



TECO ELECTRIC & MACHINERY CO., LTD.

2017

Annual Report



Energy Conservation

Emissions Reduction

Intelligence

Automation

<http://www.teco.com.tw>
<http://newmops.tse.com.tw>
Printed on April 30, 2018

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I. Letter to Shareholders



Dear Shareholders,

Looking back, the global economy continued to expand steadily in 2017, both electromechanical and home appliance market grew mildly. However, businesses were impacted by a number of adverse factors, including rising raw-materials and labor costs and exchange-rate swings on the global financial market.

The company managed to stage a good performance in sales growth and profits, minimizing the effect of adverse factors via gains and breakthrough in energy conservation, emission reduction, smart application, and automation, thanks to continuous quest for technology innovation, constant upgrading

of automation and intelligent production equipment/technology and increase of installation rate.

A. Review of Business Performance in 2017

Analysis of the company's business performance in 2017 follows:

a. Parent Company

Unit: NT\$ thousand

	2017	2016	Change
Sales revenue	21,301,208	20,274,047	5.07%
Operating profit	1,507,068	1,615,152	-6.69%
Profit for the year	3,092,358	3,481,480	-11.18%

As for business turnover, sales of electromechanical products grew, thanks to the effects of a number of policies, including organizational adjustment separating sales and production for heavy-electric, green-energy, and electric-control divisions, and intensified integrated sales of electromechanical products, such as foray into the North American market for electric-control products, intensified cultivation of small-motor products, shipment of big motors to Australia, and expanded market share in mainland China. Sales of power division grew significantly, thanks to influx of engineering orders. Home-appliances division, though, had a lackluster performance, due to weak domestic demands and the fire at the Kuanyin plant, which dampened refrigerator sales. The company's overall sales, however, still grew by 5% in 2017.

As for operating profit, despite international price hike of raw materials and exchange-rate swing, gross margin scored slight decline of 1.8%, thanks to higher production efficiency via investments in automated and intelligent equipment and improved product quality and quality via design change. Operating expense dropped by near NT\$50 million, due to improved flow and rationalization of expenses.

Concerning non-business income/outlay, investment returns decreased by NT\$110 million, due to the adverse effect of rising raw-materials cost and renminbi exchange rate on the profit of the mainland Chinese subsidiary and the one-off outlay for rationalization of the European subsidiary. Overall speaking, the company's current net profit declined by 11%.

b. R&D

As for R&D, the company successfully developed a number of new products, including high power density general induction motor, premium breaker motor, apparatus of 2000 amp electric brush, IE3 Exd motor, NEMA Premium large horse power motor, series of E510s IPP, series of JSDG2S, smart grid, CSPF new efficient air-conditioner, new efficient fridge, series of multi tube VRF and R32 refrigerant. The company won Taiwan Excellent Award for 17 items and 65 domestic and foreign patents.

c.Consolidated Financial Statements

Unit: NT\$ thousand

	2017	2016	Change
Sales revenue	50,942,521	49,923,836	2.04%
Operating profit	3,496,200	4,189,481	-16.55%
Profit for the year	3,544,248	4,036,998	-12.21%
Total comprehensive income for the year	4,326,037	4,360,290	-0.79%

In the aspect of consolidated sales revenue in addition to Taiwan, North America, Australia, and mainland China where sales grew further, significant gains were made in tapping the markets of India and Vietnam, sustaining overall sales growth. Operating expense declined by near NT\$240 million, thanks to rationalization of outlays. Operating profit still tumbled by 16%, due to raw-materials price hike, weak U.S. dollar, and intensified competition. Overall speaking, consolidated current net profit slipped by only 0.79%.

B.Outline of 2017 Business Plan

Looking ahead, in line with the vision of “energy conservation, emissions reduction, intelligence and automation,” the company will focus on new products, new applications, and new markets in 2018.

a.Energy conservation, emissions reduction: Thanks to upsurge of environmental awareness worldwide, development of high-efficiency motors, continuing improvement of inverters, and contribution of high-performance home appliances, sales of green-energy products are expected to score double-digit growth. In addition, the company has completed deployment in offshore wind power, PV power, electric-car motor, railway construction under the government’s “Forward-Looking Infrastructure Development Program,” and ship motor, driving the company’s development in products related to energy conservation and emission reduction.

b.Intelligence and automation

The Mhm electromechanical-equipment healthy management system, newly developed by the company, has been maturing, sparking strong demands on the market. New digital service combining electromechanical technology and big-data analysis has started to generate revenue. In addition, via cooperation with machinery plants, expand sales of servo products, introduce service-oriented robots, and develop gear reducer, generating double-digit growth in related revenue. IoT (Internet of Things) has been introduced to the operation of factories by combining industrial big data with AI machine learning, greatly improving manufacturing flow and enhancing production efficiency.

c.Overseas market

The company will actively tap Vietnamese, Philippine, and Indian markets, in order to consolidate overseas presence and expand global deployment.

C.External Competition, Legal and Microeconomy

Despite benefit of expected gradual recovery of global economy on the sales of the company’s electromechanical and other business divisions, 2018 will still be a year of rigorous challenge for the company, given multiple variables for global situation, including Sino-U.S. trade war, volatile North Korea issue, Russia’s presidential election, and domestic nine-in-one municipal elections, which will affect raw-materials prices and market environment.

Faced with changeful and highly competitive market, the company will speed up integration of the group’s resources, addressing both corporate social responsibility and industrial upgrading, in actively developing forward-looking green-energy, automated, and smart products, new industries, new services, and new market opportunities, in order to consolidate competitive edge and attain growth in both revenue and profits.

The company has been granted golden award for “Taiwan Top 50 Corporate Sustainability Report” for four years running, on top of “corporate citizen award” granted by Commonwealth magazine. As a driver for the sustainable development of the electromechanical industry, the company will continue adhering to the integrity-oriented management concept and being dedicated to the development of smart environment-friendly products, in line with the global current of energy conservation and carbon abatement, in addition to marching towards the goal of becoming a corporate guidepost of the world, so as to create maximum benefits for shareholders and provide ample giveback to shareholders and investing public, in return to 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

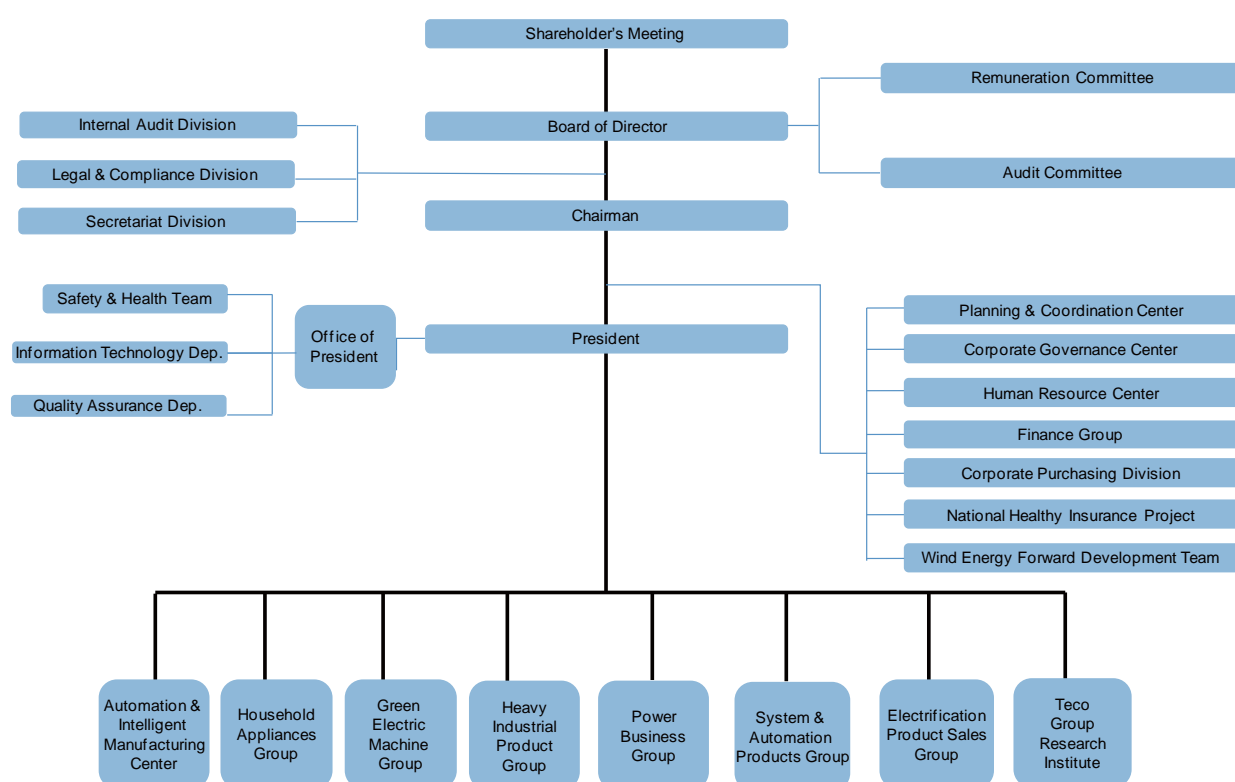


- 2010 Inauguration of Fujian Teco Precision Co., Ltd.
Rollout of TECO's first 2MW wind-power turbine
Inauguration of TECO Sichuan Trading Co., Ltd.
- 2011 Formal operation of TECO's large-scale 2MW wind turbine
Completion the new plant of Tai-An Technology (Wuxi) Co., Ltd.
Inauguration the new plant 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

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.
System & Automation Products Group	Sales of inverters and programmable logic controllers, servo controllers, PLC and Servo Controller. R&D, production, sales, OPS and integration of related equipments for solar power generators
Power Business	R&D, design, production, and sales of equipment and systems meant for the supply of electrical power; undertaking of projects related to power distribution and generation, alternative energy, and 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 pump stations and other related projects. Ultra-high pressure 161KV/69KV substations switchgears and installation projects.
Household Appliances	Production, assembly, sales, and repair of 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, variable –frequency 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 window-type air conditioner, air-cooled icy-water machine, fan filter unit, air vent, industrial-use dehumidifier, freezing/cooling machine, dealership of other domestic and foreign home appliances brands
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 electromagnet switch, molded-case circuit breakers, electronic relays, inverters and programmable logic controllers.
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.
Power Device Production & Research Division	Production of electromagnet switch, molded-case circuit breakers, electronic relays.
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. 20, 2018

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.	2015.6.11	3	2000.4.21	30,341,364	1.52%	30,341,364	1.52%	0	0	0	0	Master, University of Michigan, Ann-Arbor	Chairman of Taiwan Pelican Express Co., Ltd Chairman of Motovario Chairman of TECO Holding USA	-	-	-
	ROC	Representative : Chwen-Jy, Chiu	2015.6.11	3	2006.6.15	1,741,964	0.09%	1,741,964	0.09%	16,987	0.00%	0	0					
Managing Director	ROC	Tong Ho Gloabl Investment Co., Ltd	2015.6.11	3	2000.4.21	2,240,262	0.11%	2,240,262	0.11%	0	0	0	0	Ph.D, University of Illinois	Chairman of Tecom Co., Ltd. & Shanghai TECO Electric & Machinery Co.,Ltd			
		Representative : Chao-Kai, Liu	2015.6.11	3	2000.4.21	300,000	0.02%	300,000	0.01%	122,018	0.01%	0	0					
Managing Director	ROC	Cheng-Tsung, Huang	2015.6.11	3	1991.5.8	15,279,849	0.76%	15,279,849	0.76%	2,110,934	0.11%	0	0	Fu Jen Catholic University	Chairman of Sen Yeh Construction Co., Ltd. Independent Director of Aurotek Corporation			
Managing Director	ROC	Creative Sensor Inc.	2015.6.11	3	2009.6.19	10,000,000	0.54%	10,000,000	0.50%	0	0	0	0	Master, 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	2015.6.11	3	2012.6.15	234,623	0.01%	234,623	0.01%	0	0	0	0					
Managing & Independent Director	ROC	Chien-Yuan, Lin	2015.6.11	2	2015.6.11	0	0	0	0	8,000	0%	0	0	Ph.D, University of Washington	Supervisor of Advanced Lithium Electrochemistry & Profressor& Dean of Chinese Culture University			
Independent Director	ROC	Jing-Shown, Wu	2015.6.11	3	2013.6.21	0	0	0	0	0	0.	0	0	Ph.D, Cornell University	Honor of Distinguished Professor, National Taiwan University			
Independent Director	ROC	Ting-Wong, Cheng	2016.6.16	2	2016.6.16	0	0	0	0	0	0	0	0	Ph.D & Master, University of Missouri	Managing Director & Independent Director, Asia Pacific Telecom Independent Director, SuperAlloy International			
Director	ROC	Mao-Hsiung, Huang	2015.6.11	3	1972.5.12	18,486,633	0.92%	18,486,633	0.92%	5,839,071	0.29%	0	0	Master, University of Pennsylvania	Chairman of Independent Century Development Corporation, Teco Elektrik Turkey AS., Australia Pte Limited,	Managi ng Director	Yu-Ren, Huang	Father & Son

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	Po-Chih, Huang	2015.6.11	3	1988.3.28	21,614,831	1.08%	11,614,831	0.58%	150,988	0.01%	10,079,600	0.5	Master, University of Tokyo	Supervisor of Tecom Co., Ltd.,			
Director	ROC	Hsien- Sheng , Kuo	2015.6.11	3	1982.3.27	9,126,238	0.46%	9,126,238	0.46%	1,573,020	0.08%	0	0	Tamkang University	Chairman of Nantou Bus Lines Co., Ltd.			
Director	Japan	Yaskawa Electric Corporation.	2015.6.11	3	2006.6.15	29,541,089	1.48%	29,541,089	1.48%	0	0	0	0	Keio University	Corporate Senior Vice President of YASKAWA Electric Corporation Director of Yatec Engineering Corp.	-	-	-
	Japan	Representative : Hiroyuki Ougi	2015.6.11	3	2013.6.18	0	0	0	0	0	0	0	0					
Director	ROC	Kuang Yuan Industrial Co., Ltd.	2015.6.11	3	2009.6.19	22,033,919	1.10%	22,033,919	1.10%	0	0	0	0	Ph.D.,Northwestern University, US	Chairman of Global Strategic Venture Independent Director of Topkey Corporation, WUS Printed Circuit	-	-	-
	ROC	Representative: Shih- Chien, Yang	2012.6.11	3	2009.6.19	0	0	0	0	0	0	0	0					
Director	ROC	Tung Kuang Investment Co., Ltd.	2015.6.11	3	2000.4.21	30,341,364	1.52%	30,341,364	1.52%	0	0	0	0	Master, University of Houston	Chairman of TECO (Vietnam) Electric & Machinery Co.,Ltd., Wuxi TECO Precision Mechatronics Co., Ltd	-	-	-
	ROC	Representative : Hong-Hsiang, Lin	2015.6.11	3	2012.6.15	2,161,893	0.11%	2,116,893	0.11%	0	800,000	0.04%	0					
Director	ROC	Lien Chang Electronic Co., Ltd.	2015.6.11	3	2009.6.19	4,173,000	0.21%	4,173,000	0.21%	0	0	0	0	Master, National Taiwan University	Independent Director of Fareast Land Development Director of Yubantec Consultant of Chinese National Association of Industry and Commerce, Taiwan	-	-	-
	ROC	Representative: Ming-Feng, Yeh	2015.6.11	3	2015.6.11	0	0	0	0	0	0	0	0					
Director	ROC	Mao Yang Co., Ltd.	2015.6.11	3	1994.4.28	5,000,893	0.25%	10,000,000	0.50%	0	0	0	0	Minghsin University of Science & Technology	Chairman of Hong Tong Co., Ltd.	-	-	-
	ROC	Representative: Yung-Hsiang, Chang	2015.6.11	3	2006.9.6	0	0	0	0	0	0	0	0					

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
Chien-Yuan, Lin	V			V	V	V	V	V	V	V	V	V	V	V	2
Jing-Shown, Wu	V			V	V	V	V	V	V	V	V	V	V	V	0
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
Po-Chih, Huang				V	V				V	V	V	V	V	V	0
Hsien- Sheng, Kuo				V	V	V	V	V	V	V	V	V	V	V	0
Yaskawa Electric Corporation. Representative : Hiroyuki Ougi				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
Lien Chang Electronic Co., Ltd. Representative: Ming-Feng, Yeh			V	V	V		V	V	V	V	V	V	V		1
Mao Yang Co., Ltd. Representative: Yung-Hsiang, Chang				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 20, 2018

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
President (Note 1)	ROC	Chwen-Jy, Chiu	2005.6.1	1,741,964	0.09%	16,987	0.001%	0	-	Master, University of Michigan, Ann-Arbor	Chairman of Motovario S.p.A	-	-	-
Vice President	ROC	George Lien	2001.8.1	783,130	0.04%	0	-	0	-	Master, Stevens Institute of Technology	Chairman of Teco Electric & Machinery Pte Ltd	-	-	-
Assistant Vice President	ROC	Hong-Hsiang, Lin	1998.8.21	2,161,893	0.11%	800,000	0.04%	0	-	Master, University of Houston	Chairman of Wuxi TECO Precision Mechatronics Co., Ltd	-	-	-
Assistant Vice President	ROC	Steven Chiang	2011.12.25	0	-	0	-	0	-	Ph.D, University of Florida	Chairman of TAIAN-JAYA Electric Sdn. Bhd.	-	-	-
Assistant Vice President	ROC	Pin Chang	2015.8.12	20,376	0.00%	0	-	0	-	National Tsing Hua University	Chairman of Hubbell-Taian Co.,Ltd	-	-	-
Assistant Vice President	ROC	K.R. Chen	2016.8.12	37,558	0.00%	955	0.00%	0		Chung Yuan Christian University	Director of Tianjin TECO Technology Co.,Ltd			
Assistant Vice President	ROC	S.C. Lin	2017.1.1	1,193,245	0.06%	40,434	0.00%	0		National Taiwan University	Chairman of Teco Electro Devices Co., Ltd.			
Assistant Vice President	ROC	Kevin Yeh	2017.1.1	0	-	0	-	0		Boston University	Director of TECO Electric Europe LTD			
Assistant Vice President	ROC	Albert Peng	2017.1.1	0	-	0	-	0		Master, 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, National Central University	Director & President of Wuxi Teco Precision Mechatronics Co., Ltd			

Note 1: To implement the spirit of cooperate governance, chairman will no longer hold the office of President of TECO. Vice Presiednt, George Lien serves as acting President.

3.2.3 Remuneration of Directors, President and Vice President

Remuneration of Directors (Including Independent Directors)

December 31, 2017 / 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	0The 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
																	Cash Dividend	Stock Dividend	Cash Dividend	Stock Dividend			
1	Chairman	Tung Kuang Investment Co., Ltd. Representative : Chwen-Jy, Chiu																					
2	Managing Director	Tong Ho Globl Investment Co., Ltd Representative : Chao-Kai, Liu																					
3	Managing Director	Cheng-Tsung, Huang																					
4	Managing Director	Creative Sensor Inc. Representative: Yu-Ren, Huang																					
5	Managing & Independent Director	Chien-Yuan, Lin																					
6	Independent Director	Jing-Shown, Wu																					
7	Independent Director	Ting-Wong Cheng	-	-	-			Total: 111,357	Total: 111,357	Total 942	Total: 1,416	3.63%	3.65%	Total: 8,424	Total: 8,424	Total: 108	Total: 108	Total: 369	-	Total: 369	3.92%	3.93%	Yes
8	Director	Mao-Hsiung, Huang																					
9	Director	Po-Chih, Huang																					
10	Director	Hsien- Sheng, Kuo																					
11	Director	Yaskawa Electric Corporation. Representative : Hiroyuki Ougi																					
12	Director	Kuang Yuan Industrial Co., Ltd. Representative: Shih- Chien, Yang																					
13	Director	TongKuang Investment Co.,Ltd Representative: Hong-Hsiang, Lin																					
14	Director	Lien Chang Electronic Co., Ltd. Representative: Ming-Feng, Yeh																					
15	Director	Mao Yang Co., Ltd. Representative: Yung-Hsiang, Chang																					

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	5,6,7	5,6,7		
NT\$2,000,000 ~ Under NT\$5,000,000			5,6,7	5,6,7
NT\$5,000,000 ~ Under NT\$10,000,000	8,9, 10,11,12,13,14,15	8,9, 10,11,12,13,14,15	9,10,11,12,13,14,15	9,10,11,12,13,14,15
NT\$10,000,000 ~ Under NT\$15,000,000	1,2,3,4	1,2,3,4	1,2,3,4,8	1,2,3,4,8
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	15	15	15	15

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

Compensation of President and Vice President

December 31, 2017 / 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
			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	other than the company's subsidiary
									Cash	Stock	Cash	Stock			
1	President	Chwen-Jy, Chiu	Total 26,524	Total 26,524	Total 1,759	Total 1,759	Total 30,150	Total 31,607	Total 16,376	-	Total 22,462	-	2.62%	2.66%	Yes
2	Vice President	George Lien													
3	Executive Consultant	Hong-Hsiang, Lin													
4	Assistant Vice President	S.C Lin													
5	Assistant Vice President	Steven Chiang													
6	Assistant Vice President	Pin Chang													
7	Assistant Vice President	K.R Chen													
8	Assistant Vice President	Albert Peng													
9	Assistant Vice President	Fei-Yuan, Kao													
10	Assistant Vice President	Kevin Yeh													

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

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

Employee Bonus to Executive Officers

2017.12.31/ 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	President	Chwen-Jy, Chiu	-	Total 22,462	Total 22,462	0.73
	Vice President	George Lien				
	Executive Consultant	Hong-Hsiang, Lin				
	Assistant Vice President	S.C Lin				
	Assistant Vice President	Steven Chiang				
	Assistant Vice President	Pin Chang				
	Assistant Vice President	K.R Chen				
	Assistant Vice President	Albert Peng				
	Assistant Vice President					

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 (%)
2017	204,026	6.66
2016	193,236	5.55

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 6 meetings of the board of directors were held in 2017, 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	6	0	100 %	
Managing Director	Tong Ho Gloabl Investment Co., Ltd Representative : Chao-Kai, Liu	6	0	100%	
Managing Director	Cheng-Tsung, Huang	3	3	50%	
Managing Director	Creative Sensor Co., Ltd. Representative: Yu-Ren Huang	5	1	83%	
Managing & Independent Director	Chien-Yuan, Lin	6	0	100%	
Independent Director	Jing-Shown, Wu	6	0	100%	
Independent Director	Ting-Wong, Cheng	6	0	100%	
Director	Mao-Hsiung, Huang	6	0	100%	
Director	Po-Chih, Huang	5	1	83%	
Director	Hsien- Sheng, Kuo	4	2	67%	
Director	Yaskawa Electric Corporation. Representative : Hiroyuki Ougi	4	2	67%	
Director	Kuang Yuan Industrial Co., Ltd. Representative: Shih- Chien, Yang	5	1	83%	
Director	Tung Kuang Investment Co., Ltd. Representative: Hong-Hsiang, Lin	6	0	100%	
Director	Lien Chang Electronic Co., Ltd. Representative : Ming-Feng, Yeh	6	0	100%	
Director	Mao Yang Co., Ltd. Representative: Yung-Hsiang, Chang	6	0	100%	

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. 24-15 Board Meeting: 2017.3.24

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 2016.

Reason for avoidance of conflict of interest and the status of voting: Since the aforementioned managing director 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), 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 Electric Europe Limited, TECO International Investment Co., Ltd., chairman of Sankyo Co, Ltd., supervisor of TG TECO Vacuum Insulated Glass Corporation,

chairman of Asia Innovative Technology (Xiamen) Co., Ltd., Director of Qingdao TECO Precision Mechatronics 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 independent director, Ting-Wong, Cheng. Chao-Kai, Liu is the director of TECO International Investment Co., Ltd., Asia Innovative Technology (Xiamen) Co., Ltd., Qingdao TECO Precision Mechatronics 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., president of Sankyo Co, Ltd., director of TG TECO Vacuum Insulated Glass Corporation, 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 Electric Europe Limited, 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 independent director, Ting-Wong, Cheng, 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), Hong-Hsiang, Lin (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 Motovario S.p.A, chairman of Asia Innovative Technology (Xiamen) Co., Ltd., director of UVG Investment Co.Ltd., director of TNL, director of Qingdao TECO Precision Mechatronics Co., Ltd., director of Tong-An Assets Management & Development Co., Ltd., abstained from the discussion and voting for the case based upon interest conflict, and presided over by independent director, Ting-Wong, Cheng. Chao-Kai, Liu is the managing director of TECO Westinghouse Motor Company, director of Motovario S.p.A, chairman of Tai-An Technology (Wuxi) Co., Ltd., director of Asia Innovative Technology (Xiamen) Co., Ltd., chairman of UVG Investment Co.,Ltd., director of TNL, director of Qingdao TECO Precision Mechatronics Co., Ltd. Cheng-Tsung, Huang is the managing director of Tong-An Assets Management & Development 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, 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 independent director, Ting-Wong, Cheng, who consulted other attending directors, none whom objected the case.

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

Contents of the case: Plan to divest long term shareholding of the company

Reason for avoidance of conflict of interest and participation in voting: Mao-Hsiung, Huang is the director of momo.com Inc. Ting-Wong Cheng is independent director of Asia Pacific Telecom. The above directors were 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.

ii. 24-17 Board Meeting: 2017.6.16

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

Contents of the case: Discussion of Capital increase to repay loans for TG TECO Vacuum Insulated Glass Corporation with Endorsement guarantee.

Reason for avoidance of conflict of interest and participation in voting: Chwen-Jy, Chiu is the supervisor of TG TECO Vacuum Insulated Glass Corporation, abstained from the discussion and voting for the case based upon interest conflict, and presided over by independent director, Ting-Wong, Cheng. Mao-Hsiung, Huang is the director of TG TECO Vacuum Insulated Glass Corporation, 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.

iii. 24-18 Board Meeting: 2017.8.11

Director's Name: Hong-Hsiang, Lin (Director)

Contents of the case:

Reason for avoidance of conflict of interest and the status of voting: Hong-Hsiang, Lin is the chairman of TEKV (Teco (Vietnam) Electric & Machinery Co., Ltd.), 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. Measures taken to strengthen the functionality of the Board:

(1) The composition of board members is full of diversification

- i. In line with the global trend for corporate governance and the development of issues cared by the local society, the company's board of directors resolved to formulate the company's "practical guidelines for corporate governance" on March 25, 2008. According the guidelines, the company set the policy diversifying the makeup of the board of directors. 2014 shareholders' meeting passed revised " Articles of Incorporation " and " Rules Governing Election of Directors," calling for the adoption of nomination system for the candidates for the election of directors (including independent directors) and strengthening of information transparency for screening the nomination for directors, so as to safeguard the interests of shareholders and strengthen corporate-governance system.
- ii. In response to the expiration of a term and re-election of board of director in 2018, TECO did the preliminary review for the qualification and experience of candidates nominated by shareholders and board of director based upon Article 30 in Company Act. The resolution of board of director sproved "Review of candidates' qualification for directors and independent directors". The company announced the result for shareholders' reference, and the competent directors will be elected in annual general meeting on June 15, 2018.

(2) Enhance the authority of Functional Committee and Independent Director

- i. Audit Committee and Remuneration Committee were established under board of directors in 2012 and 2011 respectively to assist Board of Director in supervision. Audit Committee is composed of 3 independence directors. Remuneration Committee is composed of independent directors and related experts assigned by board of director, totally 3 people. The articles of committees are approved by board of director and committees regularly report to Board of Director about their activities and resolutions.
- ii. Based on the decree of the Financial Supervisory Commission (FSC No. 1060027112, July 28, 2017), the board of directors passed the fifth edition of the company's "practical guidelines for corporate governance" on Nov. 13, 2017, with major revisions including (1) addition of "evaluation of the effectiveness of internal control system" to the responsibilities of the audit committee with the result to be submitted to the board of directors for discussion; (2) attendance of the board of directors by at least one independent director in person or authorization for attendance by other independent director on his/her behalf; (3) explanation of reasons at shareholders' meeting for nominating candidates for independent directors who have been on the position for three terms.
- iii. Based on the decree of Taiwan Stock Exchange (TSE No. 1060018313, Sept. 27, 2017), the board of directors passed on Nov. 13, 2017 revised "regulations on the organization of the audit committee, with major revisions including (1) when the audit committee is engaged in discussion or voting, other attendees should leave the venue; (2) independent directors should explain the contents of related interests, should they occur, and abstain from discussion and voting or representing other independent directors in voting, if their interests are at odds with the company's interest; (3) minutes should record in detail the names of independent directors with related interests, explanation of the contents of related interests, reason for abstention or no abstention, and the status of abstention; (4) entire process of audit committee should be recorded either in audio or video form as reference of proof.

(3) Enhance information transparency

- i. In line with policy of the Financial Supervisory Commission mandating certain enterprises to compile corporate social responsibility report and the requirement of the criteria for the second corporate-governance evaluation, the board of directors resolved to formulate the company's "Corporate Social Responsibilities Best Practice Principles" on March 20, 2015, in reference to the revised exemplary " Corporate Social Responsibilities Best Practice

Principles" publicized by Taiwan Stock Exchange on November 7, 2014. The board of directors resolved on Dec. 23, 2016 to revise the company's "practical guidelines for corporate social responsibility," in line with the instruction of Taiwan Stock Exchange (letter No. 1050014103, July 28, 2016) and in reference to revision of 2015 edition of principles on corporate governance, passed by OECD meeting in Ankara, Turkey, in Sept. 2015.

- ii. The board of directors resolved on Dec. 23, 2016 to formulate the company's "operational procedure for applying to suspend and resume stock trading," in line with revised "handling procedure for verification and publication of major messages of listed companies" (Taiwan Stock Exchange letter No. 1041803064, July 13, 2015), on top of revising the company's "internal control system" accordingly. The board of directors resolved on Dec. 23, 2016 to revise the company's "operational procedure for applying to suspend and resume stock trading," in line with the instruction of Taiwan Stock Exchange (letter No. 1050016280, Aug. 19, 2016 and letter No. 1050004677, March 25, 2016). The revision calls for the company to post major messages "two hours before the starting of next trading session" and adjustment of the time for applying to suspend stock trading.
- iii. The board of directors resolved on Aug. 14, 2014 to formulate "guidelines for integrity-oriented management," in order to build a corporate culture based on integrity-oriented management and strengthen corporate governance, according to corporate-governance norms and the instruction of Taiwan Stock Exchange (letter No. 0990026534). The board of directors resolved on Dec. 23, 2016 to revise the "guidelines for integrity-oriented management," calling for formulation of the company's policy, as well as precautionary program, in pushing integrity-oriented management and designation of specialized unit for supervision and execution, on top of formulating "measures for handling reports on illegal, unethical, and dishonest behaviors." The move was in line with the effort of the Financial Supervisory Commission in pushing blueprint of corporate governance, which called for the establishment of a specialized unit, overseen by the board of directors directly, to formulate integrity-oriented management policy and precautionary program, in addition to the supervision of execution, as shown in the notification of Taiwan Stock Exchange (letter No. 1030022825, Nov. 7, 2014).
- iv. According to the norms for corporate governance, the board of directors approved on Dec. 22, 2014 the company's "measures for the selection and evaluation of certified public accounts," according to which review of the independence and performance of CPAs must be carried out regularly, in order to strengthen corporate governance.

(4) Directors' obligation and duty for faithful attention

- i. In order to materialize corporate governance, set specific performance goal for enhancing the functions and operating efficiency of the board of directors. In line with article 37 of the "practical guidelines for corporate governance of listed companies on the centralized and OTC markets," the board of directors resolved on Nov. 13, 2015 to formulate the company's "measures for evaluating the performance of the board of directors." Accordingly, at the end of a fiscal year, the secretariat of the board of directors would collect information on the activities of the board of directors, issue questionnaires for self evaluation to be filled by directors, and record the results for submission to the board of directors for review and improvement.
- ii. To ensure compliance of the behaviors of directors and managerial staffers with ethical standards, strengthen corporate governance, and abide with the stipulation of the "Personal Information Protection Act" calling for legal compliance in the publication of personal information, as well as the regulation of the "Securities and Exchange Act" regarding the independence of directors and supervisors, in reference to the exemplary contents of the revised "formulation of guidelines for ethical behaviors by listed companies on the centralized and the OTC markets," publicized by the Taiwan Stock Exchange on Jan. 28, 2015, the board of directors resolved on March 20, 2015 to revise the company's "guidelines for the ethical behaviors of directors and managerial staffers."
- iii. Every year, the company arranges courses for study by directors regulators, helping them access related information, so as to uphold their core value and professional edge and capability. In fiscal 2016, all directors (including independent directors) completed sufficient hours of study, according to "key points for pushing study by directors and supervisors of companies listed on the centralized and the OTC markets."
- iv. According to article 39 of the "practical guidelines for corporate governance," take out liabilities insurance for directors covering their obligation for compensations associated with the execution of their duties during their term, so as to lower and diversify risk of major loss for the company and shareholders arising from mistakes or negligence of directors. Major contents of the liabilities insurance for directors, including insured amount, coverage, and premium, were reported to the board of directors on March 26, 2018.

