977	14,510
Other related parties	<u>3,558</u>	<u>5,133</u>
	<u>66,273</u>	<u>29,505</u>
	<u>70,979</u>	<u>34,844</u>
	<u>\$ 314,892</u>	<u>\$ 219,476</u>

(a) The receivables from related parties arise mainly from sale transactions. The receivables are due 30 to 90 days after the date of sale, unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

(b) The aforementioned accounts receivable that were past due were \$4,706 and \$5,339 as of December 31, 2018 and 2017, respectively. The ageing of the past due accounts receivable is beyond 90 days.

(c) The other receivables arise mainly from other receivables for rental.

## D. Payables to related parties:

	December 31, 2018	December 31, 2017
Payables to related parties:		
Associates	\$ 225,882	\$ 123,800
Other related parties	<u>1,039</u>	<u>839</u>
	<u>\$ 226,921</u>	<u>\$ 124,639</u>

The payables to related parties arise mainly from purchase transactions and are due 180 days after the date of purchase. The payables bear no interest.

## E. Endorsements and guarantees provided to related parties:

	December 31, 2018	December 31, 2017
Associates	<u>\$ 42,675</u>	<u>\$ 41,051</u>

(3) Key management compensation

	For the year ended December 31, 2018	For the year ended December 31, 2017
Salaries and other short-term employee benefits	\$ 506,652	\$ 557,623
Post-employment benefits	5,745	6,363
	<u>\$ 512,397</u>	<u>\$ 563,986</u>

8. PLEDGED ASSETS

Pledged asset	Book value	Purpose
	December 31, 2018	
Notes receivable	\$ 97,899	Short-term-borrowings
Other current assets		
Demand deposits	71,965	Short-term borrowings, deposits for renting warehouses, deposits for acceptance bill, provisional seizure guarantee of compensation, exercise guarantee for construction, warranty margin, engineering bond, and tariff guarantee
Time deposits	208,485	Engineering bond, merchandise loans, long-term and short-term borrowings, engineering guarantees, customs security deposit, warranty margin, exercise guarantee for construction and quality assurance for product sales
Cash and bank deposits	339,879	Seizure guarantee
Financial assets at fair value through other comprehensive income - non-current		
Teco Image System Co., Ltd.	16,800	Short-term borrowings and commercial papers payable
Far Eastone Telecommunications Co., Ltd.	229,200	"
Innolux Corporation	21,144	Long-term borrowings
Taiwan High Speed Rail Corporation	495,585	"
Non-current financial assets at amortised cost	150,000	Performance guarantee
Investments accounted for under the equity method		
Creative Sensor Inc.	110,710	Short-term borrowings
Property, plant, and equipment		
Land	96,184	Long-term borrowings, short-term borrowings
Buildings and structures	3,406,348	"
Other non-current assets		
Refundable deposits	5,886	Exercise guarantee or warranty for construction and exercise guarantee for tender
Long-term prepaid rent	923,078	Short-term borrowings, long-term borrowings and endorsements and guarantees to others
Treasury stock	<u>247,091</u>	Short-term borrowings
	\$ 6,420,255	

Pledged asset	Book value	
	December 31,	Purpose
	2017	
Notes receivable	\$ 35,344	Short-term borrowings
Other current assets		
Demand deposits	111,359	Short-term borrowings, deposits for renting warehouses, deposits for acceptance bill, provisional seizure guarantee of compensation, exercise guarantee for construction, warranty margin, engineering bond, and tariff guarantee
Time deposits	51,627	Merchandise loans, long-term and short-term borrowings, engineering guarantees, customs security deposit, warranty margin and exercise guarantee for construction
Cash and bank deposits	255,520	Engineering bond, tariff guarantee, seizure guarantee, long guarantee and quality assurance for product sales
Available-for-sale financial assets - non-current		
Teco Image System Co., Ltd.	19,920	Short-term borrowings and commercial papers payable
Far Eastone Telecommunications Co., Ltd.	220,500	"
Innolux Corporation	26,973	Long-term borrowings
Taiwan High Speed Rail Corporation	381,219	"
Investments accounted for under the equity method		
Creative Sensor Inc.	144,090	Short-term borrowings
Property, plant, and equipment		
Land	119,377	Long-term borrowings, short-term borrowings
Buildings and structures	3,819,104	"
Other non-current assets		
Refundable deposits	62,947	Exercise guarantee or warranty for construction and exercise guarantee for tender
Long-term prepaid rent	964,200	Short-term borrowings, long-term borrowings and endorsements and guarantees to others
Treasury stock	247,091	Short-term borrowings
	<u>\$ 6,459,271</u>	

## 9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

### (1) Contingencies

None.

### (2) Commitments

A. Capital expenditures contracted for at the balance sheet date but not yet incurred are as follows:

	December 31, 2018	December 31, 2017
Property, plant and equipment	\$ 62,957	\$ 167,204
Intangible assets	1,240	-
The construction contract price	188,287	-
Architect service fee	113,400	-
	<u>\$ 365,884</u>	<u>\$ 167,204</u>

### B. Operating lease commitments

The Company leases offices, factory and warehouse under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than one year	\$ 699,882	\$ 495,499
Later than one year but not later than five years	1,546,135	1,073,832
Later than five years	5,813,466	2,450,472
	<u>\$ 8,059,483</u>	<u>\$ 4,019,803</u>

As of December 31, 2018, the outstanding usance L/C used for acquiring raw materials and equipment was \$456,402.

## 10. SIGNIFICANT DISASTER LOSS

None.

## 11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors during its meeting on December 22, 2018, resolved a plan to repurchase the Group's shares. As of March 26, 2019, the repurchase plan was completed and the Group has accumulated treasury shares of 35 million amounting to \$675,840.

## 12. OTHERS

### (1) Capital management

The Group's objectives when managing capital are based on the industrial scale, considering industrial future growth and product development, and setting appropriate market share, as well as plan of corresponding capital expenditure, calculation of operating capital needed for financial operations, and considering operating profit and cash inflows arising from product competitiveness, to determine appropriate capital structure.



## (2) Financial instruments

## A. Financial instruments by category

	December 31, 2018	December 31, 2017
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 2,334,158	\$ 254,003
Financial assets at fair value through other comprehensive income		
Designation of equity instrument	\$ 12,350,476	\$ -
Available-for-sale financial assets	\$ -	\$ 13,796,160
Financial assets at amortised cost		
Loans and receivables		
Cash and cash equivalents	\$ 17,535,566	\$ 14,129,330
Investments in debt instruments without active market	-	3,794,570
Financial assets at amortised cost	182,725	-
Notes receivable	1,066,632	1,189,692
Accounts receivable	9,343,700	9,622,778
Other receivables	431,585	636,123
Guarantee deposits paid	292,542	307,023
	<u>\$ 28,852,750</u>	<u>\$ 29,679,516</u>
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	\$ -	\$ 2,528
Short-term borrowings	1,994,360	2,187,621
Notes payable	209,979	196,775
Accounts payable	7,607,871	7,713,059
Other payables	4,720,360	4,839,917
Bonds payable	4,000,000	4,000,000
Long-term borrowings (including current portion)	7,650,846	7,343,865
	<u>\$ 26,183,416</u>	<u>\$ 26,283,765</u>

## B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. To minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts are used to hedge certain exchange rate risk. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.
- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.
- (c) Information about derivative financial instruments that are used to hedge certain exchange rate risk are provided in Note 6(13).

## C. Significant financial risks and degrees of financial risks

### (a) Market risk

#### Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and RMB. Foreign exchange risk arises from recognized assets and liabilities.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Exchange rate risk is measured through a forecast of highly probable USD and RMB expenditures. Forward foreign exchange contracts are adopted to minimise the volatility of the exchange rate affecting cost of forecast inventory purchases.
- iii. The Group hedges foreign exchange rate by using forward exchange contracts. However, the Group does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 6(13).
- iv. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2018

Sensitivity Analysis						
Foreign currency amount		Effect on profit or loss		Effect on other comprehensive income		
(In thousands)		Degree of variation				
	Exchange rate	Book value (NTD)				
(Foreign currency: functional currency)						
Financial assets						
Monetary items						
USD:NTD	124,737	30.7150	\$ 3,831,297	1%	\$ 38,313	\$ -
EUR:USD	329	1.1460	11,581	1%	116	-
EUR:NTD	16,508	35.2000	581,082	1%	5,811	-
USD:RMB	39,358	6.8682	1,208,881	1%	12,089	-
USD:SGD	4,764	1.3663	146,326	1%	1,463	-
JPY:NTD	943,814	0.2782	262,569	1%	2,626	-
RMB:NTD	86,032	4.4720	384,735	1%	3,847	-
USD:MYR	3,249	4.1625	99,793	1%	998	-
MYR:SGD	12,980	0.3282	95,766	1%	958	-
AUD:NTD	4,331	21.6500	93,766	1%	938	-
USD:AUD	4,141	1.4177	127,191	1%	1,272	-
Non-monetary items						
USD:NTD	617,947	30.7150	18,980,249			
EUR:NTD	122,484	35.2000	4,311,420			
SGD:NTD	146,919	22.4800	3,302,731			
VND:NTD	259,989,231	0.0013	337,986			
MYR:NTD	19,661	7.3789	145,076			
Financial liabilities						
Monetary items						
USD:NTD	54,107	30.7150	1,661,897	1%	16,619	-
USD:RMB	11,544	6.8682	354,574	1%	3,546	-
USD:SGD	8,310	1.3663	255,242	1%	2,552	-
USD:AUD	4,645	1.4177	142,671	1%	1,427	-
EUR:NTD	2,126	35.2000	74,835	1%	748	-
JPY:NTD	134,158	0.2782	37,323	1%	373	-

December 31, 2017

December 31, 2017

	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Sensitivity Analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
Financial assets						
Monetary items						
USD:NTD	\$ 104,852	29.7600	\$ 3,120,396	1%	\$ 31,204	\$ -
EUR:USD	7,303	1.1952	259,768	1%	2,598	-
EUR:NTD	14,518	35.5700	516,405	1%	5,164	-
USD:RMB	57,013	6.5192	1,696,707	1%	16,967	-
USD:SGD	11,859	1.3369	352,924	1%	3,529	-
JPY:NTD	1,456,730	0.2642	384,868	1%	3,849	-
RMB:NTD	81,725	4.5650	373,075	1%	3,731	-
USD:MYR	2,290	4.0647	68,150	1%	682	-
MYR:SGD	12,975	0.3289	93,586	1%	936	-
AUD:NTD	4,528	23.1850	104,982	1%	1,050	-
USD:AUD	3,519	1.2836	104,725	1%	1,047	-
Non-monetary items						
USD:NTD	612,940	29.7600	18,241,096			
EUR:NTD	14,490	35.5700	4,131,154			
SGD:NTD	141,918	22.2600	3,159,088			
VND:NTD	126,843,846	0.0013	164,897			
MYR:NTD	17,618	7.3215	128,993			
Financial liabilities						
Monetary items						
USD:NTD	80,352	29.7600	2,391,276	1%	23,913	-
USD:RMB	10,314	6.5192	306,945	1%	3,069	-
USD:SGD	8,663	1.3369	257,811	1%	2,578	-
USD:VND	2,779	22,892.3077	82,703	1%	827	-
USD:AUD	7,123	1.2836	211,980	1%	2,120	-
EUR:NTD	6,252	35.5700	222,384	1%	2,224	-
JPY:NTD	409,287	0.2642	108,134	1%	1,081	-

- v. Total exchange gain (loss) including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017 amounted to \$76,925 and (\$235,383), respectively.

Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.
- ii. The Group's investments in equity securities comprise shares and open-end funds issued by domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 5% with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have increased/decreased by \$116,708 and \$12,700, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$617,524 and \$689,808, respectively, as a result of other comprehensive income classified as equity investment and available-for-sale equity investment at fair value through other comprehensive income.

Cash flow and fair value interest rate risk

- i. The Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. Group policy is to maintain at least 30% of its borrowings at fixed rate using interest rate swaps to achieve this when necessary. For the years ended December 31, 2018 and 2017, the Group's borrowings at variable rate were mainly denominated in NTD, USD and RMB.
- ii. The Group's borrowings are measured at amortized cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.
- iii. At December 31, 2018 and 2017, if interest rates at that date had been 0.25% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have been \$19,290 and \$19,778 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortized cost.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. The Group adopts the following assumption under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition: If the contract payments were past due over 30 days based on the terms, there has been

a significant increase in credit risk on that instrument since initial recognition.

- iv. The Group adopts the assumption under IFRS 9, whereby the default occurs when the contract payments are past due over 90 days.
- v. The Group classifies customer's accounts receivable, contract assets and rents receivable in accordance with credit rating of customer and credit risk on trade. The Group applies the simplified approach using loss rate methodology to estimate expected credit loss under the provision matrix basis.
- vi. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
  - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
  - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
  - (iii) Default or delinquency in interest or principal repayments;
  - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
- vii. The Group uses the forecastability of Taiwan Institute of Economic Research boom observation report to adjust historical and timely information to assess the default possibility of accounts receivable and contract assets. On December 31, 2018, the loss rate methodology is as follows:

December 31, 2018			
	Expected credit loss rate	Total book value	Loss allowance
Not past due	0%~1%	\$ 7,100,798	(\$ 2,293)
Up to 30 days	0%~2%	1,477,374	( 931)
31 to 90 days	1%~20%	962,806	( 10,253)
91 to 180 days	1%~100%	335,818	( 68,220)
Over 180 days	1%~100%	472,970	( 101,650)
		<u>\$ 10,349,766</u>	<u>(\$ 183,347)</u>
December 31, 2018			
	Expected credit loss rate	Total book value	Loss allowance
Individual	100%	\$ 32,126	(\$ 27,347)
Group A	0%~5%	5,085,107	( 5,788)
Group B	1%~10%	1,996,658	( 5,844)
Group C	1%~20%	1,326,201	( 5,103)
Group D	1%~40%	481,759	( 3,837)
Group E	1%~100%	1,427,915	( 135,428)
		<u>\$ 10,349,766</u>	<u>(\$ 183,347)</u>

- viii. Movements in relation to the Group applying the simplified approach to provide loss allowance for notes receivable and accounts receivable are as follows:

	For the year ended 'December 31, 2018	For the year ended 'December 31, 2017
	Notes receivable and accounts receivable	Notes receivable and accounts receivable
At January 1_IAS 39	\$ 185,215	\$ 175,224
Adjustments under new standards	-	-
At January 1_IFRS 9	185,215	175,224
Provision for impairment	40,998	39,339
Write-offs during the period (	19,772) (	29,984)
Effect of decrease in consolidated entities (	57,616)	-
Effect of foreign exchange	34,522	636
At December 31	<u>\$ 183,347</u>	<u>\$ 185,215</u>

(c) Liquidity risk

- Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements, for example, currency restrictions.
- As of December 31, 2018 and 2017, the undrawn credit amounts are \$18,253,982 and \$19,571,220, respectively.
- The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.



Non-derivative financial liabilities:

December 31, 2018	Up to 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Short-term borrowings	\$ 1,994,360	\$ -	\$ -	\$ -	-
Notes payable	209,979	-	-	-	-
Accounts payable	7,607,871	-	-	-	-
Other payables	4,720,360	-	-	-	-
Bonds payable	-	3,000,000	1,000,000	-	-
Long-term borrowings (including current portion)	5,260,106	1,146,265	1,251,118	-	-

December 31, 2017	Up to 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Short-term borrowings	\$ 2,187,621	\$ -	\$ -	\$ -	-
Notes payable	196,775	-	-	-	-
Accounts payable	7,713,059	-	-	-	-
Other payables	4,839,917	-	-	-	-
Bonds payable	-	-	3,000,000	1,000,000	-
Long-term borrowings (including current portion)	4,026,233	969,477	1,400,062	1,189,323	-



As of December 31, 2018 and 2017, the derivative financial liabilities which were executed by the Group were all due within one year.

(3) Fair value information

A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A. Details of the fair value of the Group's investment property measured at cost are provided in Note 6(8).

B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks, beneficiary certificates and others is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in derivative instruments is included in Level 3.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 1,364,013	\$ -	\$ 970,145	\$ 2,334,158
Financial assets at fair value through other comprehensive income				
Equity securities	<u>12,041,947</u>	<u>-</u>	<u>308,529</u>	<u>12,350,476</u>
	<u>\$13,405,960</u>	<u>\$ -</u>	<u>\$ 1,278,674</u>	<u>\$ 14,684,634</u>

<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 254,003	\$ -	\$ -	\$ 254,003
Available-for-sale financial assets				
Equity securities	12,633,285	-	1,162,875	13,796,160
	<u>\$12,887,288</u>	<u>\$ -</u>	<u>\$ 1,162,875</u>	<u>\$ 14,050,163</u>
<u>Liabilities</u>				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	\$ -	\$ 2,528	\$ -	\$ 2,528

D. The methods and assumptions the Group used to measure fair value are as follows:

- (a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed shares</u>	<u>Open-end fund</u>
Market quoted price	Closing price	Net asset value
(b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques method can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).		
(c) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate.		
(d) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.		
(e) The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.		

E. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1

and Level 2.

F. The following table presents the changes in level 3 instruments.

	Non-derivative equity	
	For the years ended December 31, 2018	For the years ended December 31, 2017
Beginning balance	\$ 1,162,875	\$ 1,250,106
Gains and losses recognized in profit or loss	10,938	-
Gain and loss recognized in other comprehensive income (Note)	32,530 (	63,210)
Acquired during the year	80,108	53,648
Sold during the year	( 7,777)	( 77,669)
Ending balance	\$ 1,278,674	\$ 1,162,875

G. Finance and Accounting Department is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the source of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement.

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity:					
Unlisted shares	\$ 1,278,674	Market comparable companies	Price to earnings ratio multiple	0.99~3.46	The higher the multiple and control premium, the higher the fair value
Private equity fund			Discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value
	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity:					
Unlisted shares	\$ 1,162,875	Market comparable companies	Price to earnings ratio multiple	1.13~3.42	The higher the multiple and control premium, the higher the fair value
Private equity fund			Discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value

J. The Group has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorized within Level 3 if the inputs used to valuation models have changed:

December 31, 2018

	Input	Change	Recognized in profit or loss		Recognized in other comprehensive income	
			Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets Equity instrument	Discount for lack of marketability	±5%	\$ -	\$ -	\$ 63,948	(\$ 63,948)

December 31, 2017

		Recognized in profit or loss		Recognized in other comprehensive income	
		Favourable change	Unfavourable change	Favourable change	Unfavourable change
Input	Change				
Financial assets					
Equity instrument	Discount for lack of marketability	±5%	\$ -	\$ -	\$ 58,144 (\$ 58,144)

(4) Effects on initial application of IFRS 9, 'Financial instruments'

## A. Summary of significant accounting policies adopted in 2017:

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

- i. They are financial assets held for trading. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.
- ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- iii. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss.

## (b) Available-for-sale financial assets

- i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.
- ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
- iii. They are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

## (c) Loans and receivables

## i. Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

## ii. Investment in debt instrument without active market

- (i) Investments in debt instrument without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:

- a. Not designated on initial recognition as at fair value through profit or loss;
- b. Not designated on initial recognition as available-for-sale;
- c. Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.
- (ii) On a regular way purchase or sale basis, investments in debt instrument without active market are recognized and derecognized using trade date accounting.
- (iii) Investments in debt instruments without active market held by the Group are those time deposits with a short maturity period but do not qualify as cash equivalents, and they are measured at initial investment amount as the effect of discounting is immaterial.
- (d) Impairment of financial assets
  - i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
  - ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
    - (i) Significant financial difficulty of the issuer or debtor;
    - (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
    - (iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
    - (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
    - (v) The disappearance of an active market for that financial asset because of financial difficulties;
    - (vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
    - (vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
    - (viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
  - iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:
    - (i) Financial assets at amortized cost
 

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event



occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

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

- i. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.
- ii. Financial liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss.

(f) Financial guarantee contracts

Financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract is initially recognized at its fair value adjusted for transaction costs on the trade date. After initial recognition, the financial guarantee is measured at the higher of the initial fair value less cumulative amortisation and the best estimate of the amount required to settle the present obligation on each balance sheet date.

- B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

	Measured at fair value through profit or loss	Available- for-sale- equity	Measured at fair value through other comprehensive income-equity	Total	Retained earnings	Other equity
<b>IAS 39</b>	\$ 254,003	\$ 13,796,160	\$ -	\$ 14,050,163	\$ 12,750,338	\$ 2,026,521
Transferred into and measured at fair value through profit	2,347,463	( 2,347,463)	-	\$ -	689,725	( 689,725)
Transferred into and measured at fair value through other comprehensive income-equity	-	( 11,448,697)	11,448,697	-	-	-
Impairment loss adjustment	-	-	-	-	1,247,396	( 1,247,396)
<b>IFRS 9</b>	<u>\$ 2,601,466</u>	<u>\$ -</u>	<u>\$ 11,448,697</u>	<u>\$ 14,050,163</u>	<u>\$ 14,687,459</u>	<u>\$ 89,400</u>

- (a) Under IAS 39, because the equity instruments, which were classified as available-for-sale financial assets amounting to \$11,448,697, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)" amounting to \$11,448,697, which resulted to a decrease in other equity interest and increase in retained earnings in the amounts of \$1,247,396 and \$1,247,396 on initial application of IFRS 9, respectively.
- (b) Under IAS 39, the equity instruments, which were classified as available-for-sale financial assets amounting to \$2,347,463, were reclassified as "financial assets at fair value through profit or loss (equity instruments)" amounting to \$2,347,463, which resulted to a decrease in other equity interest and increase in retained earnings in the amounts of \$689,725 and \$689,725 under IFRS 9, respectively.
- C. The significant accounts as of December 31, 2017 and for the year ended December 31, 2017 are as follows:

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

Items	December 31, 2017
Current items:	
Financial assets held for trading	
Listed stocks	\$ 79,532
Money market funds	168,916
	<u>248,448</u>
Valuation adjustment of financial assets held for trading	5,555
	<u>\$ 254,003</u>

- i. The Group recognized net loss amounting to (\$4,573) on financial assets held for trading for the year ended December 31, 2017.
- ii. The non-hedging derivative instruments transaction and contract information are as follows:



December 31, 2017			
<u>Financial instruments</u>	<u>Maturity date</u>	<u>Contract amount (Notional principal)</u>	<u>Fair value</u>
Forward foreign exchange contracts			
SELL USD/BUY JPY	2018.02.02	JPY 300,000,000	(\$ 213)
SELL EUR/BUY USD	2018.02.01	EUR 3,000,000	( 2,315)
			(\$ 2,528)

- iii. The Group entered into forward foreign exchange contracts to hedge exchange rate risk of foreign currency financing and export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.
- iv. Due to the global financial crisis in 2008, the Group, in accordance with IAS No. 39, paragraph 50 (c), reclassified certain listed stocks previously classified as financial assets at fair value through profit or loss into available-for-sale financial assets amounting to \$110,010. The detailed information is set forth below:
- (i) The above reclassified assets that have not yet been disposed of are as follows:

December 31, 2017	
	<u>Book value/fair value</u>
Listed stocks	\$ 3,323
(ii) The changes in fair value of the above listed stocks that were recognized in profit or loss and other comprehensive income were \$0 and \$670, respectively, for the year ended December 31, 2017.	
(iii) If the above listed stocks had not been reclassified to 'available-for-sale financial assets' on July 1, 2008, the gain from changes in fair value of these assets that should have been recognized in profit or loss is as follows:	
	For the year ended
	<u>December 31, 2017</u>
Listed stocks	\$ 670

## (b) Available-for-sale financial assets

Items	December 31, 2017
Current items:	
Listed stocks	\$ 730,135
Emerging stocks	21,423
Beneficiary certificates	14,046
	<u>765,604</u>
Valuation adjustment of available-for-sale financial assets	105,437
	<u>\$ 871,041</u>
Non-current items :	
Listed stocks	\$ 8,749,357
Emerging stocks	33,954
Unlisted shares	861,054
	<u>9,644,365</u>
Valuation adjustment of available-for-sale financial assets	3,280,754
	<u>\$ 12,925,119</u>

The Group recognized \$1,570,454 in other comprehensive income for fair value change and reclassified \$238,707 from equity to profit or loss for the year ended December 31, 2017.

## (c) Investments in debt instruments without active market

Items	December 31, 2017
Current items:	
Time deposits	\$ <u>3,794,570</u>

i. The Group recognized \$48,472 in other comprehensive income for amortized cost for the year ended December 31, 2017.

ii. Investments in debt instruments without active market held by the Group all were the time deposit in bank with optimal credit rating.

iii. As of December 31, 2017 no investments in debt instruments without active markets held by the Group were pledged to others.

## D. Credit risk information for the year ended December 2017 are as follows:

- (a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. Only banks and financial institutions with optimal credit ratings are accepted.

- (b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

	December 31, 2017
Group 1	\$ 4,621,974
Group 2	1,380,744
Group 3	1,345,100
Group 4	383,907
Group 5	527,060
	<u>\$ 8,258,785</u>

Group 1: Clients without substantial risk, such as government institutions and listed Companies.

Group 2: Clients with extremely low risk, which have excellent reputation and prospect, as ratified by the director of credit management of the Group.

Group 3: Clients with low risk, which operate well and have had business relationships with the Group for many years with normal payment condition.

Group 4: Clients with risk at an acceptable level, where the Group shall monitor their credit condition regularly.

Group 5: Clients with fewer transactions with the Company, which have lower transaction amounts and their management shall be continuously monitored.

- (d) The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	December 31, 2017
Up to 30 days	\$ 1,281,979
31 to 90 days	506,645
91 to 180 days	203,360
Over 180 days	377,069
	<u>\$ 2,369,053</u>

The above ageing analysis was based on past due date.

- (e) Movement analysis of financial assets that were impaired is as follows:
- As of December 31, 2017 the Group's impaired notes and accounts receivable amounted to \$185,215.
  - Movements on allowance for uncollectible accounts are as follows:

	2017		
	Individual provision	Group provision	Total
At January 1	\$ 41,724	\$ 133,500	\$ 175,224
Provision for impairment	11,023	28,316	39,339
Write-off during the period	( 3,865)	( 26,119)	( 29,984)
Effect of exchange rate changes	404	232	636
At December 31	<u>\$ 49,286</u>	<u>\$ 135,929</u>	<u>\$ 185,215</u>

(5) Effects of initial application of IFRS 15

- A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below:

(a) Sales of goods

- i. The Group manufactures and sells various types of mechanical equipment, air-conditioning units and electronic equipment products. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.
- ii. The Group offers customers volume discounts and right of return for defective products. The Group estimates such discounts and returns based on historical experience. Provisions for such liabilities are recorded when the sales are recognized. The volume discounts are estimated based on the anticipated annual sales quantities.

(b) Sales of services

The Group provides products repair services. Revenue from delivering services is recognized under the percentage-of-completion method when the outcome of services provided can be estimated reliably. The stage of completion of a service contract is measured by the percentage of the actual services performed as of the financial reporting date to the total services to be performed. If the outcome of a service contract cannot be estimated reliably, contract revenue should be recognized only to the extent that contract costs incurred are likely to be recoverable.

(c) Construction revenue

If the result of a construction contract can be estimated reliably and it is probable that this contract would make a profit, contract revenue and cost should be recognized by reference to the stage of completion of the contract activity in the end of the reporting period in revenue and expense.

(d) A sale agreement comprising of multiple components

A sale agreement offered by the the Group might comprise of multiple components, including sale of goods and subsequent maintenance services, etc. If a sale agreement comprises of multiple identifiable components, the fair value of the consideration received or receivable in respect of the sale agreement is allocated among those components based on the relative fair value of each component. The amount of proceeds allocated to each component is recognized as revenue in profit or loss following the revenue recognition criteria applied to each component. The fair value of each component is determined by its market value when it is sold separately.

(e) Construction contracts

- i. IAS 11, 'Construction Contracts', defines a construction contract as a contract specifically negotiated for the construction of an asset. If the outcome of a construction contract can be estimated reliably and it is probable that this contract would make a profit, contract revenue is recognized by reference to the stage of completion of the contract activity, using the percentage-of-completion method of accounting, over the contract term. Contract costs are expensed as incurred. The

stage of completion of a contract is measured by the proportion of contract costs incurred for work performed up to the balance date to the estimated total costs for the contract. An expected loss where total contract costs will exceed total contract revenue on a construction contract should be recognized as an expense as soon as such loss is probable. If the outcome of a construction contract cannot be estimated reliably, contract revenue should be recognized only to the extent of contract costs incurred that are likely to be recoverable.

- ii. Contract revenue should include the revenue arising from variations from the original contract work, claims and incentive payments that are agreed by the customer and can be measured reliably.
- iii. The excess of the cumulative costs incurred plus recognized profits (less recognized losses) over the progress billings on each construction contract is presented as an asset within 'receivables from customers on construction contracts'. While, the excess of the progress billings over the cumulative costs incurred plus recognized profits (less recognized losses) on each construction contract is presented as a liability within 'payables to customers on construction contracts'.

B. The revenue recognized by using above accounting policies for the year ended December 31 are as follows:

	For the year ended December 31, 2017
Sales of goods	\$ 40,243,212
Sales of services	7,004,090
Construction contract revenue	3,141,743
Revenue of sale of real estate	426,500
Net securities trading revenue	126,976
	<u>\$ 50,942,521</u>

C. The construction contract receivable/payable recognized by using above construction contract accounting policies for the year ended December 31, 2017 are as follows:

	December 31, 2017
Aggregate costs incurred plus recognized profits (less recognized losses)	\$ 14,263,866
Less: Progress billings	( 13,411,527)
Net balance sheet position for construction in progress	<u>\$ 852,339</u>
Presented as:	
Construction contracts receivable	\$ 1,030,504
Construction contracts payable	( 178,165)
	<u>\$ 852,339</u>

D. The effects and description of current balance sheet and comprehensive income statement if the Group continues adopting above accounting policies for the year ended December 31, 2018 are as follows:

Balance sheet items	Description	December 31, 2018		
		Balance by using IFRS 15	Balance by using previous accounting policies	Effects from changes in accounting policies
Construction contracts receivable		\$ -	\$ 1,350,238	(\$ 1,350,238)
Contract assets		1,350,238	-	1,350,238
Contract liabilities		( 899,728)	-	( 899,728)
Construction contracts payable		-	( 237,577)	237,577
Sales revenue received in advance		-	( 662,151)	662,151

There is no significant impact to the comprehensive income statement if the Group continues adopting above accounting policies for the year ended December 31, 2018.

### 13. SUPPLEMENTARY DISCLOSURES

#### (6) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 4.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- I. Trading in derivative financial instruments undertaken during the reporting periods ended: Please refer to Notes 6(14).
- J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

#### (7) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 7.

#### (8) Information on investments in Mainland China

- A. Basic information: Please refer to table 8.
- B. Significant transactions, either directly or indirectly through a third party, transactions with the investee companies in Mainland Area: Please refer to table 9.

### 14. SEGMENT FINANCIAL INFORMATION

#### (1) General information

The Group operates and makes decisions on the basis of products and service line, which the Group uses to identify reportable segments.

The Group's reportable segments include motor division and the home appliance division. The motor division primarily engages in the manufacturing and sales of motors and generators.

The home appliance division primarily engages in the manufacturing, installation, sales and service of home appliances.

(2) Segment performance

The Group uses the operating income as the basis for segment performance assessment. The operating income excludes non-recurring expenditures, unrealized gain or loss on financial instruments, interest income and interest expense.