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 2017, 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%	
Member	Jing-Shown, Wu	8	0	100 %	
Member	Chien-Yuan, Lin	8	0	100%	
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		
24-15 Board Meeting 2016.3.24	Discussion about business report, individual financial statements and consolidated financial statements	v			
	Discussion about disposition of net income	v			
	Discussion about CPA’s independence and performance	v			
	Discussion about remuneration of CPA	v			
	Internal audit report and self assesment of internal control	v			
	Case of 2017 Due Date Quota of Financial Institution	v			
	Plan to keep supplying subsidiaries and overseas affiliates with endorsement guarantee	v			
	Lending of capital of the company and affiliates	v			
	Plan to terminate of GDR	v			
	Plan to divest long term equity investment	v			
	Plan to amend Acquisition or Disposal of Assets	v			
	The Resolution of Audit Committee (2017.3.17): Passed by all members				
	How the company handle opinion of Audit Committee: Passed by all attendee directors				

24-17 Board Meeting 2017.6.17	Discussion of joint venture with Mahindra from India	v	
	Plan to take part in capital increased by cash and repayment of TG TECO Vacuum Insulated Glass Corporation	v	
	Plan to issue 1 st unsecured coporate bond in 2017	v	
	The Resolution of Audit Committee (2017.6.13): Passed by all members		
	How the company handle opinion of Audit Committee: Discussion of joint venture with Mahindra from India Joint venture attached conditions 1. Both sides hold 50% shareholdings, or invite third party to join; 2. Joint venture should be overseas, and apply to foreign law. The others are passed by all attendee directors		
24-18 Board Meeting 2017.8.11	Discussion about the financial statements of second quarter	v	
	Divest the shareholding of Nano Bit Tech	v	
	Discussion about construction in Binh Dong Province Vietnam and TECO Technology (Vietnam) Co., Ltd.	v	
	Plan to increase the unsecured credit limit with financial institutions		
	Plan to adjust credit line between financial institution	v	
	The Resolution of Audit Committee (2017.6.28, 2017.8.7): Passed by all members		
	How the company handle opinion of Audit Committee: Passed by all attendee directors		
24-19 Boarding Meeting 2017.11.13	Plan to found a green energy joint venture with Shin Kong Group	v	
	Plan to amend Corporate Governance Best Practice Principles	v	
	Discussion about endorsements and guarantees and approvement for joint bidding with Chunghwa Post Co.,Ltd	v	
	The Resolution of Audit Committee (2017.11.7, 2017.11.13): Passed by all members		
	How the company handle opinion of Audit Committee: Passed by all attendee directors		
24-20 Boarding Meeting 2017.12.22	Discussion about CPA's independence and performance	v	
	Discussion about remuneration of CPA	v	
	Internal audit report and self assesment of internal control		
	The Resolution of Audit Committee (2017.12.15): 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 24-15 Board Meeting: 2017.3.24 Director's Name: Ting-Wong Cheng (Independent Director) Contents of the case: Plan to divest long term shareholding of the company Reason for avoidance of conflict of interest and participation in voting: Mao-Hsiung, Huang is the director of momo.com Inc. Ting-Wong Cheng is independent director of Asia Pacific Telecom. The above directors were 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 administrative unit and governing unit.

i. The company's internal auditing chief delivers internal auditing report at the quarterly meeting of the auditing 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	Issue
2-15 2017.3.17	Report for 2016 Internal Audit 2016 Internal Audit Self Evaluation (Announcement of Internal Control)
2-16 2017.5.5	Report for 2017 1Q Internal Audit
2-19 2017.8.7	Report for 2017 2Q Internal Audit
2-22 2016.12.15	Report for 2017 3Q Internal Audit Audit Project for 2018

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

Audit Committee	Issue
2-15 2017.3.17	Report for 2016 consolidate and individual financial statements and audit result of internal control The effect resulted from updated IFRS, regulations and tax law
2-19 2017.8.7	Report for 2017 1H consolidate financial statement and suggestion toward internal control The effect resulted from important accounting estimate and updated tax law

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 amendaments 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,	V		a. The company has installed stock-affairs unit, which handles shareholders’ suggestions or disputes, among others.	a. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM

Items	Implementation status			Discrepancy with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies “ and reasons Listed Companies”.
	Yes	No	Summaried Explanation	
<p>questions, disputes, and litigation of shareholders.</p> <p>b. Whether the company has got hold of the list of major shareholders and their ultimate controllers.</p> <p>c. Whether the company has established and implemented risk-management and firewall mechanism pertaining to affiliates.</p> <p>d. Whether the company has formulated internal norms forbidding the company’s insiders to take advantage of unpublicized information in trading in securities.</p>			<p>b. The company has got hold of the list of major shareholders and their ultimate controllers, which is updated regularly.</p> <p>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.</p> <p>d. The company has formulated internal norms forbidding insiders to take advantage of unpublicized information in trading in securities.</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> <p>d. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”.</p>
<p>C. Composition and duties of the board of directors</p> <p>a. Whether the board of directors has formulated and achieved diversification for the composition of its membership.</p> <p>b. Whether the company has installed on its own various functional committees other than the compensations committee and the auditing committee.</p>			<p>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:</p> <p>i. Basic condition: sex, age, nationality and culture</p> <p>ii. Professional knowledge and skill: professional background (such as law, accounting, industry, finance, marketing and technology), professional skill and industrial experience. There is one female director and two Japanese director sitting on the company's 24th board of directors, which has 15 seats (including three for independent directors), with a three-year term, which 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.</p> <p>b. The company already approved the institution of the “compensations committee” at the 13th 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). To improve the quality of corporate governance, the company will increase the other function committee based upon the inspection and evaluation.</p>	<p>a. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”</p> <p>b. 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	
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.	V		<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. 2015 Evaluation Report was submitted in BOD meeting on March 21 2016 and March 24 2017. All items are well performed and the company's BOD operated well in 2015 and 2016.</p> <p>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 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), communal 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 directions 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</p>	c. 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	
d. Whether the company has regularly evaluated the independence of certified public accountants.			<p>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>d. The 23rd board of directors also approved at its 19th 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 24th board of directors at the fifth meeting (Mar. 24, 2017) and the 20th meeting (Dec. 22, 2017)</p>	d. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”
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 provide directors data and information on latest legal development for the execution of their duties, to help them in legal compliance. The operation situation is showed as follow, and was reported to board of director.</p> <p>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.</p> <p>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.</p> <p>iii. Based upon “Regulations Governing the Board Performance Evaluation,” board secretary collects the information related activities of the board, distributing the</p>	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>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.</p> <p>iv. 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>v. 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>	
E. Whether the company has established communications channel for stakeholders (include but not restrict shareholders, employees, customers and suppliers) and dedicated sector for stakeholders on its website, in addition to responding properly to key issues on corporate social responsibility concerned by stakeholders.	V		<p>The company has high regard for issues concerned by stakeholders and channels for communication with them, keeping smooth communications with shareholders, employees, customers, suppliers, local communities, NGOs, and government units, via regular or irregular publication of messages or direct communication with stakeholders, so as to respect and uphold their legal rights (note 3). 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.</p> <p>http://tecocsr.teco.com.tw/page1.php?gid=11</p>	Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies “
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	V		a. The company institutes website for disclosing the status of finance and corporate governance. The address of the corporate website:	a. Compliance with “Corporate Governance Best-Practice Principles

Items	Implementation status			Discrepancy with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies “ and reasons
	Yes	No	Summaried Explanation	
<p>finance, business, and corporate governance.</p> <p>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).</p>			<p>www.teco.com.tw</p> <p>b. The company institutes English-language website (http://www.teco.com.tw/en_version/index.asp), designates specific persons for the collection and disclosure of corporate information, and implements spokesperson’s system.</p>	<p>for TWSE/GTSM Listed Companies“</p> <p>b. Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies“</p>
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		<p>a. The company has formed labor union, which convenes regulation and communication with the management, so as to uphold the interest of employees. Regarding investor relationship, the company has established a specialized unit for regular disclosure of the company’s key business information, thereby enhancing transparency of corporate information, as well as feedback mechanism allowing investors to express their opinions on corporate development. The company also actively takes part in investors’ conference, informing investors of the company’s current operational status and development plan.</p> <p>b. Attendance of directors in the meetings of board of directors is good and the percentage of attendance on person is about 88.89% in 2017.</p> <p>c. In 2017, the company’s directors undertook 93 hours of advanced study, and managerial staffers 57 hours.</p> <p>d. The company has taken out liabilities insurance for directors and supervisors since 1999 to decrease and diversify the risk resulted from wrong decision or remissness of the board. The insurance amount (US\$10 millions), range (whole board members), net premium rates and insurance period were reported in 24-15 Board meeting on March 26 2018.</p>	Compliance with “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies“
I. Please illustrate the improvement based upon Corporate Governance Evaluation Result released by Taiwan Stock Exchange.	V		<p>1. The company was granted top 5% evaluation in corporate-governance evaluation for three years running since fiscal 2015.</p> <p>2. Regarding Procedure for Acquisition or Disposal of Assets, the company has stipulated standard procedure and improving project to regulate subsidiaries, because of difference between domestic and overseas regulation.</p> <p>3. To implement corporate governance, the</p>	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>company announced that Chairman Chiu will no longer hold the office of general manager, and vice general manager, George Lien serves as acting general manager.</p> <p>4. To improve the quality of corporate governance, the company will increase the other function committee based upon the practice.</p>	

Note 1 Implement the policy of diversification in the board

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	Accounting	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
Chien-Yuan, Lin	M	Taiwan	Civil Engineering	v	v	v	v	v	v	v	v
Jing-Shown, Wu	M	Taiwan	Electronic Engineering	v	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
Po-Chih, Huang	M	Taiwan	Engineering	v	v	v	v	v	v	v	v
Hsien- Sheng, Kuo	M	Taiwan	Language	v	v	v	v	v	v	v	v
Yaskawa Electric Corporation. Representative : Hiroyuki Ougi	M	Japan	Electronic Engineering	v	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
Lien Chang Electronic Co., Ltd. Representative : Ming-Feng, Yeh		Taiwan	Economy	v	v	v	v	v	v	v	v
Mao Yang Co., Ltd. Representative: Yung-Hsiang, Chang	M	Taiwan	Industrial Management	v	v	v	v	v	v	v	v

Note 2 Evaluation for CPA

A. Requirement of Independence		
	Item	Result
1	Do certified public accountants, their spouses, or minor children have relationship of investment or financial-interest sharing with the company?	No
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
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
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
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
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
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
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
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
Operation of Independence		
	Item	Result
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
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
3	Whether certified public accountants carry out professional service in upright and rigorous manner?	Yes
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

Note 3 Issues which stakeholders focus and communication channel

Stakeholder	Issue	Communication Channel
Stockholder	Operation of Company Financial Transparency Risk Management Corporate Governance Environment Protection	<ul style="list-style-type: none"> • MOPS • AGM, at least once per year • Attending conference • Visit of institutional investor • Investor relations/service email box, prompt feedback by designated person
Employee	Strategy and Operation of Company Labour Relations Employee Rights Education and Career Environment of Workplace Opinion Express and Communication	<ul style="list-style-type: none"> • Employee Management Meeting, once per season • Staff Regular Meeting, once per season • Conference with executive manager, once semi-annual • Occupational Safety and Health Committee, once per season • Employees' Welfare Committee • Magazine, once every 2 months • Survey for staffs' satisfaction, once per year

Stakeholder	Issue	Communication Channel
		<ul style="list-style-type: none"> Proposals to improve
Customer	Indication of Product and Service Health and Safety of Customer Sales and Communication Survey for customers' satisfaction Green Product	<ul style="list-style-type: none"> Customer Service Dedicated Phone Line, on irregular basis Conference for agents, 1-4 times per year and irregular visit After Service and Track, after every service, and phone interview Website and Media, irregular update Satisfaction Questionnaire, 1-4 times per year
Supplier	Green Supply Chain Evaluation of Suppliers' Human Right Operating Result Order Management Quality Management Production Technology	<ul style="list-style-type: none"> Evaluation of Supplier, irregular Assessment of Supplier, once per season Counselling for Supplier, irregular Contact Procurement, irregular E- Procurement, irregular
Community	Safety and Health of Occupation Environment Management Participation in Society's Activities Volunteer Service	<ul style="list-style-type: none"> Service Center in Industrial Zone, irregular Joint Defense in Industrial Zone, oner per season Email Box for Communication, irregular Volunteer Work, irregular
NGO	Environment Protection Charity Standard of Working Condition	<ul style="list-style-type: none"> Disclose of non financial information, irregular Participation of Meeting, irregular Co-organizer of Activities, irregular
Government	Comply with Regulation Safety and Health of Occupation Decrease Greenhouse Gas Environment Management Energy Usage	Take part in conference and public hearing hosted by government irregularly

3.3.4 Compensations Committee

(1) Information on Members of Compensations 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 compensations 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	Chien-Yuan, Lin	v			v	v	v	v	v	v	v	v	0	-
New Independent Director	Ting-Wong, Cheng	v	v	v	v	v	v	v	v	v	v	v	2	-
Other	Charles Kau			v	v	v	v	v	v	v	v	v	0	-

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 Compensations Committee

A. There are three members in Compensations Committee

B. The term of the current committee: June 11, 2015 to June 10, 2018. 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
Chairman	Chien-Yuan, Lin	2	0	100%	
Member	Chien-Yuan, Lin	2	0	100%	
Member	Charles Kau	1	1	50%	
Other items needing registration:					
1. 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.					
2. If a member opposes or has reservation, on record or in written form, about the resolutions of the compensations committee: None					

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, formulate procedure on the handling of</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>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 (HRI@teco.com.tw) as a channel for filing complaints, to ward off irregularities or unfair treatments at workplace, and dedicated e-mail (HRP@teco.com.tw) 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 full communication on their personal career</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&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>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				
F. Other key information conducive to the understanding of the company’s CSR-related affairs: (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&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 power of Taiwan, the company pushes “creativity education,” to innovate and update teaching model of schools’ teaches.				

Items	Implement Status			Difference with “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Company” and reasons
	Yes	No	Summaried Explanation	
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 related technologies. 1,500 aboriginal teachers and students from 11 tribes benefited from the program. (2) Other related information is contained in the CSR report, which has been posted on TECO’s website. http://tecocrs.teco.com.tw/				
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 2016 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 b. Whether the company has program preventing unethical behaviors with the principle of ethical corporate management, in addition to specifying and executing operating procedure, behavioral guidelines, penalties for violation of regulations and complaint system. 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”	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. b. The company has formulated “behavioral guidelines,” strictly forbidding staffers to accept without permission of superiors gifts worth more than NT\$3,000 from other firms or individuals with business dealings with the company. They can also pass the gifts to the general-affairs unit for keeping before donating them for charity under the Company’s name. c. The company’s legal division screens contracts and prevents violation of law in signing contracts, while the audit office irregularly checks and continuously tracks status of improvement.	No major difference
B. Materialize ethical corporate management a. Whether the company has evaluated the track record on the integrity of business partners and whether the contracts with			a. The company’s legal division reviews contracts signed by company for outbound business activities, to avoid dealing with those violating the principle of integrity of	No major difference

Items	Implementation Status			Difference with "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies"
	Yes	No	Summaried Explanation	
<p>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> <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>management on record.</p> <p>b. The company sets up a legal 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 regularly. Auditing unit audited related operation in August 2016, and reported to the board on December 23 in 2016.</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 education and training on ethical corporate management regularly.</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 "behavioral guidelines," containing ethical norms for staffers, and has instituted reporting e-mail address HRI@teco.com.tw, with the human-resources center responsible for handling reported items, in conjunction with the audit division and the legal division office.</p> <p>b. The "behavioral guidelines" specify, in article 17, reporting methods and flow, and in article 16, confidentiality mechanism for informants.</p> <p>c. The guidelines also specify, in article 16, protection mechanism for informants.</p>	No major difference
<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

Items	Implementation Status			Difference with “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies
	Yes	No	Summaried Explanation	
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 "Corporate 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 2017:

Title	Name	Date	Organizer	Training Course	Time
Chairman	Tung Kuang Investment Co., Ltd. Representative : Chwen-Jy, Chiu	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Managing Director	Tong Kuang Investment Co., Ltd Representative : Chao-Kai, Liu	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Managing Director	Cheng-Tsung, Huang	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs

Title	Name	Date	Organizer	Training Course	Time
Managing Director	Creative Sensor Inc. Representative: Yu-Ren, Huang	2017.12.6	Chunghwa Corporate Governance Association	Antitrust- Fair Trade Act	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Managing & Independent Director	Chien-Yuan, Lin	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Independent Director	Jing-Shown, Wu	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Independent Director	Ting-Wong, Cheng	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Director	Mao-Hsiung, Huang	2017.8.8	Securities & Futures Institute	Advanced practical-affairs seminars for directors (including independent directors) and supervisors [corporate governance and securities laws/regulations]	3 hrs
		2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Director	Po-Chih, Huang	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Director	Hisen- Sheng, Kuo	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs

Title	Name	Date	Organizer	Training Course	Time
Director	Yaskawa Electric Corporation Representative : Ogi Hiroyuki	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Director	Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang	2017.11.10	Chunghwa Corporate Governance Association	On corporate risks, from product liabilities to corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Director	Tung Kuang Investment Co., Ltd. Representative : Hong-Hsiang, Lin	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Director	Lien Chang Electronic Co., Ltd. Representative: Ming-Feng, Yeh	2017.5.11	Chinese National Association of Industry and Commerce	Trend of Risk Management and Practice	3 hrs
		2017.5.19	Chinese National Association of Industry and Commerce	Upholding of shareholders' interests and equal treatment for shareholders, from the angle of corporate-governance evaluation	3hrs
Director	Mao Yang Co., Ltd. Representative: Yung-Hsiang, Chang	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs

C. Advanced studies for managing staffers in 2017:

Title	Name	Date	Organizer	Traning course	Time
President	Chwen-Jy, Chiu	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Vice President	George Lien	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Executive Consultant	Hong-Hsiang, Lin	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Assistant Vice President	Steven Chiang	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Assistant Vice President	Pin Chang	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Assistant Vice President	S. C. Lin	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Assistant Vice President	Kevin Yeh	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs

Title	Name	Date	Organizer	Traning course	Time
Assistant Vice President	Albert Peng	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs
Assistant Vice President	Fei-Yuan, Kao	2017.8.11	Chunghwa Corporate Governance Association	How can directors and supervisors supervise the company in keeping good risk management for information security, so as to strengthen corporate governance	3 hrs
		2017.12.22	Taiwan Institute of Director	New platform trend for corporate governance, momentum driving corporate transformation	3 hrs

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

Note1 Chairman will no longer hold the office of general manager of TECO. Vice president, George Lien serves as acting general manager.

3.3.9 Internal Control System

Please refer to page 50 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

2016/03/24	<p>(1)The board of directors resolved to convene 2017 shareholders' meeting on June 16, 2017.</p> <p>(2) The Board of Directors resolved 2016 financial statements with consolidated sales revenue NT\$49,923,836 thousand, EPS 1.76, and plans to pay cash dividend NT\$0.88 per share with the total amount NT\$ 1,762,370 thousand. The related financial reports material would be submitted to 2017 shareholders' meeting.</p> <p>(3) The board of directors approved employees' compensation of NT\$ 283,999 thousand and directors' remuneration of NT\$125,333 thousand in 2016. The above amount will be distributed through cash. There is no difference from the expense amounts in 2016 recognized by the board of directors.</p>
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	(4) Board of Directors resolved to terminate the GDRs program and deposit contracts. The Chairman is authorized by the Board to deal with the relevant matters relating to the termination of GDRs and depository contracts.
2017/05/12	The board of directors acknowledged the financial statement for the first three months of 2017, showing consolidated sales revenue of NT\$11,916,183 thousand and after-tax net profit of NT\$0.27 per share.
2017/06/16	Important resolutions in Annual Shareholders' Meeting (1) Acknowledged 2016 business report and financial statement. (2) Acknowledged 2016 earnings allocation, amounting to NT\$0.88 per share for cash dividend payment. (3) Approved to amend Procedure for Acquisition or Disposal of Assets
2017/06/16	The board of directors set the "ex-dividend base date" on July 11, 2017, paying out cash dividend of NT\$1,762,370 thousand, or NT\$0.88 per share, and setting the dividend payout date on July 31, 2017.
2017/06/16	The board of directors resolved to the 1st issue of domestic unsecured corporate bonds in 2017. Face value: NT\$ 1 million dollars Total amount of the issue: Total par value up to NT\$ 2 billion dollars. Use of the funds raised by the offering and utilization plan: Loan repayment. Chairman or his appointed person were both authorized to deal based on market status.
2017/08/11	The board of directors acknowledged the financial statement for the first half of 2017, showing consolidated sales revenue of NT\$24,989,428 thousand and after-tax net profit of NT\$0.82 per share.
2017/11/13	The board of directors acknowledged the financial statement for the first nine months of 2017, showing consolidated sales revenue of NT\$37,667,308 thousand and after-tax net profit of NT\$1.25 per share.
2017/11/13	The board of directors resolved to add endorsements/guarantees of 4,010,000 thousand dollars due to bid jointly with manufacturers to participate in major construction projects. Terms/conditions and date of release of the Company's endorsement/guarantee obligations: Fail to get the construction project case or after the successful bade project has completed and then closed the relevant business.
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.

B. Implementation of Resolutions made in Annual Shareholders' Meeting on June 16, 2017.

Number	Resolution	Implementation
1	Acknowledged of the 2016 Business Report and Financial Statements	※ The proposal was approved by the participating Shareholders with 87.74% approved percentage.
2	Acknowledged of cash dividend payout of NT\$0.88 per share for the distribution of 2016 profits.	1. The proposal was approved by the participating Shareholders with 88.25% approved percentage. 2. Ex-Dividend Trading Date: 2017/07/11. Cash Dividend Payout date: 2017/07/31.
3	Approved to amend Procedure for Acquisition or Disposal of Assets	※ The proposal was approved by the participating Shareholders with 88.26% approved percentage.

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

None

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	2017	

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	2017		Apr. 30, 2018	
		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	(1,807,912)	0	0
		0	0	0	0
Managing Director	Tong Ho Gloabal Investment Co., Ltd. Representative : Chao-Kai, Liu	0	(435,000)	0	40,000
		0	0	0	0
Managing Director	Cheng-Tsung, Huang	0	(300)	0	0
Managing Director	Creative Sensor Inc. Representative: Yu-Ren, Huang	0	0	0	0
		0	0	0	0
Managing & Independent Director	Chien-Yuan, Lin	0	0	0	0
Independent Director	Jing-Shown, Wu	0	0	0	0
Independent Director	Ting-Wong, Cheng	0	0	0	0
Director	Mao-Hsiung, Huang	0	0	0	0
Director	Po-Chih, Huang	0	0	(10,000,000)	0
Director	Hisen Sheng, Kuo	0	0	0	0
Director	Yaskawa Electric Corporation Representative : Hiroyuki Ougi	0	0	0	0
		0	0	0	0
Director	Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang	0	(3,960,000)	0	0
		0	0	0	0
Director	Tong Kuang Investment Co., Ltd. Representative: Hong-Hsiang, Lin	0	(1,807,912)	0	0
		0	0	0	0
Director	Lien Chang Electronic Co., Ltd. Representative: Ming-Feng, Yeh	0	0	0	0
		0	0	0	0
Director	Mao Yang Co., Ltd. Representative: Yung-Hsiang, Chang	0	0	4,999,107	0
		0	0	0	0
President	Chwen-Jy, Chiu	0	0	0	0
Vice President	George Lien	0	0	0	0
Executive Consultant	Hong-Hsiang, Lin	(43,000)	0	0	0
Management	S. C. Lin	0	0	0	0

Title	Name	2017		Apr. 30, 2018	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Management	Steven Chiang	0	0	0	0
Management	Pin Chang	(6,000)	0	0	0
Management	K.R. Chen	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
Major Shareholder	None	N/A	N/A	N/A	N/A

Note 1: The shareholder whose shareholding is above 10% should be noted as major shareholder, and listed respectively.

Note 2 :Shares transfer or share pledged with related parties should fill the following charts

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	Disposition	2018.3.6	YINGE Int. Inv. Co.,Ltd.	Director holds it under the name of third party	10,000,000	26.45

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, 2018

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	86,669,000	4.33%	0	-	0	-	None	-	-
Silchester International Investors International Value Equity Group Trust	47,029,000	2.35%	0	-	0	-	None	-	-
J.P. MORGAN SECURITIES LTD	40,189,617	2.01%	0	-	0	-	None	-	-
Edgbaston Asian Equity Trust	35,584,000	1.78%	0	-	0	-	None	-	-
WGI Emerging Markets Smaller Companies Fund, LLC	34,961,000	1.75%	0	-	0	-	None	-	-
VANGUARD EMERGING MARKETS STOCK INDEX FUND, A SERIES OF VANGUARD INTERNATIONAL EQUITY INDEX FUNDS	31,694,000	1.58%	0	-	0	-	None	-	-
Silchester International Investors International Value Equity Taxable Trust	31,045,000	1.55%	0	-	0	-	None	-	-
Tong Kuang Investment Co., Ltd.	30,341,364	1.52%	0	-	0	-	None	-	-
M&G Global Emerging Markets Fund a sub fund of M&G Investment Funds	30,303,000	1.51%	0		0		None		
Yaskawa Electric Corporation	29,541,089	1.48%	0		0		None		

3.9 Long-Term Investments Ownership

December 31, 2017

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.	55,003,366	100.00%	0	0.00%	55,003,366	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.	434,148,995	100.00%	0	0.00%	434,148,995	100.00%
Appliance (HK) Ltd.	1,499,999	99.99%	0	0.00%	1,499,999	99.99%
Tong An Investment Co., Ltd.	434,148,995	99.60%	1,670,084	0.40%	435,819,079	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.	5,324,583	57.52%	1,402,134	16.02%	6,726,717	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.	12,123,248	60.62%	2,135,250	10.68%	14,258,498	71.30%
Tesen Electric & Machinery Co., Ltd.	20,000,000	100.00%	0	0.00%	20,000,000	100.00%
GD TECO Taiwan Co., Ltd.	15,000,000	100.00%	0	0.00%	15,000,000	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.	23,941,302	100.00%	0	0.00%	23,941,302	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	400,602,050	63.52%	0	0.00%	400,602,050	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.	13,772,799	100.00%	0	0.00%	13,772,799	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%
Kuenling machinery refrigerating Co., LTD.	15,218,642	19.98%	0	0.00%	15,218,642	19.98%
YASKAWA TECO MOTOR ENGINEERING CO.	2,800	70.00%	0	0.00%	2,800	70.00%
Eagle Holding Co.	1	100.00%	0	0.00%	1	100.00%
Century Development	91,243,692	28.67%	73,736,289	24.08%	164,979,981	52.75%

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, 2018

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, 2018

Item	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	4	61	154	84,810	731	85,760
Shareholding (shares)	29,223,528	79,208,183	219,537,488	608,900,432	1,065,823,255	2,002,692,886
Percentage	1.46%	3.96%	10.96%	30.40%	53.22%	100.00%

4.1.3 Shareholding Distribution Status

The par value for each share is NT\$10

April 30, 2018

Class of Shareholding (Unit : Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	39,953	9,190,110	0.46%
1,000 ~ 5,000	31,081	71,139,103	3.55%
5,001 ~ 10,000	6,917	52,951,164	2.64%
10,001 ~ 15,000	2,272	28,106,146	1.40%
15,001 ~ 20,000	1,366	25,012,825	1.25%
20,001 ~ 30,000	1,342	33,582,947	1.68%
30,001 ~ 40,000	603	21,253,015	1.06%
40,001 ~ 50,000	424	19,365,023	0.97%
50,001 ~ 100,000	814	57,937,928	2.89%
100,001 ~ 200,000	364	51,396,197	2.57%
200,001 ~ 400,000	236	66,889,847	3.34%
400,001 ~ 600,000	85	41,429,622	2.07%
600,001 ~ 800,000	50	34,933,431	1.74%
800,001 ~ 1,000,000	30	26,674,191	1.33%
1,000,001 or over	223	1,462,831,337	73.04%
Total	85,760	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	86,669,000	4.33%
WGI Emerging Markets Smaller Companies Fund, LLC	47,029,000	2.35%
Vanguard Emerging Market Index Fund	40,189,617	2.01%
M&G Global Emerging Markets Fund	35,584,000	1.78%
Silchester International Investors Tobacco Free International Value Equity Trust	34,961,000	1.75%
Tong Kuang Investment Co., Ltd	31,694,000	1.58%
Yaskawa Electric Corporation	31,045,000	1.55%
Government of Singapore	30,341,364	1.52%
Vanguard Emerging Market Index Fund	30,303,000	1.51%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Norges Bank	29,541,089	1.48%

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

Unit: NT\$

Item	2016	2017	April 30, 2018
Market Price per Share (Note 3)			
Highest Market Price	29.00	31.85	29.15
Lowest Market Price	23.50	27.10	23.85
Average Market Price	26.74	28.69	25.08
Net Worth per Share			
Before Distribution	25.11	26.17	26.54
After Distribution	24.23	Note1	Note2
Earnings per Share			
Weighted Average Shares (thousand shares)	1,980,250	1,980,250	1,980,250
Earnings Per Share	1.76	1.56	0.33
Dividends per Share			
Cash Dividends	0.88	0.86 (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
Return on Investment			
Price / Earnings Ratio (Note 4)	15.19	18.39	25.58
Price / Dividend Ratio (Note 5)	30.39	33.36	Note 2
Cash Dividend Yield Rate (Note 6)	3.29%	3.00%	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, 1% to 5% of the remaining earnings in a given year will be appropriated for remunerations to Directors and Supervisors, and 1% to 10% for employee bonuses. 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\$0.86 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 2017 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	\$ 250,553
Employee Bonus – in Stock	0
Directors' Remuneration	<u>111,357</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 recommended by the Board of Directors	Amount resolved by the Shareholders' Meeting
Employee Bonus - Cash	283,999	283,999
Directors' Remuneration – Cash	125,333	125,333
Total	409,332	409,332

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

4.2 Corporate Bonds**4.2.1 Issuance of Corporate Bonds**

Type of Corporate Bond	1 st Unsecured Ordinary Corporate Bonds in 2015	1 st 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: 2014/2/12 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 Global Depositary Shares

Item		Issuance Date	March 28, 1997
Listing & Exchange		London	
Issue Amount		US\$107,643,862	
Offer Price		US\$20.08	
Unit Issued		5,539,880	
Underlying Security		Newly issued common shares from rights offer	
Total Shares of Underlying Security		55,398,800 common shares	
Rights & Obligations of GDS Holders		Same as Holders of Common Shares	
Trustee		None	
Depositary Bank		Bank of New York Mellon	
Custodian Bank		Mega International Commercial Bank	
Outstanding Balance		0 GDSs	
Apportionment of expenses for the issuance and maintenance		Mainly by the issuer	
Important terms and conditions of depositary and custodian contracts		Depositary bank acts on behalf of GDS holders; custodian bank holds on to the underlying common shares	
Market Price (US\$)	2016	Highest	10.51
		Lowest	8.62
		Average	9.42
	Year to date as of March 31, 2017	Highest	0
		Lowest	0
		Average	0

Note: The resolution of the board on March 24, 2017 terminated Global Depositary Shares and its contrast, and it was delisted on October 23, 2017.

4.4 Employee Stock Options**4.4.1 Issuance of Employee Stock Options**

None

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

None

4.4.3 Status on Restricted Share Award

None

4.4.4 List of Executives and Top 10 Employees Receiving Restrctied Share Award

None

4.5 Status of New Shares Issuance in Connection with Mergers and Acquisitions

None

4.6 Financing Plans and Implementation

4.6.1 The status of 1st unsecured corporate bond

A.Total Amount: NTD 1,000,000 thousands

B.Source: Issuance of unsecured corporate bond

C.Project and rate of progress

Project	Target Day to Finish	Total Amount	Time Table
			2017 3 rd Quarter
Repay the bank loan	2017 3 rd Quarter	NTD 1,000,000	NTD 1,000,000

4.6.2 The status of 1st unsecured corporate bond

Unit : NT\$ thousand

Project	Status as of 3 rd Quarter 2017			Attainment
Repay the bank loan	Amount used	Target	1,000,000	Raising fund from the corporate bond was used to repay the bank loan to diversify and make sure the mid to long term capital.
		Actual	1,000,000	
	Rate of progress	Target	100%	
		Actual	100%	

V. Operational Highlights

5.1 Business Activities

5.1.1 Business Scope

A. Business Scope

Business Scope	Sales %
Industrial Products	54%
Home Appliances	15%
Construction	6%
Others	25%
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)
- Circuit breaker (50-1600AF/2.5Ka-100kA)
- Magnetic Contactor(7-630A)

b. System Automation

- Servo system
- Programmable Logic Controller (PLC)
- Human Machine Interface (HMI)
- System integration for robot

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. Mechanical & Electrical Construction

- 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
- Charging station for electric vehicle

e. Other

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

C. New products development

a. Industrial Products Business:

High Power Density Induction Motor, North America general purpose motor, NEMA Premium Crusher Duty Motor, medium voltage Exd explosion-proof motors, the development of the large sized motor with high pole for water circulating pump in power plant and water resource, the induction motor with the largest power, density and voltage, IE3 high-temperature exhausting motor, high voltage explosion-proof motor, JIS IE4 motor, GBI IM motor, CNS IE3 Exd T4, smart motor and auto motor, IE3/4 high efficient IMD, Integrated Motor Drive, IE4 permanent-magnet moto, ammonia refrigerant resistance induction motor, Forced Ventilation(IC416) Ex nA tD Explosion-Proof Motor, CNS IE3 Exd T4 explosion-proof motor (6/8 poles,) Steel rolling motor.

b. Home-appliances business:

In line with the core values of "energy conservation, emissions 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.
- 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.
- 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.

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 luxury houses, biotech/dedicated cancer hospitals, hi-tech factory buildings, large-scale public exhibition halls;

major transportation and aviation projects, and Internet data centers (IDC). 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 dedicates to developing energy and material saving products, and meets the trend of downsizing simultaneously. In addition, when vehicle suppliers announce to stop production of gasoline engine car, the development of EV motor becomes the target. Due to the trend of energy saving, carbon reduction, environment protection, and automation. By the advantage of combining motor and inverter, TECO provides system solution projects. Providing high efficient, energy saving system and products is the target of System and Automation Products Group.

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

Energy conservation, environmental protection, and smart application are main appeals in product development nowadays, such as application of DC variable-frequency technology and environment-friendly refrigerants in air conditioners with grade-1 CSPF energy performance which can best highlight the corporate value of "energy conservation." In emission reduction, TECO produces the first indigenous air conditioner with R32 refrigerant, contributing to the effort combating global warming. In "smart application and automation," it integrates its energy-conservation experience in developing energy management system (EMSP) and integrates whole-series products conforming to the development trend on the market.

C. Solar power generation industry:

In order to materialize "nuclear-free homeland" vision, the government plans to raise the share of renewable energy to 205 (27 GW) by 2025, including 20 GW solar energy. It will be mandatory for major power consumers with contract capacity topping 800 watts to install green energy devices, with capacity at least 10% of their contract capacity. It will push installation of rooftop solar panels, with targeted capacity reaching 2 GW by 2020.

5.1.3 Research and Development

A. The company spent NT\$1,281,206 thousand on R&D in 2017. R&D expense is booked as NT\$402,652 thousand as of the issue deadline in 2018.

a. Industrial Motors Category

1. High Power Density Induction Motor
2. NEMA Premium Crusher Duty Motor

3. 2000A High Current Capacity Motorized Brush Lifting System for Wound Rotor Induction Motor

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. High-frequency signal injecting method technical development
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. On-line/ Off-line auto-tuning of control gains for servo drive technical development
10. EtherCAT/CANopen communication applications technical development
11. Sensorless control of SynRM(Synchronous Reluctance Motor) technical development
12. Flux-weakening control of servo motor technical development
13. Functional safety certification technical development
14. SOC(System On Chip) technical development
15. AGV control platform technical development

c. Renewable energy- green energy

1. OEM & ODM for electric vehicle motor

d. Freezing and Air-Conditioning Category

1. High CSPF(Cooling Seasonal Performance Factor) inverter air conditioner (split/multi split)
2. New refrigerant R32 inverter air conditioner
3. Inverter air conditioner with intelligent mobile control
4. Energy-saving inverter refrigerator
5. High EF(Energy Factor) refrigerator
6. Air conditioner for elevator
7. Energy saving management system for air conditioner
8. Intelligent cloud centrifugal chiller
9. Packaged air conditioner
10. Commercial air-cooled split conditioner
11. Multi split VRF(Variable Refrigerant Flow) inverter air conditioner with high CSPF(Cooling Seasonal Performance Factor)
12. High efficiency inverter centrifugal chiller
13. Air handling unit
14. Air conditioner for train

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, seeking continuing development of overseas bases, including Wuxi plant, Jiangxi plant, Qingdao plant, the Middle East operation, and TECO Turkey, in line with global deployment, and tapping emerging markets, such as Iran, India, the Philippines, Turkey, Africa, and Russia. For associated 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.

For home appliances, in the long run, the company aspires to become the leading brand in Taiwan and actively penetrate overseas market. Household refrigerators embrace TECO's patented variable-frequency technology, which has been applied to all models with 200L capacity or larger. In response to the government plan for further enhancing the energy performance of refrigerators in 2018, make entire series meet the new energy-performance requirement in the year, including variable-frequency refrigerators with grade-1 energy performance and rollout of wind-cooling frost-free ice tanks and refrigerator with mirror-glass exterior. 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. Taking advantage of key components and parts of major compressor suppliers, develop water-cooling variable-frequency packaged air conditioner with grade-1 CSPF (cooling seasonal performance factor) energy performance, the first such model in Taiwan, and foray into the realm of variable-frequency medium- and high-voltage centrifugal chiller, aiming at large-scale public engineering projects and energy-conservation replacement market. Copy Taiwan's successful experience in actively expanding the presence in Southeast Asian and mainland 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. 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 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 successfully tapped emerging business opportunities for smart energy conservation and overseas markets.

Concerning solar energy, in line with the government's goal raising the share of renewable energy to 20% (27 GW) by 2025, in order to materialize "nuclear-free homeland" vision, and the policy mandating installation of green-energy devices by major power consumers with capacity at least 10% of their contract capacity, the group will install rooftop solar panels on its factory buildings and tap the domestic market, whose potential tops 18.7 GW, worth NT\$935 billion, by 2025.

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.

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.

(2) Home Appliances

Growth of market demand for home appliances is limited, since they are mature products. In addition to existing products, the company will develop or introduce new products with high added value or key components/parts, such as smart appliance, full series of large-size (39" ~65") 4k2k LCD TV, LED TV, inverter refrigerator with high EF value, multi-temperature-layer refrigerator, flexible multi-unit inverter air conditioner, remote-control SAA(Smart Appliance Alliance), energy-saving air conditioner with power consumption display, HEPA(air conditioner with medical level filter), and other home appliances with health appeal. The purpose is to expand sales channel and increase revenue and profit with differentiated products.

Meanwhile, the company has been constantly rolling out new models for industry-use air-conditioning and freezing products, such as package air conditioner, central air conditioning equipment, flooded water chiller, centrifugal water chiller, inverter multi-evaporator VRF air conditioner, and train air conditioner, thereby creating optimal and the most comfortable workplace for domestic and overseas industries. The company also offers various air-conditioning and freezing engineering service with cutting-edge technology, to help with industrial upgrading.

Along with the development of new technologies and the increasing convenience of the Internet, information products have integrated with home appliances, giving birth to information appliances. The company will marry its decades-long experience for home appliances with cutting-edge information technologies of the members of the group in developing information appliances suited to market needs, thereby creating even larger profits for shareholders.

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.

(3) Solar Power Business

Concerning solar energy, in line with the government's goal raising the share of renewable energy to 20% (27 GW) by 2025, in order to materialize "nuclear-free homeland" vision, and the policy mandating installation of green-energy devices by major power consumers with capacity at least 10% of their contract capacity, the group will install rooftop solar panels on its factory buildings and tap the domestic market, whose potential tops 18.7 GW, worth NT\$935 billion, by 2025.

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 maintainance, efficiency evaluation, complete repair and maintainance 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, loacal 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.
- Dedicate to the pushing of R32 coolant and green manufacturing, becoming the only company producing R32 coolant in Taiwan, safeguarding Taiwan's carbon-repellant environment. For energy conservation and carbon abatement, pioneer the mapping of the blueprint of home-appliances green factory in Taiwan. Put in place a gold-medal dealership system, successfully augmenting the satisfaction of dealers.
- Join "smart home-appliances industry R&D alliance," integrating communications technology of smart home appliances and Internet digital-communications products of emerging products.
- Roll out, leading peers, models with first-grade energy performance conforming to MIT label.
- Pioneer the rollout of cloud-end smart air conditioners, in order to tap IOT (Internet of things) business opportunities.

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, 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.

(3) Solar Energy Business

a. Favorable factors

- Policy of "Nuclear-free homeland" support for the renewable energy development. Taiwan market is quite potential.
- TECO's factories are good beginning for the solar power, and they are experience and real result.
- In Taiwan, TECO has good brand image, and quality is reliable. It would be beneficial to develop Taiwan market.

b. Unfavorable factors

- Market of solar power is full of keen competition. The request for quality improves, however request for cost decrease.
- Absence of grid expansion plan by the government and Taipower may lead to saturation of grid-connection capacity in Taiwan, putting a damper on the development of renewable energy.

c. Countermeasures

- Target mainly customers with demands for high quality and sustainable development, via the utilization of strategic alliance.
- Suggest the government and Taipower to expand grids at government-sponsored seminar on promotion of renewable energy, citing the restriction on PV-power generation by saturated grids in Japan.

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, Integration
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, Engineering, Magnet, Design, Planning, Assembly, Integration

ECO Energy Products:

Products	Use	Production Process
Solar energy system	Decentralized power supply	In-grid photovoltaic system, photovoltaic charging system, machinery-electricity integration, system design, power, site planning, assembly, service.

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 table trolley, 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 peripheral
LED TVs, DVD Players, Recordable DVD players, Stereo Systems	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	Commercial, Industrial Applications; Transportation systems	Design, Planning, Assembly, Integration

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
	GAS Insulated Switchgear	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		2016			2017		
		Capacity	Quantity	Amount	Capacity	Quantity	Amount
Major Products							
Motor		1,343,571	1,074,182	11,569,305	1,328,030	1,210,881	12,353,709
System Automation		12,357,589	8,002,746	4,600,082	12,407,514	7,623,587	4,757,588
Home Appliance		361,910	312,567	4,329,808	380,661	275,704	4,163,978
Others		909,935	909,935	3,757,114	594,435	594,435	2,466,566
Total		14,973,005	10,299,430	24,256,309	14,710,640	9,704,607	23,741,841

5.2.5 Shipments and Sales over the Last Two Years

Unit: Units; NT\$thousand

Shipments & Sales Major Products	Year	2016				2017			
		Local		Export		Local		Export	
		Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Motor & System Automation		1,538,689	6,578,052	3,393,508	21,142,887	1,504,931	6,722,392	3,223,947	20,978,791
Home Appliances & Air Conditioner		873,687	7,189,917	105,554	611,487	857,501	6,819,674	100,710	531,898
Construction			2,466,811				3,141,743		
Other			9,567,638		2,367,045		9,888,890		2,859,133
Total		2,412,375	25,802,418	3,499,062	24,121,418	2,362,431	26,572,700	3,324,657	24,369,821

5.3 Human Resources

Year		2016		2017		March 31 2018	
		TECO	Global	TECO	Global	TECO	Global
Number of Employees		2,406	14,647	2,410	15,271	2,348	14,914
Average Age		41.9	39.4	42.3	39.3	42.5	39.0
Average Years of Service		13.6	9.4	13.9	9.6	14.0	9.4
	Masters above	15.3	8.0	15.2	7.8	15.0	7.4
	Bachelor's Degree	51.0	49.9	51.5	49.5	51.7	49.8
	Senior High School	27.3	31.0	27.2	31.9	27.4	30.9
	Below Senior High School	6.4	11.1	6.1	10.8	5.9	11.9

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, 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.

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

2018	2019	2020
Maintenance, improvement, or installation of air pollution-abatement equipment	Maintenance, improvement, or installation of air pollution-abatement equipment	Maintenance, improvement, or installation of air pollution-abatement equipment
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
Clean caking of oil in kitchen	Installation of energy-saving light and light-pervious window awning	Examination and founding of gas storage tank and heavy oil steam boiler. Improving surroundings
Transfer to ECO friendly paint and its equipment	Clean caking of oil in kitchen	Installation of energy-saving light and light-pervious window awning
Improvement of waste-water equipment	Improvement of waste-water equipment	Pipeline for waste-water

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

2018	2019	2020
\$ 25,021	\$ 25,258	\$ 20,445

(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.

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 2017, the company held courses on executive training, common knowledge, professional capability, and company policy, which boasted 13,170 persons of attendance, on top of 313 persons of attendance for outside courses. Every employee received 21.81 hours of training on average.

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.

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
US CPA	1	
CFA	1	
CIA	1	1
Investment trust and consulting representative	5	

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	EXPLUS and others, totaling 837 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, and air conditioners.	Nil
2. Works Contract	E United Group	Based upon counterparty's schedule since 2017 1st quarter	New construction of E United Group 1. hydroelectric engineering 2. air conditioning engineering 3. electrical bus bar 4. Construction of switchboard in substation 5. Construction of emergency power generation	Nil
3. Joint venture agreement	Tong-An Investment and Motech Industries, Inc.	The contract comes into effect since Jan. 5.2017 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 solar power construction	Nil

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Balance Sheet

A. Condensed Balance Sheet-IFRS

Unit: NT\$thousand

Item \ Year		Five-Year Financial Summary					Year-to-date 2017.3.31
		2013	2014	2015	2016	2017	
Current assets		12,500,840	12,849,769	10,117,285	10,599,153	9,781,308	N/A
Fixed assets		3,592,858	3,959,960	3,877,206	3,643,481	3,761,489	
Intangible assets		0	0	0	0	0	
Other assets		43,687,688	51,316,696	53,603,223	55,941,991	57,232,136	
Total assets		59,781,386	68,126,425	67,597,714	70,184,630	70,774,933	
Current liabilities	Before distribution	8,515,760	9,362,494	12,426,835	9,029,583	9,350,717	
	After distribution	10,718,722	11,565,456	14,028,989	14,028,989	Note 1	
Long-term liabilities		8,402,192	9,493,858	7,706,837	11,423,480	9,594,451	
Total liabilities	Before distribution	16,917,952	18,856,352	20,133,672	20,453,063	18,945,168	
	After distribution	19,120,914	21,059,314	21,735,826	22,215,433	Note 1	
Equity attributable to owners of parent		42,863,434	49,270,073	47,464,042	49,731,567	51,829,765	
Capital stock		20,026,929	20,026,929	20,026,929	20,026,929	20,026,929	
Capital surplus		7,493,180	7,600,552	7,638,417	7,671,889	7,628,542	
Retained earnings	Before distribution	16,606,382	18,444,591	19,363,279	21,187,539	22,469,336	
	After distribution	14,403,420	16,241,629	17,761,125	19,425,169	Note 1	
Other equity interest		(941,494)	3,519,564	756,980	1,166,773	2,026,521	
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	42,863,434	49,270,073	47,464,042	49,731,567	51,829,765	
	After distribution	40,660,472	47,067,111	45,861,888	47,969,197	Note 1	

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

B. Condensed Balance Sheet-IFRS

Unit: NT\$thousand

Item \ Year		Five-Year Financial Summary					Year-to-date 2018.3. 31 (note2)
		2013	2014	2015	2016	2017	
Current assets		40,843,355	43,275,334	42,292,402	45,296,310	44,262,768	45,419,803
Fixed assets		15,132,587	14,569,687	15,018,217	18,463,450	17,922,299	17,832,909
Intangible assets		320,236	174,250	5,541,844	5,636,766	5,612,315	5,639,097
Other assets		20,593,875	24,693,774	21,581,789	22,977,430	24,219,575	24,484,875
Total assets		76,890,053	82,713,045	84,434,252	92,373,956	92,016,957	93,172,160
Current liabilities	Before distribution	19,983,776	18,075,827	22,715,038	18,958,845	18,742,356	18,927,001
	After distribution	22,186,738	20,278,789	24,317,192	20,721,215	Note 1	Note 1
Long-term liabilities		10,182,303	11,348,496	10,286,710	17,690,568	15,400,464	15,359,826
Total liabilities	Before distribution	30,166,079	29,424,323	33,001,748	36,649,413	34,082,303	34,286,827
	After distribution	32,369,041	31,627,285	34,603,902	38,411,783	Note 1	Note 1
Equity attributable to owners of parent		42,863,434	49,270,073	47,464,042	49,731,567	51,829,765	52,959,209
Capital stock		20,026,929	20,026,929	20,026,929	20,026,929	20,026,929	20,026,929
Capital surplus		7,493,180	7,600,552	7,638,417	7,671,889	7,628,542	7,628,698
Retained earnings	Before distribution	16,606,382	18,444,591	19,363,279	21,187,539	24,886,634	25,022,889
	After distribution	14,403,420	16,241,629	17,761,125	19,425,169	Note 1	Note 1
Other equity interest		(941,494)	3,519,564	756,980	1,166,773	2,026,521	602,256
Treasury Stocks		(321,563)	(321,563)	(321,563)	(321,563)	(321,563)	(321,563)
Non-Controll Interesting	Before distribution	3,860,540	4,018,649	3,968,462	5,992,976	6,044,372	6,130,648
	After distribution	3,860,540	4,018,649	3,968,462	5,992,976	Note 1	Note 1
Total shareholders' equity	Before distribution	46,723,974	53,288,722	51,432,504	55,724,543	57,874,137	59,089,857
	After distribution	44,521,012	51,085,760	49,830,350	53,962,173	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, 2018 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 2018.3.31
	2013	2014	2015	2016	2017	
Operating revenue	25,604,449	24,256,762	21,809,717	20,274,047	21,301,208	N/A
Gross profit	5,182,344	5,374,654	4,846,552	4,739,556	4,576,185	
Income from operations	1,712,416	1,949,849	1,617,491	1,615,152	1,507,068	
Non-operating income & expenses	2,432,127	2,497,774	1,888,953	2,007,272	1,797,400	
Income from operations of continued segments - before tax	4,144,543	4,447,623	3,506,444	3,622,424	3,304,468	
Income from operations of continued segments - after tax	3,759,872	4,062,960	3,177,291	3,481,480	3,092,358	
Income from discontinued departments	0	0	0	0	0	
Net income	3,759,872	4,062,960	3,177,291	3,481,480	3,092,358	
Other Comprehensive Income for the year	704,547	4,385,963	(2,818,225)	354,727	811,557	
Other Comprehensive Income for the year						
Total Comprehensive Income for the year	4,464,419	8,448,923	359,066	3,836,207	3,903,915	
Total Comprehensive Income for the year profit (loss) attributable to owners of parent	3,759,872	4,062,960	3,177,291	3,481,480	3,092,358	
Total Comprehensive Income for the year profit (loss) attributable to non-controlling interest	0	0	0	0	0	
Extraordinary gain or loss	4,464,419	8,448,923	359,066	3,836,207	3,903,915	
Cumulative effect of accounting principle changes	0	0	0	0	0	
Earnings per share	2.01	2.05	1.60	1.76	1.56	

B. Consolidated Condensed Statement of Income-IFRS

Unit: NT\$thousand

Item \ Year	Five-Year Financial Summary					Year-to-date 2018.3.31 (Note 1)
	2013	2013	2014	2016	2017	
Operating revenue	56,618,537	53,820,604	48,598,573	49,923,836	50,942,521	12,155,711
Gross profit	13,484,726	13,377,967	12,400,311	13,134,395	12,196,268	3,010,078
Income from operations	4,625,594	4,396,971	3,787,627	4,189,481	3,496,200	907,354
Non-operating income & expenses	777,890	1,306,964	775,644	743,810	857,704	(54,664)
Income from operations of continued segments - before tax	5,403,484	5,703,935	4,563,271	4,933,291	4,353,904	852,690
Income from operations of continued segments - after tax	4,177,256	4,406,231	3,514,116	4,036,998	3,544,248	591,566
Income from discontinued departments	0	0	0	0	0	0
Net income	4,177,256	4,406,231	3,514,116	4,036,998	3,544,248	591,566
Other Comprehensive Income for the year	774,035	4,593,197	(2,953,958)	323,292	781,789	603,921
Total Comprehensive Income for the year	4,951,291	8,999,428	560,158	4,360,290	4,326,037	1,195,487
Total Comprehensive Income for the year profit (loss) attributable to owners of parent	3,759,872	4,066,924	3,177,291	3,481,480	3,092,358	537,261
Total Comprehensive Income for the year profit (loss) attributable to non-controlling interest	417,384	339,307	336,825	555,518	451,890	54,305
Extraordinary gain or loss	4,464,419	8,456,178	359,066	3,836,207	3,903,915	1,129,288
Cumulative effect of accounting principle changes	486,872	543,250	201,092	524,083	422,122	66,199
Earnings per share	2.01	2.06	1.60	1.76	1.56	0.27

Note 1: Financial data (consolidated) as of March 31, 2018 had been audited by certified public accountants.

6.1.3 Auditors' Opinions from 2012 to 2016

Year	CPA Firm	CPA's Name	Auditing Opinion
2017	PricewaterhouseCoopers, Taiwan	Wu, Yu-Lung Chou, Chien-Hung	Unqualified Opinion
2016	PricewaterhouseCoopers, Taiwan	Audrey Tseng Dexter Chang	Unqualified Opinion
2015	PricewaterhouseCoopers, Taiwan	Audrey Tseng Dexter Chang	Modified Unqualified Opinion
2014	PricewaterhouseCoopers, Taiwan	Audrey Tseng Dexter Chang	Modified Unqualified Opinion
2013	PricewaterhouseCoopers, Taiwan	Audrey Tseng, Albert Hsueh	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 2018.3.31
			2013	2014	2015	2016	2017	
Financial structure (%)	Ratio of liabilities to assets		28.30	27.75	29.78	29.14	26.77	N/A
	Ratio of long-term capital to fixed assets		1,356.54	1,417.72	1,354.68	1,603.47	1,566.42	
Solvency (%)	Current ratio		146.80	137.25	81.41	117.38	104.60	
	Quick ratio		98.40	93.80	51.71	71.64	67.15	
	Times interest earned ratio		43.16	47.76	31.27	30.34	36.02	
Operating ability	Accounts receivable turnover (turns)		5.56	6.64	5.24	5.01	5.30	
	Average collection period		65.65	54.97	69.66	72.85	68.87	
	Inventory turnover (turns)		5.67	5.41	5.20	4.89	5.43	
	Accounts payable turnover (turns)		4.02	3.68	3.71	3.50	3.46	
	Average days in sales		64.37	67.47	70.19	74.64	67.22	
	Fixed assets turnover (turns)		7.12	6.42	5.57	5.39	5.75	
	Total assets turnover (turns)		0.44	0.38	0.32	0.29	0.30	
Profitability	Return on total assets (%)		6.53	6.48	4.82	5.20	4.50	
	Return on stockholders' equity (%)		9.40	8.83	6.57	7.16	6.09	
	Ratio of pre-tax income to issued capital (Note7)		21.10	22.23	17.51	18.09	16.50	
	Profit ratio (%)		14.68	16.77	14.57	17.17	14.52	
	Earnings per share (\$)		2.01	2.05	1.60	1.76	1.56	
Cash flow	Cash flow ratio (%)		36.44	32.69	21.81	25.78	30.30	
	Cash flow adequacy ratio (%)		126.35	98.75	86.16	81.11	76.63	
	Cash reinvestment ratio (%)		1.96	1.27	0.80	1.03	1.52	
Leverage	Operating leverage		3.80	3.40	3.68	3.49	3.68	
	Financial leverage		1.06	1.05	1.08	1.08	1.07	
Key Indicator	Sales growth (%)		0.56	-5.26	-10.09	-7.04	5.07	
	Profit after tax growth (%)		22.08	8.17	-21.80	9.57	-11.18	

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

A. Times interest earned ratio rose, due to the decreasing interest expense.

B. Reinvestment/cash ratio declined, due to cash dividend was more than last year.

6.2.2 Consolidated Five-Year Financial Analysis-IFRS

Item		Year	Financial analysis in the past five years					Year-to-date 2018.3.31 (Note1)
			2013	2014	2015	2016	2017	
Financial structure (%)	Ratio of liabilities to assets		39.23	35.68	39.09	39.68	37.10	36.72
	Ratio of long-term capital to fixed assets		348.24	408.75	377.76	369.12	381.31	390.30
Solvency (%)	Current ratio		204.38	238.59	186.19	238.92	236.16	239.97
	Quick ratio		142.12	168.66	129.42	170.96	168.32	168.07
	Times interest earned ratio		33.85	27.07	22.99	19.47	19.18	15.97
Operating ability	Accounts receivable turnover (turns)		5.55	5.15	4.62	4.37	4.42	4.51
	Average collection period		65.77	70.87	79.00	83.52	82.58	80.93
	Inventory turnover (turns)		3.61	3.28	2.90	2.98	3.19	2.95
	Accounts payable turnover (turns)		5.47	5.15	4.99	5.03	4.94	4.68
	Average days in sales		101.11	111.28	125.86	122.48	114.42	123.73
	Fixed assets turnover (turns)		3.82	3.60	3.29	2.98	2.80	2.72
	Total assets turnover (turns)		0.76	0.67	0.58	0.56	0.55	0.52
Profitability	Return on total assets (%)		5.79	5.75	4.41	4.82	4.06	2.76
	Return on stockholders' equity (%)		9.71	8.82	6.71	7.53	6.24	4.05
	Ratio to issued capital (%) (Note7)	Pre-tax income	27.50	28.48	22.79	24.63	21.74	17.03
	Profit ratio (%)		7.38	8.19	7.23	8.09	6.96	4.87
	Earnings per share (\$)		2.01	2.05	1.60	1.76	1.56	0.27
Cash flow	Cash flow ratio (%)		31.23	26.38	24.40	25.58	31.43	4.47
	Cash flow adequacy ratio (%)		142.40	111.64	118.38	117.84	122.23	556.43
	Cash reinvestment ratio (%)		5.55	3.03	3.86	3.26	4.12	0.84
Leverage	Operating leverage		3.42	3.56	3.79	3.57	4.74	4.45
	Financial leverage		1.04	1.05	1.06	1.07	1.07	1.07
Key Indicator	Sales growth (%)		16.19	-4.94	-9.58	2.73	2.04	2.01
	Profit after tax growth (%)		25.58	5.48	-20.17	14.88	-12.21	-6.85

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

A.Current ratio rose, due to cash flow from operating activities this year is more than last year.

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

Note 1: Financial data (consolidated) as of March 31, 2018 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 2017 (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 2018

TECO Electric & Machinery Co., Ltd

Audit Committee Convener : Ting-Wong, Cheng

Date: March 26, 2018

TECO ELECTRIC & MACHINERY CO., LTD.

PARENT COMPANY ONLY FINANCIAL

STATEMENTS AND REPORT OF INDEPENDENT

ACCOUNTANTS

DECEMBER 31, 2017 AND 2016

For the convenience of readers and for information purpose only, the report of independent accountants 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, 2017 and 2016, 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 reports of other independent accountants, 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, 2017 and 2016, and its financial performance and cash flows for the years then ended, in conformity with the “Regulations Governing the Preparation of Financial Statements 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 Parent Company Only 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. 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 motor division

Description

Refer to Note 4(32) 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 on 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.

Investments 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, 2017, the balance of investments accounted for under equity method was \$5,262,494,000. Refer to Note 4(19) of the parent company only financial statements for the accounting policy on the impairment assessment of

goodwill 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 five years. The discount rate and financial projections relating to the future operations of Motovario S.p.A. are subject to management judgment 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.

Other matter – audit of other independent accountants

As described in Note 6(8) to the parent company only financial statements, we did not audit the financial statements of certain investee companies accounted for under the equity method. These investments amounted to \$4,043,134,000 and \$4,037,283,000, both constituting 6% of the related total assets as of December 31, 2017 and 2016, respectively, and the comprehensive income amounting to

\$89,767,000 and \$60,193,000, both constituting 2% of the total comprehensive income for the years then ended, respectively. The financial statements of these investee companies 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 these financial statements and the information disclosed in Note 13 are based solely on the audits of the other independent accountants.

Responsibilities of management and the Board of Directors 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.

The Board of Directors, including 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 an auditor’s 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 judgment 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 control.
2. Obtain an understanding of internal control 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 control.
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 auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only 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 Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and

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

We also provide the Board of Directors 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 the Board of Directors, 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 auditor's 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 26, 2018

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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	2017		2016	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1) and 8	\$ 887,185	1	\$ 760,582	1
1110	Financial assets at fair value through profit or loss - current	6(2)(23)	-	-	30,832	-
1150	Notes receivable, net	6(4)(5)	289,239	1	355,078	1
1160	Notes receivable - related parties	7	316,590	1	338,482	-
1170	Accounts receivable, net	6(5)	1,567,629	2	1,941,337	3
1180	Accounts receivable - related parties	6(8) and 7	1,641,299	2	1,474,255	2
1190	Receivables from customers on construction contracts	6(7)	836,338	1	1,112,235	2
1200	Other receivables		143,086	-	58,077	-
1210	Other receivables - related parties	6(8) and 7	1,257,512	2	1,251,437	2
130X	Inventories, net	6(6)	2,612,493	4	2,993,682	4
1410	Prepayments		53,287	-	23,994	-
1470	Other current assets	6(1) and 8	176,650	-	259,162	-
11XX	Total current assets		9,781,308	14	10,599,153	15
Non-current assets						
1523	Available-for-sale financial assets - non-current	6(3)	6,609,115	10	5,723,592	8
1550	Investments accounted for under equity method	6(8) and 7	47,511,672	67	46,963,822	67
1600	Property, plant and equipment	6(9) and 7	3,761,489	5	3,643,481	5
1760	Investment property - net	6(10)	2,167,540	3	2,209,428	3
1840	Deferred income tax assets	6(27)	794,842	1	733,286	1
1900	Other non-current assets	6(11)	148,967	-	311,868	1
15XX	Total non-current assets		60,993,625	86	59,585,477	85
1XXX	Total assets		\$ 70,774,933	100	\$ 70,184,630	100

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity		Notes	2017		2016	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(12)	\$ 275,784	-	\$ 477,670	1
2120	Financial liabilities at fair value through profit or loss - current	6(13)(23)	2,529	-	-	-
2150	Notes payable		19,630	-	9,141	-
2160	Notes payable - related parties	7	169,104	-	169,722	
2170	Accounts payable		3,321,297	5	3,406,292	5
2180	Accounts payable - related parties	7	1,275,730	2	1,258,472	2
2190	Payables to customers on construction contracts	6(7)	164,333	-	182,598	-
2200	Other payables	6(29)	2,554,240	4	2,595,906	4
2220	Other payables - related parties	7	711,805	1	376,716	1
2230	Current income tax liabilities	6(27)	548,103	1	297,153	-
2250	Provisions for liabilities - current		83,418	-	71,778	-
2300	Other current liabilities		224,744	-	184,135	-
21XX	Total current liabilities		9,350,717	13	9,029,583	13
Non-current liabilities						
2530	Corporate bonds payable	6(14)	4,000,000	6	3,000,000	4
2540	Long-term borrowings	6(15)	3,090,794	5	5,690,598	8
2570	Deferred income tax liabilities	6(27)	893,369	1	1,011,652	1
2600	Other non-current liabilities	6(16)	1,610,288	2	1,721,230	3
25XX	Total non-current liabilities		9,594,451	14	11,423,480	16
2XXX	Total liabilities		18,945,168	27	20,453,063	29
Equity						
Share capital		6(17)				
3110	Share capital - common stock		20,026,929	28	20,026,929	29
Capital surplus		6(18)				
3200	Capital surplus		7,628,542	10	7,671,889	10
Retained earnings		6(19)(27)				
3310	Legal reserve		6,078,219	9	5,730,071	8
3320	Special reserve		3,640,779	5	3,640,779	5
3350	Unappropriated retained earnings		12,750,338	18	11,816,689	17
Other equity interest		6(20)				
3400	Other equity interest		2,026,521	3	1,166,773	2
3500	Treasury stocks	6(8)(17)	(321,563)	-	(321,563)	-
3XXX	Total equity		51,829,765	73	49,731,567	71
Significant contingent liabilities and unrecognized contract commitments		9				
Significant disaster loss		10				
Significant events after the balance sheet date		6(27) and 11				
3X2X	Total liabilities and equity		\$ 70,774,933	100	\$ 70,184,630	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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars, except earnings per share)

Items	Notes	2017		2016	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(21) and 7	\$ 21,301,208	100	\$ 20,274,047	100
5000 Operating costs	6(6)(16)(25)(26) and 7	(16,655,569)	(78)	(15,500,989)	(77)
5900 Net operating margin		4,645,639	22	4,773,058	23
5910 Unrealized profit from sales	7	(653,779)	(3)	(584,325)	(3)
5920 Realized profit from sales		584,325	2	550,823	3
5950 Net operating margin		4,576,185	21	4,739,556	23
Operating expenses	6(16)(25)(26) and 7				
6100 Selling expenses		(1,898,343)	(9)	(1,862,294)	(9)
6200 General and administrative expenses		(536,338)	(2)	(577,374)	(3)
6300 Research and development expenses		(634,436)	(3)	(684,736)	(3)
6000 Total operating expenses		(3,069,117)	(14)	(3,124,404)	(15)
6900 Operating profit		1,507,068	7	1,615,152	8
Non-operating income and expenses					
7010 Other income	6(2)(10)(13)(22) and 7	602,694	3	514,376	3
7020 Other gains and losses	6(3)(23) and 7	(344,071)	(2)	(464,090)	(2)
7050 Finance costs	6(24) and 7	(109,565)	(1)	(127,580)	(1)
7070 Share of profit of subsidiary, associates and joint ventures accounted for under equity method	6(8)	1,648,342	8	2,084,566	10
7000 Total non-operating income and expenses		1,797,400	8	2,007,272	10
7900 Profit before income tax		3,304,468	15	3,622,424	18
7950 Income tax expense	6(27)	(212,110)	(1)	(140,944)	(1)
8200 Profit for the year		\$ 3,092,358	14	\$ 3,481,480	17
Other comprehensive income					
Components of other comprehensive income that will not be reclassified to profit or loss					
8311 Other comprehensive income, before tax, actuarial losses on defined benefit plans	6(16)	(\$ 34,361)	-	(\$ 20,771)	-
8330 Share of other comprehensive loss of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		(13,830)	-	(34,295)	-
8310 Components of other comprehensive loss that will not be reclassified to profit or loss		(48,191)	-	(55,066)	-
Components of other comprehensive income that will be reclassified to profit or loss					
8361 Other comprehensive income, before tax, exchange differences on translation	6(20)	(775,713)	(3)	(1,164,215)	(6)
8362 Other comprehensive income, before tax, available-for-sale financial assets	6(3)(20)	1,133,547	5	1,651,872	8
8380 Share of other comprehensive income (loss) of subsidiary, associates and joint ventures accounted for under equity method		433,805	2	(177,296)	(1)
8399 Income tax relating to the components of other comprehensive income	6(20)(27)	68,109	-	99,432	1
8360 Components of other comprehensive income that will be reclassified to profit or loss		859,748	4	409,793	2
8300 Other comprehensive income for the year		\$ 811,557	4	\$ 354,727	2
8500 Total comprehensive income for the year		\$ 3,903,915	18	\$ 3,836,207	19
Earnings per share (in dollars)	6(28)				
9750 Basic earnings per share		\$ 1.56		\$ 1.76	
9850 Diluted earnings per share		\$ 1.55		\$ 1.76	

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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Retained Earnings					Other equity interest			
	Share capital - common stock	Total capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	Total equity
Notes									
2016									
Balance at January 1, 2016	\$ 20,026,929	\$ 7,638,417	\$ 5,412,342	\$ 3,640,779	\$ 10,310,158	\$ 13,030	\$ 743,950	(\$ 321,563)	\$ 47,464,042
Appropriations of 2016 earnings (Note)									
Legal reserve	-	-	317,729	-	(317,729)	-	-	-	-
Cash dividends	-	-	-	-	(1,602,154)	-	-	-	(1,602,154)
Effect of changes in the net equity of associates and joint ventures accounted for under the equity method	-	33,472	-	-	-	-	-	-	33,472
Other comprehensive income (loss) for the year	-	-	-	-	(20,771)	(1,064,783)	1,651,872	-	566,318
Share of other comprehensive loss of subsidiary, associates and joint venture accounted for under the equity method	-	-	-	-	(34,295)	-	(177,296)	-	(211,591)
Profit for the year	-	-	-	-	3,481,480	-	-	-	3,481,480
Balance at December 31, 2016	<u>\$ 20,026,929</u>	<u>\$ 7,671,889</u>	<u>\$ 5,730,071</u>	<u>\$ 3,640,779</u>	<u>\$ 11,816,689</u>	<u>(\$ 1,051,753)</u>	<u>\$ 2,218,526</u>	<u>(\$ 321,563)</u>	<u>\$ 49,731,567</u>
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	(\$ 321,563)	\$ 49,731,567
Appropriations of 2017 earnings (Note)									
Legal reserve	-	-	348,148	-	(348,148)	-	-	-	-
Cash dividends	-	-	-	-	(1,762,370)	-	-	-	(1,762,370)
Effect of changes in the net equity of associates and joint ventures accounted for under the equity method	-	(43,347)	-	-	-	-	-	-	(43,347)
Other comprehensive income (loss) for the year	-	-	-	-	(34,361)	(707,604)	1,133,547	-	391,582
Share of other comprehensive loss of subsidiary, associates and joint venture accounted for under the equity method	-	-	-	-	(13,830)	-	433,805	-	419,975
Profit for the year	-	-	-	-	3,092,358	-	-	-	3,092,358
Balance at December 31, 2017	<u>\$ 20,026,929</u>	<u>\$ 7,628,542</u>	<u>\$ 6,078,219</u>	<u>\$ 3,640,779</u>	<u>\$ 12,750,338</u>	<u>(\$ 1,759,357)</u>	<u>\$ 3,785,878</u>	<u>(\$ 321,563)</u>	<u>\$ 51,829,765</u>

Note: For the years ended December 31, 2016 and 2015, directors' and supervisors' remuneration amounting to \$25,333 and \$114,382, respectively, and employees' bonus amounting to \$283,999 and \$257,361, respectively, had been deducted from the statements of comprehensive income.