(3) Financial information by industry

The segment information of the reportable segments provided to the chief operating decision-maker for the years ended December 31, 2018 and 2017 is as follows:

	For the year ended December 31, 2018				
	Heavy industrial products division	Home appliances division	Others	Adjustment and elimination	Total
<u>Operating revenues</u>					
Operating revenues from external customers	\$ 33,448,989	\$ 6,298,530	\$ 10,357,408	\$ -	\$ 50,104,927
Operating revenues from internal segments	19,091,026	2,963,712	915,579	( 22,970,317)	-
Total operating revenues	\$ 52,540,015	\$ 9,262,242	\$ 11,272,987	\$ 22,970,317	\$ 50,104,927
Segment profits and losses	\$ 3,009,171	\$ 219,752	\$ 291,563	\$ -	\$ 352,486
Segment profits and losses including:					
Depreciation and amortization	\$ 895,000	\$ 171,962	\$ 461,578	\$ -	\$ 1,528,540
Not included in segment profit, but regularly provided to the chief operating decision-maker:					
<u>Segment assets</u>					
Identifiable assets	\$ 38,207,454	\$ 3,716,368	\$ 19,024,648	\$ 6,828,212	\$ 54,120,258
Capital expenditures	\$ 734,090	\$ 184,745	\$ 316,533	\$ -	\$ 1,235,368
<u>Segment liabilities</u>	\$ 17,252,838	\$ 2,150,598	\$ 4,840,303	\$ 7,343,503	\$ 16,900,236



## For the year ended December 31, 2017

	Heavy industrial products division	Home appliance division	Others	Adjustment and elimination	Total
<u>Operating revenues</u>					
Operating revenues from external customers	\$ 31,731,748	\$ 8,319,449	\$ 10,891,324	\$ -	\$ 50,942,521
Operating revenues from internal segments	17,689,869	3,107,156	1,051,618	( 21,848,643)	-
Total operating revenues	\$ 49,421,617	\$ 11,426,605	\$ 11,942,942	(\$ 21,848,643)	\$ 50,942,521
Segment profits and losses	\$ 2,842,109	\$ 414,245	\$ 239,846	\$ -	\$ 3,496,200
Segment profits and losses including: Depreciation and amortization	\$ 851,483	\$ 194,129	\$ 438,276	\$ -	\$ 1,483,888
Not included in segment profit, but regularly provided to the chief operating decision-maker:					
<u>Segment assets</u>					
Identifiable assets	\$ 37,005,238	\$ 5,417,893	\$ 19,977,080	(\$ 7,762,656)	\$ 54,637,555
Capital expenditures	739,189	105,605	162,061	\$ -	\$ 1,006,855
<u>Segment liabilities</u>	\$ 15,364,884	\$ 3,177,101	\$ 7,209,181	(\$ 8,488,848)	\$ 17,262,318

(4) Reconciliation for segment profit (loss)

Sales between segments are carried out at arm's length. The revenue from external parties reported to the chief operating decision-maker is measured in a manner consistent with that in the statement of comprehensive income. A reconciliation of reportable segment profit or loss to the profit before tax and discontinued operations for the years ended December 3, 2018 and 2017 is provided as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Adjusted operating income of reportable segments	\$ 3,228,923	\$ 3,256,354
Adjusted operating income of other operating segments	291,563	239,846
Interest income	219,986	150,197
Losses on financial instruments	( 107,381)	( 7,101)
Financial cost	( 222,540)	( 254,638)
Associates' and joint ventures' profit and loss accounted for under the equity method	114,143	233,927
(Loss) gains on disposals of property, plant and equipment	( 29,086)	150,541
Impairment loss	- ( 889)	889
Others	790,680	585,667
Income before income tax	<u>\$ 4,286,288</u>	<u>\$ 4,353,904</u>

The total assets amount reported to the chief operating decision-maker is measured in a manner consistent with that in the financial statements.

Equity investments (classified as available-for-sale financial assets, bond investments without active markets, investments accounted for under equity method or financial assets at fair value through profit or loss) held by the Group are not considered to be segment assets but rather are managed by the financial function.

A reconciliation of assets of reportable segment and total assets is as follows:

	December 31, 2018	December 31, 2017
Assets of reportable segments	\$ 38,358,009	\$ 39,776,025
Assets of other operating segments	15,762,249	14,861,530
Unamortized items:		
Deferred income tax assets	1,250,743	1,382,884
Available-for-sale financial assets	-	13,796,160
Bond investments without active market	-	3,794,570
Investments accounted for using equity method	4,207,360	4,022,455
Financial assets at fair value through profit or loss	2,334,158	254,004
Financial asset measured at fair value through other comprehensive income	21,350,476	-
General assets of the Group	8,718,291	14,129,329
Total assets	<u>\$ 91,981,286</u>	<u>\$ 92,016,957</u>

The amounts provided to the Chief Operating Decision-Maker with respect to total liabilities are measured in a manner consistent with that of the financial statements.

Interest-bearing liabilities of the Group are not considered to be segment liabilities but rather are managed by the financial function.

A reconciliation of liabilities of reportable segment and total liabilities is as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Liabilities of reportable segments	\$ 14,599,469	\$ 13,447,497
Liabilities of other operating segments	2,300,767	4,698,418
Unamortized items:		
Financial liabilities at fair value through profit or loss	-	2,528
Deferred income tax liabilities	2,254,076	2,423,023
Current income tax liabilities	690,853	917,494
Short-term borrowings (including current portion)	2,898,852	2,187,621
Corporate bonds payable (including current portion)	4,000,000	4,000,000
Long-term borrowings	6,746,354	6,466,239
Total liabilities	<u>\$ 33,490,371</u>	<u>\$ 34,142,820</u>

(5) Information on products and services

Revenue from external customers are derived from the manufacture, installation and wholesale, retail of various types of electrical and mechanical equipment. Details of revenues are as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Sales revenue	\$ 38,492,093	\$ 40,243,212
Construction revenues	3,348,998	3,141,743
Service revenue	7,520,089	7,004,090
Revenue from disposal of land	-	426,500
Others	743,747	126,976
	<u>\$ 50,104,927</u>	<u>\$ 50,942,521</u>

(6) Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows (revenue recognition is based on the operating locations where revenue is earned):

	For the year ended December 31, 2018		For the year ended December 31, 2017	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	\$ 26,585,159	\$ 15,243,013	\$ 28,681,617	\$ 15,827,118
America	7,992,870	623,061	7,592,882	575,255
China	5,300,514	2,828,171	4,330,891	3,122,937
Others	10,226,384	1,753,932	10,337,131	1,858,658
	<u>\$ 23,519,768</u>	<u>\$ 20,448,177</u>	<u>\$ 50,942,521</u>	<u>\$ 21,383,968</u>

(7) Major customer information

No single customer accounts for more than 10% of the consolidated operating revenue for the years ended December 31, 2018 and 2017.

## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

## Loans to others

For the year ended December 31, 2018

Table 1

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Creditor	Borrower	General ledger account	Related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018 (Note 9)	Actual amount drawn down	Interest rate (%)	Nature of loans	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral			Footnote
													Item	Value	Limit on loans granted to a single party	
0	TECO ELECTRIC & MACHINERY CO., LTD.	Xiamen An-Tai	Other receivables	Yes	\$ 92,865	\$ 92,145	\$ 27,644	2.3	Short-term financing	\$ -	For operating capital	\$ -	-	\$ -	\$ 5,367,866	Note 2
0	TECO ELECTRIC & MACHINERY CO., LTD.	QingDao Teco	"	"	139,971	133,579	133,579	3.5	Short-term financing	-	For operating capital	-	-	-	1,610,360	Note 2
1	TECO U.V.G.	Teco Netherlands	"	"	253,680	246,400	246,400	1.5	Short-term financing	-	For operating capital	-	-	-	450,722	Note 3
2	Tai-An Wuxi	Fujian Teco	"	"	11,715	-	-	-	Short-term financing	-	For operating capital	-	-	-	64,978	Note 4
3	Teco Westinghouse	TWMM	"	"	67,012	67,012	43,922	2.51~ 3.53	Short-term financing	-	For operating capital	-	-	-	768,918	Note 5
3	Teco Westinghouse	TECO ELECTRIC & MACHINERY CO., LTD.	"	"	309,550	309,550	307,150	1.1	Short-term financing	-	For operating capital	-	-	-	768,918	Note 5
4	Tong-An Assets	TECO ELECTRIC & MACHINERY CO., LTD.	"	"	280,000	200,000	200,000	1.05	Short-term financing	-	For operating capital	-	-	-	525,281	Note 6
5	Motovario S.p.A.	CO., LTD. Motovario S.A (Spain)	"	"	162,536	-	-	-	Short-term financing	-	For operating capital	-	-	-	212,194	Note 7
															424,388	Note 7

Number (Note 1)	Creditor	Borrower	General ledger account	Related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018 (Note 9)	Actual amount drawn down	Interest rate (%)	Nature of loans	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted	Footnote
													Item	Value			
6	Baycom	Tecom	"	"	40,000	-	-	-	Short-term financing	-	Repayments of debt	-	-	-	46,182	92,365	Note 8

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1) The Company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: In accordance with the Company's policy, limit on total loans shall not exceed 10% of the Company's net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 3% of the Company's net assets based on the latest financial statements (December 31, 2018).

Note 3: In accordance with U.V.G.'s policy, limit on total loans shall not exceed 10% of U.V.G.'s net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 6% of U.V.G.'s net assets based on the latest financial statements (December 31, 2018).

Note 4: In accordance with Tai-An Wuxi's policy, limit on total loans shall not exceed 10% of Tai-An Wuxi's net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 5% of Tai-An Wuxi's net assets based on the latest financial statements (December 31, 2018).

Note 5: In accordance with Teco Westinghouse's policy, limit on total loans shall not exceed 20% of Teco Westinghouse's net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 10% of Teco Westinghouse's net assets based on the latest financial statements (December 31, 2018).

Note 6: In accordance with Tong-An Assets' policy, limit on total loans shall not exceed 10% of Tong-An Assets' net assets based on the latest audited financial statement (December 31, 2018), and limit on loans to a single party shall not exceed 10% of Tong-An Assets' net assets based on the latest audited financial statement (December 31, 2018).

Note 7: In accordance with Motovario S.p.A.'s policy, limit on total loans shall not exceed 10% of Motovario S.p.A.'s net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 5% of Motovario S.p.A.'s net assets based on the latest financial statements (December 31, 2018).

Note 8: According to the policy of the Tecom subsidiaries, limit on loans to Baycom is 20% of the granting company's net assets based on the latest audited financial statements (December 31, 2018); limit on loans to a single party is 10% of the granting company's net assets based on the latest audited financial statements (December 31, 2018).

Note 9: The credit line approved by the Board of Directors.

## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

Provision of endorsements and guarantees to others  
For the year ended December 31, 2018

Table 2

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed		Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company (%)	Ceiling on total amount of endorsements/ guarantees provided	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements / guarantees to the party in Mainland China	Footnote
		Company name													
0	TECO ELECTRIC & MACHINERY CO., LTD.	TECO Smart Technologies Co., Machinery Ltd.		(2)	\$ 10,735,732	\$ 100,000	\$ 100,000	\$ 100,000	\$ -	0.19	\$ 32,207,196	Y	N	N	Note 3
0	TECO	Teco International		(2)	10,735,732	100,000	100,000	100,000	-	0.19	32,207,196	Y	N	N	"
0	TECO ELECTRIC & MACHINERY CO., LTD.	Motovario S. P. A.		(2)	10,735,732	2,763,662	2,078,208	2,078,208	-	3.87	32,207,196	Y	N	N	"
0	TECO ELECTRIC & MACHINERY CO., LTD.	Others		(2),(5),(6)	10,735,732	4,118,437	74,586	74,586	-	0.14	32,207,196	Y	N	N	"
1	Teco Westinghouse	TWMM		(4)	768,918	26,193	7,320	7,320	-	0.10	1,537,837	Y	N	N	Note 4
2	Motovario S.p.A.	TECNOFIB SRL		(1)	848,775	576	498	498	-	0.01	2,546,325	N	N	N	Note 5
3	Yatec Engineering Corporation	Yatec Engineering (VN) Company Limited		(4)	89,209	32,321	32,321	32,321	-	14.49	178,418	Y	N	N	Note 6
4	Century Development	Century CDC DEVELOPMENT INDIA PRIVATE LIMITED		(6)	436,241	211,291	211,291	-	-	4.84	872,481	Y	N	N	Note 7

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1) The Company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories:

- (1) Having business relationship.
- (2) The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.
- (3) The endorsed/guaranteed company owns directly and indirectly more than 50% voting shares of the endorser/guarantor parent company.
- (4) The endorser/guarantor parent company owns directly and indirectly more than 90% voting shares of the endorsed/guaranteed company.
- (5) Mutual guarantee of the trade as required by the construction contract.
- (6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.
- (7) Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

Note 3: In accordance with the Company's policy, the total guarantee amount shall not exceed 60% of Company's net assets based on the latest financial statements (December 31, 2018), and the guarantee to a single party shall not exceed 20% of the

Note 4: In accordance with the Teco Westinghouse's policy, the total guarantee amount shall not exceed 20% of Teco Westinghouse's net assets based on the latest financial statements (December 31, 2018), and the guarantee to a single party shall not

Note 5: In accordance with Motovario S.p.A.'s policy, the total guarantee amount shall not exceed 60% of Motovario S.p.A.'s net assets based on the latest financial statements (December 31, 2018), and the guarantee to a single party shall not exceed

Note 6: In accordance with Yatec Engineering Corporation's policy, the total guarantee amount shall not exceed 80% of Yatec Engineering Corporation's net assets based on the latest financial statements (December 31, 2018), and the guarantee to a

single party shall not exceed 40% of Yatec Engineering Corporation's net assets. If the guarantee amount is denominated in foreign currency, the amount shall be translated at the exchange rate prevailing on the date of approval by the

Note 7: In accordance with Century Development's policy, the total guarantee amount shall not exceed 20% of Century Development's net assets based on the latest financial statements (December 31, 2018), and the guarantee to a single party shall not

exceed 10% of Century Development's net assets. If the guarantee amount is denominated in foreign currency, the amount shall be translated at the exchange rate prevailing on the date of approval by the Board of Directors to assess



## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2018

Table 3

Expressed in thousands of NTD  
(Except as otherwise indicated)

Securities held by TECO ELECTRIC & MACHINERY CO., LTD.	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018			Footnote
				Number of shares	Book value	Ownership (%)	
Teco International	Stock 1	The Company is a director of the investee	Note 1	190,061	\$ 5,806,351	3.38	\$ 5,806,351
	Stock 2	None	"	9,610	93,411	0.10	93,411
	Stock 3, etc.	The Company is a director of the investee	"	5,098	83,700	-	83,700
	Stock 4	None	Note 4	10,084	113,449	0.08	113,449
	Stock 5	The Company is a director of the investee	"	11,527	288,762	1.96	288,762
	Stock 6	None	"	47,839	382,711	1.98	382,711
	Stock 7	"	"	2,710	18,699	0.06	18,699
	Stock 8	The Company is a director of the investee	"	32,980	308,552	10.99	308,552
	Stock 9, etc.	None	"	7,500	314,775	5.00	314,775
	Stock 10, etc.	"	"	43,654	233,757	-	233,757
	Fund 1, etc.	"	"	-	175,084	-	175,084
	Stock 11	"	Note 1	275	51,700	0.20	51,700
	Stock 12, etc.	"	"	13,715	267,455	-	267,455
	Stock 13, etc.	"	Note 3	4,589	197,350	-	197,350
Tong-an Investment	Stock 10, etc.	"	Note 2	665	27,698	-	27,698
	Stock 14	An investee company accounted by the Company using equity method	Note 1	19,540	340,974	0.98	340,974
	Stock 15	Related party in substance	"	9,197	128,751	8.17	128,751
	Stock 16	None	"	8,502	649,549	0.26	649,549
	Stock 17	"	"	1,285	136,853	0.04	136,853
	Stock 11	The Company is a director of the investee	"	14,050	2,641,400	10.03	2,641,400
	Stock 18	None	"	555	78,243	2.25	78,243
	Stock 19, etc.	"	"	26,166	309,656	-	309,656
	Stock 11, etc.	"	Note 2	5,228	387,460	-	387,460
	Stock 20, etc.	"	Note 3	15,145	698,071	-	698,071
	Fund 2, etc.	"	Note 2	-	14,494	-	14,494
	Fund 3, etc.	"	Note 4	-	37,453	-	37,453
	Stock 21, etc.	"	Note 1	118	5,723	-	5,723
	Stock 14	An investee company accounted by the Company using equity method	"	2,826	49,309	0.14	49,309
U.V.G An-Tai International	Stock 15	Related party in substance	"	1,270	17,782	1.13	17,782
	Stock 19	"	"	2,756	178,568	8.51	178,568
	Stock 22	None	"	195	8,986	-	8,986
	Stock 23, etc.	"	Note 3	1,545	68,930	-	68,930
	Stock 10, etc.	"	Note 2	170	7,990	-	7,990
	Fund 4, etc.	"	Note 2	-	30,811	-	30,811
	Stock 15	Related party in substance	Note 1	200	2,803	0.18	2,803
	Stock 24, etc.	None	"	3,238	32,488	-	32,488
Jie-Zheng Property Teco Electro Information Technology							

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
Teco Singapore	Stock 11, etc.	"	"	304	\$ 58,031	-	\$ 58,031	
Taiwan Pelican express	Stock 11, etc.	"	"	459	86,292	-	86,292	
Teco Australia	Stock 11	"	"	460	86,896	0.33	86,896	
Teco Nanotech	Stock 15	Related party in substance	"	81	1,127	0.07	1,127	
	Fund 5	None	Note 2	62	11,036	-	11,036	
Sankyo	Stock 25	"	Note 1	68	5,959	-	5,959	
Tecom	Stock 2	"	"	2,175	21,144	0.02	21,144	
	Stock 1	The Company is a corporate director of the investee	"	16,222	495,585	0.29	495,585	
Tecom International	Stock 29	None	Note 3	3,354	31,560	1.69	31,560	
	Stock 30, etc.	"	Note 1	758	680	-	680	
	Fund 6	"	Note 2	1,735	18,879	-	18,879	
Top-Tower	Stock 14	An investee company accounted by the Company using equity method	Note 3	77	1,348	-	1,348	
	Stock 31, etc.	None	"	3	40	-	40	

Note 1: Available-for-sale financial assets - non-current.