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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 3,304,468	\$ 3,622,424
Adjustments			
Adjustments to reconcile profit (loss)			
Net loss (gain) on financial assets at fair value through profit or loss	6(2)(23)	19,806	(30,832)
Net loss (gain) on financial liabilities at fair value through profit or loss	6(13)(23)	2,529	(1,316)
(Reversal of allowance) provision for doubtful accounts	6(5)	(3,738)	1,005
Interest income	6(22)	(13,550)	(29,661)
Interest expense	6(24)	94,354	123,462
Dividend income	6(22)	(187,217)	(197,377)
Impairment loss	6(3)(23)	-	96,190
Loss on disposal of investments	6(23)	(25,874)	(23,971)
Changes in unrealized loss from downstream sales		69,454	33,503
Share of profit of associates and joint ventures accounted for under the equity method	6(8)	(1,648,342)	(2,084,566)
Depreciation, amortization and net gain or loss on disposal of property, plant and equipment, net	6(9)(10)(23)(25)	412,618	416,926
Foreign currency exchange loss on bonds payable		-	1,620
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		11,026	-
Notes receivable		65,852	(46,099)
Notes receivable - related parties		21,892	(59,337)
Accounts receivable		377,433	(366,169)
Accounts receivable - related parties	(	159,426)	82,136
Receivables from customers on construction contract		275,897	(382,069)
Other receivables	(	85,009)	(10,455)
Other receivables - related parties	(	27,098)	(45,825)
Inventories		381,189	(51,957)
Prepayments	(	29,293)	(3,931)
Other current assets		85,850	65,081
Changes in operating liabilities			
Financial liabilities at fair value through profit or loss-current		-	(646)
Notes payable		10,489	(5,126)
Notes payable - related parties	(	618)	(14,941)
Accounts payable	(	84,995)	746,822
Accounts payable - related parties		17,258	99,124
Payables to customers on construction contract	(	18,265)	(160,535)
Other payables	(	59,991)	132,180
Other payables - related parties		37,489	(22,498)
Provisions for liabilities		11,640	30,513
Other current liabilities		40,609	(36,981)
Other non-current liabilities	(	187,248)	(127,320)
Cash inflow generated from operations		2,709,189	1,749,374
Interest received	6(22)	13,550	29,661
Dividends received		277,809	227,401
Payment of interest	(	94,354)	(156,677)
Payment of income tax	(	72,890)	(16,188)
Net cash flows from operating activities		<u>2,833,304</u>	<u>1,833,571</u>

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Decrease in other receivables - related parties		\$ 21,023	\$ 20,766
Increase in pledged fixed deposit	8	(3,338)	(4,819)
Proceeds from disposal of available-for-sale financial assets - non-current		240,756	111,241
Increase in available-for-sale financial assets - non-current		-	(66,557)
Increase in investments accounted for under equity method		(35,848)	(339,672)
Proceeds from disposal of property, plant and equipment		892	1,858
Acquisition of property, plant and equipment	6(9)(10)(29)	(451,717)	(302,551)
Increase in deferred expenses		(15,061)	(11,041)
Decrease in refundable deposits		822	594
Dividends received		635,789	493,820
Proceeds from disposal of investments accounted for under equity method		8,889	-
Increase (decrease) in other non-current assets		157,552	(19,449)
Net cash flows from (used in) investing activities		559,759	(115,810)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from short-term loans		(201,886)	(2,877,015)
Increase in other payables - related parties financing		297,600	280,000
Proceeds from issuance of bonds payable		1,000,000	-
Decrease in bonds payable		-	(1,500,120)
(Decrease) increase in long-term loans		(2,599,804)	3,630,892
Cash dividends paid	6(19)	(1,762,370)	(1,602,154)
Net cash flows used in financing activities		(3,266,460)	(2,068,397)
Net increase (decrease) in cash and cash equivalents		126,603	(350,636)
Cash and cash equivalents at beginning of year		760,582	1,111,218
Cash and cash equivalents at end of year		\$ 887,185	\$ 760,582

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

TECO ELECTRIC & MACHINERY CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

(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 PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These financial statements were authorized for issuance by the Board of Directors on March 26, 2018.

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 FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 10, IFRS 12 and IAS 28, ‘Investment entities: applying the consolidation exception’	January 1, 2016
Amendments to IFRS 11, ‘Accounting for acquisition of interests in joint operations’	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Amendments to IAS 1, ‘Disclosure initiative’	January 1, 2016
Amendments to IAS 16 and IAS 38, ‘Clarification of acceptable methods of depreciation and amortisation’	January 1, 2016
Amendments to IAS 16 and IAS 41, ‘Agriculture: bearer plants’	January 1, 2016
Amendments to IAS 19, ‘Defined benefit plans: employee contributions’	July 1, 2014
Amendments to IAS 27, ‘Equity method in separate financial statements’	January 1, 2016
Amendments to IAS 36, ‘Recoverable amount disclosures for non-financial assets’	January 1, 2014
Amendments to IAS 39, ‘Novation of derivatives and continuation of hedge accounting’	January 1, 2014
IFRIC 21, ‘Levies’	January 1, 2014
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016
The above standards and interpretations have no significant impact to the Company’s	

financial condition and financial performance based on the Company's assessment.

(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 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 Company's financial condition and financial performance based on the Company'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.

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

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 recognizes 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 recognizes 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: Recognize 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.

C. Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with Customers'

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a licence should be recognized at a point in time or over time.

In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

When adopting the new standards endorsed by the FSC effective from 2018, the Company will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. Further, the Company expects to adopt IFRS 15 using the modified retrospective approach. The significant effects of applying the new standards as of January 1, 2018 are summarized below:

Balance sheet Affected items	2017 version IFRSs amount	Effect of adoption of new standards	2018 version IFRSs amount	Remark
<u>January 1, 2018</u>				
Available-for-sale financial assets- non- Current Financial Assets at Fair Value through Profit or Loss	\$ 6,609,115	(\$ 6,609,115)	\$ -	
	-	6,609,115	6,609,115	
Total affected assets	\$ 6,609,115	\$ -	\$ 6,609,115	
Retained earnings	\$ 22,469,336	\$ 668,255	\$ 23,137,591	
Other equity interest	1,704,958	(668,255)	1,036,703	
Total affected equity	\$ 24,174,294	\$ -	\$ 24,174,294	

Explanation:

- A. In line with the regulations under IFRS 9 on provision for impairment, other equity interest will have to be decreased by \$394,039 and retained earnings increased by \$394,039.
- B. As the subsidiary held available-for-sale financial assets and reclassified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, other equity interest will have to be decreased by \$274,216 and increase retained earnings by \$274,216.

(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 endorsed by the FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
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 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
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.

A. 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.

B. IFRIC 23, 'Uncertainty over income tax treatments'

This Interpretation clarifies when there is uncertainty over income tax treatments, an entity shall recognize and measure its current or deferred tax asset or liability applying the requirements in IAS 12, 'Income taxes' based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these 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 parent company only 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) Available-for-sale financial assets measured at fair value.
- (c) Defined benefit liabilities recognized based on the net amount of pension fund assets plus unrecognized past service cost, and less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission (collectively referred herein as the “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 financial statements are disclosed in Note 5.

(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 financial statements are presented in New Taiwan Dollars, which is the Company’s functional and 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 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 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 interest 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 settled within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be settled 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 and 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

- A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term.
- B. On a regular way purchase or sale basis, financial assets held for trading are recognized and derecognized using trade date accounting.
- C. 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 assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(7) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
- C. Available-for-sale financial assets 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'.

(8) 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. Accounts receivable are initially recognized 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.

(9) Impairment of financial assets

- A. The Company 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.
- B. The criteria that the Company uses to determine whether there is objective evidence of impairment loss is as follows:
 - (a) Significant financial difficulty of the issuer or debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) 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;
 - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - (e) The disappearance of an active market for that financial asset because of financial difficulties; or
 - (f) 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;

- (g) 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;
 - (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- C. 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:

(a) Financial assets measured 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 reverse by adjusting the carrying amount of asset through the use of impairment allowance account.

(b) 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'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through 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 reverse by adjusting the carrying amount of asset through the use of impairment allowance account.

(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 contractual rights to receive cash flows of the financial asset have been transferred; however, the Company 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 the weighted-average method. The cost of finished goods and work in process comprises raw materials, direct labour, 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 realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Construction contracts

- A. 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 should be 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 to 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 it is probable will be recoverable.
- B. 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.
- C. 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'.

(14) 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.

(15) 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	10 ~ 50 years
Machinery and equipment	3 ~ 15 years
Transportation equipment	3 ~ 5 years
Leasehold improvements	3 ~ 5 years
Other equipment	2 ~ 15 years
Rental equipment	3 ~ 15 years

(16) Operating leases (lessee)

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.

(17) 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.

(18) Intangible assets

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.

(19) 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 shall be 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.

(20) 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 drawdown 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 capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

(21) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

- A. 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.
- B. 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.

(23) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability specified in the contract is 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 liabilities and equity instruments

Ordinary corporate bonds issued by the Company are initially recognized at fair value, net of transaction costs incurred. Ordinary corporate bonds are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortized in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.

(26) 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. 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.

(27) Provisions for other liabilities

Provisions (mainly for 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.

(28) 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 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. 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 government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

ii. Actuarial gains and losses 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' remuneration and directors' and supervisors' remuneration

Employees' remuneration 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. However, if the accrued amounts for employees' remuneration and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the stockholders at their stockholders' meeting subsequently, the differences should be recognized based on the accounting for changes in estimates. If employee compensation is distributed by shares, the Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(29) 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 10% tax is levied on the unappropriated 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, 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 utilised. 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 realise 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 realise 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.

(30) 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.

(31) Dividends

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

(32) Revenue recognition

A. Sales of goods

- (a) 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 value – added 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 should be 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.

- (b) 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 rendering 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 contract

Revenue and cost from long-term construction contracts are recognized under the percentage-of-completion method when the outcome of construction contract can be estimated reliably. If the outcome of construction contract cannot be estimated reliably, it should be recognized under completed contract method. An expected loss where total contract costs will exceed total contract revenue on a construction contract should be recognized as contract loss regardless of the method.

D. A sale agreement comprising of multiple components

A sale agreement offered by the Company might comprise of multiple components, including sale of goods and subsequent repair 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 shall be allocated between 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.

(33) 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.

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

The preparation of these parent company only financial statements requires management to make critical judgments 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 judgments in applying the Company's accounting policies

A. Financial assets—impairment of equity investments

The Company follows the guidance of IAS 39 to determine whether a financial asset—equity investment is impaired. This determination requires significant judgment. In

making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If the decline of the fair value of an individual equity investment below cost was considered significant or prolonged, the Company would recognize impairment loss in its financial statements, being the transfer of the accumulated fair value adjustments recognized in other comprehensive income on the impaired available-for-sale financial assets to profit or loss.

B. Investment property

The Company uses part of the property for its own use and part to earn rentals or for capital appreciation. When the portions cannot be sold separately, the property is classified as investment property only if the own-use portion accounts for less than 20% of the property.

(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.

As of December 31, 2017, the carrying amount of net defined benefit liabilities was \$1,649,970.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand and revolving funds	\$ 275	\$ 380
Checking accounts and demand deposits	738,110	760,202
Cash equivalents	148,800	-
	<u>\$ 887,185</u>	<u>\$ 760,582</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, 2017 and 2016, the Company's special bank account used for government grants amounted to \$8,157 and \$4,819 (shown as 1470 'Other current assets'). Please refer to Note 8 for details of restricted terms.

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

Items	December 31, 2017	December 31, 2016
Current items:		
Financial assets held for trading		
Non-hedging derivatives	<u>\$ -</u>	<u>\$ 30,832</u>

A. The Company recognized net (loss) gain of (\$19,806) and \$30,832 on financial assets held for trading for the years ended December 31, 2017 and 2016, respectively.

B. The non-hedging derivative instruments transaction and contract information are as follows:

December 31, 2016

Nature	Contract period	Contract amount (Notional amount)	Fair value
Forward exchange:			
BUY USD/SELL JPY	Jan. 25, 2017~Feb. 27, 2017	JPY 800,000,000	\$ 20,006
SELL EUR/BUY USD	Jan. 25, 2017~Mar. 22, 2017	EUR 11,000,000	10,826
			<u>\$ 30,832</u>

Details of transactions and contracts of the Company's non-hedge derivatives as of December 31, 2017 are provided in Note 6(13).

- C. The Company entered into forward foreign exchange contracts to hedge exchange rate risk of export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.
- D. The Company has no financial assets at fair value through profit or loss pledged to others.

(3) Available-for-sale financial assets

Items	December 31, 2017	December 31, 2016
Non-current items:		
Listed and OTC stocks	\$ 5,839,708	\$ 5,573,864
Emerging stocks	407,234	907,234
Unlisted stocks	<u>596,469</u>	<u>620,816</u>
	6,843,411	7,101,914
Valuation adjustment of available-for-sale financial assets	159,743 (	973,804)
Accumulated impairment	(394,039)	(404,518)
	<u>\$ 6,609,115</u>	<u>\$ 5,723,592</u>

A. The Company recognized \$1,133,547 and \$1,651,872 in other comprehensive income for fair value change and reclassified \$25,874 and \$23,971 from equity to profit or loss for the years ended December 31, 2017 and 2016, respectively.

B. The fair values of Cando Co., Ltd. and others, the Company's investments accounted for using equity method, declined significantly below its initial investment cost due to financial difficulty. The Company therefore recognized impairment loss of \$0 and \$96,190 on those equity investments for the years ended December 31, 2017 and 2016, respectively, including the amount of \$0 and \$96,190 that was transferred from equity to profit or loss, respectively.

C. The Company has no available-for-sale financial assets pledged to others.

(4) Notes receivable

	December 31, 2017	December 31, 2016
Notes receivable	\$ 289,964	\$ 355,816
Less: Allowance for bad debts	(725)	(738)
	<u>\$ 289,239</u>	<u>\$ 355,078</u>

The credit quality information of the notes receivable of the Company is provided in Note

6(5).

(5) Accounts receivable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable	\$ 1,594,388	\$ 1,971,821
Less: Allowance for bad debts	(26,759)	(30,484)
	<u>\$ 1,567,629</u>	<u>\$ 1,941,337</u>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Up to 30 days	\$ 110,434	\$ 178,058
31 to 90 days	41,644	252,799
91 to 180 days	13,060	13,570
Over 181 days	<u>275,339</u>	<u>278,746</u>
	<u>\$ 440,477</u>	<u>\$ 723,173</u>

The above ageing analysis was based on past due date.

B. Movements on the Company's provision for impairment of accounts receivable are as follows:

(a) As of December 31, 2017 and 2016, the amounts of the Company's accounts receivable that were impaired were \$27,484 and \$31,222, respectively.

(b) Movement on allowance for bad debts is as follows:

	<u>2017</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 25,250	\$ 5,972	\$ 31,222
Gain on reversal of bad debts expense	-	(3,738)	(3,738)
At December 31	<u>\$ 25,250</u>	<u>\$ 2,234</u>	<u>\$ 27,484</u>
	<u>2016</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 25,250	\$ 6,120	\$ 31,370
Provision for impairment	-	1,005	1,005
Write-offs during the year	-	(1,153)	(1,153)
At December 31	<u>\$ 25,250</u>	<u>\$ 5,972</u>	<u>\$ 31,222</u>

C. The Company holds land, buildings, time deposits, letter of guarantee and letter of quality guarantee collateral as security for accounts receivable.

D. The credit quality of notes receivable and accounts receivable that were neither past due nor impaired was in the following categories based on the Company's Credit Quality Control Policy:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Group 1	\$ 867,482	\$ 995,670
Group 2	220,456	240,128
Group 3	145,746	89,026
Group 4	111,588	108,569
Group 5	<u>71,119</u>	<u>139,849</u>
	<u>\$ 1,416,391</u>	<u>\$ 1,573,242</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 Company.

Group 3: Clients with low risk, which operate well and have had business relationships with the Company for many years with normal payment condition.

Group 4: Clients with risk at an acceptable level, where the Company shall monitor their credit condition regularly.

Group 5: Clients, which do not operate so well and their management shall be improved.

(6) Inventories

December 31, 2017			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 774,227	(\$ 47,879)	\$ 726,348
Work in process	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>
December 31, 2016			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 723,051	(\$ 36,788)	\$ 686,263
Work in process	519,281	(82)	519,199
Finished goods	1,617,770	(207,963)	1,409,807
Inventory in transit	378,413	-	378,413
	<u>\$ 3,238,515</u>	<u>(\$ 244,833)</u>	<u>\$ 2,993,682</u>

The cost of inventories recognized as expense for the years ended December 31, 2017 and 2016 was \$13,974,811 and \$13,354,108, respectively, including the amount of \$61,427 and \$103,859, respectively, that the Company wrote down from cost to net realisable value accounted for as cost of goods sold.

(7) Construction in progress

	December 31, 2017	December 31, 2016
Aggregate costs incurred plus recognized profits (less recognized losses)	\$ 12,838,960	\$ 12,729,757
Less: Progress billings	(12,166,955)	(11,800,120)
Net balance sheet position for construction in progress	<u>\$ 672,005</u>	<u>\$ 929,637</u>
Presented as:		
Due from customers for contract work	\$ 836,338	\$ 1,112,235
Due to customers for contract work	(164,333)	(182,598)
	<u>\$ 672,005</u>	<u>\$ 929,637</u>

As of December 31, 2017 and 2016, cumulative gain (loss) recognized under the percentage of completion method for major contracts are summarized as follows:

December 31, 2017

Construction	Expected completion date	Contract price	Estimated contract cost	Percentage of completion	Cumulative gain (loss) recognized
Construction A	Dec. 2018	\$ 2,243,988	\$ 2,124,822	99%	\$ 118,901
Construction B	June. 2018	1,864,762	1,774,577	78%	70,140
Construction C	Sep. 2018	1,171,149	1,131,370	98%	39,082
Construction D	Dec. 2018	1,065,297	1,029,856	99%	35,019
Construction E	Aug. 2018	1,064,122	924,244	99%	138,108
Construction F	Dec. 2018	941,452	1,536,563	96%	(595,111)
Construction G	June. 2018	909,734	818,761	68%	61,544
Construction H	Dec. 2018	621,282	674,470	99%	(53,188)
Construction I	Dec. 2018	611,485	619,366	97%	(7,881)
Construction J	Nov. 2019	576,190	541,619	-	34

December 31, 2016

Construction	Expected completion date	Contract price	Estimated contract cost	Percentage of completion	Cumulative gain (loss) recognized
Construction A	Dec. 2017	\$ 2,242,567	\$ 2,123,400	99%	\$ 118,956
Construction B	June 2018	1,864,762	1,774,577	32%	29,009
Construction K	June 2017	1,391,992	1,226,377	99%	165,122
Construction C	Aug. 2017	1,189,638	1,149,219	91%	36,777
Construction D	June 2017	1,064,797	1,029,356	98%	34,757
Construction E	June 2017	1,063,130	950,529	95%	107,021
Construction F	Dec. 2017	941,452	1,536,563	96%	(595,111)
Construction G	Feb. 2018	899,714	809,743	37%	32,953
Construction H	Dec. 2017	621,282	674,470	99%	(53,188)
Construction I	June 2017	611,485	619,366	95%	(7,881)

(8) Investments accounted for under the equity method

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Subsidiaries:		
1.Teco International Investment Co., Ltd.	\$ 1,156,169	\$ 1,096,953
2.Teco Holding USA Inc.	9,166,670	9,344,018
3.Teco Electric & Machinery (Pte) Ltd.	3,159,088	2,932,708
4.Tong-An Investment Co., Ltd.	8,587,611	8,010,325
5.United View Global Investment Co. Ltd.	7,389,874	7,917,780
6.Micropac Worldwide Investment (BVI)	1,521,289	1,523,096
7.Tong-An Assets Management & Development Co., Ltd.	5,296,447	5,277,612
8.Eagle Holding Co.	4,131,154	3,866,855
9.Century Development Corporation	1,344,150	1,294,865
10.Others	3,488,922	3,409,782
	<u>45,241,374</u>	<u>44,673,994</u>
Associates:		
1.Tung Pei Industrial Co., Ltd.	2,045,704	1,965,442
2.Lien Chang Electronic Enterprise Co., Ltd.	526,975	570,069
3.Others	175,826	148,848
	<u>2,748,505</u>	<u>2,684,359</u>

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Joint Venture:		
1.Senergy Wind Power Co., Ltd.	\$ 169,815	\$ 177,243
2.Others	5,757	12,551
	<u>175,572</u>	<u>189,794</u>
	48,165,451	47,548,147
Less: Unrealised profit from downstream transactions	(653,779)	(584,325)
	47,511,672	46,963,822
Less: Credit balance of long-term investments (gross amount before offset of accounts receivable-related parties, other receivables-related parties)	(83,828)	(49,502)
	<u>\$ 47,427,844</u>	<u>\$ 46,914,320</u>
The share of profit/loss of subsidiaries, associates and joint ventures accounted for under equity method for the years ended December 31, 2017 and 2016 are as follows:		
	<u>For the year ended December 31, 2017</u>	<u>For the year ended December 31, 2016</u>
Subsidiaries:		
1.Teco Holding USA Inc.	\$ 394,871	\$ 399,982
2.Teco Electric & Machinery (Pte) Ltd.	251,563	263,375
3.Tong-An Investment Co., Ltd.	405,409	371,009
4.Others	426,553	1,024,241
	<u>1,478,396</u>	<u>2,058,607</u>
Associates:		
1.Tung Pei Industrial Co., Ltd.	193,260	102,033
2.Lien Chang Electronic Enterprise Co., Ltd.	(13,165)	33,074
3.Others	3,045	(33,264)
	<u>183,140</u>	<u>101,843</u>
Joint Venture:		
1.Senergy Wind Power Co., Ltd.	(7,427)	(72,281)
2.Others	(5,767)	(3,603)
	<u>(13,194)</u>	<u>(75,884)</u>
	<u>\$ 1,648,342</u>	<u>\$ 2,084,566</u>

A. Subsidiaries:

- (a) For the years ended December 31, 2017 and 2016, 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 \$89,767 and \$60,193 for the years ended December 31, 2017 and 2016, respectively. The related balance of investment accounted for using equity method was \$4,043,134 and \$4,037,283 as of December 31, 2017 and 2016, respectively.
- (b) For the year ended December 31, 2016, the Company's subsidiary, Tong-An Investment Co., Ltd., increased its investment by \$462,233 in its associate, Century

Development Corporation, and obtained 12.12% of equity shares. The equity interest held by the Company and subsidiary increase from 40.63% to 52.75% after the additional investment. Consequently, the company and subsidiaries obtained majority control over Century Development Corporation. Please refer to Note 6(32) in the consolidated financial statements for details.

- (c) As of December 31, 2017 and 2016, the Company's common stocks owned by its subsidiaries, Tong-An Investment Co., Ltd. and others, totalling \$321,563 (22,443,000 shares), were treated as treasury stock.
- (d) Please refer to Note 4(3) of the 2017 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, 2017	December 31, 2016		
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

- (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, 2017	December 31, 2016
Current assets	\$ 5,420,336	\$ 5,541,165
Non-current assets	7,841,618	6,113,566
Current liabilities	(3,491,249)	(3,153,541)
Non-current liabilities	(2,431,291)	(1,417,967)
Total net assets	<u>\$ 7,339,414</u>	<u>\$ 7,083,223</u>
Share in associate's net assets	\$ 2,045,704	\$ 1,965,442
Goodwill	-	-
Carrying amount of the associate	<u>\$ 2,045,704</u>	<u>\$ 1,965,442</u>

	Lien Chang Electronic Enterprise Co., Ltd.	
	December 31, 2017	December 31, 2016
Current assets	\$ 1,687,297	\$ 2,137,424
Non-current assets	682,745	698,534
Current liabilities	(764,895)	(1,124,421)
Non-current liabilities	(48,077)	(30,056)
Total net assets	<u>\$ 1,557,070</u>	<u>\$ 1,681,481</u>
Share in associate's net assets	\$ 526,975	\$ 570,069
Goodwill	-	-
Carrying amount of the associate	<u>\$ 526,975</u>	<u>\$ 570,069</u>

Note : A subsidiary that the Company obtained control in 2016.

Statement of comprehensive income

	Tung Pei Industrial Co., Ltd.	
	For the year ended December 31, 2017	For the year ended December 31, 2016
Revenue	\$ 7,173,122	\$ 6,561,385
Profit for the year from continuing operations	629,397	338,383
Other comprehensive loss, net of tax	(\$ 157,344)	(\$ 155,530)
Total comprehensive income	<u>\$ 472,053</u>	<u>\$ 182,853</u>
Dividends received from associates	<u>\$ 78,290</u>	<u>\$ 78,290</u>

	Lien Chang Electronic Enterprise Co., Ltd.	
	For the year ended December 31, 2017	For the year ended December 31, 2016
Revenue	\$ 2,303,239	\$ 3,036,281
(Loss) profit for the year from continuing operations	(\$ 38,262)	\$ 95,571
Other comprehensive loss, net of tax	(3,017)	(40,440)
Total comprehensive (loss) income	<u>(\$ 41,279)</u>	<u>\$ 55,131</u>
Dividends received from associates	<u>\$ 28,907</u>	<u>\$ 10,136</u>

- (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, 2017 and 2016, the carrying amount of the Company's individually immaterial associates amounted to \$175,826 and \$148,848, respectively.

	Year ended December 31, 2017	Year ended December 31, 2016
(Profit) loss for the year from continuing operations	\$ 3,045	(\$ 33,264)
Total comprehensive profit (loss)	\$ 3,045	(\$ 33,264)
(d) The Company's material associate, Lien Chang Electronic Enterprise Co., Ltd., has quoted market price. The fair value is \$583,781 and \$531,222 as of December 31, 2017 and 2016, respectively.		
(e) For the year ended December 31, 2017, the Company establish Teco-Motech Co., Ltd. with Motech Industries Inc. through cash invested of \$4,800, the Company has 20% equity share of this company and has influence over it.		

C. Joint venture

- (a) The basic information of the joint ventures 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, 2017	December 31, 2016		
Senergy Wind Power Co., Ltd.	R.O.C	50%	50%	Joint venture	Equity method

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

Balance sheet

	Senergy Wind Power Co., Ltd. (Note)	
	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 339,587	\$ 233,663
Other current assets	1,004	138,494
Current assets	340,591	372,157
Non-current assets	53	111,162
Total assets	340,644	483,319
Current liabilities	(1,000)	-
Total liabilities	(1,000)	-
Total net assets	\$ 339,644	\$ 483,319
Share in joint venture's net assets	\$ 169,815	\$ 177,243
Goodwill	-	-
Carrying amount of the joint venture (Note)	\$ 169,815	\$ 177,243

Note: Impairment loss has been included.

Statement of comprehensive income

	Senergy Wind Power Co., Ltd. (Note)	
	For the year ended December 31, 2017	For the year ended December 31, 2016
Revenue	\$ -	\$ -
Depreciation and amortisation	\$ 42	\$ 32
Interest income	\$ 5,932	\$ 4,727
Interest expense	\$ -	\$ -
Loss before income tax	(\$ 143,204)	(\$ 15,749)
Loss-net of tax	(\$ 143,675)	(\$ 15,749)
Total comprehensive loss	(\$ 143,675)	(\$ 15,749)
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 2017 and 2016, the carrying amount of the Company's individually immaterial associates amounted to \$5,757 and \$12,551, respectively.

	For the year ended December 31, 2017	For the year ended December 31, 2016
Loss for the year from continuing operations	(\$ 5,767)	(\$ 3,603)
Total comprehensive loss	(\$ 5,767)	(\$ 3,603)

(9) Property, plant and equipment

	Land	Buildings	Machinery equipment	Transportation equipment	Leasehold improvements	Miscellaneous equipment	Rental assets	Total
<u>At January 1, 2017</u>								
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)
2017	<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>
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)
Reclassifications	-	-	(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>
<u>At December 31, 2017</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>

	Land	Buildings	Machinery equipment	Transportation equipment	Leasehold improvements	Miscellaneous equipment	Rental assets	Total
<u>At January 1, 2016</u>								
Cost	\$ 1,684,530	\$ 1,625,719	\$ 4,776,218	\$ 3,957	\$ 89,741	\$ 3,812,769	\$ 853,873	\$ 12,846,807
Accumulated depreciation and impairment	(34,697)	(595,933)	(4,420,111)	(2,742)	(67,659)	(3,129,022)	(719,437)	(8,969,601)
<u>2016</u>	<u>\$ 1,649,833</u>	<u>\$ 1,029,786</u>	<u>\$ 356,107</u>	<u>\$ 1,215</u>	<u>\$ 22,082</u>	<u>\$ 683,747</u>	<u>\$ 134,436</u>	<u>\$ 3,877,206</u>
Opening net book amount	\$ 1,649,833	\$ 1,029,786	\$ 356,107	\$ 1,215	\$ 22,082	\$ 683,747	\$ 134,436	\$ 3,877,206
Additions	-	100	100,532	1,200	21,294	191,080	-	314,206
Disposals	-	-	(711)	(16)	-	(10,122)	-	(10,849)
Reclassifications	(47,966)	(144,287)	(4,917)	-	-	(3,127)	8,044	(192,253)
Depreciation charge	-	(37,939)	(101,479)	(512)	(16,894)	(175,213)	(12,792)	(344,829)
Closing net book amount	<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>At December 31, 2016</u>								
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>

- A. Amount of borrowing costs capitalized as part of property, plant and equipment and the range of the interest rates for such capitalization are as follows:

	For the year ended December 31, 2017	For the year ended December 31, 2016
Amount capitalized	\$ -	\$ 217
Interest rate	\$ -	0.58%

- 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.

(10) Investment property

	Land	Buildings	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>

	Land	Buildings	Total
<u>At January 1, 2016</u>			
Cost	\$ 1,114,545	\$ 1,678,549	\$ 2,793,094
Accumulated depreciation and impairment	-	(733,777)	(733,777)
	<u>\$ 1,114,545</u>	<u>\$ 944,772</u>	<u>\$ 2,059,317</u>
<u>2016</u>			
Opening net book amount	\$ 1,114,545	\$ 944,772	\$ 2,059,317
Reclassifications	47,966	144,287	192,253
Depreciation charge	-	(42,142)	(42,142)
Closing net book amount	<u>\$ 1,162,511</u>	<u>\$ 1,046,917</u>	<u>\$ 2,209,428</u>
<u>At December 31, 2016</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>

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

	Year ended December 31, 2017	Year ended December 31, 2016
Rental income from investment property	<u>\$ 117,812</u>	<u>\$ 119,909</u>
Direct operating expenses arising from the investment property that generated rental income during the year	<u>\$ 19,679</u>	<u>\$ 19,434</u>
Direct operating expenses arising from the investment property that did not generate rental income during the year	<u>\$ -</u>	<u>\$ -</u>

B. The fair value of the investment property held by the Company as at December 31, 2017 and 2016 was \$3,427,204 and \$3,061,100, respectively. The valuation is based on average closing prices of investment property at the area where the property is located.

(11) Other non-current assets

	December 31, 2017	December 31, 2016
Prepayment for equipment	\$ 11,575	\$ 169,127
Refundable deposits	74,670	75,492
Deferred expenses	61,515	66,042
Other assets	1,207	1,207
	<u>\$ 148,967</u>	<u>\$ 311,868</u>

(12) Short-term borrowings

Type of borrowings	December 31, 2017	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	<u>\$ 275,784</u>	0.87%~0.98%	None
Type of borrowings	December 31, 2016	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	<u>\$ 477,670</u>	0.88%~1.46%	None

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

Items	December 31, 2017	December 31, 2016
Current items:		
Financial liabilities held for trading		
Non-hedging derivatives	<u>\$ 2,529</u>	<u>\$ -</u>

A. The Company recognized net (loss) gain of (\$2,529) and \$1,316 on financial liabilities held for trading for the years ended December 31, 2017 and 2016, respectively.

B. The non-hedging derivative instruments transaction and contract information are as follows:

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

(14) Bonds payable

	December 31, 2017	December 31, 2016
Issuance of bonds payable	<u>\$ 4,000,000</u>	<u>\$ 3,000,000</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% of the 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% of the 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.

(15) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2017
HSBC Bank	Borrowing period is from Apr. 18, 2017 to Aug. 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%	None	300,000
Mizuho Bank	Borrowing period is from Oct. 15, 2017 to Oct. 15, 2019; payable at maturity	0.80%	None	39,000
				<u>1,791,000</u>
Commercial papers payable				
China Bills Finance Corporation	Borrowing period is from Mar. 29, 2016 to Mar. 28, 2019; payable at maturity	0.36%~0.60%	None	500,000
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
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
Taiwan Finance Corporation	Borrowing period is from June 23, 2017 to June 22, 2019; payable at maturity	0.48%~0.85%	None	200,000
				1,300,000
Less: Discount on commercial paper.				(206)
				<u>1,299,794</u>
				<u>\$ 3,090,794</u>

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2016
Long-term bank borrowings				
HSBC Bank	Borrowing period is from Apr. 15, 2016 to Apr. 15, 2018; payable at maturity	0.95%	None	\$ 1,000,000
Mizuho Bank	Borrowing period is from Oct. 15, 2016 to Oct. 15, 2018; payable at maturity	0.89%	None	1,230,000
Sumitomo Mitsui Banking Corporation	Borrowing period is from Aug. 3, 2016 to Aug. 3, 2018; payable at maturity	0.97%	None	500,000
Bank Of Taiwan	Borrowing period is from Feb. 2, 2015 to Feb. 2, 2018; payable at maturity	1.05%	None	400,000
First Commercial Bank	Borrowing period is from Feb. 10, 2016 to Feb. 10, 2018; payable at maturity	1.17%	None	261,000
				<u>3,391,000</u>
Commercial papers payable				
Mega Bills Finance Corporation	Borrowing period is from Mar. 30, 2016 to Mar. 29, 2018; payable at maturity	0.60%~0.73%	None	700,000
China Bills Finance Corporation	Borrowing period is from Mar. 25, 2016 to Mar. 24, 2018; payable at maturity	0.50%	None	500,000
Grand Bills Finance Corporation	Borrowing period is from Mar. 21, 2016 to Mar. 20, 2018; payable at maturity	0.60%~0.81%	None	400,000
International Bills Finance Corporation	Borrowing period is from April 28, 2016 to April 28, 2018; payable at maturity	0.41%~0.62%	None	500,000
Taiwan Finance Corporation	Borrowing period is from June 23, 2016 to June 22, 2018; payable at maturity	0.70%~0.85%	None	200,000
				<u>2,300,000</u>
Less: Discount on commercial paper				(402)
				<u>2,299,598</u>
				<u>\$ 5,690,598</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, 2017 and 2016, the Company has undrawn borrowing facilities of \$17,337,150 and \$12,614,238, respectively.

(16) Pensions

A.(a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, 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 Law. 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 contributes 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 would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contributions to cover the deficit by next March.

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligations	(\$ 1,809,652)	(\$ 1,838,969)
Fair value of plan assets	<u>248,067</u>	<u>188,999</u>
Net defined benefit liability	<u>(\$ 1,561,585)</u>	<u>(\$ 1,649,970)</u>

(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
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 assets (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)	-
Payment per books	24,001	-	24,001
Balance at December 31	(\$ 1,809,652)	\$ 248,067	(\$ 1,561,585)
Year ended December 31, 2016			
Balance at January 1	(\$ 1,911,606)	\$ 178,726	(\$ 1,732,880)
Current service cost	(19,080)	-	(19,080)
Interest (expense) income	(37,202)	2,869	(34,333)
	(1,967,888)	181,595	(1,786,293)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(1,363)	(1,363)
Change in financial assumptions	(48,937)	-	(48,937)
Experience adjustments	29,529	-	29,529
	(19,408)	(1,363)	(20,771)
Pension fund contribution	-	153,131	153,131
Paid pension	144,364	(144,364)	-
Payment per books	3,963	-	3,963
Balance at December 31	(\$ 1,838,969)	\$ 188,999	(\$ 1,649,970)

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's 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 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, 2017 and 2016 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, 2017	Year ended December 31, 2016
Discount rate	1.70%	1.70%
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, 2017				
Effect on present value of defined benefit obligation	(\$ 74,256)	\$ 79,259	\$ 78,689	(\$ 74,455)
	Discount rate		Future salary increases	
	Increase 0.5%	Decrease 0.5%	Increase 0.5%	Decrease 0.5%
December 31, 2016				
Effect on present value of defined benefit obligation	(\$ 80,483)	\$ 86,126	\$ 85,462	(\$ 80,658)

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. 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, 2018 amounts to \$89,352.

B. (a) Effective July 1, 2005, the Company has 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 contributes 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 plan of the Company for the years ended December 31, 2017 and 2016 were \$72,082 and \$70,871, respectively.

(17) Share capital

A. As of December 31, 2017, 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, 2017 and 2016, 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, with total proceeds of US\$107,644,000. The issuance of GDRs were 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, 2017, the Company had redeemed at outstanding 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 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, 2017 and 2016, book value of the shares of the Company held by the three subsidiaries amounted to \$321,563.

Details are as follows:

	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>		
	December 31, 2016		
	Shares (in thousands)	Cost (in dollars)	Market value (in dollars)
Tong-An Investment Co., Ltd.	19,540	\$ 14.92	\$ 27.90
An-Tai International Investment Co., Ltd.	2,826	10.37	27.90
Top-Tower Enterprises Co., Ltd.	77	9.37	27.90
	<u>22,443</u>		

(18) 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.

(19) 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.
- (f) The Company may grant the employees of subsidiaries employee bonuses as described above if certain criteria prescribed by the Board of Directors are met.

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 a 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 \$1,762,370 (\$0.88 (in dollars) per share) and \$1,602,154 (\$0.8 (in dollars) per share) for the years ended

December 31, 2017 and 2016, respectively. On March 26, 2018, the Board of Directors proposed for the distribution of dividends from 2017 in the amount of \$1,722,316 at \$0.86 (in dollars) per share.

F. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6 (26).

(20) Other equity items

	Available-for-sale investments	Currency translation	Total
At January 1, 2017	\$ 2,218,526	(\$ 1,051,753)	\$ 1,166,773
Unrealized gains and losses on financial assets:			
–Company	1,133,547	-	1,133,547
–Subsidiaries, associates and joint ventures	433,805	-	433,805
Currency translation differences:			
–Company	-	(707,604)	(707,604)
At December 31, 2017	<u>\$ 3,785,878</u>	<u>(\$ 1,759,357)</u>	<u>\$ 2,026,521</u>
	Available-for-sale investments	Currency translation	Total
At January 1, 2016	\$ 743,950	\$ 13,030	\$ 756,980
Unrealized gains and losses on financial assets:			
–Company	1,651,872	-	1,651,872
–Subsidiaries, associates and joint ventures	(177,296)	-	(177,296)
Currency translation differences:			
–Company	-	(1,064,783)	(1,064,783)
At December 31, 2016	<u>\$ 2,218,526</u>	<u>(\$ 1,051,753)</u>	<u>\$ 1,166,773</u>

(21) Operating revenue

	Year ended December 31, 2017	Year ended December 31, 2016
Sales revenue	\$ 18,316,697	\$ 17,795,566
Service revenue	329,645	299,724
Construction contract revenue	2,654,866	2,178,757
	<u>\$ 21,301,208</u>	<u>\$ 20,274,047</u>

(22) Other income

	Year ended December 31, 2017	Year ended December 31, 2016
Rental revenue	\$ 139,079	\$ 145,273
Dividend income	187,217	197,377
Interest income:		
Interest income from bank deposits	7,614	19,557
Other interest income	5,936	10,104
Compensation revenue from disaster insurance	83,897	-
Other non-operating income	178,951	142,065
	<u>\$ 602,694</u>	<u>\$ 514,376</u>

(23) Other gains and losses

	Year ended December 31, 2017	Year ended December 31, 2016
Net (loss) gain on financial liabilities at fair value through profit or loss	(\$ 2,529)	\$ 1,316
Net (loss) gain on financial assets at fair value through profit or loss	(19,806)	30,832
Net currency exchange loss	(12,946)	(84,610)
Net loss on disposal of property, plant and equipment	(22,878)	(8,991)
Gain on disposal of investments	25,874	23,971
Impairment loss on financial assets	-	(96,190)
Fire damages	(97,615)	-
Miscellaneous disbursements	(214,171)	(330,418)
	<u>(\$ 344,071)</u>	<u>(\$ 464,090)</u>

(24) Finance costs

	Year ended December 31, 2017	Year ended December 31, 2016
Interest expense:		
Bank borrowings	\$ 30,971	\$ 54,591
Corporate bonds	46,518	61,194
Others	16,865	7,894
Less: capitalisation of qualifying assets	-	(217)
Finance expenses	94,354	123,462
Finance costs	15,211	4,118
	<u>\$ 109,565</u>	<u>\$ 127,580</u>

(25) Expenses by nature

	Year ended December 31, 2017	Year ended December 31, 2016
Change in inventory of finished goods and work in process and raw materials and supplies used	\$ 11,912,105	\$ 11,332,436
Construction cost	2,408,874	1,923,055
Service cost	271,884	223,827
Employee benefit expense	2,390,236	2,475,611
Depreciation charges on property, plant and equipment	318,774	332,037
Amortization charges	19,063	20,094
Processing fees	462,643	462,878
Indirect materials	145,280	133,172
Shipping expense	200,600	207,579
Dealers' compensation	171,992	148,236
Energy costs	160,938	155,998
Other expenses	1,262,297	1,210,470
	<u>\$ 19,724,686</u>	<u>\$ 18,625,393</u>

(26) Employee benefit expense

	Year ended December 31, 2017	Year ended December 31, 2016
Wages and salaries	\$ 1,806,651	\$ 1,864,972
Employees' compensation and directors' and supervisors' remuneration	361,806	409,332
Labor and health insurance fees	158,717	154,032
Pension costs	114,621	124,284
Other personnel expenses	99,757	94,714
	<u>\$ 2,541,552</u>	<u>\$ 2,647,334</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 distributable profit of the current year, 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, 2017 and 2016, employees' compensation was accrued at \$250,481 and \$283,999, respectively; while directors' and supervisors' remuneration was accrued at \$111,325 and \$125,333, respectively. The aforementioned amounts were recognized in salary expenses.
- D. The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 9% and 4% of distributable profit of current year for the year ended December 31, 2017. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were \$250,481 and \$111,325, 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 of 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:

	Year ended December 31, 2017	Year ended December 31, 2016
Current tax:		
Current tax on profits for the year	\$ 207,022	\$ 15,903
Tax on undistributed surplus earnings	131,590	120,177
Prior year income tax overestimation	(14,772)	(166,665)
Total current tax	<u>323,840</u>	<u>(30,585)</u>
Deferred tax:		
Origination and reversal of temporary differences	(111,730)	171,529
Total deferred tax	<u>(111,730)</u>	<u>171,529</u>
Income tax expense	<u>\$ 212,110</u>	<u>\$ 140,944</u>

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

	Year ended December 31, 2017	Year ended December 31, 2016
Currency translation differences	(\$ 68,109)	(\$ 99,432)

B. Reconciliation between income tax expense and accounting profit

	Year ended December 31, 2017	Year ended December 31, 2016
Tax calculated based on profit before tax and statutory tax rate	\$ 561,874	\$ 615,812
Effects from items disallowed by tax regulation	(338,592)	(207,276)
Over estimation of prior year's net deferred tax assets and liabilities	(111,730)	(191,104)
Effect from investment tax credit	(16,260)	(30,000)
Prior year income tax overestimation	(14,772)	(166,665)
Additional 10% tax on undistributed earnings	131,590	120,177
Income tax expense	<u>\$ 212,110</u>	<u>\$ 140,944</u>

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

	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 useful lives 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>

	Year ended December 31, 2016			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets:				
Unrealised intercompany profit	\$ 202,398	(\$ 10,908)	\$ -	\$ 191,490
Impairment loss	90,679	869	-	91,548
Currency translation differences	61,690	-	99,432	161,122
Difference resulting from different useful lives of property, plant and equipment between financial and tax basis	44,623	(1,266)	-	43,357
Unrealised expenses	54,884	2,571	-	57,455
Permanent loss on investments	29,817	-	-	29,817
Loss on inventory	26,854	14,768	-	41,622
Over provision of allowance for doubtful accounts	12,615	1,070	-	13,685
Others	100,468	2,722	-	103,190
	<u>624,028</u>	<u>9,826</u>	<u>99,432</u>	<u>733,286</u>
-Deferred tax liabilities:				
Investment income from foreign investments	722,825	166,058	-	888,883
Land value incremental reserve	107,472	-	-	107,472
Others	-	15,297	-	15,297
	<u>830,297</u>	<u>181,355</u>	<u>-</u>	<u>1,011,652</u>
	<u>(\$ 206,269)</u>	<u>(\$ 171,529)</u>	<u>\$ 99,432</u>	<u>(\$ 278,366)</u>

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

	December 31, 2017	December 31, 2016
Deductible temporary differences	<u>\$ 469,069</u>	<u>\$ 541,214</u>

E. The Company has not recognized taxable temporary differences associated with investment in certain subsidiaries as deferred tax liabilities. As of December 31, 2017 and 2016, the amounts of temporary difference unrecognized as deferred tax liabilities were \$4,630,372 and \$7,228,521, respectively.

- F. The Company's income tax returns through 2013 have been assessed and approved by the Tax Authority.
- G. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China in February, 2018, the information on unappropriated retained earnings and the balance of the imputation credit account as of December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed.
- H. Unappropriated retained earnings on December 31, 2016:

	December 31, 2016
Earnings generated in and before 1997	\$ 684,024
Earnings generated in and after 1998	11,132,665
	<u>\$ 11,816,689</u>

- I. As of December 31, 2016, the balance of the imputation tax credit account was \$765,673. The creditable tax rate was 8.02% for the year ended December 31, 2016.
- J. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. This will increase the Company's deferred tax assets and deferred tax liabilities by \$4,619 and \$138,688, respectively, which will be adjusted in the first quarter of 2018.
- K. 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

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>			
Net income	\$ 3,092,358	1,980,250	\$ 1.56
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	8,736	
Profit plus assumed conversion of all dilutive potential ordinary shares	\$ 3,092,358	1,988,986	\$ 1.55
Year ended December 31, 2016			
	Amount after tax	Weighted average number of ordinary shares outstanding (in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Net income	\$ 3,481,480	1,980,250	\$ 1.76
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	10,723	
Profit plus assumed conversion of all dilutive potential ordinary shares	\$ 3,481,480	1,990,973	\$ 1.75

(29) Non-cash transaction

Investing activities with partial cash payments:

	Year ended December 31, 2017	Year ended December 31, 2016
Acquisition of property, plant and equipment	\$ 470,042	\$ 314,206
Add: Payables at beginning of the year	112,700	101,045
Less: Payables at end of the year	(131,025)	(112,700)
Cash paid	\$ 451,717	\$ 302,551

7. RELATED PARTY TRANSACTIONS

(1) Names and relationship of related parties

<u>Names of related parties</u>	<u>Relationship with the Company</u>	<u>Names of related parties</u>	<u>Relationship with the Company</u>
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.)	"

Names of related parties	Relationship with the Company	Names of related parties	Relationship with the Company
Teco Industrial (Malaysia) Sdn. Bhd. (Teco Malaysia)	The subsidiary	Asia Air Tech Industrial Co., Ltd. (AAT)	The subsidiary
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)	"
Wuxi Teco Precision Industry Co. Ltd (Wuxi Teco)	"	Asia Electric & Machinery (PTE) LTD. (AEM)	"
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)	"
Universal Mailing Service Co., Ltd. (Universal)	"	Baycom Opto-Electronics Technology Co., Ltd. (Baycom)	"
Teco Australia Pty. Ltd. (Teco Australia)	"	Tecom International Investment Co., Ltd. (Tecom International)	"
Jack Property Service & Management Company (Jack Property)	"	Teco SichuanTrading 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 TecoElectric & 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)	"

Names of related parties	Relationship with the Company	Names of related parties	Relationship with the Company
Jiangxi TECO Air Conditioning Equipment Co., Ltd. (Jiangxi Teco Air)	The subsidiary	Gorich Technology Co., Ltd. (Gorich)	Associate
Tianjin Teco Technology Co., Ltd. (Tianjin Teco)	"	Tension Envelope Taiwan Co., Ltd. (Tension)	"
Top-Tower Enterprises Co., Ltd. (Top-Tower)	"	Qingdao TECO Century Advance High-tech Mechtronics Co., Ltd. (TECO Century)	"
Ching Chi International Limited (Ching Chi)	"	Teco Middle East Electrical & Machinery Co., Ltd. (TME)	"
Teco Yaskawa Motor Engineering Co. (Yaskawa)	"	TG Teco Vacuum Insulated Glass Corp. (TG Teco)	"
Motovario S.p.A. (Motovario)	"	Jiangxi Teco-Lead PM Generator Manufacturing Co., Ltd. (Jiangxi Teco-Lead)	"
TA Associates International Pte Ltd. (TA Associates)	"	Lien Chang Electronic Enterprise Co., Ltd. (Lien Chang)	"
United Development Corporation Ltd. (United Development)	(Note 1) The subsidiary	Taian Shen Electric Co., Ltd. (Taian Shen)	"
Century Development Corporation Ltd. (Century Development)	"	Tecma Information Systems Sdn. Bhd. (TECMA)	"
Royal Host Taiwan Co., Ltd. (Royal)	Associate	Nanobit Tech Co., Ltd. (Nanobit)	(Note 2)
Tung Pei Industrial Co., Ltd. (Tung Pei)	"	Senergy Wind Power Co., Ltd. (Senergy Wind Power)	Joint arrangement
Creative Sensor Inc. (Creative Sensor)	"	Teco Image System Co., Ltd. (Teco Image)	Other related party
Le-Li Co., Ltd. (Le-Li)	"	An-Shin Food Service Co., Ltd. (An-Shin)	"
		Teco-Motech Co., Ltd. (Teco-Motech)	Associate

Note 1: This company had been dissolved in the fourth quarter of 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.

(2) Significant related party transactions

A. Sales

	Year ended December 31, 2017	Year ended December 31, 2016
Sales of goods		
— Subsidiaries		
Teco Westinghouse	\$ 3,515,735	\$ 2,901,606
Other	6,282,659	5,966,360
— Associates	315,196	318,792
— Other related parties	323	77
	<u>\$ 10,113,913</u>	<u>\$ 9,186,835</u>

	Year ended December 31, 2017	Year ended December 31, 2016
Royalty income (shown as 'other income'):		
— Subsidiaries		
Wuxi Teco	\$ 41,875	\$ 33,943
Tai-An Wuxi	11,945	12,432
Motovario	31,023	37,290
QingDao Teco	7,074	4,953
Other	2,772	4,951
— Associates	-	-
— Other related parties	199	98
	<u>\$ 94,888</u>	<u>\$ 93,667</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 \$653,779 and \$584,325 (shown as '1550 investments accounted for under equity method') for the years ended December 31, 2017 and 2016, 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, 2017	Year ended December 31, 2016
Purchases of goods:		
— Subsidiaries		
Tesen	\$ 2,245,090	\$ 2,606,991
Others	3,659,896	3,362,438
— Associates	73,418	66,280
	<u>\$ 5,978,404</u>	<u>\$ 6,035,709</u>
	Year ended December 31, 2017	Year ended December 31, 2016
Shipping expense:		
— Subsidiaries	\$ 107,776	\$ 115,366
	Year ended December 31, 2017	Year ended December 31, 2016
Service expense:		
— Subsidiaries	<u>\$ 100,909</u>	<u>\$ 90,279</u>

(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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts and notes receivable		
— Subsidiaries		
Teco Westinghouse	\$ 463,325	\$ 494,318
Others	2,046,671	1,900,738
— Associates	56,903	43,084
— Other related parties	127	57
	<u>2,567,026</u>	<u>2,438,197</u>
Add: foreign exchange loss	(26,908)	(38,714)
	2,540,118	2,399,483
Less: reclassified to other receivables	(540,346)	(537,245)
	1,999,772	1,862,238
Less: balance of long-term equity investments	(41,883)	(49,501)
	<u>\$ 1,957,889</u>	<u>\$ 1,812,737</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 \$540,346 and \$537,245 as of December 31, 2017 and 2016, respectively. The ageing of the past due accounts receivable is beyond 90 days.

D. Notes and accounts payable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts and notes payable		
— Subsidiaries		
Wuxi Teco	\$ 762,090	\$ 687,282
Others	626,502	696,305
— Associates	56,242	44,607
	<u>\$ 1,444,834</u>	<u>\$ 1,428,194</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. Loans to related parties

(a) Receivables from related parties – credit line

	December 31, 2017	December 31, 2016
Subsidiaries	\$ 222,661	\$ 243,684

(b) Interest income

	Year ended December 31, 2017	Year ended December 31, 2016
Subsidiaries	\$ 5,927	\$ 7,266

As of December 31, 2017 and 2016, the Company had loans to subsidiaries amounting to \$222,661 and \$230,363, 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, 2017	December 31, 2016
— Subsidiaries		
TECO Netherlands	\$ 321,282	\$ 312,828
Sankyo	181,364	188,940
Others	37,700	35,477
	<u>\$ 540,346</u>	<u>\$ 537,245</u>

(b) Others

	December 31, 2017	December 31, 2016
— Subsidiaries		
QingDao Teco	\$ 251,159	\$ 180,063
Sankyo	9,699	8,838
TECO Netherlands	246	245
Others	469,891	517,679
— Associates	12,331	32,459
— Other related parties	20,875	19,515
	<u>764,201</u>	<u>758,799</u>
Less : Allowance for doubtful accounts	(47,035)	(44,607)
	<u>\$ 717,166</u>	<u>\$ 714,192</u>

The above represents other receivables for rental.

G. Other payables:

	December 31, 2017	December 31, 2016
— Subsidiaries	\$ 708,089	\$ 373,585
— Associates	3,588	3,124
— Other related parties	128	7
	<u>\$ 711,805</u>	<u>\$ 376,716</u>

Other payables mainly consist of rent payable, etc.

H. Financing with related parties

(a) Payables to related parties - credit line

	December 31, 2017	December 31, 2016
Subsidiaries	<u>\$ 577,600</u>	<u>\$ 280,000</u>

(b) Interest expense

	For the year ended December 31, 2017	For the year ended December 31, 2016
Subsidiaries	<u>\$ 2,255</u>	<u>\$ 2,723</u>

As of December 31, 2017 and 2016, the actual amount of loan that the Company has drawn from subsidiaries amounted to \$577,600 and \$280,000, respectively. The loans are repayable monthly over 2 years and bear interest at 1.05~1.1% and 1.05% per annum for the years ended December 31, 2017 and 2016, respectively.

I. Endorsements and guarantees provided to related parties

	December 31, 2017	December 31, 2016
— Subsidiaries	\$ 2,976,456	\$ 3,044,214
— Associates	40,474	50,634
	<u>\$ 3,016,930</u>	<u>\$ 3,094,848</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, 2017 and 2016, the rent expense was \$78,407 and \$75,250, respectively. As of December 31, 2017 and 2016, unpaid rent amounted to \$7,270 and \$6,781 (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, 2017, remaining receivable amounted to \$29,710 (shown as 1210 ‘Other receivable – related party’). For the year ended December 31,

2015, the loss on disposal of property, plant and equipment amounted to \$15,848 (shown as 7020 'other gains and losses').

(3) Key management compensation

	Year ended December 31, 2017	Year ended December 31, 2016
Salaries and other short-term employee benefits	\$ 210,044	\$ 245,036
Post-employment benefits	1,759	1,704
	<u>\$ 211,803</u>	<u>\$ 246,740</u>

8. PLEDGED ASSETS

The Company's assets pledged as collateral are as follows:

Pledged asset	Book value		Purpose
	December 31, 2017	December 31, 2016	
Other current assets - bank deposits	<u>\$ 8,157</u>	<u>\$ 4,819</u>	Special bank account for government grant

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

A. Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	December 31, 2017	December 31, 2016
Property, plant and equipment	<u>\$ 35,223</u>	<u>\$ 123,290</u>

B. As of December 31, 2017, the outstanding usance L/C used for acquiring raw materials and equipment was \$630,607.

10. SIGNIFICANT DISASTER LOSS

On July 16, 2017, a fire occurred at the Company's plant in Guanyin Dist., Taoyuan City, which caused damage on partial inventories, property, plant and equipment. The estimated disaster compensation income and loss were \$83,897 and (\$97,615), respectively. Abovementioned amounts have been recognized as other revenue and other income and loss for the year ended December 31, 2017. As the Company has fire insurance on those damaged items, the Company is negotiating for the compensation with the insurance company.

11. SIGNIFICANT EVENT AFTER THE BALANCE SHEET DATE

Except for the impact of the amendment of the Income Tax Act promulgated by the President of the Republic of China in Note 6(27).

12. OTHERS

(1) Capital risk 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. Fair value information of financial instruments

The carrying amounts of the Company's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term loans, notes payable, accounts payable and other payables, bonds payable and long-term borrowings) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

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. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position and financial performance. The Company uses derivative financial instruments to hedge certain risk exposures (see Notes 6(2) and 6(13)).

(b) Risk management is carried out by a 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. 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 various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The Company is required to hedge their entire foreign exchange risk exposure with the treasury. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Company use forward foreign exchange contracts, transacted with Company treasury. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.
- iii. The Company uses forward exchange contracts / forward exchange traded derivatives transactions that hedge the recognized foreign asset or liability due to exchange rate fluctuations.
- iv. The Company's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD. 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, 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						
<u>Monetary items</u>						
USD:NTD	69,960	29.7600	\$ 2,082,010	1%	\$ 20,820	\$ -
EUR:NTD	14,490	35.5700	515,409	1%	5,154	-
JPY:NTD	1,367,608	0.2642	361,322	1%	3,613	-
RMB:NTD	71,030	4.5650	324,252	1%	3,243	-
AUD:NTD	4,495	23.1850	104,217	1%	1,042	-
<u>Non-monetary items</u>						
USD:NTD	612,940	29.7600	18,241,096			
EUR:NTD	116,142	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			
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	58,242	29.7600	1,733,282	1%	17,333	-
EUR:NTD	620	35.5700	22,053	1%	221	-
JPY:NTD	338,065	0.2642	89,317	1%	893	-

December 31, 2016

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 currency)						
Financial assets						
Monetary items						
USD:NTD	61,514	32.2500	\$ 1,983,827	1%	\$ 19,838	\$ -
EUR:NTD	14,793	33.9000	501,483	1%	5,015	-
JPY:NTD	1,226,377	0.2756	337,990	1%	3,380	-
RMB:NTD	56,401	4.6170	260,403	1%	2,604	-
AUD:NTD	2,602	23.2850	60,588	1%	606	-
Non-monetary items						
USD:NTD	587,761	32.2500	18,955,277			
EUR:NTD	114,067	33.9000	3,866,855			
SGD:NTD	131,571	22.2900	2,932,708			
VND:NTD	124,202,143	0.0014	173,883			
MYR:NTD	16,332	7.2128	117,796			
Financial liabilities						
Monetary items						
USD:NTD	55,508	32.2500	1,790,133	1%	17,901	-
EUR:NTD	3,978	33.9000	134,854	1%	1,349	-
JPY:NTD	243,643	0.2756	67,148	1%	671	-

- 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, 2017 and 2016 amounted to (\$12,946) and (\$84,610), respectively.

Price risk

The Company is exposed to equity securities price risk because of investments held by the Company are classified on the balance sheet as 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.

Interest rate risk

- i . The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. During the years ended December 31, 2017 and 2016, the Company's borrowings at variable rates were denominated in the NTD.
- ii.The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.
- iii.At December 31, 2017 and 2016, 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, 2017 and 2016 would have been \$6,986 and \$12,799 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. 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 utilization 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. For banks and financial institutions, only independently rated parties with a better credit rating are accepted.

ii.No credit limits were exceeded for the years ended December 31, 2017 and 2016, and management does not expect any significant losses from non-performance by these counterparties.

iii.The credit quality information of financial assets that are neither past due nor impaired is provided in Note 6(5).

(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.The table below analyses the Company'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, 2017

	Up to 1 year	Between 1 and 2 years	Over 2 years	Carrying amount
Short-term borrowings	\$ 275,784	\$ -	-	\$ 275,784
Notes payable	188,734	-	-	188,734
Accounts payable	4,597,027	-	-	4,597,027
Other payables	3,266,045	-	-	3,266,045
Bonds payable	-	-	4,000,000	4,000,000
Long-term borrowings	3,090,794	-	-	3,090,794

December 31, 2016

	Up to 1 year	Between 1 and 2 years	Over 2 years	Carrying amount
Short-term borrowings	\$ 477,670	\$ -	-	\$ 477,670
Notes payable	178,863	-	-	178,863
Accounts payable	4,664,764	-	-	4,664,764
Other payables	2,972,622	-	-	2,972,622
Bonds payable	-	-	3,000,000	3,000,000
Long-term borrowings	5,690,598	-	-	5,690,598

- iii. As of December 31, 2017, all the derivative financial liabilities were settled.
- iv. The Company does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(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(10).

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, 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 at December 31, 2017 and 2016 is as follows:

<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	\$ 5,731,495	\$ -	\$ 877,620	\$ 6,609,115
Liabilities:				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	-	2,529	-	-
	<u>\$ 5,731,495</u>	<u>\$ 2,529</u>	<u>\$ 877,620</u>	<u>\$ 6,609,115</u>

<u>December 31, 2016</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	\$4,808,814	\$ -	\$ 914,778	\$5,723,592
Financial assets at fair value				
through profit or loss				
Forward exchange contracts	-	30,832	-	30,832
	<u>\$4,808,814</u>	<u>\$ 30,832</u>	<u>\$ 914,778</u>	<u>\$5,754,424</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>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 parent company only 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 parent company only 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, 2017 and 2016, there was no transfer between Level 1 and Level 2.
- F. The following table presents the changes in level 3 instruments as at December 31, 2017 and 2016.

	Non-derivative equity	
	For the year ended December 31, 2017	For the year ended December 31, 2016
Beginning balance	\$ 914,778	\$ 857,607
Gain and loss recognized in other comprehensive income (Note)	(12,811)	(9,386)
Acquired during the year	-	66,557
Disposed during the year	(24,347)	-
Ending balance	\$ 877,620	\$ 914,778

Note: Recorded as unrealized valuation gain or loss on available-for-sale financial assets.

- G. For the years ended December 31, 2017 and 2016, there was no transfer into or out from Level 3.
- H. Finance and Accounting Department segment 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 resource 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.
- I. 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, 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 marketability, the lower the fair value

	Fair value at December 31, 2016	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity:					
Unlisted shares	\$ 914,778	Market comparable companies	Price to earnings ratio multiple	0.94~2.3	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 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 difference 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, 2017						
	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%	\$ -	\$ -	\$ 43,881	(\$ 43,881)
December 31, 2016						
	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%	\$ -	\$ -	\$ 45,739	(\$ 45,739)

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(2) and 6(13).
- 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 & MACHINERY CO., LTD.

Loans to others

Year ended December 31, 2017

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		Balance at December 31, 2017 (Note 12)	Actual amount drawn down	Interest rate (%)	Nature of loans	Amount of transactions with the borrower	Reason for short-term financing	Collateral			Footnote	
					December 31, 2017	\$							\$	Allowance for doubtful accounts	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	\$ 93,557	\$ 86,304	\$ 86,304	\$ 86,304	2.3	Short-term financing	\$ -	For operating capital	-	\$ -	\$ 1,554,893	\$ 5,182,977	Note 2
0	TECO ELECTRIC & MACHINERY CO., LTD.	QingDao Teco	"	"	150,127	136,357	136,357	136,357	3.5	Short-term financing	-	For operating capital	-	-	1,554,893	5,182,977	Note 2
1	U.V.G.	Teco Netherlands	"	"	251,230	248,990	248,990	248,990	1.54	Short-term financing	-	For operating capital	-	-	443,449	739,081	Note 3
2	Tai-An Wuxi	Fujian Teco	"	"	11,543	11,413	11,413	11,413	3.91	Short-term financing	-	For operating capital	-	-	68,161	136,321	Note 4
3	Teco Westinghouse	TWMM	"	"	66,726	66,726	42,557	42,557	2-4.36	Short-term financing	-	For operating capital	-	-	701,798	1,403,596	Note 5
3	Teco Westinghouse	TECO ELECTRIC & MACHINERY CO., LTD.	"	"	304,200	297,600	297,600	297,600	1.1	Short-term financing	-	For operating capital	-	-	701,798	1,403,596	Note 5
4	Tong-An Assets	TECO ELECTRIC & MACHINERY CO., LTD.	"	"	280,000	280,000	280,000	280,000	1.05	Short-term financing	-	For operating capital	-	-	529,645	529,645	Note 6
5	Motovario S.p.A.	GEAR SOLUTIONS ES	"	"	160,967	159,531	159,531	159,531	2.75-3	Short-term financing	-	For operating capital	-	-	206,954	413,909	Note 7
6	Baycom	Tecom	"	"	55,000	40,000	40,000	40,000	2.13	Short-term financing	-	Repayments of debt	-	-	47,487	94,974	Note 8
7	Tecom Co., Ltd.	Tecom	"	"	25,000	-	-	-	2.15	Short-term financing	-	Repayments of debt	-	-	24,325	48,650	Note 9

Number (Note 1)	Creditor	Borrower	General ledger account	Related party	Maximum outstanding balance during		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	
					the year ended December 31, 2017	December 31, 2017 (Note 12)							Item	Value		
					December 31, 2017	December 31, 2017 (Note 12)										
8	Kuen Ling	Kuen Ling (Vietnam)	Other receivables	Yes	\$ 38,640	\$ 35,652	\$ 5,942	2.94	Short-term financing	\$ -	For operating capital	\$ -	-	\$ -	526,183	Note 10
8	Kuen Ling	K.A. Corp.	"	"	32,230	29,710	-	-	Short-term financing	-	For operating capital	-	-	131,536	526,183	Note 10
9	Kuen Ling (Suzhou)	Kuen Ling (Shanghai)	"	"	39,571	-	-	-	Short-term financing	-	For operating capital	-	-	52,451	104,901	Note 11

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, 2017), 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, 2017).

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, 2017), 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, 2017).

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, 2017), 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, 2017).