Note 2: Financial assets at fair value through profit or loss - current.

Note 3: Available-for-sale financial assets - current.

Note 4: Financial assets at fair value through profit or loss - non-current.

## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more

For the year ended December 31, 2018

Table 4

Expressed in thousands of NTD  
(Except as otherwise indicated)

Differences in transaction terms compared to third party transactions											
Transaction			Percentage of total purchases (sales)				Notes/accounts receivable (payable)				
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	14%	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
TECO ELECTRIC & MACHINERY	Tesen	An investee accounted for under the equity method	Purchases	\$ 2,270,807		30 days	Note	Note	\$ -	-	
	Taian Subic	"	"	189,986	1%	"	"	"	( 60,289)	(1%)	
	Kuen Ling	"	"	191,610	1%	"	"	"	( 152,966)	(3%)	
	Tai-An Wuxi	An indirect investee accounted for under the equity method	"	521,565	3%	"	"	"	( 36,917)	(1%)	
	Wuxi Tecu	"	"	1,118,801	7%	"	"	"	( 406,218)	(9%)	
	Qing Dao Tecu	"	"	670,305	4%	"	"	"	( 54,176)	(1%)	
	Teco Industrial (Malaysia) Sdn. Bhd.	"	"	424,788	3%	"	"	"	( 75,318)	(2%)	
	Jiangxi Tecu	"	"	146,972	1%	"	"	"	( 24,504)	(1%)	
	Genmao Electronics (Suzhao)	"	"	121,540	1%	"	"	"	-	-	
	Taian Shen Electric Co., Ltd.	An investee accounted for under the equity method	Sales	( 206,950)	(1%)	90 days	"	"	25,409	1%	
	E-Joy International	"	"	( 169,524)	(1%)	"	"	"	-	-	
	Tong Dai	"	"	( 957,327)	(5%)	"	"	"	203,900	6%	
	Tong Tai Jung	"	"	( 697,700)	(3%)	"	"	"	179,604	5%	
	Teco Singapore	An indirect investee accounted for under the equity method	"	( 776,836)	(4%)	"	"	"	157,105	4%	
	Teco Westinghouse	"	"	( 3,479,182)	(17%)	"	"	"	374,166	11%	
	Teco Westinghouse Canada	"	"	( 806,834)	(4%)	"	"	"	71,701	2%	
	Teco Australia	"	"	( 1,110,099)	(5%)	"	"	"	210,585	6%	
	Top-Tower	"	"	( 312,742)	(1%)	"	"	"	75,357	2%	
	Motovario S.P.A.	"	"	( 206,672)	(1%)	"	"	"	129,778	4%	

Note: Comparable with other types of transactions, trading conditions are handled in accordance with the agreement of the conditions.

## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

Receivables from related parties reaching \$100 million or 20% of paid-in capital or more  
December 31, 2018

Table 5

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Overdue receivables		Amount collected subsequent to the balance sheet date	Expressed in thousands of NTD (Except as otherwise indicated)
				Amount	Action taken		
TECO ELECTRIC & MACHINERY CO., LTD.	Tong Dai	An investee accounted for under the equity method	\$ 204,029	\$ 4.59	-	\$ 83,748	
"	Tong Tai Jung	"	180,115	3.85	-	63,827	
"	Teco Singapore	"	157,446	5.95	-	139,288	
"	Teco Westinghouse	An indirect investee accounted for under the equity method	374,289	8.29	-	349,870	
"	QingDao Teco	"	269,250	0.03	-	942	
"	Wuxi Teco	"	103,173	0.36	-	6,312	
"	Teco Australia	"	213,722	4.21	-	92,599	
"	Sankyo	"	221,618	0.39	In the process of collection	16,412	
"	Teco Netherlands	"	327,132	0.20	"	8,762	
"	Teco Westinghouse Canada	"	71,701	7.54	-	61,744	
"	Motovario S. P. A.	"	172,814	1.96	-	24,653	
Kuen Ling	TECO ELECTRIC & MACHINERY CO., LTD.	An investee accounted for under the equity method	152,966	2.11	-	19,541	
Tong-An Assets	"	"	212,563	-	-	-	
Teco Westinghouse	"	An indirect investee accounted for under the equity method	307,150	-	-	12,953	
Wuxi Teco	"	"	406,218	1.92	-	158,245	
U.V.G.	Teco Netherlands	"	246,400	-	-	-	Total amount was \$18,245

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES  
Significant inter-company transactions during the reporting period  
For the year ended December 31, 2018

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 6

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	TECO ELECTRIC & MACHINERY CO., LTD.	Tong Dai	(1)	Notes receivable, accounts receivable and other receivables	\$ 204,029	Because there is no transaction in same type which can be compared with, it is based on the condition and the period specified in the agreement.	-
0	"	Tong Tai Jung	"	"	180,115	"	-
0	"	Teco Westinghouse	"	Accounts receivable and other receivables	374,289	"	-
0	"	QingDao Teco	"	"	269,250	"	-
0	"	Teco Australia	"	"	213,722	"	-
0	"	Teco Netherlands	"	"	327,132	"	-
0	"	Sankyo	"	"	221,618	"	-
0	"	Teco Singapore	"	"	157,446	"	-
0	"	Wuxi Teco	"	"	103,173	"	-
0	"	Motovario S. P. A.	"	"	172,814	"	-
1	Wuxi Teco	TECO ELECTRIC & MACHINERY CO., LTD.	(2)	Accounts receivable	406,218	"	-
2	Tong-An Assets	"	"	Other receivables	212,563	"	-
3	Teco Westinghouse	"	"	"	307,150	"	-
4	U.V.G	Teco Netherlands	(3)	"	246,400	"	-
0	TECO ELECTRIC & MACHINERY CO., LTD.	Teco westinghouse	(1)	Sales	3,479,182	"	7%
0	"	Teco Westinghouse Canada	"	"	806,834	"	2%
0	"	Teco Singapore	"	"	776,836	"	2%
0	"	Tong Dai	"	"	957,327	"	2%
0	"	Tong Tai Jung	"	"	697,700	"	1%
0	TECO ELECTRIC & MACHINERY CO., LTD.	Teco Australia	"	"	1,110,099	"	2%
0	"	Top-Tower	"	"	312,742	"	1%
0	"	E-Joy International	"	"	169,524	"	-
0	"	Motovario S. P. A.	"	"	206,672	"	-
5	Tesen	TECO ELECTRIC & MACHINERY CO., LTD.	(2)	"	2,270,807	"	5%

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms Because there is no transaction in same type which can be compared with, it is based on the condition and the period specified in the agreement.	
6	Tai-An Wuxi	TECO ELECTRIC & MACHINERY CO., LTD.	(2)	Sales	\$ 521,565		1%
1	Wuxi Teco	"	"	"	1,118,801	"	2%
2	QingDao Teco	"	"	"	670,305	"	1%
7	Teco Malaysia	"	"	"	424,788	"	1%
8	Taian Subic	"	"	"	189,986	"	-
9	Jiangxi Teco	"	"	"	146,972	"	-

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship with the transaction company:

(1) The parent company to the subsidiary.

(2) The subsidiary to the parent company.

(3) The subsidiary to another subsidiary.

Note 3: Regarding percentage of transaction amount to total operating revenues or total assets, it is computed based on period-end balance of transaction to total assets for balance sheet accounts and based on accumulated transaction amount for the period to total operating revenues for income statement accounts.

## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

## Information on investees

For the year ended December 31, 2018

Table 7

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount				Shares held as at December 31, 2018				Investment income		Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognized by the Company for the year ended December 31, 2018				
											\$	\$	\$	
TECO ELECTRIC & MACHINERY CO., LTD.	Tung Pei	Taiwan	Manufacturing of bearings	\$ 12,293	\$ 12,293	39,145,044	31.14	\$ 2,087,582	\$ 561,598	\$ 174,843	None			
	Tecom	Taiwan	Manufacturing of key telephone system and nonkey service unit telephone system	431,109	631,410	200,301,025	63.52	209,755	( 46,435)	( 29,068)	None 1			
	Teco International	Taiwan	Investment holdings, investments in securities and construction of commercial buildings	100,013	100,013	57,533,521	100	1,064,316	34,515	34,280	None			
	Teco Holdings and its subsidiaries	U.S.A	Manufacturing and distribution of motors and generators, and investment and trading in USA	726,428	726,428	1,680	100	9,858,588	576,103	576,350	None			
	Teco Singapore and its subsidiaries	Singapore	Distribution of the Company's motor products in Singapore	112,985	112,985	7,200,000	90	3,302,731	173,316	137,869	None			
	Tong-An	Taiwan	Investment holdings	2,490,000	2,490,000	444,134,422	99.60	7,997,267	182,276	181,547	None			
	Teco Electro	Taiwan	Manufacturing of Stepping	128,496	128,496	15,386,949	62.57	241,857	26,550	16,704	None			
	UVG and its subsidiaries	Cayman Islands	Manufacturing and distribution of the Company's motor products and home appliances, and investment holdings	8,505,434	8,505,434	195,416,844	100	7,489,862	246,687	247,200	None			
	Information Technology Total	Taiwan	E-business service, mailing and data management	121,232	121,232	11,723,248	57.64	161,139	45,197	27,195	None			
Tesen	Taiwan	Manufacturing and sales of home appliance	200,000	200,000	20,000,000	100	216,783	19,179	17,823	None				

Initial investment amount				Shares held as at December 31, 2018					Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Footnote
Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value			
				\$	\$						
TECO ELECTRIC & MACHINERY CO., LTD.	Lien Chang	Taiwan	Manufacturing of color flybacks transformers, mono flyback transformers and mono deflection yokes	117,744	117,744	37,542,159	33.84	\$ 440,000	189,823	64,244	None
	Tong Dai	Taiwan	Distribution of the Company's motor products in Taichung	22,444	22,444	5,290,800	92.63	262,353	62,121	57,540	None
	Teco Vietnam	Vietnam	Manufacturing and sales of motors	352,252	264,111	20,405,297	100	337,986	2,034	2,108	None
	Yatec	Taiwan	Development and maintenance of various electric appliances	92,389	92,389	7,799,996	64.95	144,794	21,328	13,903	None
	Tong-An Assets	Taiwan	Real estate business	2,111,889	2,111,889	388,423,711	100	5,252,807	56,566	56,566	None
	Taian Subic	Philippines	Manufacturing and sales of switches	165,819	165,819	17,131,155	76.70	169,000	10,574	7,809	None
	Micropac (BVI) and its subsidiaries	British Virgin Islands	Manufacturing and distribution of optical fiber apparatus and international trading	454,923	454,923	14,883,591	100	1,451,867	58,069	58,604	None
	Century Development	Taiwan	Development and management of industrial park	951,141	673,801	96,353,338	28.67	1,377,232	218,953	61,169	None
	An-Tai	Taiwan	Investment holdings	150,000	150,000	25,018,661	100	472,934	28,814	28,814	None
	Pelican	Taiwan	Logistics and distribution services	255,116	255,116	24,121,700	25.27	407,863	68,475	17,302	None
Kuen Ling	Taiwan	Manufacturing, installation, repair, domestic and export sales and leasing of condenser, water cooling, watercooled chiller and freezer	230,541	296,003	13,408,642	17.61	347,255	214,794	41,264	None	
Taian-Eitacom Technology Co., Ltd.	Taiwan	Bus bar and manufacturing of its components	70,330	70,330	7,033,000	84.73	141,071	28,529	24,174	None	



Initial investment amount				Shares held as at December 31, 2018				Investment income (loss) recognized by the Company for the year ended December 31, 2018			Footnote
Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018		
TECO ELECTRIC & MACHINERY CO., LTD.	Eagle Holding Co.	Cayman Islands	Investment holdings	\$ 3,691,723	\$ 3,691,723	1	100	\$ 4,311,420	205,744	\$ 205,744	None
Eagle Holding Co.	TECO MOTOR B.V.	Netherlands	Investment holdings	3,691,723	3,691,723	1	100	4,311,420	205,744		None
TECO MOTOR B.V.	Motovario S.p.A	Italy	Production and sale of gear reducers and motors	3,989,850	3,989,850	18,010,000	100	4,311,420	205,744		None
Tung Pei	Tung Pei (SAMOA) Industrial Co., Ltd.	Samoa	Investment holdings and establishment of overseas distribution channel	646,343	646,343	23,031,065	100	1,529,147	85,640		None
Tecom	Tecom International	Taiwan	Investment holdings	100,000	100,000	12,000,000	100	241,425 (	752) (		None
	Baycom	Taiwan	Manufacturing and sales of optical telecom products	359,656	359,656	9,619,819	28.64	121,532 (	582) (		None
Tong-An Investments	Creative Sensor Inc.	Taiwan	Manufacturing and sales of electronic components	87,464	87,464	7,913,289	6.23	201,681	205,800		None
	Century Development	Taiwan	Development and management of industrial park	420,646	420,646	44,266,526	13.17	669,137	218,953		None
	Pelican	Taiwan	Logistics and distribution services	54,874	54,874	6,474,468	6.78	109,474	68,475		None
	Century Biotech Development Corp.	Taiwan	Development and construction of real estate	200,000	-	20,000,000	28.57	196,517 (	12,191) (		None
Lien Chang	Century Real Estate	Singapore	Investing in other areas	274,856	-	9,120,000	30	261,579 (	25,227) (		None
	Gen Mao	Taiwan	Investment holdings	92,000	92,000	11,720,000	100	133,786	8,637		None
	Gen Mao (Singapore)	Singapore	Investment holdings	582,246	582,246	27,502,354	84.97	714,974	67,051		None
Gen Mao International	Gen Mao (Singapore)	Singapore	Investment holdings	91,079	91,079	4,866,045	15.03	126,459	67,051		None
Century Development	Centurytech Construction and Management Corp.	Taiwan	Construction and sales of related raw materials	98,170	98,170	10,000,000	100	121,237 (	21,555) (		None
	Jack Property Service & Management	Taiwan	Building management servicing	13,750	13,750	1,512,500	50	66,838	30,817		None

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018		Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)				
Century Development	United Development	Taiwan	Investment consultancy service for domestic and foreign industrial parks and land	\$ 25,536	\$ 25,536	3,850,997	51.60	\$ 64,104	\$ 6,544	\$ 3,377	None
	Century Biotech Development Corp.	Taiwan	Development and construction of real estate	300,000	-	30,000,000	42.86	294,775	( 12,191)	( 5,225)	None
	Greyback International Property	Philippines	Housing project in Subic	9,912	9,912	144,600	30.11	10,838	35	11	None
Century Development	Century Real Estate (International) Pte. Ltd.	Singapore	Investing in other areas	365,820	30,070	12,160,000	40.00	348,773	( 25,227)	( 10,091)	None
Teco Electro	Teco Electro Devices Co., Ltd.	British Virgin Islands	Trading and investment holdings	88,108	88,108	2,510	100	120,885	17,878	18,248	None
Teco Singapore	Century Development	Taiwan	Development and management of industrial park	179,222	179,222	20,368,652	6.06	264,362	218,953	14,416	None
Teco International Kuen Ling	Creative Sensor Inc.	Taiwan	Manufacturing and sales of electronic components	52,560	52,560	4,326,447	3.41	110,265	205,800	7,008	None
	CHING CHI INTERNATIONAL LIMITED	British Virgin Islands	Investing in other areas	201,467	201,467	6,200,000	83	467,264	577	579	None
Tong-An Assets	Century Development	Taiwan	Leasing of real estate	184,893	184,893	16,301,644	4.85	211,511	218,953	11,534	None
	Century Biotech Development Corp.	Taiwan	Development and construction of real estate	200,000	-	20,000,000	28.57	196,517	( 12,191)	( 3,483)	None
	Century Real Estate (International) Pte. Ltd.	Singapore	Investing in other areas	274,856	-	9,120,000	30	261,579	( 25,227)	( 7,568)	None

Note 1: The Company has reduced capital by the ratio of 50% to offset losses.

## TECO ELECTRIC &amp; MACHINERY CO., LTD. AND SUBSIDIARIES

## Information on investments in Mainland China

For the year ended December 31, 2018

Table 8

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)(%)	Net income of the year ended December 31, 2018	Amount remitted from Taiwan to		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote	
							Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018	Remitted back to Taiwan						
														\$
Teco (Dong Guang)	Manufacturing and sales of air conditioners mechanical equipment	\$ 268,799	Note 2	\$ 188,139	\$ -	\$ -	\$ -	\$ 188,139	\$ 5,486	100	\$ 5,486	\$ 139,614	\$ -	Note 15
Wuxi Teco	Manufacturing and sales of motors	1,697,276	Note 1	768,259	-	-	-	768,259	158,174	82.35	130,256	1,604,689	-	Note 15
Taian (Wuxi)	Manufacturing and sales of optical fiber	495,213	Note 11	205,551	-	-	-	205,551	62,625	100	62,625	1,299,537	-	Note 15
Nanchang Teco	Manufacturing and sales of home appliances	456,293	Note 3	456,293	-	-	-	456,293	963	100	963	( 7,252)	-	Note 15
Jiangxi Teco	Manufacturing and sales of motors	1,481,569	Note 1	1,383,653	-	-	-	1,383,653	34,095	98.07	30,386	1,431,028	-	Note 15
QingDao Teco	Manufacturing and sales of dyes	947,331	Note 1	1,648,510	-	-	-	1,648,510	( 10,808)	87.6	( 9,468)	334,065	-	Note 15
Xiamen Teco	Sales of motors and home appliances	20,590	Note 3	20,590	-	-	-	20,590	1,705	100	1,705	28,437	-	Note 15
Xiamen An-Tai	Development, manufacturing and sales of LCD monitors. Plant rentals and related real estate	678,681	Note 3	467,577	-	-	-	467,577	( 12,824)	100	( 12,824)	258,457	-	Note 15

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Investment 1, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
Teco Han Zou	Development and consulting of device products	\$ 9,837	Note 1	\$ 9,837	\$ -	\$ -	\$ 9,837	\$ 3,103	100	\$ 2,127	\$ 29,381	\$ -	Note 15
Teco Century	Manufacturing and sales of compressor	680,938	Note 3	340,469	-	-	340,469	( 2,137)	100	( 513)	30,450	-	Note 16
Fujian Teco	Manufacturing and sales of electronic components	391,843	Note 1	391,843	-	-	391,843	( 11,051)	100	( 11,051)	73,394	-	Note 16
Ecoelectric International	Distribution of air conditioner	24,004	Note 2	-	-	-	-	( 23,447)	39.9	( 9,355)	( 5,414)	-	Note 16
Teco (Tianjin) Innovation	Central China area Operation center	15,990	Note 3	15,990	-	-	15,990	88	100	88	14,799	-	Note 15
Teco (Jiang Xi)	Manufacturing and sales of air conditioning mechanical equipment	79,813	Note 3	79,813	-	-	79,813	7,150	100	7,150	126,712	-	Note 15
Teco Sichuan Trading	Sales of home appliances	26,522	Note 11	-	-	-	-	768	100	768	7,408	-	Note 15
Jiangxi Teco- Lead	Manufacturing and sales of wind generator	141,079	Note 1	62,865	-	-	62,865	( 1,184)	45	( 2,566)	971	-	Note 16
Qingdao Teco Innovation	Science Park development and business operations and consulting services	59,444	Note 13	59,444	-	-	59,444	510	100	510	33,337	-	Note 16
Shanghai Teco	Sales of home appliances	23,829	Note 1	23,829	-	-	23,829	67,946	100	67,946	23,464	-	Note 15
Hunan TECO	Manufacturing, sales and technical services of 2.0 megawatt and above aerogenerator, wheel bay and other components	240,818	Note 11	240,818	-	-	240,818	( 2,476)	100	( 2,476)	158,099	-	Note 15
Jiangxi TECO Westinghouse Motor Coil Co., Ltd.	Manufacturing and sales of motors, winding and related parts	119,840	Note 12	-	-	-	-	8,498	100	8,498	119,819	-	Note 15
Wuxi TECO Precision Industry Co. Ltd.	Production and sale of industrial motors and applications	656,500	Note 14	-	-	-	-	( 10,144)	100	( 10,144)	799,052	-	Note 15

Investee in Mainland China	Main business activities	Paid-in capital \$	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
Beijing Pelican Express	Storage services	26,422	Note 4	\$ 26,422	- \$	- \$	2,395 (\$	100	( 2,395)	\$ 2,756	\$ -	Note 15
Fubon Gehua (Beijing) Trading Co., Ltd.	Merchandise wholesale	344,643	Note 5	24,746	-	24,746	-	1.63	-	-	-	Note 17,18
Wuhan Tecom	Communication network information, technology development, sales and technology services business	6,950	Note 6	6,950	-	6,950	( 4,450)	100	( 4,450)	2,560	-	Note 15
Tecom Tech (Wuxi)	R & D, manufacture of broadband access network communication system equipment; sale of products to provide technology services	485,455	Note 7	485,455	-	485,455	( 54)	100	( 54)	3,089	-	Note 15
Tecom Tech Investment (BVI)	products, printed circuit board assembly, manufacture, testing	34,990	Note 8	34,990	-	34,990	-	100	-	-	-	Note 20
Beijing Tecom Innovation Technology Co., Ltd.	Intelligent home systems and spare parts of the Internet of things, wholesale, import and export of goods and technology import and export, import and export agency, to provide technical advice, technical training and technical services	14,566	Note 8	14,566	-	14,566	436	100	436	221	-	Note 15
Information Technology (Wuxi)	ERP building, system maintenance and purchases of information appliance	10,167	Note 9	10,167	-	10,167	( 2,501)	100	( 2,501)	15,496	-	Note 15
Information Technology Total Service (Hang Zhou)	ERP building, system maintenance and purchases of information appliance	2,257	Note 9	2,257	-	2,257	( 303)	100	( 303)	132	-	Note 15
Information Technology Total Service (Xiamen)	ERP building, system maintenance and purchases of information appliance	1,000	Note 9	-	-	-	( 2,084)	100	( 2,084)	597	-	Note 15

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Accumulated amount of remittance from		Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the		Accumulated amount of remittance from Taiwan to		Ownership held by the Company	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
				Taiwan to Mainland China as of January 1, 2018	Remitted back to Taiwan December 31, 2018	Year ended December 31, 2018	Net income of investee for the year ended December 31, 2018	Mainland China as of December 31, 2018	as of December 31, 2018					
Wuxi TECO Precision Industry Co. Ltd.	R&D, manufacturing and sales of motors and provide products sales skills	\$ 115,125	Note 10	\$ 86,101	\$ -	\$ -	\$ 17,878	\$ 86,101	\$ -	100	\$ 17,878	\$ 121,617	\$ 43,266	Note 15

Note 1: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through United View Global Investment Co., Ltd. and Great Teco Motor (Pte) Ltd. and then invest in Mainland China.

Note 2: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through United View Global Investment Co., Ltd. and Asia Air Tech Industrial (Pte) Ltd. and then invest in Mainland China.

Note 3: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through United View Global Investment Co., Ltd. and Asia Electric & Machinery (Pte) Ltd. and then invest in Mainland China.

Note 4: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Pelecanus Express Pte. Ltd., and then invest in Mainland China.

Note 5: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Asian Crown International Co., Ltd., Fortune Kingdom Corporation and Hong Kong Fubon Multimedia Technology Co., Ltd. and then invest in Mainland China.

Note 6: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Tecom Global Tech Investment (B.V.I) Limited and then invest in Mainland China.

Note 7: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Tecom Global Tech Investment Pte Limited and then invest in Mainland China.

Note 8: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Tecom Tech Investment (B.V.I) Limited and then invest in Mainland China.

Note 9: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Information Technology Total Service (BVI) Co., Ltd. and then invest in Mainland China.

Note 10: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Teco Electro Devices Co., Ltd. and then invest in Mainland China.

Note 11: Through investing in investees in the third areas, which then invested in the investee in Mainland China: Invest through Micropac Worldwide (B.V.I) and then invest in Mainland China.

Note 12: Through investing in investees in the third areas, which then invested in the investee in Mainland China: Invest through Teco Holding USA Inc. and Teco Westinghouse Motor Company and then invest in Mainland China.

Note 13: Through investing in investees in the third areas, which then invested in the investee in Mainland China: Invested through Tecocapital Investment (Samoa) Co., Ltd. and then invest in Mainland China.

Note 14: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Great Teco Motor (Pte) Ltd. and Teco Electric & Machinery (Pte) Ltd. and then invest in Mainland China.

Note 15: The amount recognized was based on the financial statements that were audited by R.O.C. parent company's CPA firm.

Note 16: The amount recognized was based on the financial statements that were audited by the other CPA firm.

Note 17: Financial assets at fair value through other comprehensive income.

Note 18: As of December 31, 2018, accumulated impairment of \$24,746 was accrued.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
TECO Electric & Machinery Co., Ltd.	\$ 6,487,880	\$ 8,713,487	\$ 35,094,549
Taiwan Pelican Express Co., Ltd.	51,168	51,168	968,526
Tecom Co., Ltd.	541,961	754,000	359,405
Information Technology Total	12,424	12,424	167,723
Services Co., Ltd.			
Teco Electro Devices Co., Ltd.	86,101	104,259	232,262

Note 1: The accounts of the Company are expressed in New Taiwan dollars. Income statement accounts denominated in foreign currencies are translated into New Taiwan dollars at the weighted average exchange rates prevailing at the transaction dates and balance sheet accounts at spot exchange rates prevailing at the transaction dates.

Note 2: The amount disclosed was based on Investment Commission, MOEA Regulation No. 09704604680 announced on August 29, 2008.

Note 3: Tecom completed the investment in Mainland China in the third quarter of 2010 and the ceiling on investments was \$1,760,251 which was calculated based on Tecom's net assets of \$2,933,752 in the third quarter of 2010.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES  
Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas  
For the year ended December 31, 2018

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 9

Investee in Mainland China	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements and guarantees		Maximum balance during the year ended		Financing		Interest during the year ended	
	Amount	%	Amount	%	Balance at December 31, 2018	%	Balance at December 31, 2018	Purpose	December 31, 2018	December 31, 2018	Balance at December 31, 2018	Interest rate	December 31, 2018	Others
	\$		\$				\$		\$		\$		\$	
Wuxi Teco	42,211	-	-	-	13,902	-	-	-	-	-	-	-	-	-
Taian (Wuxi)	59,185	-	-	-	11,243	-	-	-	-	-	-	-	-	-
Jiangxi Teco	72,335	-	-	-	19,031	-	-	-	-	-	-	-	-	-
QingDao Teco	7,118	-	-	-	1,106	-	-	-	139,971	-	133,579	3.5%	4,649	-
Xiamen An-Tai	-	-	-	-	-	-	-	-	92,985	-	92,145	2.3%	1,373	-
Shanghai Teco	3,176	-	-	-	-	-	-	-	-	-	-	-	-	-
Xiamen Teco	161	-	-	-	-	-	-	-	-	-	-	-	-	-
Teco (Jiang Xi)	345	-	-	-	-	-	-	-	-	-	-	-	-	-
Wuxi Teco Precision	757	-	-	-	149	-	-	-	-	-	-	-	-	-
Wuxi Teco	( 1,118,801)	(7%)	-	-	( 406,218)	(9%)	-	-	-	-	-	-	-	-
Taian (Wuxi)	( 521,565)	(3%)	-	-	( 36,917)	(1%)	-	-	-	-	-	-	-	-
Jiangxi Teco	( 146,972)	-	-	-	( 24,504)	(1%)	-	-	-	-	-	-	-	-
QingDao Teco	( 670,305)	(4%)	-	-	( 54,176)	(1%)	-	-	-	-	-	-	-	-
Xiamen An-Tai	( 16,252)	-	-	-	-	-	-	-	-	-	-	-	-	-
Teco (Jiang Xi)	( 32,498)	-	-	-	( 12,489)	-	-	-	-	-	-	-	-	-
Hunan TECO Wind	( 681)	-	-	-	-	-	-	-	-	-	-	-	-	-
Wuxi Teco Precision	( 58,565)	-	-	-	-	-	-	-	-	-	-	-	-	-



## VII. Review of Financial Status, Operating Results, and Risk Management

### 7.1 Analysis of Financial Status

Unit: NT\$thousand

Item \ Year	2018/12/31	2017/12/31	Difference		Remark
			Amount	%	
Current Assets	43,760,371	\$44,262,768	(502,397)	(1)	
Fixed Assets	17,363,543	17,922,299	(558,756)	(3)	
Intangible Assets	5,557,343	5,612,315	(54,972)	(1)	
Other Assets	25,300,029	24,219,575	1,080,454	4	
<b>Total Assets</b>	<b>91,981,286</b>	<b>92,016,957</b>	<b>(35,671)</b>	<b>0</b>	
Current Liabilities	18,141,380	18,742,356	(600,976)	(3)	
Non Current Liabilities	15,348,991	15,400,464	(51,473)	0	
<b>Total Liabilities</b>	<b>33,490,371</b>	<b>34,142,820</b>	<b>(652,449)</b>	<b>(2)</b>	
Equity attributable to owners of parent	53,678,660	51,829,765	1,848,895	4	
Capital stock	20,026,929	20,026,929	0	0	
Capital surplus	7,647,215	7,628,542	18,673	0	
Retained Earnings	25,221,021	22,469,336	2,751,685	12	
Other equity	783,495	1,704,958	-921,463	(54)	Note 1
Non Controlling Interest	4,812,255	6,044,372	-1,232,117	(20)	Note 2
Total Stockholders' Equity	58,490,915	57,874,137	616,778	1	
<p>Note 1: Reasons for reduction of other equity interests: mainly due to the application of IFRS 9 for the first time, leading to the transfer of the increased benefits, based on fair value, of financial assets available for sale from other equity interests to retained earnings.</p> <p>Note 2: Reason for reduction of non-controlling interest, due mainly to loss of control of Kunling Freezing Machinery Co., Ltd. by the business group, following reelection of the subsidiary's board of directors and supervisors.</p>					

## 7.2 Analysis of Operating Results

### 7.2.1 Operating Results

Unit: NT\$thousand

Item \ Year	2018	2017	Difference		Remark
			Amount	%	
Sales Revenue	50,104,927	50,942,521			
Operating Costs	(38,052,253)	(38,743,733)			
Gross Profit	12,052,674	12,198,788	(146,114)	(1)	
Realized(Unrealized) Profit from Sales	(15)	(2,520)	(2,505)	(99)	Remark1
Gross Profit - Net	12,052,659	12,196,268	(143,609)	(1)	
Operating Expenses	(8,532,173)	(8,700,068)	167,895	(2)	
Operating Profit	3,520,486	3,496,200	24,286	1	
Non-operating Income and Gains	765,802	857,704	(91,902)	(11)	
Profit before income tax	4,286,288	4,353,904	(67,616)	(2)	
Tax Expense	(810,319)	(809,656)	(663)	0	
Net Income	3,475,969	3,544,248	(68,279)	(2)	
Other comprehensive income	433,011	781,789	(348,778)	(45)	Remark2
Total comprehensive income	3,908,980	4,326,037	(417,057)	(10)	Remark3
Analysis and explanation for changes:					
1. Due mainly to the lack of the situation in 2017, when share of inventories unsold which was sold to affiliates increased at the end of the period.					
2. Due mainly to the reduction of unrealized gain on valuation of financial assets in the year, leading to reduction of other comprehensive income.					
3. In sum, total comprehensive income of the year dropped.					