Note 5: In accordance with Tecu Westinghouse's policy, limit on total loans shall not exceed 20% of Tecu Westinghouse's net assets based on the latest financial statements (December 31, 2017), and limit on loans to a single party shall not exceed 10% of Tecu Westinghouse's net assets based on the latest financial statements (December 31, 2017).

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, 2017), 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, 2017).

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, 2017), 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, 2017).

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, 2017); 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, 2017).

Note 9: The ceiling on total loans to others of Tecom International Investment Co., Ltd. is 20% of the Group's net assets; the limit on loans granted to a single party is 10% of the Company's net assets. And for companies that have transactions with Tecom International Investment Co., Ltd. and other companies that were approved by the Board of Directors, the ceiling on loans granted to these companies is 5% of the net assets of financial statement on December 31, 2017, and is limited to 40% of the borrower's net assets.

Note 10: The ceiling on total loans to others of Kuen Ling Machinery Refrigerating Co., Ltd. is 40% of the Group's net assets; for companies have business relationship with the Group, the limit to a single party is the amount of business transactions between the creditor and borrower in the current year. And the limit on loans to a single party for short-term financing is limited to 10% of the borrower's net assets of financial statement on December 31, 2017.

Note 11: The ceiling on total loans to Kuen Ling Machinery Refrigerating Co., Ltd. is 40% of the net assets of financial statement on December 31, 2017. The limit on loans to a related parties for short-term financing is limited to 20% of the borrower's net assets.

Note 12: The credit line approved by the Board of Directors.

Table 2

TECO ELECTRIC & MACHINERY CO., LTD.

Provision of endorsements and guarantees to others
Year ended December 31, 2017Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed		Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of December 31, 2017	Outstanding endorsement/ guarantee amount at December 31, 2017	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			Footnote
		Company name	Relationship with the endorser/ guarantor (Note 2)							endorsements/ guarantees by parent company to subsidiary	endorsements/ guarantees by subsidiary to parent company	endorsements/ guarantees to the party in Mainland China	
0	TECO ELECTRIC & MACHINERY CO., LTD.	GD TECO	1	\$ 10,365,953	\$ 100,000	\$ 100,000	\$ -	0.19	\$ 31,097,859	Y	N	N	Note 3
0	TECO ELECTRIC & MACHINERY CO., LTD.	Teco International	1	10,365,953	100,000	100,000	-	0.19	31,097,859	Y	N	N	"
0	TECO ELECTRIC & MACHINERY CO., LTD.	Motorvario	1	10,365,953	2,942,980	2,712,568	-	5.24	31,097,859	Y	N	N	"
0	TECO ELECTRIC & MACHINERY CO., LTD.	Others	1,2,3,4	10,365,953	4,125,048	4,114,362	-	7.94	31,097,859	Y	N	N	"
1	Teco Westinghouse	TWMM	1	701,798	52,166	12,934	-	0.19	1,403,596	Y	N	N	Note 4
2	Teco Australia	Ejoy Australia	1	198,009	-	-	-	0.00	594,026	Y	N	N	Note 5
2	Teco Australia	MOS Burger Australia Pty Ltd.	1	198,009	1,384	-	-	0.00	594,026	Y	N	N	"
3	Tong-an Investment	TG Teco Vacuum Insulated Glass Corp.	4	119,226	119,226	-	-	0.00	200,000	N	N	N	Note 6
4	Motorvario S.p.A.	TECNOFIB SRL	3	827,817	1,363	577	-	0.01	2,510,658	N	N	N	Note 7
5	Kuen Ling	Kuen Ling	2	394,637	45,825	45,777	-	3.50	526,183	Y	N	Y	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: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following five categories:

- (1) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.
- (2) The endorser/guarantor parent company directly or indirectly through its subsidiaries owns more than 50% voting shares of the endorsed/guaranteed company.
- (3) Having business relationship.
- (4) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.
- (5) An investee accounted for under the equity method.

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, 2017), and the guarantee to a single party shall not exceed 20% of the Company's net assets.

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, 2017), and the guarantee to a single party shall not exceed 10% of Teco Westinghouse's net assets.

Note 5: In accordance with the Teco Australia's policy, the total guarantee amount shall not exceed 60% of Teco Australia's net assets based on the latest financial statements (December 31, 2017), and the guarantee to a single party shall not exceed 20% of Teco Australia's net assets.

Note 6: In accordance with Tong-An Investment's policy, the total guarantee amount shall not exceed \$200 million, and the guarantee to a single party shall not exceed \$50 million.

Note 7: 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, 2017), and the guarantee to a single party shall not exceed 20% of Motovario S.p.A.'s net assets.

Note 8: The limit of provision of endorsements and guarantees to Kuen Ling Machinery Refrigerating Co., Ltd. and total amount to others are 40% of the net assets of the Group. The limit on endorsements and guarantees for any single entity is 30% of the Company's net assets.

TECO ELECTRIC & MACHINERY CO., LTD.

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

Year ended December 31, 2017

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

As of December 31, 2017

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
TECO ELECTRIC & MACHINERY CO., LTD.	Stock 1	None	Note 1	10,084	\$ 143,197	0.08	\$ 143,197	
	Stock 2	"	"	9,610	119,166	0.10	119,166	
	Stock 3	The Company is a supervisor of the investee	"	11,527	308,359	1.96	308,359	
	Stock 4	The Company is a director of the investee	"	190,061	4,466,424	3.38	4,466,424	
	Stock 5	None	"	47,839	426,244	1.98	426,244	
	Stock 6	"	"	2,710	27,046	0.06	27,046	
	Stock 7	The Company is a director of the investee	"	32,980	308,552	10.99	308,552	
	Stock 8	None	"	7,500	314,775	5.00	314,775	
	Fund 1	"	"	-	98,111	-	98,111	
	Stock 9 etc.	The Company is a director of the investee	"	5,098	114,097	15.66	114,097	
	Stock 10 etc.	None	"	-	283,144	-	283,144	
	Stock 11	The Company is a director of the investee	"	6,377	105,859	5.67	105,859	
	Stock 12 etc.	"	"	10,237	252,440	-	252,440	
	Stock 13 etc.	"	Note 3	2,367	166,906	-	166,906	
	Stock 10 etc.	"	Note 2	371	15,743	-	15,743	
	Stock 14	An investee company accounted by the Company using equity method	Note 1	19,540	556,891	0.98	556,891	
	Stock 11	Related party in substance	"	9,197	152,662	8.17	152,662	
	Stock 15 etc.	"	"	33,263	359,069	-	359,069	
	Stock 16	None	"	9,332	685,899	0.29	685,899	
	Stock 17	"	"	1,645	176,838	0.05	176,838	
	Stock 18	The Company is a director of the investee	"	15,470	3,364,725	10.89	3,364,725	
	Stock 19	None	"	554	96,381	2.24	96,381	
	Stock 10 etc.	"	Note 2	1,504	70,412	-	70,412	
	Stock 20, etc.	"	Note 3	9,627	620,279	-	620,279	
	Fund 2, etc.	"	"	922	14,494	-	14,494	
	Fund 3	"	Note 1	1,201	41,833	-	41,833	
	Stock 21, etc.	"	"	118	8,072	-	8,072	
	Stock 14	An investee company accounted by the Company using equity method	"	2,826	80,534	0.14	80,534	
	Stock 11	Related party in substance	"	1,270	21,084	1.13	21,084	
	Stock 15	"	"	2,756	246,358	8.51	246,358	
	Stock 22	None	"	195	8,771	-	8,771	
	Stock 23, etc.	"	Note 3	481	36,667	-	36,667	
	Fund 4, etc.	"	Note 2	4,136	53,842	-	53,842	
	Stock 11	Related party in substance	Note 1	200	3,323	0.18	3,323	
	Stock 24, etc.	None	"	4,074	31,524	-	31,524	
	Stock 18	"	"	304	66,033	0.21	66,033	
	Stock 18, etc.	"	"	1,284	99,832	-	99,832	
	Stock 18	"	"	460	100,137	0.32	100,137	

As of December 31, 2017

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Teco Nanotech	Stock 11	Related party in substance	Note 1	81	\$ 1,337	0.07	\$ 1,337	
	Fund 5	None	Note 2	62	10,989	-	10,989	
Sankyo	Stock 25	"	Note 3	68	8,821	-	8,821	
Kuen Ling	Stock 26	"	Note 1	1,000	-	9.00	-	
	Stock 27	"	"	158	4,039	15.00	4,039	
	Stock 28	"	"	-	5,720	18.00	5,720	
Tecom	Stock 2	"	"	2,175	26,973	0.02	26,973	
	Stock 4	The Company is a corporate director of the investee	"	16,222	381,219	0.29	381,219	
Tecom International	Stock 29	None	Note 3	3,354	32,633	1.69	32,633	
	Stock 30, etc.	"	Note 1	370	767	-	767	
	Fund 8	"	Note 2	-	103,017	-	103,017	
Top-Tower	Stock 14	An investee company accounted by the Company using equity method	Note 3	72	2,201	-	2,201	
	Stock 31, etc.	None	"	3	62	-	62	

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.

TECO ELECTRIC & MACHINERY CO., LTD.

Disposal of real estate reaching \$300 million or 20% of paid-in capital or more

Year ended December 31, 2017

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

Real estate disposed by	Real estate	Transaction date or date of the event	Date of acquisition	Book value	Disposal amount	Status of collection of proceeds	Gain (loss) on disposal	Counterparty	Relationship with the seller	Reason for disposal	Basis or reference used in setting the price	Other commitments
Century Development Corporation	Land and buildings in the phase II of the Nankang Software Park	2017/9/8	2015/2/9	\$ 345,530	\$ 426,500	Fully	\$ 80,970	Bank Taiwan Life Insurance Co., Ltd	None	Financing for developpe venture from domestic and foreign country	Based on the appraisal report of Cushman& Wakefield 、 Savills Plc 、 Sinyi Real Estate Appraiser Office	None

Note 1: The appraisal result should be presented in the 'Basis or reference used in setting the price' column if the real estate disposed of should be appraised pursuant to the regulations.

Note 2: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 3: Date of the event referred to herein is the date of contract signing, date of payment, date of execution of a trading order, date of title transfer, date of board resolution, or other date that can confirm the counterparty and the monetary amount of the transaction, whichever is earlier.

TECO ELECTRIC & MACHINERY CO., LTD.

Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more

Year ended December 31, 2017

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Transaction			Differences in transaction terms compared to third party transactions			Notes/accounts receivable (payable)	Percentage of total notes/accounts receivable (payable)	Footnote
				Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance			
TECO ELECTRIC & MACHINERY CO., LTD.	Tesen	An investee accounted for under the equity method	Purchases	2,245,090	13%	30 days	Note	Note		1,428	-	
	Kuen Ling	"	"	265,237	2%	"	"	"	(	172,058	(4%)	
	Taian Subic	"	"	166,147	1%	"	"	"	(	71,488	(1%)	
	Tai-An Wuxi	An indirect investee accounted for under the equity method	"	465,883	3%	"	"	"	(	42,305	(1%)	
	Wuxi Teco	"	"	1,508,353	9%	"	"	"	(	762,090	(16%)	
	Qing Dao Teco	"	"	478,607	3%	"	"	"	(	55,849	(1%)	
	Teco Malaysia	"	"	368,977	2%	"	"	"	(	48,059	(1%)	
	Jiangxi Teco	"	"	102,473	1%	"	"	"	(	47,021	(1%)	
	Taisan Electric	An investee accounted for under the equity method	Sales	(214,148)	(1%)	90 days	"	"	"	20,521	1%	
	Teco Singapore	"	"	(809,877)	(4%)	"	"	"	"	101,654	3%	
	Tong Dai	"	"	(900,998)	(4%)	"	"	"	"	212,854	6%	
	Tong Tai Jung	"	"	(729,815)	(3%)	"	"	"	"	182,183	5%	
	E-Joy Electronics	"	"	(174,818)	(1%)	"	"	"	"	35,042	1%	
	Tecom	"	"	(151,230)	(1%)	"	"	"	"	14,023	-	
	Top-Tower	An indirect investee accounted for under the equity method	"	(325,304)	(2%)	"	"	"	"	85,047	2%	
	Teco Westinghouse	"	"	(3,515,735)	(17%)	"	"	"	"	463,325	12%	
	Teco Westinghouse Canada	"	"	(751,189)	(4%)	"	"	"	"	142,311	4%	
	Teco Australia	"	"	(1,206,015)	(6%)	"	"	"	"	313,726	8%	
	Teco Netherlands	"	"	(245,641)	(1%)	"	"	"	"	124,301	3%	
	Sankyo	"	"	(110,339)	(1%)	"	"	"	"	12,700	-	
	TWMM	"	"	(126,255)	(1%)	"	"	"	"	52,017	1%	

Note: Comparable with other types of transactions, trading conditions are handled in accordance with the agreement of the conditions.

Table 6

TECO ELECTRIC & MACHINERY CO., LTD.

Receivables from related parties reaching \$100 million or 20% of paid-in capital or more
Year ended December 31, 2017

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2017	Overdue receivables			Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
				Turnover rate	Amount	Action taken		
			\$		\$		\$	
TECO ELECTRIC & MACHINERY CO., LTD.	Tong Dai	An investee accounted for under the equity method	212,854	4.23	-	-	208,622	
"	Tong Tai Jung	"	182,399	4.40	-	-	182,399	
"	Teco Singapore	"	103,653	7.41	-	-	77,017	
"	Teco Westinghouse	An indirect investee accounted for under the equity method	464,659	7.33	-	-	464,659	
"	QingDao Teco	"	253,663	0.02	-	-	252,290	
"	Wuxi Teco	"	128,235	0.07	-	-	122,216	
"	Teco Australia	"	313,898	4.56	-	-	172,845	
"	Sankyo	"	243,080	0.51	181,364	In the process of collection	19,834	
"	Teco Netherlands	"	445,829	0.52	321,282	"	660	
"	Teco Westinghouse Canada	"	142,447	6.74	-	-	142,447	
Kuen Ling	TECO ELECTRIC & MACHINERY CO., LTD.	An investee accounted for under the equity method	172,058	2.68	-	-	172,058	
Teco Westinghouse	"	"	297,600	-	-	-	-	
Wuxi Teco	"	An indirect investee accounted for under the equity method	762,090	2.08	-	-	235,424	
Tong-An Assets U.V.G.	Teco Netherlands	"	280,000	-	-	-	-	
Motovario S.p.A.	GEAR SOLUTIONS ES	"	248,990	-	-	-	-	
			159,531	-	-	-	-	
								Total amount was \$18,670

Table 7

TECO ELECTRIC & MACHINERY CO., LTD.

Significant inter-company transactions during the reporting period

Year ended December 31, 2017

Expressed in thousands of NTD
(Except as otherwise indicated)

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.	Teco westinghouse	(1)	Accounts receivable and other receivables	\$ 464,659	Because there is no transaction in same type which can be compared with, it is based on the condition and the period of both side's agreement.	1%
0	"	Tong Dai	"	Accounts receivable	212,854	"	-
0	"	Tong Tai Jung	"	Notes receivable, accounts receivable and other receivables	182,399	"	-
0	"	QingDao Teco	"	"	253,663	"	-
0	"	Teco Australia	"	"	313,898	"	-
0	"	Teco Netherlands	"	"	445,829	"	-
0	"	Sankyo	"	"	243,080	"	-
0	"	Teco Singapore	"	"	103,653	"	-
0	"	Teco Westinghouse Canada	"	"	142,447	"	-
1	Kuen Ling	TECO ELECTRIC & MACHINERY CO., LTD.	(2)	Accounts receivable	172,058	"	-
2	Wuxi Teco	"	"	Notes receivable and accounts receivable	762,090	"	1%
3	Teco westinghouse	"	"	Accounts receivable and other receivables	297,600	"	-
4	Tong-An Assets	"	"	"	280,000	"	-
5	U.V.G	Teco Netherlands	(3)	"	248,990	"	-
6	Motovario S.p.A.	GEAR SOLUTIONS ES	"	"	159,531	"	-
0	TECO ELECTRIC & MACHINERY CO., LTD.	Teco westinghouse	(1)	Sales	3,515,735	"	7%
0	"	Teco Westinghouse Canada	"	"	751,189	"	1%
0	"	Teco Singapore	"	"	809,877	"	2%
0	"	Tong Dai	"	"	900,998	"	2%
0	"	Top-Tower	"	"	325,304	"	1%
0	"	Tong Tai Jung	"	"	729,815	"	1%

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.	Teco Australia	(1)	Sales	\$ 1,206,015	Because there is no transaction in same type which can be compared with, it is based on the condition and the period of both side's agreement.	2%
0	"	Teco Netherlands	"	"	245,641	"	-
0	"	E-Joy Electronics	"	"	174,818	"	-
0	"	Tecom	"	"	151,230	"	-
0	"	Sankyo	"	"	126,255	"	-
7	Tesen	TECO ELECTRIC & MACHINERY CO., LTD.	(2)	"	2,245,090	"	4%
1	Kuen Ling	"	"	"	265,237	"	1%
8	Tai-An Wuxi	"	"	"	465,883	"	1%
2	Wuxi Teco	"	"	"	1,508,353	"	3%
9	QingDao Teco	"	"	"	478,607	"	1%
10	Teco Malaysia	"	"	"	368,977	"	1%
11	Taian Subic	"	"	"	166,147	"	-
12	Jiangxi Teco	"	"	"	102,473	"	-

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 & MACHINERY CO., LTD.

Information on investees
Year ended December 31, 2017

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount				Shares held as at December 31, 2017				Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016	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	2,045,704		620,789		193,260	None	
	Tecom	Taiwan	Manufacturing of key telephone system and nonkey service unit telephone system	631,410	631,410	400,602,050	63.52	168,463	(	61,286	(	38,500	None
	Teco International	Taiwan	Investment holdings, investments in securities and construction of commercial buildings	100,013	100,013	55,003,366	100	1,156,169		77,142		77,267	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	9,166,670		394,449		394,871	None	
	Teco Singapore and its subsidiaries	Singapore	Distribution of the Company's motor products in Singapore	112,985	112,985	7,200,000	90	3,159,088		292,992		251,563	None	
	Tong-An Investment	Taiwan	Investment holdings	2,490,000	2,490,000	434,148,995	100	8,587,611		346,796		405,409	None	
	Teco Electro	Taiwan	Manufacturing of Stepping motors	128,496	128,496	15,386,949	62.57	240,788		27,112		17,055	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	7,389,874	(	233,937	(	233,098	None
	Information Technology Total	Taiwan	E-business service, mailing and data management	121,232	121,232	12,123,248	60.62	162,835		48,631		29,480	None	
	Tesen	Taiwan	Manufacturing and sales of home appliance	200,000	200,000	20,000,000	100	204,602		6,268		2,932	None	

Investor	Investee	Location	Main business activities	Initial investment amount				Shares held as at December 31, 2017				Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016			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	526,975	38,262	13,165	None			
	Tong Dai	Taiwan	Distribution of the Company's motor products in Taichung	22,444	22,444	5,290,800	92.63	268,668	80,886	74,921	None			
	Teco Vietnam	Vietnam	Manufacturing and sales of motors	264,111	264,111	13,772,799	100	164,897	3,477	3,444	None			
	Yatec	Taiwan	Development and maintenance of various electric appliances	92,389	92,389	7,799,996	64.95	136,518	9,183	5,958	None			
	Tong-An Assets	Taiwan	Real estate business	2,111,889	2,111,889	388,423,711	100	5,296,447	107,803	107,803	None			
	Taian Subic	Philippines	Manufacturing and sales of switches	165,819	165,819	17,131,155	76.70	156,895	6,909	5,522	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	1,521,289	13,734	14,818	None			
	Century Development	Taiwan	Development and management of industrial park	951,141	951,141	91,243,692	28.67	1,344,150	309,300	81,640	None			
	An-Tai International Pelican	Taiwan	Investment holdings	150,000	150,000	23,941,302	100	550,242	37,619	37,619	None			
	Kuen Ling	Taiwan	Logistics and distribution services	255,116	255,116	24,121,700	25.27	420,151	118,411	29,919	None			
		Taiwan	Manufacturing, installation, repair, domestic and export sales and leasing of condenser, water cooling, watercooled chiller and freezer	296,003	296,003	15,218,642	19.98	336,447	190,456	38,062	None			
	Senergy Wind Power	Taiwan	Manufacturing machinery for electricity generation, transmission and distribution	249,990	249,990	24,999,000	50	169,815	143,675	7,427	None			
	Taian-Etacom Technology Co., Ltd.	Taiwan	Bus bar and manufacturing of its components	70,330	70,330	7,033,000	84.73	138,169	24,919	21,115	None			

Investor	Investee	Location	Main business activities	Initial investment amount						Shares held as at December 31, 2017				Footnote
				Balance as at December 31, 2017		Balance as at December 31, 2016		Number of shares	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised by the Company for the year ended December 31, 2017		
				\$		\$								
TECO ELECTRIC & MACHINERY CO., LTD.	Eagle Holding Co.	Cayman Islands	Investment holdings	\$ 3,691,723		\$ 3,691,723		1	100	\$ 4,131,154	\$ 116,775	\$ 116,775	None	
Eagle Holding Co.	TECO MOTOR B.V.	Netherlands	Investment holdings	3,691,723		3,691,723		1	100	4,131,154	116,775	116,775	None	
TECO MOTOR B.V.	Motovano S.p.A	Italy	Production and sale of gear reducers and motors	3,989,850		3,989,850		18,010,000	100	4,131,154	116,775	116,775	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	1,443,507	98,491	98,491	None	
Tecom	Tecom International Baycom	Taiwan	Investment holdings	100,000		100,000		12,000,000	100	243,250	510	510	None	
		Taiwan	Manufacturing and sales of optical telecom products	359,656		359,656		9,619,819	28.64	124,884	9,919	2,841	None	
Tong-An Investments	Creative Sensor Inc.	Taiwan	Manufacturing and sales of electronic components	87,464		87,464		7,913,310	6.23	212,032	210,020	13,081	None	
	Century Development	Taiwan	Development and management of industrial park	420,646		420,646		41,937,916	13.17	650,703	309,300	40,759	None	
	Pelican	Taiwan	Logistics and distribution services	54,874		54,874		6,474,468	6.78	112,772	118,411	8,031	None	
Lien Chang	Gen Mao International Corp.	Taiwan	Investment holdings	92,000		92,000		11,720,000	100	128,310	5,943	5,943	None	
	Gen Mao (Singapore)	Singapore	Investment holdings	582,246		582,246		27,502,354	84.97	679,827	56,274	32,209	None	
Gen Mao International Corp.	Gen Mao (Singapore)	Singapore	Investment holdings	91,079		91,079		4,866,045	15.03	121,501	56,274	5,697	None	
Century Development	Centurytech Construction and Management Corp.	Taiwan	Construction and sales of related raw materials	98,170		98,170		10,000,000	100	141,317 (	6,473) (	5,233)	None
	Jack Property Service & Management Company	Taiwan	Building management servicing	13,750		13,750		1,512,500	50	69,573	40,203	20,163	None	
	United Development	Taiwan	Investment consultancy service for domestic and foreign industrial parks and land	25,536		25,536		3,850,997	51.60	61,093	11,516	5,942	None	
	Greyback International Property Inc.	Philippines	Housing project in Subic	9,912		9,912		144,600	30.11	10,491	1,335	402	None	

Investor	Investee	Location	Main business activities	Initial investment amount			Shares held as at December 31, 2017			Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016		Number of shares	Ownership (%)	Book value			
				\$	\$	\$	1,000,000	100	\$	1,034	\$	None
Century Development	Century Real Estate (International) Pte. Ltd.	Singapore	Investing in other areas	30,070	-				28,756		1,034	None
Teco Electro	Teco Electro Devices Co., Ltd.	British Virgin Islands	Trading and investment holdings	88,108	88,108		2,510,000	100	105,106	11,220	11,344	None
Teco Singapore	Century Development	Taiwan	Development and management of industrial park	179,222	179,222		19,290,419	6.06	255,883	309,300	18,744	None
Teco International	Creative Sensor Inc.	Taiwan	Manufacturing and sales of electronic components	52,560	52,560		4,326,447	3.41	115,924	210,020	7,152	None
Kuen Ling	CHING CHI INTERNATIONAL LIMITED	British Virgin Islands	Investing in other areas	201,467	201,467		6,200,000	83	475,635	25,117	20,847	None
Tong-An Assets	Century	Taiwan	Leasing of real estate	184,893	184,893		15,432,335	4.85	204,727	309,300	14,996	None

TECO ELECTRIC & MACHINERY CO., LTD.
Information on investments in Mainland China
Year ended December 31, 2017

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 9

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Amount remitted from Taiwan to Mainland China/				Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Remitted to Mainland China	Remitted back to Taiwan	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017					
Teco (Dong Guan)	Manufacturing and sales of air conditioners mechanical equipment	\$ 268,799	Note 2	\$ 188,139	\$ -	\$ -	\$ 188,139	100	(\$ 3,200)	\$ 152,147	\$ -	Note 17
Wuxi Teco	Manufacturing and sales of motors	1,697,276	Note 1	768,259	-	-	768,259	82.35	(43,942)	1,603,374	-	Note 16
Taian (Wuxi)	Manufacturing and sales of optical fiber	495,213	Note 12	205,551	-	-	205,551	100	31,705	1,363,210	-	Note 17
Nanchang Teco	Manufacturing and sales of home appliances	456,293	Note 3	456,293	-	-	456,293	100	759	(8,369)	-	Note 17
Jiangxi Teco	Manufacturing and sales of motors	1,481,569	Note 1	1,383,653	-	-	1,383,653	98.07	(66,220)	1,482,763	-	Note 16
QingDao Teco	Manufacturing and sales of dyes	947,331	Note 1	1,648,510	-	-	1,648,510	87.60	(31,129)	350,512	-	Note 16,21
Xiamen Teco	Sales of motors and home appliances	20,590	Note 3	20,590	-	-	20,590	100	23	27,318	-	Note 17
Xiamen An-Tai	Development, manufacturing and sales of LCD monitors. Plant rentals and related real estate management	678,681	Note 3	467,577	-	-	467,577	100	(15,230)	276,699	-	Note 16

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Amount remitted from Taiwan to Mainland China/				Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
				Amount remitted back to Taiwan for the year ended December 31, 2017		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017						
				Remitted to Mainland China	Remitted back to Taiwan	2017	2017					
Teco Han Zou	Development and consulting of device products	\$ 9,837	Note 1	\$ -	\$ -	\$ 9,837	\$ 676	100	\$ -	\$ 27,792	\$ -	Note 17
Nanchang Dong- Huan	Business management consulting	3,222	Note 1	-	-	3,222	-	100	-	1,159	-	Note 20
Teco Century	Manufacturing and sales of compressor	680,938	Note 3	-	-	340,469	(32,348)	24	(7,764)	31,598	-	Note 17
Fujian Teco	Manufacturing and sales of electronic components	391,843	Note 1	-	-	391,843	(23,209)	100	(22,917)	86,009	-	Note 17
Ecoelectric International	Distribution of air conditioner	24,004	Note 2	-	-	-	(7,927)	39.90	(3,163)	10,444	-	Note 17
Teco (Tianjin) Innovation	Central China area Operation center	15,990	Note 3	-	-	15,990	291	100	291	15,019	-	Note 17
Teco (Jiang Xi)	Manufacturing and sales of air conditioning mechanical equipment	79,813	Note 3	-	-	79,813	5,563	100	5,563	122,174	-	Note 17
Teco Sichuan Trading	Sales of home appliances	26,522	Note 12	-	-	-	1,832	100	1,832	6,791	-	Note 17
Jiangxi Teco- Lead	Manufacturing and sales of wind generator	141,079	Note 1	-	-	62,865	(55)	45	(25)	3,567	-	Note 17
Qingdao Teco Innovation	Science Park development and business operations and consulting services	59,444	Note 14	-	-	59,444	(545)	100	(545)	33,518	-	Note 17
Shanghai Teco	Sales of home appliances	23,829	Note 1	-	-	23,829	(13,956)	100	6,950	(44,222)	-	Note 16
Hunan TECO	Manufacturing, sales and technical services of 2.0 megawatt and above aerogenerator, wheel bay and other components	240,818	Note 12	-	-	240,818	(17,975)	100	(17,913)	163,871	-	Note 17
Jiangxi TECO Westinghouse Motor Coil Co., Ltd.	Manufacturing and sales of motors, winding and related parts	119,840	Note 13	-	-	-	3,461	100	3,461	122,001	-	Note 17
Wuxi TECO Precision Industry Co. Ltd.	Production and sale of industrial motors and applications	656,500	Note 15	-	-	-	(55,785)	100	(55,785)	825,847	-	Note 16

Amount remitted from Taiwan to Mainland China/													
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, 2017	Amount remitted back to Taiwan for the year ended December 31, 2017		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	Net income of the year ended December 31, 2017	Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Beijing Pelican Express	Storage services	\$ 26,422	Note 4	\$ 26,422	\$ -	\$ -	\$ 26,422	\$ 8,214	100	(\$ -)	\$ 5,122	\$ -	Note 16
Fubon Gehua (Beijing) Trading Co., Ltd.	Merchandise wholesale	1,152,070	Note 5	24,746	-	-	24,746	-	2.16	-	-	-	Note 18, 19
Kuen Ling (Shanghai)	Manufacturing and sales of air conditioning mechanical equipment	181,713	Note 6	116,068	-	-	116,068	30,674	100	30,674	274,425	43,219	Note 16
Kuen Yuan (Suzhou)	General manufacturing business	255,456	Note 6	58,649	-	-	58,649	(5,304)	100	(5,304)	262,253	-	Note 16
Firm Precision Industrial (Shanghai)	Manufacturing and sales of metal carton	31,764	Note 6	11,157	-	-	11,157	(41,402)	9	-	259	-	None
Suzhou Firm Precision Industrial	Manufacturing and sales of metal carton	255,459	Note 6	21,173	-	-	21,173	7,723	9	-	10,681	-	None
Wuhan Tecom	Communication network information, technology development, sales and technology services business	6,950	Note 7	6,950	-	-	6,950	2,739	100	2,739	6,549	-	Note 16
Tecom Tech (Wuxi)	R & D, manufacture of broadband access network communication system equipment; sale of products to provide technology services	485,455	Note 8	485,455	-	-	485,455	(24)	100	(24)	3,143	-	Note 16
Tecom Tech Investment (BVI)	Flat panel displays, IT products, printed circuit board assembly, manufacture, testing and communication products and equipment R & D reproduction	34,990	Note 9	34,990	-	-	34,990	(68)	100	(68)	3,175	-	Note 16
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 9	14,566	-	-	14,566	(1,157)	100	(1,157)	8,399)	-	Note 16
Information Technology (Wuxi)	ERP building, system maintenance and purchases of information appliance	10,167	Note 10	10,167	-	-	10,167	1,414	100	1,414	18,339	-	Note 17
Information Technology Total Service (Hang Zhou)	ERP building, system maintenance and purchases of information appliance	2,257	Note 10	2,257	-	-	2,257	127	100	127	169	-	Note 17

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Amount remitted from Taiwan to Mainland China/				Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Remitted to Mainland China December 31, 2017	Amount remitted back to Taiwan for the year ended December 31, 2017	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017					
Information Technology Total Service (Xiamen)	ERP building, system maintenance and purchases of information appliance	\$ 1,000	Note 10	\$ -	\$ -	\$ -	\$ -	88	\$ 88	\$ 2,701	\$ -	Note 17
Wuxi TECO Precision Industry Co. Ltd.	R&D, manufacturing and sales of motors and provide products sales skills	115,125	Note 11	86,101	-	-	86,101	100	11,228	106,208	43,266	Note 16

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 Techo 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 Pelicanus 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 Ching Chi International Limited and Full Ocean Trading 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 (B.V.I) 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 Global Tech Investment Pte 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 Tecom Investment (B.V.I) Limited 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 Information Technology Total Service (BVI) Co., Ltd. and then invest in Mainland China.

Note 11: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Tecom Electro Devices Co., Ltd. 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 Micropac Worldwide (B.V.I) 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: Invest through Techo Holding USA Inc. and Techo Westinghouse Motor Company and then invest in Mainland China.

Note 14: Through investing in investees in the third areas, which then invested in the investee in Mainland China: Invest through Techo Capital Investment (Samoa) Co., Ltd. and then invest in Mainland China.

Note 15: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Great Techo Motor (Pte) Ltd., Techo Australia Pty. Ltd. and Techo Electric & Machinery (Pte) Ltd. and then invest in Mainland China.

Note 16: The amount recognised was based on the financial statements that were audited by R.O.C. parent company's CPA firm.

Note 17: The amount recognised was based on the financial statements that were audited by other CPA firm.

Note 18: Available-for-sale financial assets - non-current.

Note 19: As of December 31, 2017, accumulated impairment of \$24,746 was accrued.

Note 20: The company had been liquidated in 2016.