### 7.2.2 Change in gross profit: No need of analysis since the change is less than 20%.

## 7.3 Analysis of Cash Flow

### 7.3.1 Cash Flow Analysis for the Current Two Years

Cash and Cash Equivalents, Beginning of Year (1)	Net Cash Flow from Operating Activities (2)	Cash Outflow (Inflow) (3)	Cash Surplus (Deficit) (1)+(2)-(3)	Remedy for Cash Deficit	
				Investment Plans	Financing Plans
14,129,330	4,328,692	922,456	17,535,566	-	-
<p>A. Analysis of change in cash flow:</p> <p>a. Operating activities: Contributed by overseas profits, Profit of the year became major source of net cash flow for operating activities.</p> <p>b. Investing activities: Reduction in investments in debt instruments for enlivening market is the main reason for decline in investments-related cash inflow</p> <p>c. Financing activities: Cash dividend payout is the main reason of cash outflow.</p> <p>B. Remedy and liquidity analysis for insufficient cash: not applicable.</p>					

### 7.3.2 Cash Flow Analysis for the Coming Year

Unit: NT\$thousand

Cash and Cash Equivalents, Beginning of Year (1)	Estimated Net Cash Flow from Operating Activities (2)	Estimated Cash Outflow (Inflow) (3)	Cash Surplus (Deficit) (1)+(2)-(3)	Remedy for Cash Deficit	
				Investment Plans	Financing Plans
17,535,566	4,545,126	2,522,316	19,558,376	-	-
<p>A. Analysis of change in cash flow in the current year:</p> <p>a. Operating activities: Despite global economic slowdown and increased uncertainties for economic growth, the company's core business is expected to maintain steady growth in the year, thanks to actively sales campaign, as a result of which operating activities will continue generating cash inflow</p> <p>b. Investing activities: There will be net cash outflow for funding in the coming year, thanks to potential financial injection into expansion of core business and adjustment on non core long term investment.</p> <p>c. Financing activities: Since cash inflow from operation and self-owned capital will be used to repay bank borrowings, it is expected that financing activities in the coming year will generate net cash outflow.</p> <p>B. Remedy for Cash Deficit and Liquidity Analysis: Not Applicable</p>					

## 7.4 Major Capital Expenditure Items

### 7.4.1 Major Capital Expenditure Items and Source of Capital

Unit: NT\$thousand

Project	Actual or Planned Source of Capital	Actual or Planned Date of Completion	Total Capital	Actual or Expected Capital Expenditure		
				2018	2019	2020
2018 Capital Expenditure – new equipment and equipment renewal	Working Capital	2018/12/31	970,000	970,000		
2019 Capital Expenditure – new equipment, equipment renewal and capacity expansion	Working Capital	2019/12/31	2,841,412		1,546,000	1,295,412

### 7.4.2 Expected Benefits

In addition to increasing the output of industrial products and home appliances, the above equipment renewal projects are expected to help reduce production costs and improve the quality of products.

## 7.5 Investment Policy in Last Year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year

### 7.5.1 Equity Investment Policy

In response to economic development trend and increasing competition, both on domestic and overseas fronts, investments are mainly for vertical or horizontal integration of the company's core businesses, including electric machinery, energy engineering, and home appliances, on top of offshore wind power and green energy-related engineering, for materialization of the corporate vision of "energy conservation, emission reduction, smart application, and automation," thereby gradually increasing overseas profits and market share, via global deployment for both production and sale.

### 7.5.2 Major reasons for profits or loss:

The company recognized NT\$114,143,000 of investment income based on equity method in 2018, less than 2017's NT\$233,927,000, due to decreased income from investments in TPI Bearings, Lien Chang Electronic Enterprises, and some foodstuff companies.

### 7.5.3 Investment plan for the next year

Investment plan for the coming year still focuses on energy conservation, emission reduction, intelligence and automation, both on domestic and overseas fronts, all related to the company's core business. For investments in National Biotechnology Research Park in Nangang, Taipei, and Bengaluru International Technology Park in India, construction for the park's infrastructural facilities and service

center will break ground in 2019 and 2020, including R&D and incubation facilities and automated factory buildings.

## 7.6 Analysis of Risk Management

### 7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

#### A Effects of Changes in Interest Rates on Corporate Finance, and Future Response Measures

	2018	Unit: NT\$Thousand
Interest Income or Loss(1)		(2,554)
Sales Revenues(2)		50,104,927
Operating Income(3)		3,520,486
(1)/(2)		(0.0051%)
(1)/(3)		(0.072%)

The company's net interest expense amounted to NT\$12,544 thousands in 2018, equivalent to -0.0051% and -0.072%, respectively, of the revenues and operating profits, similar to 2017 level.

In 2019, led by rather loose monetary policy of the U.S., Europe, Japan, and China, global credit supply will be sufficient, with interest hike rather unlikely.

To offset the effect of change in interest rate, the company will adjust forex-denominated loan position timely or increase investments in fixed-rate corporate bonds.

#### B. Effects of Changes in Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

	2018	Unit: NT\$thousand
Exchange Gain or Loss(1)		76,925
Sales Revenues(2)		50,104,927
Operating Income(3)		3,520,486
(1)/(2)		(0.15%)
(1)/(3)		(2.19%)

The company raked in NT\$76,925,000 of exchange-rate income in 2018, due mainly to exchange benefits from U.S.-dollar position of overseas affiliates, caused by appreciation of greenback. In 2019, despite interest-rate hike appears to stall, basic economic figures remain robust, as a result of which exchange rate of U.S. dollar may fluctuate within a range. However, due to emergence of protectionism sparked by Donald Trump's trade policy, outlook for the currencies of the major trade partners of the U.S. is precarious, posing major challenge to forex management:

- In addition to natural risk hedging associated with positions of assets and liabilities, the company will undertake substantial risk hedging via forward forex transactions.
- The financial department will maintain close contact with the forex department of corresponding financial

institutions and constantly collect information on change in exchange rate, so as firmly grasp trend and change in international exchange rates and respond actively, in forward forex transactions and foreign exchange settlement, to offset the adverse influence of exchange-rate swings.

- c. The financial department regularly do internal evaluation reports for hedge on net asset and liability of foreign currency, so that the management team can determine if the company do the hedge or not.

C. The impact on company's performance resulted from inflation and counter measures

The main material that the company mainly used are steel, copper and alumini. It affets purchase cost to a certain extent, however, it is expected that the recovery of world economy and oil&gas, mining exploring will raise the company's operation.

TECO purchases materials using contract to negotiate prices. When the price grows, TECO can negotiate with the suppliers. In this case, there is no significant disadvantage toward company's performance based upon price vibration. However, the compny will still evaluate cautiously the trend of metal price and match up the operation drafting the appropriate strategy.

## **7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions**

- A. The company abstains from high-risk and high leveraged investments.
- B. At the end of 2018, outstanding loans extended by the company amounted to NT\$161,223 thousands.
- C. In 2018, the outstanding amount of the endorsement and guarantee extended by the company reached NT\$2,352,749 thousand, for the company's subsidiaries, affiliates, and business partners. Since the company retains majority seats on the board of directors of its subsidiaries and appoints their management, it has absolute control and grasp of their operations, slashing the risk of endorsement and guarantee for them. In addition, the company regularly gets hold of its subsidiaries' financial statement and business status data for analysis of its profit level and evaluation of the risk for endorsement and guarantee, enabling it to embrace measures to cut risk in advance. In recent years, these subsidiaries gained steady profit growth, gradually lowering the risk of endorsement and guarantee extended by the company.
- D. In 2018, derivatives held by the company was forward exchange trading, whose corresponding traders were mainly international financial institutions with outstanding credit. In addition, the company traded with many financial institutions to diversify risks, minimizing the possibility for default. Therefore, credit risk for the company in derivatives trading is very low. Moreover, derivatives held by the company are mainly for the purpose of risk hedging and the ensuing income/loss can be offset by the income/loss in the risk-hedging category, minimizing the market risk.
- E. The company has formulated a number of investment guidelines for cutting risk, including "Procedure for the Acquisition and Disposal of Assets," "Procedure for Lending Capital to the Others", "Procedure for the Endorsement and Guarantee," and "Procedure for the Trading and Disposal of Derivatives."

## **7.6.3 Future Research & Development Projects and Corresponding Budget**

TECO derives its growth momentum from R&D. In recent years, the company pooled the R&D strength and marketing experience of its R&D units all over the world, and cooperated with industrial, government, and academic units in strengthening its core businesses and stepping into the sector of green energy. The company has initiated a number of key R&D projects in the aspects of wind-power generation, PV inverter, rare-earth

permanent magnet motor, power components of electric vehicle, drive motor for robotic arm, medium voltage inverter, and permanent magnet motor drive with free sensor, delicate servo motor, IE5 reluctance motor drive, high level algorithm and IOT.

For the R&D of new technologies and new products in the medium- and long-term and the short-term business need of the improvement in price-performance ratio, the TECO R&D team has been actively cultivating its technological strength via the search of external resources, such as technological consultation, cooperation, and transfer.

On the basis of existing core technologies, such as rotated machinery and generator design, machinery drive and design, power/electronic control and design, and internet-related technology, integrate new market needs, industrial specifications, new-materials application, sensor-application technology, wireless-network technology, and green-industry technology, thereby coordinating overall R&D strategy and technological planning.

The company formulates its future R&D plan on the following bases:

- A. Grasp and analysis of industrial development, government policy, and market trend;
- B. The establishment and rooting of key technologies;
- C. Competitiveness relative to rivals in Europe, the U.S., and Japan;
- D. Global market positioning and technological integration;
- E. Grasp of R&D progress and quality.

Therefore, in 2017 TECO will dedicate to the R&D of:

- (a) Forward-looking technology consulting committee
- (b) Very high power density induction motor and servo motor
- (c) Development of pump motor for North America
- (d) Development of high-speed permanent-magnet motor and driver
- (e) Development of ring-shape motor for steel plant
- (f) Reluctive motor and drive
- (g) Low power consumption inverter duty refrigerator
- (h) EV motor and drive as well as joint development of whole vehicle
- (i) R&D on generator and drive for offshore wind turbine
- (j) R&D on four-phase control for medium-voltage inverter and switch between industrial network and inverter
- (k) High end AEF and controller products
- (l) R&D on KW-grade four-phase wind-power converter
- (m) Development of high IPLV electromagnetic-suspension centrifugal machine
- (n) Development of HVAC air-conditioner energy conservation solution
- (o) Multiple commercial air-conditioners systems and smart air-conditioners
- (p) development of VRF whole direct-current variable-frequency multiple-connection main pipe/connection-in-parallel air conditioner
- (q) Development of VRF whole direct-current four-unit split air conditioner
- (r) Development of air-cooled sideward- and upward-blowing chiller
- (s) Development of air-cooled modularized chiller
- (t) Development of high-sensible/constant-temperature constant-humidity water-cooled packaged air conditioner

- (u) R&D on inverter air conditioner related products for specific occasion
- (v) Development of high-performance energy saving centrifugal icy-water machine
- (w) Direct current inverter duty packaged air conditioner
- (x) Development of whole series R32 one-to-one variable-frequency large split air conditioner
- (y) Development of whole series R32 variable-frequency window type air conditioner
- (z) Development of multiple TECO-Select premium air conditioner
- (aa) Development of multi-option air conditioners
- (bb) Development of variable-frequency air-conditioning air-cleaning/voice-control technology
- (cc) Development of high energy-performance variable-frequency commercial refrigerator
- (dd) Development of high energy-performance variable-frequency produce/freezing change-over refrigerator
- (ee) Development of high-performance compact servo motor
- (ff) Development of IE5 comparable-grade magnetic-resistance motor drive
- (gg) Development voice technology for meal-delivery robot
- (hh) Development of image recognition technology for meal-delivery robot
- (ii) Development of management technology for multiple AGVs
- (jj) Development of Matrix converter prototype
- (kk) Development of next-generation high-performance servo driver
- (ll) Development of multi-axis server technology
- (mm) Development of direct-current compact server
- (nn) Development of simplified EtherCat alternating-current server
- (oo) Development of ultra-thin simplified alternating-current server
- (pp) Development of integrated permanent-magnet motor and driver machine

The goal is to develop products conforming to European specifications in the existing market, seek high value-added innovative applications in existing sales channels, and strive for commercialization of emerging technologies and new market opportunities. TECO Group expects to invest NT\$1.24 Billions as R&D expense in 2018.



The company's general research institute oversees the overall R&D strategy, technology deployment and ongoing product R&D, with an eye on technological deployment and product development in short-, medium-, and long-term, including:

Term of R&D	Focus	Major R&D items
Short-term	Develop new-product application market, Enhance performance of existing products & Enhance product profitability and market share	High-performance servo motor and drive
		Inverter DD washing machine
		Super premium motor
		Permanent magnet motor drive with free sensor
		Control for servo system
		High rotational-speed motor
		Development of high power-density motor series
		Multi-unit commercial-use package air conditioning unit
		High energy-performance variable-frequency commercial refrigerator
		Technology of sinusoidal sensorless drive
		Servo parameter automatic adjusting technology
		Electric vehicle power package
		Intelligence battery and battery management system
		Break energy recharge technology
		Energy -saving electric vehicle certification technology
		Electric vehicle battery certification technology
		Single-axis high-performance servo driver
Mid-term	Accumulation of core technological strength & Development of new technological strength	Development of matrix converter technology
		Development of AGV
		Medium- and high-voltage inverter
		Advanced inverter technology
		Large high-efficiency motor (FSR)
		Hydraulic motor for hybrid injection molding machine
		R&D of wind-power technology
		Application technology of digital home in smart phone
		Remote monitoring technology of motor and generator
		Internet-related technology for system automation products
		Commercial air-conditioning for train
		Development of high IPLV electromagnet-suspension centrifugal machine
		Development of energy-conservation solution for HVAC air-conditioning system
Long-term	Deployment in new business scope	Development of multi-axis servo driver technology
		Development of next-generation frequency converter prototype
		Development of products deriving from indoor service machines
		Integration of Internet of Machine
		Integration of micro smart grid system
		Precise servo system focusing on market
		R&D for new-generation digital home appliances systems
		Micro-electric system in large high-efficiency power system
		R&D for new-generation industrial servo system
		Regional market oriented R&D for industrial technology
		R&D for integrated and innovative technology
		Development of multi-axis server system integration
		Development of outdoor AGV
		Next-generation frequency converter series

#### **7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales**

None

#### **7.6.5 Effects of and Response to Changes in Technology and in Industry Relating to Corporate Finance and Sales**

Given the trend of shrinking workforce and green energy, the company takes into account global development trend, the government's industrial policy, own technological level, and growth potential of related industries. In addition to consolidating the company's technological edge in high-performance motive-force motor, application of environment-friendly refrigerant in home applications, and variable-frequency energy conservation, the company will intensively study international technological development and market trend for introduction of innovative methodology. In response to the trend of shrinking employment population, the company will plan biotechnology forum, long-term technological development roadmap, and strategy and timetable for completion of development plan. In line with the need of green energy, the company will develop electric-car motor, wind turbine, peripherals of smart grid, energy-saving home appliances, and split air conditioning systems.

The company has set up forward-looking technology consulting committee in 2017, to track cutting-edge forward-looking technologies. Add R&D on gateway technology for electric-control product series, R&D on remote-monitoring technology for motor and generator, R&D on high-end servo motor drive, and R&D on reluctance motor and drive, and R&D on digital-home and mobile communications-linked security products. In addition, the company will associate various business air conditioners with applications of the Internet of things, intensify intensity and depth of technological detection, further strengthen horizontal technological cooperation among affiliates, and actively seek foreign technological cooperation, so as to enrich R&D contents and meet long-term needs of the society.

#### **7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures**

The company has been pursuing sustained growth via "pluralized management" and "global deployment," and has been striving to project a quality corporate image for a globalized group by manifesting in-depth social care via TECO Technology Foundation and rigorous demand for quality and service. The company's crisis management plan covers its production bases worldwide and has helped the company respond properly to the ordeal of major incidents in recent years, thanks to the company's constant effort in fostering crisis-management capability. In the future, the company will continue simulating the outbreak of major incidents and formulate response plans, in order to safeguard the interests of shareholders.

#### **7.6.7 Expected Benefits from Risks Relating to and Response to Merger and Acquisition Plans**

None

**7.6.8 Expected Benefits from Risks Relating to and Response to Factory Expansion Plans**

None

**7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration**

None

**7.6.10 Effects of Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%**

The company doesn't have a shareholder with over 10% of shareholding and there is no massive share transfer or swap among the company's directors and supervisors in the latest year.

**7.6.11 Effects of Risks Relating to and Response to Changes in Control over the Company**

None

**7.6.12 For litigation and non-litigation cases, specify the company and directors, supervisors, president, chief executive, and major shareholders with over 10% of shareholding, as well as affiliates. For major litigation, non-litigation, or administrative disputes with major effects on the interests of shareholders or stock prices, disclose the facts, target value, starting dates for litigation, major parties involved, and the status of the cases up to the publication of the yearbook**

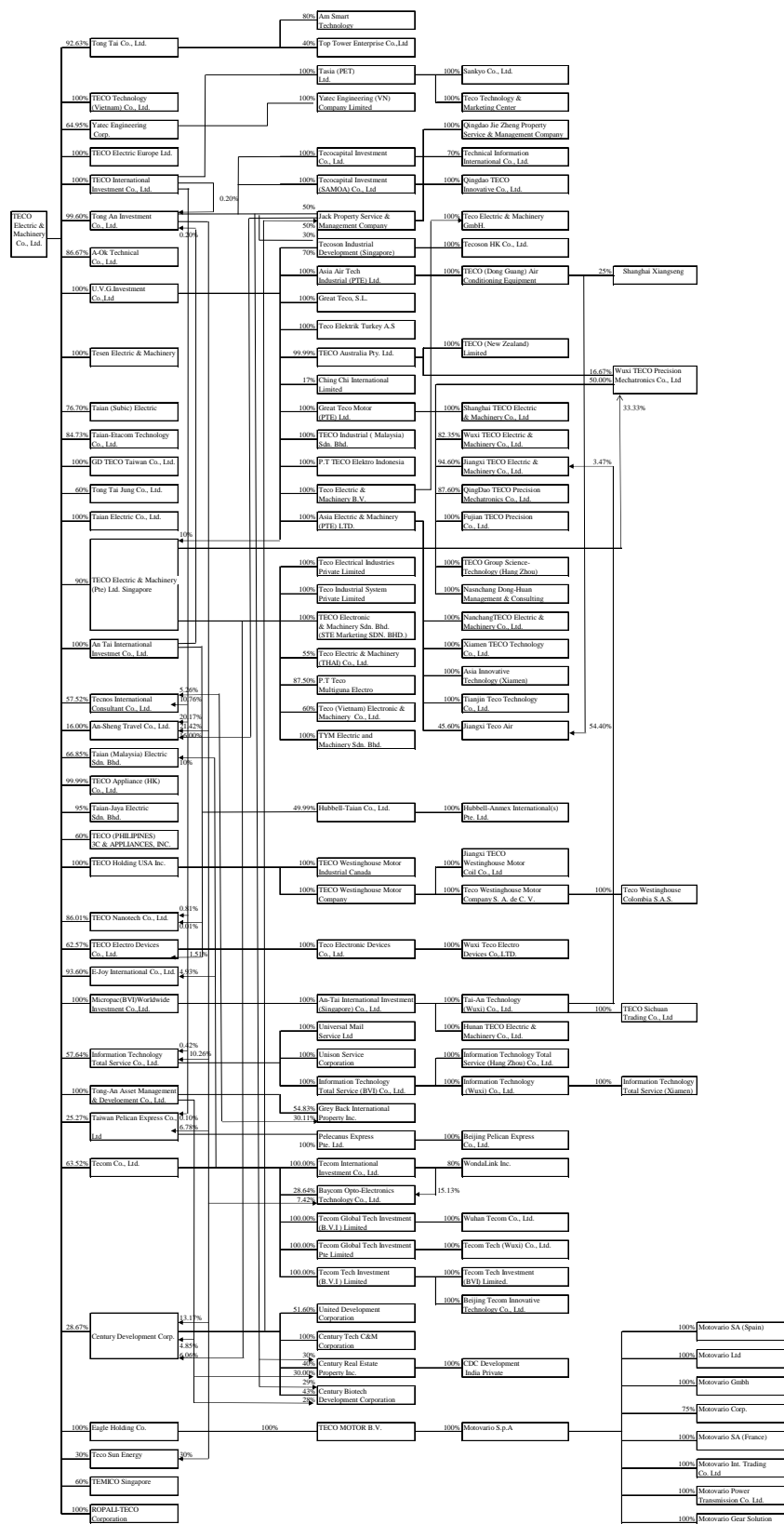
None.

**7.6.13 Other Major Risks**

None

## 8.1 Summary of Affiliated Companies

### 8.1.1 Chart of Affiliated Companies



### 8.1.2 Information Regarding Affiliated Companies

Unit: NT\$thousand

Company	Date of Incorporation	Paid-in Capital	Major Business
Tong Dai Co., Ltd.	1972.06	57,120	Sales of Motors
TECO International Investment Co., Ltd.	1989.06	575,335	Investment Activity
TECO Holding USA Inc.	1995.03	820,306	Investment and Trading in USA
TECO Electric & Machinery (Pte) Ltd. Singapore	1972.09	178,080	Sales of Motors in Singapore and Other Countries Nearby
TECO Electric Europe Limited	1992.03	174,960	Sales of Motors in Europe
Tong-An Assets Management & Development Co., Ltd.	1997.07	3,884,237	Real Estate Business
Tong-An Investment Co., Ltd.	1998.08	4,459,181	Investment Activity
TECO Electro Devices Co., Ltd.	1998.03	245,926	Manufacture of Stepping Motors
Tecnos International Consultant Co., Ltd.	1998.06	97,375	Business Consulting and Human Resource Services
Tong Tai Jung Co., Ltd.	1996.04	66,000	Sales of Motors
United View Global Investment Co., Ltd. (UVG)	1999.08	7,230,724	Investment Holding Company
Information Technology Total Services Co., Ltd.	1990.12	203,724	Sales of Software
Tesen Electric & Machinery Co., Ltd.	2001.03	200,000	Manufacture of Home Appliance
GD TECO Taiwan Co., Ltd.	2002.02	54,000	Manufacture of IC Projects
Yatec Engineering Corporation	1993.01	120,100	Electric System Development and Service
Taian (Subic) Electric Co., Inc.	1997.03	205,514	Manufacture and Sales of Tools and Equipment
Taian (Malaysia) Electric Sdn. Bhd.	1989.03	184,834	Manufacture and Sales of Tools and Equipment
An-Tai International Investment Co., Ltd.	1990.09	250,187	Investment Activity
Micropac (BVI) Worldwide Investment Co., Ltd.	1993.03	457,162	International Trading
Taian-Etacom Technology Co., Ltd.	1999.12	83,000	Manufacture of Bus Way Components
E-Joy International Co., Ltd.	2004.06.25	101,500	Distributor of Home Appliance
A-Ok Technical Co., Ltd.	2004.10.07	22,500	Repair of Home Appliance
Taiwan Pelican Express Co., Ltd.	1999.09.10	954,670	Home Delivery Service
Tasia (Pte) Ltd.	1995.12	23,874	Investment Activity
Tecoson Industrial Development (Singapore)	1993.02	37,134	Investment and Trading Activities
Tecoson HK Co., Ltd.	1993.06	15,634	Investment Activity
Asia Air Tech Industrial (Pte) Ltd.	1999.06	261,078	Investment Activity
TECO (Dong Guang) Air Conditioning Equipment Co., Ltd.	1999.11.09	314,637	Manufacture of Air Conditioning Equipment
TECO Australia Pty. Ltd.	1993.04	649,950	Sales of Motors and Home Appliance in Australia
TECO New Zealand Ltd.	1983.04	61,569	Sales of Home Appliances
Great Teco Motor Ltd.	2000.01.27	3,748,036	Investment Activity

Company	Date of Incorporation	Paid-in Capital	Major Business
Wuxi TECO Electric & Machinery Co., Ltd.	2002	1,498,567	Manufacture and Sales of Motors
TECO Industrial (Malaysia) Sdn. Bhd.	1989.06	556,000	Manufacture and Sales of Motors in Malaysia
P.T TECO Elektro, Indonesia	1997.08.14	781,697	Sales of Home Appliances
P.T TECO Multiguna Electro	1983.06	15,758	Investment and Trading Activities
TECO Electronic & Machinery (Thai) Co., Ltd.	1987.04	56,754	Investment and Trading Activities
TECO Westinghouse Motor Company	1988.01	633,497	Sales of Motors in USA
TECO Westinghouse Motor Industrial, Canada	1995.12	24,928	Sales of Motors
TECO Electro Devices Co., Ltd.	1998.03	104,738	International Trading
Wuxi Teco Electro Devices Co., Ltd.	2001.12	123,128	Manufacture and Sales of Stepping Motors
An-Tai International Investment (Singapore) Co., Ltd.	1993.03	498,464	Investment Activity
Tai-An Technology (Wuxi) Co., Ltd.	2000.07	530,402	Manufacture and Sales of Optical Fiber
Asia Electric & Machinery Pte Ltd.	2000.06.05	1,707,293	Investments in Home Appliances Business
Jack Property Service & Management Company	2000.04.13	30,250	Asset Management
Great Teco, S.L.	2003.01	21,120	Sales of Home Appliances
Nanchang TECO Electric & Machinery Co., Ltd.	2003.11.10	510,260	Manufacture and Sales of Air Conditioning
Sankyo Co, Ltd.	1992.02.14	8,346	Sales of Home Appliances
TECO Electronic & Machinery B.V.	2005.04.18	23,232	Sales of Motors and LCD TV in Europe
STE Marketing Sdn. Bhd.	1987.12	65,082	Investment and Trading
Jiangxi TECO Electric & Machinery Co., Ltd.	2005.06.01	1,498,097	Manufacture and Sales of Motors
Qingdao TECO Precision Mechatronics Co., Ltd	2006.12	837,440	Manufacture and Sales of Compressors
TECO Westinghouse Motor Company S.A. de C.V	2005.12	56,159	Manufacture and Sales of Motors
Xiaman TECO Technology Co., Ltd.	2006.11	21,981	Sales of Motors and Home Appliances
TYM Electric & Machinery Sdn. Bhd.	2006.06	3,689	Sales of Motors
TECO (Vietnam) Electric & Machinery Company	2005.04	188,817	Manufacture and Sales of Motors
TECO Technology (Vietnam) Co., Ltd.	2006.08	377,178	Manufacture and Sales of Tools and Equipment
Asia Innovative Technology (Xiamen) Co., Ltd.	2006.12	834,130	R&D and Manufacture of LCD TV
TECO Group Science-Technology (Hang Zhou) Co., Ltd.	2007.06	10,160	R&D of Electronic Devices and System Automation
Tianjin TECO Technology Co., Ltd	2010.01.22	15,272	Operation Center in Central China
Jiangxi TECO Air Conditioning Equipment Co., Ltd.	2010.02.05	165,764	Sales of Air Conditioners
TECO Sichuan Trading Co., Ltd.	2010.08.25	26,832	Sales of Home Appliances
Fujian TECO Precision Co., Ltd.	2008.05	376,117	Sales and Production of Motors and Generators
Teco Appliance (HK) Co., Ltd.	1991.02.12	5,863	Sales of Home Appliances
Taian Electric Co., Ltd.	2004.03.17	1,000	Manufacture and Sales of electric equipment
An-Sheng Travel Co., Ltd.	2005.03.15	30,000	Travel Business

Company	Date of Incorporation	Paid-in Capital	Major Business
Hubbell-Taian Co., Ltd.	1991.08.22	27,200	Import, export and sales of power distributors, lighting and explosion-proof tools
Hubbel-Anmex International(s) Pte. Letd.	2006.01.26	24,324	Sales of Electronic Products
Universal Mail Service Ltd.	1989.12	13,000	Business Docunment Processing
Unison Service Corporation	2001.08	17,000	Software, Data Processing and Information Provision
Information Technology Total Service (BVI) Co., Ltd.	2001.03	47,332	Investment Acitivities
Teco Group Science-Technology (Hang Zhou) Co., Ltd.	2002.10	2,406	Software, Data Processing and Information Provision
Information Technology (Wuxi) Co., Ltd.	2004.08	11,104	Software, Data Processing and Information Provision
Information Technology Total Service (Xiamen) Ltd.	2007.12	4,472	Software, Data Processing and Information Provision
GreyBack International Property Inc.	2007.02.28	30,718	Real Estate Business
Taian-Jaya Electric Sdn. Bhd.	1988.06.07	7,379	Manufacture and Sales of Motors
TECO CAPITAL INC.	2008.04.15	20,215	Investment Activities
TECO (PHILIPINES) 3C & APPLIANCES, INC.	2008.08.22	30,141	Sales of Home Appliance and Air Conditioners
Pelecanus Express Pte, Ltd	2010.04.19	27,644	Investment Activities
Qingdao TECO Innovation Co., Ltd.	2010.08.11	58,516	Merchant and Management Service for Science Park's Development and Operation
TECO Technology & Marketing Center Co., Ltd.	2011.04.01	8,346	Investment Activities
TECO Capital Investment (SAMOA) Co., Ltd.	2011.01.18	61,430	Holding Company
Beijing Pelican Express Co., Ltd.	2010.10.13	24,372	Storge Services
TECO Nanotech Co., Ltd.	1989.06.01	250,000	Production & Sales of Nano-applied ingredients and products
Technical Information International Co., Ltd.	2008.07.28	44,720	Development & Sales of Software
Shanghai TECO Electric & Machinery Co., Ltd.	2012.08.04	22,665	Agency of Machinery and Electric Products
TECO Electric and Machinery GmbH.	2012.09.01	880	Production & Sales of Machinery
Tecom Co., Ltd.	1980.09.25	3,153,326	Production ans Sales of Business Communication Products
Tecom International Investment Co., Ltd.	1980.02.22	120,000	Investment Activites
Baycom Opto-Electronics Technology Co., Ltd.	1980.04.16	335,913	Research, Production & Sales of Fiber and Fiber Cables
Tecom Global Tech Investment (B.V.I)	2002.08.13	33,156	Investment Activites
Tecom Global Tech Investment Pte Limited	2004.07.19	487,166	Investment Activites
Tecom Tech Investment (B.V. I)	2008.09.25	49,556	Investment Activites
WondaLink Inc.	2010.03.18	47,422	Telecommunication and Production and Design of Electronic Components
Wuhan Tecom Co., Ltd.	2003.02.24	7,403	Internet Telecommunication Technnolgy Development and Related Services
Tecom Tech (Wuxi) Co., Ltd.	2004.09.06	505,967	R&D and Production of Telecommunication System

Company	Date of Incorporation	Paid-in Capital	Major Business
Beijing Tecom Innovative Technology Co., Ltd.	2010.12.07	14,460	The Internet of Intelligent Home System and Related Services
Qingdao Jie Zheng Property Service & Management Company	2012.08.20	5,831	Property Management and Related Services
Donghua Enterprise Co.,Ltd.	1968.07.30	18,000	Franchise of FA/GE Product
Hunan TECO Electric & Machinery Co., Ltd.	2013.06.20	219,835	Manufacture of Related Component of 200 MGW Wind Turbine
TECO Elektrik Turkey A.S	2013.08.01	35,834	Franchise of Home Appliance and FA/GE Product
Jiangxi TECO Westinghouse Motor Coil Co., Ltd	2014.07.24	110,333	Manufacture and Sales of electric machinery, coil and merchandise
Teco Westinghouse Colombia S.A.S.	2014.05.02	0	Manufacture and Sales of motor and generator
Motovario S.p.A.	1965.10.05	633,952	Manufacture and Sales of motor and gear reducer
Motovario S.A(Spain)	2001.2.14	33,824	Manufacture and Sales of motor and gear reducer
Motovario Ltd	1999.3.26	15,836	Manufacture and Sales of motor and gear reducer
Motovario GMBH	1997.2.28	11,338	Manufacture and Sales of motor and gear reducer
Motovario Corp.	1997.10.06	8,316	Manufacture and Sales of motor and gear reducer
Motovario S.A(France)	1995.2.09	11,380	Manufacture and Sales of motor and gear reducer
Motovario Int. Trading Co. Ltd	2004.7.22	940	Manufacture and Sales of motor and gear reducer
Motovario Power Transmission Co. Ltd.	2008.3.14	788	Manufacture and Sales of motor and gear reducer
Motovario Gear Solution Private Ltd	2011.7.15	5,519	Manufacture and Sales of motor and gear reducer
Eagle Holding Co.	2010.8	3,413,991	Holding Company
TECO MOTOR B.V.	2015.7	3,520,352	Holding Company
Wuxi TECO Precision Mechatronics Co., Ltd	2015.7	880,143	Manufacture and Sales of electric machinery and component
Century Development Corporation	1993.2.9	3,361,164	Managemnet of property and industrial park development
Century Tech. C&M Corporation	1975.10.4	100,000	Construction industry
United Development Corporation	1994.3.8	80,002	Consultant service for industrial park and land investment
Teco Industrial System Private Limited	2012.6	6,919	Sales and marketing for motors in India
Teco Electrical Industries Private Limited	2016.6	30,199	Dealer for motors
Yatec Engineering (VN) Company Limited	2016.12	18,548	Design and maintenance of electrical systems
Century Real Estate (International) Pte. Ltd.	2017.8	933,736	Investment in other regions
CDC Development India Private	2017.10	882,740	Consulting service for industrial zone and land investment
Century Biotech Development Corporation	2018.3.23	700,000	Consulting service for industrial zone and land investment
Teco Sun Energy	2018.6.15	70,000	Production of equipment for power generation, transmission and distribution
Am Smart Technology	2018.3.31	10,000	Dealer of heavy electric products