Note 21: The investee company, Suzhou Techo was merged with Qingdao Techo as resolved by the Board of Directors, and Suzhou Techo was the dissolved company. Under the merger, Qingdao Techo was the surviving company.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	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	\$ 31,097,859
Taiwan Pelican Express Co., Ltd.	51,168	51,168	997,705
Kuen Ling Machinery Refrigerating Co., Ltd.	207,047	375,448	850,849
Tecom Co., Ltd.	541,961	754,000	329,976
Information Technology Total Services Co., Ltd.	12,424	12,424	161,171
Teco Electro Devices Co., Ltd.	86,101	104,259	231,325

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

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.
Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas
Year ended December 31, 2017

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 10

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 December 31, 2017	Others
	Amount	%	Amount	%	Balance at December 31, 2017	%	Balance at December 31, 2017	Purpose	December 31, 2017	December 31, 2017	Balance at December 31, 2017	Interest rate		
	\$		\$		\$		\$		\$		\$			
Wuxi Teco	48,237	-	-	-	12,507	-	-	-	-	-	-	-	-	-
Taian (Wuxi)	94,675	-	-	-	14,594	-	-	-	-	-	-	-	-	-
Jiangxi Teco	21,336	-	-	-	5,556	-	-	-	-	-	-	-	-	-
QingDao Teco	4,738	-	-	-	2,504	-	-	-	134,471	3.50%	136,357	3.50%	4,151	-
Xiamen An-Tai	-	-	-	-	-	-	-	-	90,901	2.30%	86,304	2.30%	1,776	-
Shanghai Teco	17,303	-	-	-	15,849	-	-	-	-	-	-	-	-	-
Xiamen Teco	12	-	-	-	-	-	-	-	-	-	-	-	-	-
Teco (Jiang Xi)	251	-	-	-	54	-	-	-	-	-	-	-	-	-
Kuan Ling (Shanghai)	3,321	-	-	-	89	-	-	-	-	-	-	-	-	-
Wuxi Teco Precision	6,024	-	-	-	70	-	-	-	-	-	-	-	-	-
Wuxi Teco	(1,508,353)	(9%)	-	-	(762,090)	(16%)	-	-	-	-	-	-	-	-
Taian (Wuxi)	(465,883)	(3%)	-	-	(42,305)	(1%)	-	-	-	-	-	-	-	-
Jiangxi Teco	(102,473)	(1%)	-	-	(47,021)	(1%)	-	-	-	-	-	-	-	-
QingDao Teco	(478,607)	(3%)	-	-	(55,849)	(1%)	-	-	-	-	-	-	-	-
Xiamen An-Tai	(10,106)	-	-	-	-	-	-	-	-	-	-	-	-	-
Teco (Jiang Xi)	(37,574)	-	-	-	(3,352)	-	-	-	-	-	-	-	-	-
Hunan TECO Wind Energy Limited	(6,613)	-	-	-	-	-	-	-	-	-	-	-	-	-
Kuen Ling (Suzhou)	(25,956)	-	-	-	(2,227)	-	-	-	-	-	-	-	-	-
Kuan Ling (Shanghai)	(8,151)	-	-	-	-	-	-	-	-	-	-	-	-	-
Wuxi Teco Precision	(9,056)	-	-	-	-	-	-	-	-	-	-	-	-	-

**TECO ELECTRIC & MACHINERY CO., LTD.
AND SUBSIDIARIE AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2017 AND 2016**

For the convenience of readers and for information purpose only, the report of accountants 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. and its subsidiaries

Opinion

We have audited the accompanying consolidated balance sheets of TECO Electric & Machinery Co., Ltd. and its subsidiaries (the “Group”) as at December 31, 2017 and 2016, 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 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 financial position of the Group as of December 31, 2017 and 2016, and their financial performance and cash flows for the years then ended, in conformity 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 *Independent accountant’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 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\$31,731,748 thousand, representing 62.29% of the consolidated total sales revenue for the year ended December 31, 2017. 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, 2017, the balance of goodwill was NT\$5,262,494 thousand. Refer to Note 4(21) of the consolidated financial statements 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 five years. The discount rate and financial projections relating to the future operations of Motovario S.p.A. are subject to management judgment 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.

Other matter – Reports of other independent accountants

As described in Notes 4(3) and 6(9) 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\$2,363,784 thousand and NT\$3,517,300 thousand, constituting 3% and 4% of the consolidated total assets as of December 31, 2017 and 2016, respectively, and total operating revenues amounted to NT\$2,156,230 thousand and NT\$2,065,558 thousand, both constituting 4% of consolidated total operating revenues for the years then ended, respectively. The investments accounted for under the equity method amounted to NT\$2,490,857 thousand and NT\$2,445,113 thousand, both constituting 3% of consolidated total assets as of December 31, 2017 and 2016, respectively, the credit balance of investments accounted for under the equity method amounted to NT\$66,393 thousand and NT\$55,400 thousand, both constituting 0% of consolidated total assets as of December 31, 2017 and 2016, respectively, and the share of profit of associates and joint ventures accounted for under the equity method amounted to NT\$187,682 thousand and NT\$29,987 thousand, constituting 4% and 1% 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 on the parent company only financial statements of TECO Electric & Machinery Co., Ltd. as of and for the years ended December 31, 2017

and 2016.

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.

Independent accountant’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 judgment 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 26, 2018

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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1) and 8	\$ 14,129,330	16	\$ 13,989,826	15
1110	Financial assets at fair value through profit or loss - current	6(2)(26)	254,003	-	233,508	-
1125	Available-for-sale financial assets - current	6(3) and 8	871,041	1	1,384,099	2
1147	Bond investments without active markets - current	6(4)(25)	3,794,570	4	2,830,572	3
1150	Notes receivable, net	6(5)(6) and 8	1,188,761	1	1,218,343	1
1160	Notes receivable - related parties	7	931	-	5,399	-
1170	Accounts receivable, net	6(6) and 8	9,439,077	10	10,424,905	11
1180	Accounts receivable - related parties	7	183,701	-	234,755	-
1190	Receivables from customers on construction contracts	6(8)	1,030,504	1	1,235,956	1
1200	Other receivables		601,279	1	242,304	-
1210	Other receivables - related parties	7	34,844	-	497,796	1
130X	Inventories, net	6(7) and 8	11,336,492	12	11,177,041	12
1410	Prepayments		422,892	1	471,200	1
1470	Other current assets	6(1) and 8	975,343	1	1,350,606	2
11XX	Total current assets		44,262,768	48	45,296,310	49
Non-current assets						
1523	Available-for-sale financial assets - non-current	6(3) and 8	12,925,119	14	11,743,617	13
1550	Investments accounted for under the equity method	6(9) and 8	4,022,455	4	3,871,299	4
1600	Property, plant and equipment, net	6(10) and 8	17,922,299	20	18,463,450	20
1760	Investment property, net	6(11)	2,883,477	3	3,073,386	3
1780	Intangible assets	6(12)(32)	5,612,315	6	5,369,790	6
1840	Deferred income tax assets	6(30)	1,382,884	2	1,194,242	1
1900	Other non-current assets	6(13) and 8	3,005,640	3	3,361,862	4
15XX	Total non-current assets		47,754,189	52	47,077,646	51
1XXX	Total assets		\$ 92,016,957	100	\$ 92,373,956	100

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity			December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(14) and 8	\$ 2,187,621	3	\$ 3,078,361	4
2120	Financial liabilities at fair value through profit or loss - current	6(15)(26)	2,528	-	-	-
2150	Notes payable		195,407	-	163,161	-
2160	Notes payable - related parties	7	1,368	-	7,611	-
2170	Accounts payable		7,589,788	8	7,511,353	8
2180	Accounts payable - related parties	7	123,271	-	99,117	-
2190	Payables to customers on construction contracts	6(8)	178,165	-	202,021	-
2200	Other payables	6(16)	4,839,917	5	4,998,690	6
2230	Current income tax liabilities	6(30)	917,494	1	550,441	1
2250	Provisions for liabilities - current		308,744	-	272,234	-
2300	Other current liabilities	6(18)	2,398,053	3	2,075,856	2
21XX	Total current liabilities		<u>18,742,356</u>	<u>20</u>	<u>18,958,845</u>	<u>21</u>
Non-current liabilities						
2530	Corporate bonds payable	6(17)	4,000,000	4	3,000,000	3
2540	Long-term borrowings	6(18) and 8	6,466,239	7	9,428,570	10
2550	Provisions for liabilities - non-current		179,189	-	250,317	-
2570	Deferred income tax liabilities	6(30)	2,423,023	3	2,485,443	3
2600	Other non-current liabilities	6(9)(19)	2,332,013	3	2,526,238	3
25XX	Total non-current liabilities		<u>15,400,464</u>	<u>17</u>	<u>17,690,568</u>	<u>19</u>
2XXX	Total liabilities		<u>34,142,820</u>	<u>37</u>	<u>36,649,413</u>	<u>40</u>
Equity attributable to owners of parent						
Share capital						
3110	Common stock	6(20)	20,026,929	22	20,026,929	22
Capital surplus						
3200	Capital surplus	6(21)	7,628,542	8	7,671,889	8
Retained earnings						
3310	Legal reserve	6(22)(30)	6,078,219	6	5,730,071	6
3320	Special reserve		3,640,779	4	3,640,779	4
3350	Unappropriated retained earnings		12,750,338	14	11,816,689	13
Other equity interest						
3400	Other equity interest	6(23)	2,026,521	2	1,166,773	1
3500	Treasury stocks	6(20) and 8	(321,563)	-	(321,563)	-
31XX	Equity attributable to owners of the parent		<u>51,829,765</u>	<u>56</u>	<u>49,731,567</u>	<u>54</u>
36XX	Non-controlling interest		<u>6,044,372</u>	<u>7</u>	<u>5,992,976</u>	<u>6</u>
3XXX	Total equity		<u>57,874,137</u>	<u>63</u>	<u>55,724,543</u>	<u>60</u>
Significant contingent liabilities and unrecognized contract commitments						
Significant disaster loss						
Significant events after the balance sheet date						
3X2X	Total liabilities and equity		<u>\$ 92,016,957</u>	<u>100</u>	<u>\$ 92,373,956</u>	<u>100</u>

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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars, except earnings per share)

Items	Notes	Year ended December 31			
		2017		2016	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(24) and 7	\$ 50,942,521	100	\$ 49,923,836	100
5000 Operating costs	6(7)(19)(28)(29) and 7	(38,743,733)	(76)	(36,788,304)	(74)
5900 Net operating margin		12,198,788	24	13,135,532	26
5910 Unrealized loss from sales		(9,145)	-	(6,625)	-
5920 Realized profit from sales		6,625	-	5,488	-
5950 Net operating margin		12,196,268	24	13,134,395	26
Operating expenses	6(19)(28)(29)				
6100 Selling expenses		(4,702,844)	(9)	(4,495,731)	(9)
6200 General and administrative expenses		(2,716,018)	(5)	(3,055,579)	(6)
6300 Research and development expenses		(1,281,206)	(3)	(1,393,604)	(3)
6000 Total operating expenses		(8,700,068)	(17)	(8,944,914)	(18)
6900 Operating profit		3,496,200	7	4,189,481	8
Non-operating income and expenses					
7010 Other income	6(4)(11)(25) and 7	1,506,936	3	1,160,006	2
7020 Other gains and losses	6(2)(3)(15)(26)	(628,521)	(1)	(43,705)	-
7050 Finance costs	6(10)(27)	(254,638)	-	(282,231)	-
7060 Share of profit (loss) of associates and joint ventures accounted for under the equity method	6(9)	233,927	-	(90,260)	-
7000 Total non-operating income and expenses		857,704	2	743,810	2
7900 Profit before income tax		4,353,904	9	4,933,291	10
7950 Income tax expense	6(30)	(809,656)	(2)	(896,293)	(2)
8200 Profit for the year		\$ 3,544,248	7	\$ 4,036,998	8

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars, except earnings per share)

Items	Notes	Year ended December 31			
		2017		2016	
		AMOUNT	%	AMOUNT	%
Other comprehensive income					
Other comprehensive income that will not be reclassified to profit or loss					
8311 Other comprehensive income, before tax, actuarial losses on defined benefit plans	6(19)	(\$ 58,868)	-	(\$ 52,979)	-
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		(2,751)	-	(11,532)	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(30)	3,037	-	2,270	-
8310 Components of other comprehensive loss that will not be reclassified to profit or loss		(58,582)	-	(62,241)	-
Other comprehensive income that will be reclassified to profit or loss					
8361 Currency translation differences of foreign operations	6(23)	(803,071)	(2)	(1,218,203)	(2)
8362 Unrealized gain on valuation of available-for-sale financial assets	6(3)(23)	1,570,454	3	1,501,773	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	6(23)	4,019	-	2,421	-
8399 Income tax relating to the components of other comprehensive income that will be reclassified to profit or loss	6(30)	68,969	-	99,542	-
8360 Components of other comprehensive income that will be reclassified to profit or loss		840,371	1	385,533	1
8300 Other comprehensive income for the year		\$ 781,789	1	\$ 323,292	1
8500 Total comprehensive income for the year		\$ 4,326,037	8	\$ 4,360,290	9
Profit attributable to:					
8610 Owners of the parent		\$ 3,092,358	6	\$ 3,481,480	7
8620 Non-controlling interest		451,890	1	555,518	1
		\$ 3,544,248	7	\$ 4,036,998	8
Comprehensive income attributable to:					
8710 Owners of the parent		\$ 3,903,915	7	\$ 3,836,207	8
8720 Non-controlling interest		422,122	1	524,083	1
		\$ 4,326,037	8	\$ 4,360,290	9
Earnings per share (in dollars)	6(31)				
9750 Basic earnings per share		\$ 1.56		\$ 1.76	
9850 Diluted earnings per share		\$ 1.55		\$ 1.75	

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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Notes	Equity attributable to owners of the parent												
		Share capital - common stock	Capital surplus	Legal reserve	Retained Earnings			Other Equity Interest			Total	Non-controlling interest	Total equity	
					Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks					
2016														
Balance at January 1, 2016		\$ 20,026,929	\$ 7,638,417	\$ 5,412,342	\$ 3,640,779	\$ 10,310,158	\$ 13,030	\$ 743,950	(\$ 321,563)	\$ 47,464,042	\$ 3,968,462	\$ 51,432,504		
Appropriations of 2015 net earnings	6(22)	-	-	317,729	-	(317,729)	-	-	-	-	-	-		
Legal reserve		-	-	-	-	(1,602,154)	-	-	-	(1,602,154)	-	(1,602,154)		
Cash dividends		-	-	-	-	-	-	-	-	-	-	-		
Effect of changes in net equity of associates and joint ventures accounted for under the equity method		-	33,472	-	-	-	-	-	-	33,472	-	33,472		
Changes in non-controlling interests		-	-	-	-	-	-	-	-	-	1,500,431	1,500,431		
Other comprehensive income (loss) for the year	6(23)	-	-	-	-	(55,066)	(1,064,783)	1,474,576	-	354,727	(31,435)	323,292		
Profit for the year	6(22)	-	-	-	-	3,481,480	-	-	-	3,481,480	555,518	4,036,998		
Balance at December 31, 2016		\$ 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	\$ 5,992,976	\$ 55,724,543		
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	(\$ 321,563)	\$ 49,731,567	\$ 5,992,976	\$ 55,724,543		
Appropriations of 2016 net earnings	6(22)	-	-	348,148	-	(348,148)	-	-	-	-	-	-		
Legal reserve		-	-	-	-	(1,762,370)	-	-	-	(1,762,370)	-	(1,762,370)		
Cash dividends		-	-	-	-	-	-	-	-	-	-	-		
Effect of changes in net equity of associates and joint ventures accounted for under the equity method		-	(43,347)	-	-	-	-	-	-	(43,347)	-	(43,347)		
Changes in non-controlling interests		-	-	-	-	-	-	-	-	-	(370,726)	(370,726)		
Other comprehensive income (loss) for the year	6(23)	-	-	-	-	(48,191)	(707,604)	1,567,352	-	811,557	(29,768)	781,789		
Profit for the year	6(22)	-	-	-	-	3,092,358	-	-	-	3,092,358	451,890	3,544,248		
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	\$ 6,044,372	\$ 57,874,137		

The accompanying notes are an integral part of these consolidated financial statements.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 4,353,904	\$ 4,933,291
Adjustments			
Adjustments to reconcile profit (loss)			
Net loss (gain) on financial assets at fair value through profit or loss	6(2)(26)	4,573	(12,017)
Net loss (gain) on financial liabilities at fair value through profit or loss	6(15)(26)	2,528	(1,214)
Provision (Reversal of allowance) for doubtful accounts	6(6)	39,339	(11,722)
Interest income	6(25)	(150,197)	(172,217)
Dividend income	6(25)	(508,613)	(560,089)
Interest expense	6(27)	254,638	282,231
Depreciation and amortization	6(10)(11)(28)	1,483,888	1,549,723
Gain on disposal of investments	6(24)(26)	(239,595)	(619,104)
Gain on disposal of property, plant and equipment	6(24)(26)	(150,541)	(687)
Impairment loss	6(26)	889	127,277
Share of (profit) loss of associates and joint ventures accounted for under the equity method	6(9)	(233,927)	90,260
Foreign currency exchange loss of bonds payable		-	1,620
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		(25,068)	44,493
Notes receivable		29,665	(212,164)
Notes receivable - related parties		4,468	9,544
Accounts receivable		945,770	(1,060,196)
Accounts receivable - related parties		51,054	(18,936)
Receivables from customers on construction contracts		205,452	(414,111)
Other receivables		(358,975)	178,066
Other receivables - related parties		407,881	23,411
Inventories		(159,451)	578,186
Prepayments		48,308	(111,621)
Other current assets		366,416	(127,198)
Changes in operating liabilities			
Notes payable		32,246	49,516
Notes payable - related parties		(6,243)	(444)
Accounts payable		78,435	820,574
Accounts payable - related parties		24,154	3,351
Payables to customers on construction contracts		(23,856)	(187,308)
Other payables		(143,811)	72,845
Provisions for liabilities		(34,618)	35,307
Other current liabilities		287,157	(372,607)
Other non-current liabilities		(257,468)	7,705
Cash inflow generated from operations		6,328,402	4,925,765
Interest received	6(25)	150,197	172,217
Dividends received	6(25)	289,350	303,163
Interest paid	6(27)	(254,638)	(282,231)
Income tax paid	6(30)	(621,659)	(671,738)
Net cash flows from operating activities		5,891,652	4,447,176

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Decrease in available-for-sale financial assets - current		\$ 552,833	\$ 11,067
Decrease in other receivables - related parties	7	55,071	216,500
Increase in bond investments without active market		(963,998)	(2,689,021)
Decrease (increase) in pledged demand and fixed deposits	8	8,847	(13,811)
Proceeds from disposal of available-for-sale financial assets - non-current		549,407	925,473
Acquisition of available-for-sale financial assets - non-current		(128,435)	(150,622)
Increase in investments accounted for under the equity method		(38,001)	(91,829)
Acquisition of property, plant and equipment	6(10)(33)	(1,021,817)	(1,464,972)
Proceeds from disposal of property, plant and equipment		619,976	63,713
Acquisition of intangible assets		(103,174)	(225,070)
(Increase) decrease in restricted assets		(425)	511
Decrease (increase) in other non-current assets		102,313	(627,777)
Net cash inflow on acquisitions of subsidiaries	6(32)(33)	-	266,268
Dividends received		351,648	403,253
Net cash flows used in investing activities		(15,755)	(3,376,317)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term loans		(890,740)	(3,540,651)
Decrease (increase) in long-term loans		(2,927,291)	5,588,166
Repayment of bonds payable		-	(1,500,200)
Proceeds from issuance of bonds payable	6(18)	1,000,000	-
Cash dividends paid for non-controlling interest		(265,099)	-
Cash dividends paid	6(22)	(1,762,370)	(1,602,154)
Net cash flows used in financing activities		(4,845,500)	(1,054,839)
Exchange rate effect		(890,893)	(945,236)
Net increase (decrease) in cash and cash equivalents		139,504	(929,216)
Cash and cash equivalents at beginning of year		13,989,826	14,919,042
Cash and cash equivalents at end of year		\$ 14,129,330	\$ 13,989,826

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, 2017 AND 2016

(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, 2018.

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 2017 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 10, IFRS 12 and IAS 28, ‘Investment entities: applying the consolidation exception’	January 1, 2016
Amendments to IFRS 11, ‘Accounting for acquisition of interests in joint operations’	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Amendments to IAS 1, ‘Disclosure initiative’	January 1, 2016
Amendments to IAS 16 and IAS 38, ‘Clarification of acceptable methods of depreciation and amortisation’	January 1, 2016
Amendments to IAS 16 and IAS 41, ‘Agriculture: bearer plants’	January 1, 2016
Amendments to IAS 19, ‘Defined benefit plans: employee contributions’	July 1, 2014
Amendments to IAS 27, ‘Equity method in separate financial statements’	January 1, 2016
Amendments to IAS 36, ‘Recoverable amount disclosures for non-financial assets’	January 1, 2014
Amendments to IAS 39, ‘Novation of derivatives and continuation of hedge accounting’	January 1, 2014
IFRIC 21, ‘Levies’	January 1, 2014
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016
The above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment.	

(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 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.

IFRS 9, 'Financial instruments'

- A. Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortized cost. 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.

When adopting the new standards endorsed by the FSC effective from 2018, the Group will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The significant effects of applying the new standards as of January 1, 2018 are summarized below:

Consolidated balance sheet Affected items	2017 version IFRSs amount	Effect of adoption of new standards	2018 version IFRSs amount	Remark
<u>January 1, 2018</u>				
Financial assets at fair value through profit or loss	\$ 254,003	\$ 63,817	\$ 317,820	
Available-for-sale financial assets	13,796,160	(13,796,160)	-	
Financial assets at fair value through other comprehensive income	-	13,732,343	13,732,343	
Total affected assets	<u>\$ 14,050,163</u>	<u>\$ -</u>	<u>\$ 14,050,163</u>	
Retained earnings	(12,750,338)	668,277	(12,082,061)	
Other equity interest	(1,704,958)	(668,277)	(2,373,235)	
Total affected equity	<u>(\$ 14,455,296)</u>	<u>\$ -</u>	<u>(\$ 14,455,296)</u>	

Explanation:

- A. In accordance with IFRS 9, the Group expects to reclassify available-for-sale financial assets in the amount of \$13,732,343, and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income by \$13,732,343, decreasing other equity interest by \$667,699 and increasing retained earnings by \$667,699.
- B. In accordance with IFRS 9, the Group expects to reclassify available-for-sale financial assets in the amount of \$63,817, by increasing financial assets at fair value through profit or loss, increasing retained earnings and decreasing other equity interest in the amounts of \$63,817, \$578 and \$578, 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 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 IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
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 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
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.	

A. 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.

B. IFRIC 23, 'Uncertainty over income tax treatments'

This Interpretation clarifies when there is uncertainty over income tax treatments, an entity shall recognize and measure its current or deferred tax asset or liability applying the requirements in IAS 12, 'Income taxes' based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

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:

- Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- Available-for-sale financial assets measured at fair value.
- 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.

(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, 2017	December 31, 2016	
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.	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	-	Note 6
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, 2017	December 31, 2016	
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	71.3	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 1

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2017	December 31, 2016	
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	19.98	19.98	Note 2
Teco Electric & Machinery Co., Ltd.	Yaskawa Teco Motor Engineering Co.	Manufacturing and sales of motors	70	70	
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	Note 3
Century Development Corporation	Century Tech. C&M Corp.	Construction industry	100	100	Note 3
Century Development Corporation	United Development Corporation	Investment consultancy service for domestic and foreign industrial parks and land	100	100	
Century Development Corporation	Century Real Estate Property Inc.	Investments in other areas	100	-	Note 7

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2017	December 31, 2016	
Century Peal Estate (International) Pte Ltd.	CDC Development India Private Limited	Investment consultancy service for domestic and foreign industrial parks and land	100	-	Note 7
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	Note 4
TECO MOTOR B.V.	TECO EMM S.R.L.	Holding company	-	-	Note 4
Motovario S.p.A.	Motovario S.A (Spain)	Sales of motors and reducers	100	100	Note 6
Motovario S.p.A.	Motovario Ltd.	Sales of motors and reducers	100	100	
Motovario S.p.A.	Motovario Scandinavia A/S Danimarca	Sales of motors and reducers	100	100	Note 8
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	Note 5
Motovario S.p.A.	GR Genesis LLC	Management and development of real estate	-	-	Note 5
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, 2017	December 31, 2016	
Motovario S.p.A.	Motovario Gear Solution Private Ltd.	Sales of motors and reducers	100	100	
Motovario S.p.A.	Gear Solutions ES, SL	Sales of motors and reducers	-	100	Note 6
Teco Holding USA Inc.	Teco Westinghouse Motor Company	Manufacturing and sales of motors and generators	100	100	
Teco Holding USA Inc.	Teco Westinghouse Motor 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	99.99	99.99	
United View Global Investment Co., Ltd.	Teco Australia Pty. Ltd.	Manufacturing and sales of motors and home appliances	100	100	
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.	Tecoson 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, 2017	December 31, 2016	
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, 2017	December 31, 2016	
Tong Dai Co., Ltd.	Top-Tower Enterprises Co., Ltd.	Sales of motors	40	40	Notes 2
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.,	Investment holdings	100	100	
Teco International Investment Co., Ltd.	Tasia (Pte) Ltd.	Various investments	100	100	
Tong-An Investment Co., Ltd.	Jack Property Service & Management Company	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, 2017	December 31, 2016	
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	100	
Kuen Ling Machinery Refrigerating Co., Ltd.	K.A. Corp.	Commodity sales and trading business	100	100	
Kuen Ling Machinery Refrigerating Co., Ltd.	I Chi Industrial Co., Ltd.	General manufacturing	70	70	
Kuen Ling Machinery Refrigerating Co., Ltd.	Cozy Air-Conditioning Co., Ltd.	General manufacturing	100	100	

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2017	December 31, 2016	
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	85.31	85.31	
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, 2017	December 31, 2016	
Tecoson HK Co., Ltd.	Dongguan Tecoson Electric Co., Ltd	Distribution of home appliances	100	100	
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, 2017	December 31, 2016	
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	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, 2017	December 31, 2016	
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	100	
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	100	
Ching Chi International Limited	Suzhou KuenYuan Refrigerating Equipment Co., Ltd.	General manufacturing	100	100	

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2017	December 31, 2016	
K.A. Corp.	Kuen Ling Machinery Refrigerating (Vietnam) Co., Ltd.	General manufacturing	100	100	
K.A. Corp.	Kuen Ling Machinery Refrigerating (Indonesia) Co., Ltd.	Manufacturing and sales of motors and generators	99	-	NOTE7
Kuen Ling Machinery Refrigerating (Vietnam) Co., Ltd.	Kuen Ling Machinery Refrigerating (Indonesia) Co., Ltd.	Manufacturing and sales of motors and generators	1	-	NOTE7
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 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	

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
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Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2017	December 31, 2016	
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: 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 2: 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 3: The Group acquired control over the company and the company was included in the consolidated financial statements. Please refer to Note 6(32).
- Note 4: The Company's subsidiary, Motovario S.p.A., merged with its holding company, TECO EMM S.R.L, and the merger was set effective on April 20, 2016. Motovario S.p.A was the surviving company, while TECO EMM S.R.L was the dissolved company. The merger process had been completed on November 7, 2016.
- Note 5: The Company's subsidiary, Motovario Corp., merged with its associate, GR Genesis LLC, and the merger was set effective on December 15, 2016. Motovario Corp. was the surviving company, while GR Genesis LLC was the dissolved company.
- Note 6: The Company's subsidiary, Motovario S.A(Spain), merged with its associate, Gear Solutions ES, SL, and the merger was set effective on October 3, 2017. Motovario S.A (Spain) was the surviving company, while Gear Solutions ES, SL was the dissolved company.
- Note 7: Newly established subsidiary in current year.
- Note 8: This company was dissolved in 2017.

We did not audit the financial statements of certain consolidated subsidiaries which statements reflect total assets of \$2,363,784 and \$3,517,300 as December 31, 2017 and 2016, respectively, and net operating revenue of \$2,156,230 and \$2,065,558 for the years ended December 31, 2017 and 2016, respectively.

C. Subsidiaries not included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2017	December 31, 2016	
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
Great Teco Motor (Pte) Ltd.	Teco Group Science-Technology (Hang Zhou) Co., Ltd.	Electrical machinery electron and automatic control technology development and consultation service	100	100	Note 1
Great Teco Motor (Pte) Ltd.	Nanchang Dong-Huan Management & Consulting Co., Ltd.	Various investments	-	100	Notes 1 and 2
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, 2017	December 31, 2016	
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 : This company was dissolved in 2017.

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(34).

(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

- 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.
- 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.
- 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 recognised 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

- A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term.
- B. On a regular way purchase or sale basis, financial assets held for trading are recognized and derecognized using trade date accounting.
- C. 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 assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(8) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
- C. Available-for-sale financial assets 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'.

(9) Loans and receivables

A. 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. Accounts receivable are initially recognized 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.

B. Investments in debt instruments without active market

- (a) Bond investments 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:
 - i. Not designated on initial recognition as at fair value through profit or loss;
 - ii. Not designated on initial recognition as available-for-sale;
 - iii. Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.
- (b) On a regular way purchase or sale basis, investment in debt instrument without active market are recognized and derecognized using trade date accounting.
- (c) 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.

(10) Impairment of financial assets

- A. 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.
- B. The criteria that the Group uses to determine whether there is objective evidence of impairment loss is as follows:
 - (a) Significant financial difficulty of the issuer or debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) 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;
 - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
 - (e) The disappearance of an active market for that financial asset because of financial difficulties; or
 - (f) 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;
 - (g) 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;
 - (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- C. 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:
 - (a) Financial assets measured 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 recognised 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 recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reverse by adjusting the carrying amount of asset through the use of impairment allowance account.
 - (b) 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 recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then

such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reverse by adjusting the carrying amount of asset through the use of impairment allowance account.

(11) 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.

(12) Operating leases (lessor)

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

(13) 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.

(14) Construction contracts

- A. 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 should be 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 to 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 it is probable will be recoverable.
- B. 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.
- C. 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'.

(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 structure	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 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 drawdown 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 capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

(23) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. However, short-term 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 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.
- B. 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.

(25) Derecognition of financial liabilities

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

(26) 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 realize the asset and settle the liability simultaneously.

(27) Financial liabilities and equity instruments

Ordinary corporate bonds issued by the Group are initially recognized at fair value, net of transaction costs incurred. Ordinary corporate bonds are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or

deduction from bonds payable, which is amortized in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.

(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. 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 amortization and the best estimate of the amount required to settle the present obligation on each balance sheet date.

(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 recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised 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 10% 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

(a) 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 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.

(b) 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 rendering 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 contract

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 Group might comprise of multiple components, including sale of goods and subsequent repair 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 shall be allocated between 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.

(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

A. Financial assets—impairment of equity investments

The Group follows the guidance of IAS 39 to determine whether a financial asset—equity investment is impaired. This determination requires significant judgment. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term

business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

B. Investment property

The Group uses part of the property for its own use and part to earn rentals or for capital appreciation. When the portions cannot be sold separately, the property is classified as investment property only if the own-use portion accounts for less than 20% of the property.

(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

	December 31, 2017	December 31, 2016
Cash on hand and revolving funds	\$ 19,719	\$ 15,129
Checking accounts and demand deposits	9,544,248	9,578,663
Time deposits	4,565,363	4,396,034
	<u>\$ 14,129,330</u>	<u>\$ 13,989,826</u>

A. The Group associates 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, 2017 and 2016, cash and cash equivalents amounting to \$418,506 and \$427,353 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, 2017	December 31, 2016
Current items:		
Financial assets held for trading		
Listed and OTC stocks	\$ 79,532	\$ 103,540
Beneficiary certificates	168,916	100,553
Non-hedging derivatives	-	30,832
	248,448	234,925
Valuation adjustment of financial assets held for trading	5,555	(1,417)
	<u>\$ 254,003</u>	<u>\$ 233,508</u>

A. The Group recognized net (loss) gain of (\$4,573) and \$12,017 on financial assets held for trading for the years ended December 31, 2017 and 2016, respectively.

B. The non-hedging derivative instruments transaction and contract information are as follows:

December 31, 2016

Nature	Contract period	Contract amount		Fair value
		(Notional amount)		
Forward exchange:				
BUY USD/SELL JPY	Jan. 25, 2017 ~ Feb. 27, 2017	JPY	800,000,000	\$ 20,006
SELL EUR/BUY USD	Jan. 25, 2017 ~ Mar. 22, 2017	EUR	11,000,000	10,826
				<u>\$ 30,832</u>

As of December 31, 2017, for the transaction and contract of derivative instruments not held for hedge, please refer to Note 6(15).

C. The Group entered into forward foreign exchange contracts to hedge exchange rate risk of export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

D. Due to the global financial crisis in year 2008, listed stocks amounting to \$110,010 that were initially classified as 'financial assets at fair value through profit or loss' were reclassified to available-for-sale financial assets on July 1, 2008 in accordance with paragraph 50(c) of IAS 39. The relevant information is set forth below:

(a) The above reclassified assets that have not yet been disposed of are as follows:

	December 31, 2017	December 31, 2016
	Book value/Fair value	Book value/Fair value
Listed stocks	\$ 3,323	\$ 2,653

(b) 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, and were \$0 and \$40, respectively, for the year ended December 31, 2016. The accumulated total changes in fair value of the above listed stocks that were recognized in profit or loss and other comprehensive income before January 1, 2016 were \$11,102 and (\$839), respectively.

(c) 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 December 31, 2017	For the year ended December 31, 2016
Listed stocks	\$ 670	\$ 40

(3) Available-for-sale financial assets

Items	December 31, 2017	December 31, 2016
Current items:		
Listed and OTC stocks	\$ 730,135	\$ 1,170,834
Emerging stocks	21,423	84,648
Beneficiary certificates	14,046	62,955
	<u>765,604</u>	<u>1,318,437</u>
Valuation adjustment of available-for-sale financial assets	105,437	65,662
	<u>\$ 871,041</u>	<u>\$ 1,384,099</u>
Non-current items:		
Listed and OTC stocks	\$ 8,749,357	\$ 8,618,155
Emerging stocks	33,954	544,366
Unlisted stocks	861,054	879,290
	<u>9,644,365</u>	<u>10,041,811</u>
Valuation adjustment of available-for-sale financial assets	3,280,754	1,701,806
	<u>\$ 12,925,119</u>	<u>\$ 11,743,617</u>

- A. The Group recognized \$1,570,454, and \$1,501,773 in other comprehensive income for fair value change and reclassified \$238,707, and \$253,353 from equity to profit or loss for the years ended December 31, 2017 and 2016, respectively.
- B. Cando Co., Ltd. was reorganized due to financial difficulty and was delisted from the Emerging Stock Market, thus, the stock has no quoted price in an active market. The Group has assessed the investment and recognized impairment loss of \$127,277 for the year ended December 31, 2016.
- C. Details of the Group's available-for-sale financial assets pledged to others as collateral are provided in Note 8.

(4) Investments in debt instruments without active markets

Items	December 31, 2017	December 31, 2016
Current items:		
Time deposit	<u>\$ 3,794,570</u>	<u>\$ 2,830,572</u>

- A. The Group recognised interest income of \$48,472 and \$27,383 in profit or loss for amortised cost for the years ended December 31, 2017 and 2016, respectively.
- B. Investments in debt instruments without active markets that the Group held are time deposits with the bank with a good credit rating.
- C. As of December 31, 2017 and 2016, no investments in debt instruments without active markets held by the Group were pledged to others.