### 8.1.3 Operational Highlights of Affiliated Companies

Unit: NT\$thousand

Company	Capital	Total Assets	Total Liabilities	Net Worth	Net Sales	Operating Income	Net Profit / Loss	EPS (NT\$)
Tong Dai Co., Ltd.	57,120	602,534	317,840	284,694	1,145,519	57,228	62,121	10.88
Tecnos International Consultant Co., Ltd.	97,375	355,740	227,273	128,467	1,875,768	21,583	17,142	1.76
TECO Electric Europe Limited	174,960	40,673	117,009	-76,336	96,938	7,903	11,050	2.46
TECO International Investment Co., Ltd.	575,335	1,239,206	174,630	1,064,576	39,392	32,414	34,515	0.60
TECO Electro Devices Co., Ltd.	245,926	564,160	177,057	387,103	595,761	20,303	26,550	1.08
TECO Electric & Machinery (Pte) Ltd. Singapore	179,840	3,303,054	241,413	3,061,641	1,325,856	24,014	101,891	12.74
Tong Tai Jung Co., Ltd.	66,000	460,271	307,792	152,479	809,592	29,589	23,126	3.50
Information Technology Total Services Co., Ltd.	203,371	907,995	631,133	276,862	1,184,279	61,321	45,033	2.21
UVG Investment Co., Ltd.	7,230,724	8,029,014	538,728	7,490,286	0	253,666	246,687	1.05
Tong-An Investment Co., Ltd.	4,459,181	8,437,238	65,510	8,371,728	221,946	177,235	182,101	0.41
TECO Holding USA Inc.	820,306	11,552,649	1,692,243	9,860,406	8,285,091	643,836	390,100	14.61
TECO Westinghouse Motor Company	633,497	9,172,267	1,561,827	7,610,440	6,993,559	502,436	446,419	21.64
An-Tai International Investment Co., Ltd.	250,187	523,405	1,162	522,243	29,074	27,804	28,795	1.15
Taian (Subic) Electric Co., Inc	205,514	281,227	58,943	222,284	364,504	11,246	10,462	1.56
Taian (Malaysia) Electric Sdn. Bhd.	184,834	12,315	538	11,777	0	239	239	0.01
Taian-Etacom Technology Co., Ltd.	83,000	595,446	428,961	166,485	580,038	37,094	28,528	3.44
Tasia (PTE) Ltd.	23,874	1,369	134	1,235	0	-142	-142	-0.13
Teco Electronic & Machinery (THAI) Co.,Ltd.	56,754	229,093	30,691	198,402	248,840	2,431	4,203	0.07
TECO Australia Pty. Ltd.	649,950	1,709,087	468,484	1,240,603	2,014,864	50,422	26,952	0.90
TECO Industrial Malaysia Sdn. Bhd.	556,000	889,535	115,533	774,002	640,061	-7,978	12,615	0.17
P.T TECO Elektro, Indonesia	781,697	426,631	5,436	421,195	17,969	5,336	5,336	0.21
Asia Air Tech Industrial (PTE) Ltd.	261,078	140,696	7,438	133,258	0	-5,677	-5,672	-0.67
Tecoson Industrial Development (Singapore)	37,134	18,839	133	18,706	0	-4,598	-4,598	-2.78
TECO Westinghouse Motor Industrial, Canada	24,928	2,454,762	234,629	2,220,133	1,569,605	141,583	126,610	114.68
Jiangxi TECO Westinghouse Motor Coil Co., Ltd	110,333	144,209	24,744	119,465	137,192	9,814	8,199	不適用
Teco Westinghouse Colombia S.A.S.	0	0	0	0	0	0	0	0.00
An-Tai International Investment (Singapore) Co., Ltd.	498,464	444,938	647	444,291	0	-25,204	-25,204	-1.14
Tecoson HK Co., Ltd.	15,634	10,920	1,540	9,380	3,027	-3,554	-4,670	-1.17
TECO (Dong Guang) Air Conditioning Equipment Co., Ltd.	314,637	144,955	5,344	139,611	7,193	-4,586	-5,487	NA
Micropac (BVI) Worldwide	457,162	1,457,457	737	1,456,720	0	-60	58,067	3.90

Company	Capital	Total Assets	Total Liabilities	Net Worth	Net Sales	Operating Income	Net Profit / Loss	EPS (NT\$)
Taian Technology (Wuxi) Co., Ltd	530,402	1,781,979	482,442	1,299,537	1,911,267	18,493	62,625	NA
Great Teco Motor Ltd.	3,748,036	4,243,527	932	4,242,595	0	202,318	204,076	1.67
Jack Property Service & Management Company	30,250	231,765	97,518	134,247	362,374	41,213	30,817	10.19
Universal Mail Service Ltd.	13,000	33,084	25,126	7,958	77,939	-1,274	-1,262	-0.97
INFORMATION TECHNOLOGY TOTAL SERVICE(BVI) Co. Ltd.	47,332	49,774	57	49,717	0	-805	-403	-0.26
Tong-An Assets Management & Development Co., Ltd.	3,884,237	6,226,357	973,550	5,252,807	179,845	64,439	71,234	0.18
P.T. TECO Multiguna Electro	15,758	427,957	76,051	351,906	650,295	71,330	52,274	0.01
Yatec Engineering Corporation	120,100	344,391	121,369	223,022	508,150	22,630	21,328	1.78
TECO New Zealand Limited	61,569	66,183	97,118	-30,935	77,643	8,453	8,453	2.82
Asia Electric & Machinery	1,707,293	389,935	11,219	378,716	0	-7,534	-7,535	-0.14
Wuxi TECO Electric & Machinery Co., Ltd	1,498,567	3,278,304	1,329,683	1,948,621	4,389,587	118,788	158,175	NA
GD TECO Taiwan Co., Ltd.	54,000	223,400	155,317	68,083	407,356	14,915	14,756	2.73
Tesen Electric & Machinery Co., Ltd.	200,000	324,822	101,654	223,168	2,271,598	19,536	19,179	0.96
Teco Electronic Devices Co.,Ltd.	104,738	121,631	0	121,631	0	0	17,878	5.24
Wuxi Teco Electro Devices Co.,Ltd.	123,128	215,027	93,411	121,616	307,646	16,661	17,876	NA
Unison Service Corporation	17,000	25,662	37,495	-11,833	85,111	3,565	2,702	1.59
Information Technology Total Service (Hang Zhu) Ltd.	2,406	296	428	-132	0	-102	-303	NA
Taian Electric Co., Ltd.	1,000	820	0	820	0	-12	-11	-0.11
E-Joy International Co., Ltd.	101,500	117,580	51,259	66,321	208,595	3,236	3,429	0.34
A-Ok Technical Co., Ltd.	22,500	137,011	81,992	55,019	365,058	24,179	19,978	8.88
Great Teco, S.L.	21,120	13,112	0	13,112	0	-4	342	0.57
Nanchang TECO Electric & Machinery Co., Ltd.	510,260	32,817	40,069	-7,252	16,752	-139	519,126	NA
Sankyo Co., Ltd.	8,346	134,410	263,396	-128,986	211,480	-428	1,070	0.04
Teco Electric & Machinery B.V.	23,232	141,559	630,857	-489,298	246,169	22,475	18,505	28.04
STE Marketing SDN. BHD	65,082	432,684	79,198	353,486	549,934	47,190	37,068	42.03
Jiangxi TECO Electric & Machinery Co., Ltd.	1,498,097	1,768,887	256,172	1,512,715	657,665	-754	34,095	NA
Qingdao TECO Precision Mechatronics Co., Ltd	837,440	996,579	615,226	381,353	1,028,448	-12,816	-10,808	NA
Teco Westinghouse Motor Company S. A. de C. V.	56,159	164,344	155,935	8,409	261,561	1,756	4,937	0.14
Xiaman TECO Technology Co., Ltd.	21,981	88,340	59,903	28,437	244,391	1,486	1,378	NA
TYM Electric & Machinery Sdn. Bhd.	3,689	98,339	19,724	78,615	113,033	5,521	5,192	103.84
Teco (Vietnam) Electronic & Machinery Company Ltd.	188,817	289,788	74,493	215,295	273,026	34,552	26,479	0.00
TECO Technology (Vietnam) Co., Ltd.	377,178	424,177	86,091	338,086	151,926	3,937	2,281	0.00

Company	Capital	Total Assets	Total Liabilities	Net Worth	Net Sales	Operating Income	Net Profit / Loss	EPS (NT\$)
Asia Innovative Technology (Xiamen) Co., Ltd.	834,130	369,190	78,993	290,197	53,036	-11,579	-12,826	NA
Fujian TECO Precision Co., Ltd.	376,117	159,815	86,421	73,394	0	-17,730	-11,051	NA
Teco Appliance (HK) Co., Ltd.	5,863	2,841	0	2,841	0	0	0	0.00
An-Sheng Travel Co., Ltd.	30,000	16,445	2,692	13,753	40,901	854	-619	-0.21
Hubbell-Taian Co., Ltd.	27,200	139,181	50,435	88,746	169,905	19,497	18,669	6.86
Hubbel-Anmex International(s) Pte. Letd.	24,324	36,406	4,452	31,954	9,674	4,724	3,548	4.48
Information Technology (Wuxi) Co., Ltd.	11,104	52,500	37,009	15,491	65,654	504	-2,496	NA
Information Technology Total Service (Xiamen) Ltd.	4,472	2,857	2,260	597	3,708	-2,152	-2,081	NA
GreyBack International Property Inc.	30,718	37,081	1,137	35,944	0	-33	-17	-0.02
Teco Group Science-Technology (Hang Zhou) Co., Ltd.	10,160	30,937	1,529	29,408	29,377	3,321	3,212	NA
Taian-Jaya Electric Sdn. Bhd.	7,379	199,370	58,374	140,996	93,580	10,122	9,002	9.04
TECO CAPITAL INC.	20,215	9,616	0	9,616	0	-38	1,344	2.04
TECO (PHILIPINES) 3C & APPLIANCES, INC.	30,141	35,599	41,373	-5,774	54,329	1,085	814	0.83
Taiwan Pelican Express Co., Ltd.	954,670	2,382,541	768,331	1,614,210	3,360,947	73,847	68,475	0.72
Tianjin TECO Technology Co., Ltd.	15,272	14,793	-5	14,798	0	-737	86	NA
Jiangxi TECO Air Conditioning Equipment Co., Ltd.	165,764	231,815	105,105	126,710	392,211	5,601	7,148	NA
TECO Sichuan Trading CO.,LTD.	26,832	22,494	15,086	7,408	13,777	-2,337	768	NA
Pelecanus Express Pte. Ltd.	27,644	3,102	123	2,979	0	-121	-2,502	-2.78
Qingdao TECO Innovation Co., Ltd.	58,516	86,256	52,922	33,334	0	-5,464	510	NA
TECO Technology & Marketing Center Co., Ltd.	8,346	11,465	51,975	-40,510	2,126	-171	-139	0.00
TECOCAPITAL INVESTMENT(SAMOA) Co., Ltd.	61,430	32,801	0	32,801	0	0	473	0.24
Beijing Pelican Express Co., Ltd.	24,372	2,679	14	2,665	0	-2,034	-11,470	NA
TECO Nanotech Co., Ltd.	250,000	43,856	17,730	26,126	4,013	-4,260	8,537	0.34
Technical Information International Co., Ltd.	44,720	14,834	2,643	12,191	24,646	1,415	1,401	NA
Shanghai TECO Electric & Machinery Co., Ltd.	22,665	1,585,673	1,551,059	34,614	4,808,070	82,558	67,946	NA
TECO Electric and Machinery GmbH.	880	7,626	1,761	5,865	25,105	-180	-175	-6.98
Tecom Co., Ltd.	3,153,326	2,104,482	1,505,473	599,009	2,428,662	-99,017	-46,896	-0.15
Tecom International Investment Co., Ltd.	120,000	243,210	1,785	241,425	0	-333	-752	-0.06
MOCET Networks Inc.	0	0	0	0	0	-22,592	-22,592	#DIV/0!
Baycom Opto-Electronics Technology Co., Ltd.	335,913	492,130	40,572	451,558	228,065	-4,497	-582	-0.02
Tecom Global Tech Investment (B.V.I)	33,156	2,146	0	2,146	0	0	-4,451	-0.13
Tecom Global Tech Investment Pte Limited	487,166	3,113	0	3,113	339	0	-54	0.00
Tecom Tech Investment (B.V. I)	49,556	3,110	-221	3,331	24	0	371	0.01

Company	Capital	Total Assets	Total Liabilities	Net Worth	Net Sales	Operating Income	Net Profit / Loss	EPS (NT\$)
WondaLink Inc.	47,422	33,666	33,334	332	75,806	-25,085	-25,348	-5.35
Wuhan Tecom Co., Ltd.	7,403	31,276	29,183	2,093	105,508	-3,556	-4,399	NA
Tecom Tech (Wuxi) Co., Ltd.	505,967	3,268	179	3,089	0	0	10	NA
Tecom Tech Investment (BVI) Limited.	14,460	306	85	221	152	41	270	NA
Beijing Tecom Innovative Technology Co., Ltd.	5,831	3,209	590	2,619	0	72	72	NA
Donghua Enterprise Co.,Ltd.	18,000	197,059	114,636	82,423	413,031	55,354	44,651	24.81
Hunan TECO Electric & Machinery Co., Ltd.	219,835	160,934	2,835	158,099	205	-6,174	-2,475	NA
Teco Elektrik Turkey A.S	35,834	17,287	252	17,035	2,324	-3,307	47	0.01
Motovario S.p.A.	633,952	8,064,194	4,545,236	3,518,958	4,068,314	113,198	13,997	0.78
Motovario SAU(Spain)	33,824	324,650	375,658	-51,008	613,528	-79,004	-81,683	NA
Motovario Ltd	15,836	165,257	147,170	18,087	292,387	-14,391	-16,714	NA
Motovario GMBH	11,338	58,578	98,610	-40,032	159,705	-3,752	-4,250	NA
Motovario Corp.	8,316	441,524	48,868	392,656	512,454	86,219	64,138	236.90
Motovario S.A(France)	11,380	158,437	145,887	12,550	356,692	-2,731	4,821	NA
Motovario Int. Trading Co. Ltd	940	3,057	3,720	-663	7,989	209	156	NA
Motovario Power Transmission Co. Ltd.	788	2,215	2,729	-514	515	-25	-87	NA
Motovario Gear Solution Private Ltd	5,519	122,858	210,734	-87,876	119,961	-14,682	-13,701	NA
Eagle Holding Co.	3,413,991	4,311,342	0	4,311,342	0	0	210,110	1.89
TECO MOTOR B.V.	3,520,352	4,311,437	0	4,311,437	0	0	205,744	2.06
Wuxi TECO Precision Mechatronics Co., Ltd	880,143	986,774	187,722	799,052	553,410	-11,158	-10,144	NA
Century Development Corporation	3,361,164	5,510,781	1,148,373	4,362,408	776,819	332,677	237,888	0.71
Century Tech. C&M Corporation	100,000	245,039	79,473	165,566	293,024	-23,511	-21,555	-2.16
United Development Corporation	80,002	148,220	23,987	124,233	2,640	-521	6,544	0.82
Teco Industrial System Private Limited	6,919	6,448	3,098	3,350	3,098	-2,020	-2,241	-0.15
Teco Electrical Industries Private Limited	30,199	32,300	22,143	10,157	63,120	-6,269	-7,240	-0.11
Yatec Engineering (VN) Company Limited	18,548	56,269	39,041	17,228	43,006	644	644	0.00
Century Real Estate (International) Pte. Ltd.	933,736	872,060	123	871,937	0	-121	-25,235	-0.83
CDC Development India Private	882,740	868,311	13,252	855,059	0	-26,917	-26,937	-0.01
Century Biotech Development Corporation	700,000	708,302	20,493	687,809	0	-14,299	-12,191	-0.02
Teco Sun Energy	70,000	69,932	0	69,932	0	-79	-68	0.00
Am Smart Technology	10,000	19,896	13,210	6,686	14,406	-3,319	-3,319	-0.33
Temico International Pte.Ltd.	17,148	16,821	101	16,720	209	-420	-420	-0.75
TECO EV Philippines Corporation	31,401	17,718	15,740	1,978	0	0	-670	-0.01

## 8.2 Private Placement Securities in the Most Recent Years

None

## 8.3 The Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years

Unit: NT\$ thousand; Shares; %

Name of subsidiary	Stock capital collected	Fund source	Shareholding ratio of the company	Date of acquisition or disposition	Shares and amount acquired	Shares and amount disposed of	Investment gain (loss)	Shareholdings & amount in the most recent year	Mortgage	Endorsement amount made for the subsidiary	Amount loaned to the subsidiary
Tong An Investment Co., Ltd.	4,459,181	Working Capital	99.60%	Successive Acquisition	19,540,052Shares \$232,969	-	-	19,540,052Shares \$451,375	16,561,052Shares	-	-
An Tai International Investment Co., Ltd.	250,187	Working Capital	100.00%	Successive Acquisition	2,825,748Shares \$26,308	-	-	2,825,748Shares \$65,275	None	-	-
Donghua Enterprise Co.,Ltd.	18,000		0.00%	Successive Acquisition	77,222 shares \$724	-	-	77,222 shares \$1,784	None		

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