(5) Notes receivable

	December 31, 2017	December 31, 2016
Notes receivable	\$ 1,191,312	\$ 1,220,977
Less: Allowance for bad debts	(2,551)	(2,634)
	<u>\$ 1,188,761</u>	<u>\$ 1,218,343</u>

- A. The credit quality information of the notes receivable of the Group was provided in Note 6(6).

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

(6) Accounts receivable

	December 31, 2017	December 31, 2016
Accounts receivable	\$ 9,621,741	\$ 10,597,495
Less: Allowance for bad debts	(182,664)	(172,590)
	<u>\$ 9,439,077</u>	<u>\$ 10,424,905</u>

A. The credit quality of notes receivable and 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	December 31, 2016
Group 1	\$ 4,621,974	\$ 4,582,222
Group 2	1,380,744	1,535,920
Group 3	1,345,100	2,170,062
Group 4	383,907	358,732
Group 5	527,060	363,430
	<u>\$ 8,258,785</u>	<u>\$ 9,010,366</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.

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

	December 31, 2017	December 31, 2016
Up to 30 days	\$ 1,281,979	\$ 985,680
31 to 90 days	506,645	827,978
91 to 180 days	203,360	277,825
Over 181 days	377,069	541,399
	<u>\$ 2,369,053</u>	<u>\$ 2,632,882</u>

The above ageing analysis was based on past due date.

C. Movements on the Group's provision for impairment of accounts receivable are as follows:

(a) As of December 31, 2017 and 2016, the amounts of the Group's accounts receivable that were impaired were \$185,215, and \$175,224, respectively.

(b) Movements in the provision for impairment of accounts receivable are 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-offs during the year	(3,865)	(26,119)	(29,984)
Effects of foreign exchange	404	232	636
At December 31	<u>\$ 49,286</u>	<u>\$ 135,929</u>	<u>\$ 185,215</u>
	2016		
	Individual provision	Group provision	Total
At January 1	\$ 103,264	\$ 140,590	\$ 243,854
(Reversal of) provision for impairment	(32,683)	20,961	(11,722)
Write-offs during the year	(28,875)	(19,371)	(48,246)
Effects of foreign exchange	18	(8,680)	(8,662)
At December 31	<u>\$ 41,724</u>	<u>\$ 133,500</u>	<u>\$ 175,224</u>

D. The Group holds land, buildings, time deposits, letter of guarantee and letter of quality guarantee as collateral for accounts receivable.

E. Details of the Group's accounts receivable pledged to others as collateral are provided in Note 8.

(7) Inventories

December 31, 2017			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 2,595,232	(\$ 173,775)	\$ 2,421,457
Work in process	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>
December 31, 2016			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 2,553,802	(\$ 213,993)	\$ 2,339,809
Work in process	1,324,449	(53,130)	1,271,319
Finished goods	6,241,913	(576,022)	5,665,891
Inventory in transit	824,130	-	824,130
Merchandise inventories	<u>1,089,940</u>	<u>(14,048)</u>	<u>1,075,892</u>
	<u>\$ 12,034,234</u>	<u>(\$ 857,193)</u>	<u>\$ 11,177,041</u>

A. The cost of inventories recognized as expense for the years ended December 31, 2017 and 2016 was \$29,727,688 and \$28,558,175, respectively, including the amounts of \$114,196 and \$52,253, respectively that the Group wrote down from cost to net realizable value accounted for as cost of goods sold.

B. Details of the Group's inventory pledged to others as collateral are provided in Note 8.

(8) Construction in progress

	December 31, 2017	December 31, 2016
Aggregate costs incurred plus recognised profits (less recognised losses)	\$ 14,263,866	\$ 13,922,103
Less: Progress billings	(13,411,527)	(12,888,168)
Net balance sheet position for construction in progress	<u>\$ 852,339</u>	<u>\$ 1,033,935</u>
Presented as:		
Due from customers for contract work	\$ 1,030,504	\$ 1,235,956
Due to customers for contract work	(178,165)	(202,021)
	<u>\$ 852,339</u>	<u>\$ 1,033,935</u>

As of December 31, 2017 and 2016, cumulative gain (loss) recognized under the percentage of completion method for major contracts are summarized as follows:

December 31, 2017

Construction	Expected completion date	Contract price	Estimated contract cost	Percentage of completion	Cumulative gain (loss) recognized
Construction A	Dec. 2018	\$ 2,243,988	\$ 2,124,822	99%	\$ 118,901
Construction B	June. 2018	1,864,762	1,774,577	78%	70,140
Construction C	Sep. 2018	1,561,500	1,511,047	98%	49,565
Construction D	Dec. 2018	1,065,297	1,029,856	99%	35,019
Construction E	Aug. 2018	1,064,122	924,244	99%	138,108
Construction F	Dec. 2018	941,452	1,536,563	96%	(595,111)
Construction G	June. 2018	909,734	818,761	68%	61,544
Construction H	Dec. 2018	621,282	674,470	99%	(53,188)
Construction I	Dec. 2018	611,485	619,366	97%	(7,881)
Construction J	Nov. 2019	576,190	541,619	-	34
Construction K	Mar. 2018	576,381	539,262	99%	37,099

December 31, 2016

Construction	Expected completion date	Contract price	Estimated contract cost	Percentage of completion	Cumulative gain (loss) recognized
Construction A	Dec. 2017	\$ 2,242,567	\$ 2,123,400	99%	\$ 118,956
Construction B	June. 2018	1,864,762	1,774,577	32%	29,009
Construction L	June. 2017	1,391,992	1,226,377	99%	165,122
Construction C	Aug. 2017	1,583,585	1,532,493	91%	46,564
Construction D	June. 2017	1,064,797	1,029,356	98%	34,757
Construction E	June. 2017	1,063,130	950,529	95%	107,021
Construction F	Dec. 2017	941,452	1,536,563	96%	(595,111)
Construction G	Feb. 2018	899,714	809,743	37%	32,953
Construction H	Dec. 2017	621,282	674,470	99%	(53,188)
Construction I	June. 2017	611,485	619,366	95%	(7,881)
Construction K	May. 2017	576,381	539,262	99%	37,073

(9) Investments accounted for under the equity method

	December 31, 2017	December 31, 2016
Associates:		
1. Tung Pei Industrial Co., Ltd.	\$ 2,045,704	\$ 1,965,442
2. Creative Sensor Inc.	410,737	411,895
3. Lien Chang Electronic Enterprise Co., Ltd.	526,975	570,069
4. Others	863,457	734,089
	<u>3,846,873</u>	<u>3,681,495</u>
Joint Venture:		
1. Senergy Wind Power Co., Ltd.	169,825	177,253
2. Others	5,757	12,551
	<u>175,582</u>	<u>189,804</u>
	4,022,455	3,871,299
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)	(66,393)	(55,400)
	<u>\$ 3,956,062</u>	<u>\$ 3,815,899</u>

The share of profit/loss of associates and joint ventures accounted for under equity method for the years ended ended December 31, 2017 and 2016 are as follows:

	For the year ended December 31, 2017	For the year ended December 31, 2016
1. Tung Pei Industrial Co., Ltd.	\$ 193,260	\$ 102,033
2. Creative Sensor Inc.	24,129	29,583
3. Lien Chang Electronic Enterprise Co., Ltd.	(13,165)	33,074
4. Others	42,897	(179,066)
Joint Venture:		
1. Senergy Wind Power Co., Ltd.	(7,427)	(72,281)
2. Others	(5,767)	(3,603)
	<u>\$ 233,927</u>	<u>(\$ 90,260)</u>

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, 2017	December 31, 2016		
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

(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, 2017	December 31, 2016
Current assets	\$ 5,420,336	\$ 5,541,165
Non-current assets	7,841,618	6,113,566
Current liabilities	(3,491,249)	(3,153,541)
Non-current liabilities	(2,431,291)	(1,417,967)
Total assets	<u>\$ 7,339,414</u>	<u>\$ 7,083,223</u>
Share in associate's net assets	\$ 2,045,704	\$ 1,965,442
Goodwill	<u>-</u>	<u>-</u>
Carrying amount of the associate	<u>\$ 2,045,704</u>	<u>\$ 1,965,442</u>

	Creative Sensor Inc.	
	December 31, 2017	December 31, 2016
Current assets	\$ 3,168,989	\$ 3,041,354
Non-current assets	1,427,060	1,571,398
Current liabilities	(1,131,231)	(1,144,944)
Non-current liabilities	(60,458)	(53,367)
Total net assets	<u>\$ 3,404,360</u>	<u>\$ 3,414,441</u>
Share in associate's net assets	\$ 410,737	\$ 411,895
Goodwill	-	-
Carrying amount of the associate	<u>\$ 410,737</u>	<u>\$ 411,895</u>

	Lien Chang Electronic Enterprise Co., Ltd.	
	December 31, 2017	December 31, 2016
Current assets	\$ 1,687,297	\$ 2,137,424
Non-current assets	682,745	698,534
Current liabilities	(764,895)	(1,124,421)
Non-current liabilities	(48,077)	(30,056)
Total net assets	<u>\$ 1,557,070</u>	<u>\$ 1,681,481</u>
Share in associate's net assets	\$ 526,975	\$ 570,069
Goodwill	-	-
Carrying amount of the associate	<u>\$ 526,975</u>	<u>\$ 570,069</u>

Statement of comprehensive income

	Tung Pei Industrial Co., Ltd.	
	For the year ended December 31, 2017	For the year ended December 31, 2016
Revenue	\$ 7,173,122	\$ 6,561,385
Profit for the year from continuing operations	\$ 629,397	\$ 338,383
Other comprehensive income (loss) net of tax	(157,344)	(155,530)
Total comprehensive income (loss)	<u>\$ 472,053</u>	<u>\$ 182,853</u>
Dividends received from associates	<u>\$ 78,290</u>	<u>\$ 78,290</u>

Creative Sensor Inc.		
	For the year ended December 31, 2017	For the year ended December 31, 2016
Revenue	\$ 3,957,862	\$ 4,309,299
Profit for the year from continuing operations	\$ 210,020	\$ 257,536
Other comprehensive income (loss), net of tax	(16,812)	(182,565)
Total comprehensive income (loss)	\$ 193,208	\$ 74,971
Dividends received from associates	\$ 23,352	\$ 26,271

Lien Chang Electronic Enterprise Co., Ltd.		
	For the year ended December 31, 2017	For the year ended December 31, 2016
Revenue	\$ 2,303,239	\$ 3,036,281
Profit for the year from continuing operations	(\$ 38,262)	\$ 95,571
Other comprehensive income (loss), net of tax	(3,017)	(40,440)
Total comprehensive income (loss)	(\$ 41,279)	\$ 55,131
Dividends received from associates	\$ 28,907	\$ 10,136

- (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, 2017 and 2016, the carrying amount of the Group's individually immaterial associates amounted to \$863,457 and \$734,089 respectively.

	For the year ended December 31, 2017	For the year ended December 31, 2016
Income (loss) for the year from continuing operations	\$ 42,897	(\$ 179,066)
Total comprehensive income (loss)	\$ 42,897	(\$ 179,066)

- (d) For the year ended December 31, 2016, the Group's shareholding ratio in Century Development Corporation increased to 52.75%. The Group obtained control over Century Development Corporation and accordingly, was included in the Group's consolidated financial statements.

- (e) The fair value of the Group's material associates with quoted market prices is as follows:

	December 31, 2017	December 31, 2016
1. Lien Chang Electronic Enterprise Co., Ltd.	\$ 583,781	\$ 531,222
2. Creative Sensor Inc.	378,005	306,491
	<u>\$ 961,786</u>	<u>\$ 837,713</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, 2017	December 31, 2016		
Senergy Wind Power Co., Ltd.	R.O.C	50.00%	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, 2017	December 31, 2016
Cash and cash equivalents	\$ 339,587	\$ 233,663
Other current assets	1,004	138,494
Current assets	340,591	372,157
Non-current assets	53	111,162
Total assets	340,644	483,319
Current liabilities	(1,000)	-
Total liabilities	(1,000)	-
Total net assets	\$ 339,644	\$ 483,319
Share in joint venture's net assets	\$ 169,825	\$ 177,253
Goodwill	-	-
Carrying amount of the joint venture	\$ 169,825	\$ 177,253

Note: Including impairment losses which have been provided.

Statement of comprehensive income

	Senergy Wind Power Co., Ltd.	
	For the year ended December 31, 2017	For the year ended December 31, 2016
Revenue	\$ -	\$ -
Depreciation and amortization	(\$ 42)	(\$ 32)
Interest income	\$ 5,932	\$ 4,727
Interest expense	\$ -	\$ -
Loss before income tax	(\$ 143,204)	(\$ 15,749)
Income tax	(\$ 471)	\$ -
Loss-net of tax	(\$ 143,675)	(\$ 15,749)
Total comprehensive income (loss)	(\$ 143,675)	(\$ 15,749)
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, 2017 and 2016, the carrying amount of the Group's individually immaterial associates amounted to \$5,757 and \$12,551, respectively.

	For the year ended December 31, 2017	For the year ended December 31, 2016
Loss for the year from continuing operations	(\$ 5,767)	(\$ 3,603)
Total comprehensive loss	(\$ 5,767)	(\$ 3,603)

- (d) In the second quarter of 2016, the Group entered into an equity transfer agreement with Shanghai Hanbell Precise Machinery Co., Ltd. and transferred its certain equity in Qingdao Teco Century Advanced High-tech Mechatronics Co., Ltd. (Teco Century) to Shanghai Hanbell Precise Machinery Co., Ltd. After the sale of equity, the Group's shareholding ratio in Teco Century decreased to 24% and thus did not meet the definition of joint arrangements – joint ventures. However, the Group still has significant control over Teco Century, thus, it was still accounted for under equity method.
- C. Certain investments accounted for using the equity method were evaluated in 2017 and 2016 based on financial reports audited by accountants appointed by the Company. The associates and joint ventures' gain and loss using equity method amounted to \$187,682 and \$29,987 in 2017 and 2016, respectively. The balance of investment accounted using equity method are \$2,490,857 and \$2,445,113 and the amount of investment credit balance is \$66,393 and \$55,400 as of December 31, 2017 and 2016, respectively.
- D. Details of the Group's investments accounted for under the equity method pledged to others as collateral are provided in Note 8.

(10) Property, plant and equipmentAt January 1, 2017

	Land	Buildings and structures	Machinery and equipment	Transportation equipment	Leased assets	Leasehold improvements	Miscellaneous equipment	Rental assets	Total
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>

At December 31, 2017

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>

	Land	Buildings and structures	Machinery and equipment	Transportation equipment	Leased assets	Leasehold improvements	Miscellaneous equipment	Rental assets	Total
<u>At January 1, 2016</u>									
Cost	\$ 5,687,882	\$ 9,532,510	\$ 14,926,436	\$ 975,871	\$ 10,777	\$ 579,878	\$ 7,116,897	\$ 887,580	\$ 39,717,831
Accumulated depreciation and impairment	(34,697)	(4,300,434)	(12,931,267)	(654,054)	(10,748)	(401,304)	(5,618,437)	(748,673)	(24,699,614)
	<u>\$ 5,653,185</u>	<u>\$ 5,232,076</u>	<u>\$ 1,995,169</u>	<u>\$ 321,817</u>	<u>\$ 29</u>	<u>\$ 178,574</u>	<u>\$ 1,498,460</u>	<u>\$ 138,907</u>	<u>\$ 15,018,217</u>
<u>2016</u>									
Opening net book amount	\$ 5,653,185	\$ 5,232,076	\$ 1,995,169	\$ 321,817	\$ 29	\$ 178,574	\$ 1,498,460	\$ 138,907	\$ 15,018,217
Additions	84,691	566,903	415,326	44,114	17,693	29,815	335,859	-	1,494,401
Acquired from business combinations	129,976	225,524	-	-	3,922,298	67	861	-	4,278,726
Disposals	(224)	-	(47,909)	(1,257)	-	(714)	(12,922)	-	(63,026)
Reclassifications	(132,656)	(460,384)	2,001	15,224	-	2,350	(13,505)	4,145	(582,825)
Depreciation charge	-	(239,391)	(418,665)	(54,428)	(181,953)	(39,989)	(393,267)	(13,235)	(1,340,928)
Net exchange differences	(4,459)	(195,676)	(41,897)	(1,525)	-	(4,351)	(93,078)	(129)	(341,115)
Closing net book amount	<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>At December 31, 2016</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>

- A. Amount of borrowing costs capitalized as part of property, plant and equipment and the range of the interest rates for such capitalization are as follows:

	For the year ended December 31, 2017	For the year ended December 31, 2016
Amount capitalized	\$ -	\$ 217
Interest rate	-	0.58%

- 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.
- E. 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, the total contract price (before tax) was \$426,500 (shown as 4000 Operating income) as described in Note 6. The transfer had been completed in 2017, and recognized gain on disposal of \$80,970 for the year ended December 31, 2017. All proceeds had been collected.

(11) Investment property

	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)	
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>
	Land	Buildings and structures	Total
<u>At January 1, 2016</u>			
Cost	\$ 1,315,434	\$ 2,279,384	\$ 3,594,818
Accumulated depreciation and impairment	-	(1,033,374)	(1,033,374)
	<u>\$ 1,315,434</u>	<u>\$ 1,246,010</u>	<u>\$ 2,561,444</u>
<u>2016</u>			
Opening net book amount	\$ 1,315,434	\$ 1,246,010	\$ 2,561,444
Reclassifications	\$ 132,656	\$ 482,836	
Depreciation charge	-	(69,927)	(69,927)
Net exchange differences	(3,518)	(30,105)	(33,623)
Closing net book amount	<u>\$ 1,444,572</u>	<u>\$ 1,628,814</u>	<u>\$ 3,073,386</u>
<u>At December 31, 2016</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>

- 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, 2017	For the year ended December 31, 2016
Rental income from investment property	\$ 155,147	\$ 121,826
Direct operating expenses arising from the investment property that generated rental income during the year	\$ 67,769	\$ 33,712
Direct operating expenses arising from the investment property that did not generate rental income during the year	\$ -	\$ -

- B. The fair value of the investment property held by the Group as at December 31, 2017 and 2016 was \$4,496,128 and \$4,239,998, respectively, which is categorized within Level 3 in the fair value hierarchy.

(12) Goodwill (listed as 「1780 Intangible assets」)

	2017	2016
<u>At January 1</u>		
Cost	\$ 5,146,709	\$ 5,440,327
Accumulated amortization and impairment	-	-
	\$ 5,146,709	\$ 5,440,327
Opening net book amount	\$ 5,146,709	\$ 5,440,327
Net exchange differences	249,356	(293,618)
Closing net book amount	\$ 5,396,065	\$ 5,146,709
<u>At December 31</u>		
Cost	\$ 5,396,065	\$ 5,146,709
Accumulated amortization and impairment	-	-
	\$ 5,396,065	\$ 5,146,709

Goodwill is allocated as follows to the Group's cash-generating units identified according to operating segment:

	December 31, 2017	December 31, 2016
Heavy industrial products division	\$ 5,288,266	\$ 5,038,910
Home electric appliance division	107,799	107,799
	\$ 5,396,065	\$ 5,146,709

(13) Other non-current assets

	December 31, 2017	December 31, 2016
Long-term prepaid rent	\$ 1,801,943	\$ 1,838,485
Prepayment for property	162,834	159,899
Prepayment for equipment	321,884	597,109
Refundable deposits	307,023	303,262
Deferred expenses	93,473	132,085
Long-term notes and accounts receivable	197,373	238,409
Other assets	121,110	92,613
	<u>\$ 3,005,640</u>	<u>\$ 3,361,862</u>

- A. The Group signed a land use right contract for the use of land. The Group recognized rental expenses of \$78,434 and \$45,426 for the years ended December 31, 2017 and 2016, 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 for phase III 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 amortised over the useful life of right of superficies of 50 years.

(14) Short-term borrowings

Type of borrowings	December 31, 2017	Interest rate range	Collateral
Bank borrowings			
Secured borrowings	\$ 565,316	0.90%~4.57%	Available-for-sale financial assets, notes receivable, accounts receivable, investments accounted for under the equity method, land, buildings, treasury stocks
Unsecured borrowings	<u>1,622,305</u>	0.65%~5.21%	None
	<u>\$ 2,187,621</u>		

Type of borrowings	December 31, 2016	Interest rate range	Collateral
Bank borrowings			
Secured borrowings	\$ 254,415	1.12%~4.56%	Available-for-sale financial assets, notes receivable, accounts receivable, investments accounted for under the equity method, land, buildings, treasury stocks
Unsecured borrowings	2,823,946	0.88%~5.58%	None
	<u>\$ 3,078,361</u>		

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

Items	December 31, 2017	December 31, 2016
Current items:		
Financial liabilities held for trading		
Non-hedging derivatives	\$ 2,528	\$ -

A. The Group recognized net (loss) income of (\$2,528) and \$1,214 on financial liabilities held for trading for the years ended December 31, 2017 and 2016, respectively.

B. The non-hedging derivative instruments transaction and contract information 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		213
SELL EUR/BUY USD	Feb. 1, 2018	EUR 3,000		2,315
				<u>\$ 2,528</u>

As of December 31, 2017, for the transaction and contract of derivative instruments not held for hedge, please refer to Note 6(2).

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.

(16) Other payables

	December 31, 2017	December 31, 2016
Salary and wages payable	1,831,013	\$ 1,839,778
Employees' compensation payable	593,215	592,962
Dealers' bonus commission payable	249,511	169,932
Equipment payable	136,471	151,433
Directors' and supervisors' remuneration payable	149,494	154,328
Others	1,880,213	2,090,257
	<u>\$ 4,839,917</u>	<u>\$ 4,998,690</u>

(17) Bonds payable

	December 31, 2017	December 31, 2016
Issuance of bonds payable	<u>\$ 4,000,000</u>	<u>\$ 3,000,000</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.

(18) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2017
Long-term bank borrowings				
Guaranteed syndicated loans	Borrowing period is from Aug. 4, 2016 to Aug. 4, 2021; principal 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
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, 2018; 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
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 Co., Ltd.	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	<u>7,119</u>
				5,994,101
Less: Current portion (listed as other current liabilities)				(<u>877,626</u>)
				<u>\$ 5,116,475</u>

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2017
Commercial papers payable				
International Bills Finance Corporation	Borrowing period is from Dec. 22, 2017 to Jan. 19, 2019; payable at maturity	0.61%	None	50,000
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
				1,350,000
Less: Discount on commercial papers payable				(236)
				1,349,764
				<u>\$ 6,466,239</u>

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2016
Long-term bank borrowings				
Guaranteed syndicated loans	Borrowing period is from Aug. 4, 2016 to Aug. 4, 2022; principal payable semi-annually	Floating interest rate, EURIBOR plus 1.2%	None	\$ 2,386,696
Cathay United Bank	Borrowing period is from Mar. 16, 2011 to Mar. 16, 2021; principal is payable every 6 months in 20 installments	1.6%~1.75%	Note	1,660,175
HSBC Bank	Borrowing period is from Apr. 15, 2016 to Apr. 15, 2018; payable at maturity	0.95%	None	1,000,000
Mizuho Bank	Borrowing period is from Oct. 15, 2016 to Oct. 15, 2018; payable at maturity	0.89%	None	1,230,000
Sumitomo Mitsui Banking Corporation	Borrowing period is from Aug. 3, 2016 to Aug. 3, 2018; payable at maturity	0.97%	None	500,000
Bank Of Taiwan	Borrowing period is from Feb. 2, 2015 to Feb. 2, 2018; payable at maturity	1.05%	None	400,000
First Commercial Bank	Borrowing period is from Dec. 23, 2016 to Dec. 23, 2018; payable at maturity	1.17%	None	261,000
Taiwan Cooperative Bank	Borrowing period is from Jan. 26, 2015 to Jan. 16, 2035; interest is payable monthly; principal is payable monthly starting from the third year	1.39%~1.46%	Note	240,000
Guaranteed syndicated loans	Borrowing period is from Feb. 6, 2017 to Feb. 6, 2018; principal is payable in three installments from Mar. 31, 2016	2.46%~2.76%	Note	180,000
Taiwan Cooperative Bank	Borrowing period is from Dec. 2017 to Jan. 2022; payable at maturity in accordance with mutual agreements	1.575%~1.795%	Note	48,587
E.Sun Bank	Principal is payable monthly from Jun. 27, 2016 to Jun. 26, 2021	2.27%	Note	9,050
Chailase Finance Co., Ltd.	Principal is payable monthly from Dec. 15, 2015 to Nov. 15, 2017	2.19%	Note	56,050
				7,971,558
Less: Current portion (listed as other current liabilities)				(842,586)
				<u>7,128,972</u>
Commercial papers payable				
China Bills Finance Corporation	Borrowing period is from Mar. 25, 2016 to Mar. 24, 2018; payable at maturity	0.50%	None	500,000
International Bills Finance Corporation	Borrowing period is from Apr. 28, 2016 to Apr. 28, 2018; payable at maturity	0.41%~0.62%	None	500,000
Grand Bills Finance Corporation	Borrowing period is from Mar. 21, 2016 to Mar. 20, 2018; payable at maturity	0.60%~0.81%	None	400,000
Mega Bills Finance Corporation	Borrowing period is from Mar. 30, 2016 to Mar. 29, 2018; payable at maturity	0.60%~0.73%	None	700,000
Taiwan Finance Corporation	Borrowing period is from Jun. 23, 2016, to Jun. 22, 2018; payable at maturity	0.70%~0.85%	None	200,000
				2,300,000
Less: Discount on commercial papers payable				(402)
				<u>2,299,598</u>
				<u>\$ 9,428,570</u>

Note: Details of Group's pledged assets 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, 2017 and 2016, the Group has undrawn borrowing facilities of \$19,571,220 and \$14,914,070, respectively.

(19) Pensions

A.(a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, 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 Law. 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, 2017	December 31, 2016
Present value of defined benefit obligations	(2,421,192)	(2,436,114)
Fair value of plan assets	377,752	307,621
Net defined benefit liability	(\$ 2,043,440)	(\$ 2,128,493)

(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
<u>For the year ended December 31, 2017</u>			
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 assets (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)	-
Payment per books	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>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>For the year ended December 31, 2016</u>			
Balance at January 1	(\$ 2,508,606)	\$ 313,094	(\$ 2,195,512)
Current service cost	(23,589)	-	(23,589)
Interest (expense) income	(44,667)	5,588	(39,079)
Past service cost	5,340	-	5,340
Others	(372)	-	(372)
Settlement profit or loss	<u>22,607</u>	<u>(21,351)</u>	<u>1,256</u>
	(\$ 2,549,287)	\$ 297,331	(\$ 2,251,956)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(2,424)	(2,424)
Change in demographic assumptions	(1,287)	-	(1,287)
Change in financial assumptions	(52,883)	-	(52,883)
Experience adjustments	<u>3,615</u>	<u>-</u>	<u>3,615</u>
	(50,555)	(2,424)	(52,979)
Effect of business combination	(8,906)	9,090	184
Pension fund contribution	-	171,192	171,192
Paid pension	159,870	(159,870)	-
Payment per books	<u>12,764</u>	<u>(7,698)</u>	<u>5,066</u>
Balance at December 31	(\$ 2,436,114)	\$ 307,621	(\$ 2,128,493)

- (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, 2017 and 2016 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, 2017	For the year ended December 31, 2016
Discount rate	0.90%~6.85%	1.00%~1.88%
Future salary increases	0%~8%	0.5%~4.5%

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%
<u>December 31, 2017</u>				
Effect on present value of defined benefit obligation	(\$ 85,912)	\$ 91,388	\$ 90,833	(\$ 85,947)
<u>December 31, 2016</u>				
Effect on present value of defined benefit obligation	(\$ 91,942)	\$ 98,529	\$ 98,131	(\$ 92,642)

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, 2018 are \$98,402.

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, 2017 and 2016 was 20%~21.5%. 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, 2017 and 2016 were \$457,329 and \$446,355, respectively.

(20) Share capital

A. As of December 31, 2017, 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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, book value of the shares of the Company held by the three subsidiaries amounted to \$321,563.

Details are as follows:

	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>		
	December 31, 2016		
	Shares (in thousands)	Cost (in dollars)	Market value (in dollars)
Tong-An Investment Co., Ltd.	19,540	\$ 14.92	\$ 27.90
An-Tai International Investment Co., Ltd.	2,826	10.37	27.90
Top-Tower Enterprises Co., Ltd.	77	9.37	27.90
	<u>22,443</u>		

(21) 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.

(22) 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.
- (f) The Company may grant the employees of subsidiaries employee bonuses as described above if certain criteria prescribed by the Board of Directors are met.

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 \$1,762,370 (\$0.88 (in dollars) per share) and \$1,602,154 (\$0.8 (in dollars) per share) for the years ended December 31, 2017 and 2016, respectively. On March 26, 2018, the Board of Directors proposed for the distribution of dividends from 2017 earnings in the amount of \$0.86 with \$1,722,316 (in dollars) per share.

F. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6 (29).

(23) Other equity items

	Available-for-sale investment	Currency translation	Total
At January 1, 2017	\$ 2,218,526	(\$ 1,051,753)	\$ 1,166,773
Unrealised 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>
	Available-for-sale investment	Currency translation	Total
At January 1, 2016	\$ 743,950	\$ 13,030	\$ 756,980
Unrealised gains and losses on financial assets:			
–Group	1,472,155	-	1,472,155
–Associates	2,421	-	2,421
Currency translation differences:			
–Group	-	(1,064,783)	(1,064,783)
At December 31, 2016	<u>\$ 2,218,526</u>	<u>(\$ 1,051,753)</u>	<u>\$ 1,166,773</u>

(24) Operating revenue

	For the year ended December 31, 2017	For the year ended December 31, 2016
Sales revenue	\$ 40,243,212	\$ 41,073,462
Service revenue	7,004,090	6,212,372
Construction contract revenue	3,141,743	2,466,811
Revenue from disposal of land	426,500	-
Net securities trading revenue	126,976	171,191
	<u>\$ 50,942,521</u>	<u>\$ 49,923,836</u>

(25) Other income

	For the year ended December 31, 2017	For the year ended December 31, 2016
Rental revenue	\$ 188,565	\$ 167,865
Dividend income	508,613	560,089
Interest income:		
Interest income from bank deposits	150,197	166,210
Other interest income	-	6,007
Insurance claim income	346,186	-
Other non-operating income	313,375	259,835
	<u>\$ 1,506,936</u>	<u>\$ 1,160,006</u>

For the information of fire disaster loss and revenue from insurance compensation, please refer to Note 10.

(26) Other gains and losses

	For the year ended December 31, 2017	For the year ended December 31, 2016
Net (loss) gain on financial liabilities at fair value through profit or loss	(\$ 2,528)	\$ 1,214
Net (loss) gain financial assets at fair value through profit or loss	(4,573)	12,017
Net currency exchange (loss) gain	(235,383)	23,928
Net gain on disposal of property, plant and equipment	150,541	687
Gain on disposal of investments	112,619	231,753
Gain on remeasurement	-	216,160
Impairment loss on financial assets	(889)	(127,277)
Fire damages	(262,216)	-
Miscellaneous disbursements	(386,092)	(402,187)
	<u>(\$ 628,521)</u>	<u>(\$ 43,705)</u>

- A. Gain on remeasurement was caused by acquiring Century Development Corporation. Due to the change in fair value of shares acquired before obtaining majority control, the Group incurred remeasurement gain. Please refer to Note 6(32).
- B. For the information of fire disaster loss and revenue from insurance compensation, please refer to Note 10.
- C. The company subsidiary, Teco Electric & Machinery (Pte) Ltd., signed a contract for real estate sale at the price of \$218,148 with Jurong Town Corporation on September 25, 2017 and the legal processes have all been completed by the end of 2017. The gain on disposal of assets was recognized in the amount of \$187,056 in 2017 and all the payment has been

received by December 31, 2017.

(27) Finance costs

	For the year ended December 31, 2017	For the year ended December 31, 2016
Interest expense:		
Bank borrowings	\$ 239,427	\$ 267,327
Less: Capitalization of qualifying assets	-	(217)
	239,427	267,110
Finance expenses	15,211	15,121
Finance costs	<u>\$ 254,638</u>	<u>\$ 282,231</u>

(28) Expenses by nature

	For the year ended December 31, 2017	For the year ended December 31, 2016
Employee benefit expense	\$ 11,063,504	\$ 10,953,285
Depreciation charges on property, plant and equipment	1,373,883	1,410,855
Amortization charges on intangible	110,005	138,868
	<u>\$ 12,547,392</u>	<u>\$ 12,503,008</u>

(29) Employee benefit expense

	For the year ended December 31, 2017	For the year ended December 31, 2016
Wages and salaries	\$ 8,786,630	\$ 8,641,562
Employees' compensation and directors' and supervisors' remuneration	594,404	627,308
Labor and health insurance fees	899,806	816,982
Pension costs	504,272	502,799
Other personnel expenses	429,812	437,601
	<u>\$ 11,214,924</u>	<u>\$ 11,026,252</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, 2017 and 2016, employees' compensation was accrued at \$250,481 and \$283,999, respectively; while directors' and supervisors' remuneration was accrued at \$111,325 and \$125,333, respectively. The aforementioned amounts were recognized in salary expenses.
- C. For the years ended December 31, 2017 and 2016, 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 2016 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2016 financial statements. As of December 31, 2017, 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.

(30) Income tax

A. Income tax expense

(a) Components of income tax expense:

	For the year ended December 31, 2017	For the year ended December 31, 2016
Current tax:		
Current tax on profits for the year	\$ 843,869	\$ 658,245
Tax on undistributed surplus earnings	137,354	128,434
Prior year income tax overestimation	(203)	(161,879)
Effect from Alternative Minimum Tax	7,692	5,599
Total current tax	988,712	630,399
Deferred tax:		
Origination and reversal of temporary differences	(179,056)	265,894
Income tax expense	\$ 809,656	\$ 896,293

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

	For the year ended December 31, 2017	For the year ended December 31, 2016
Currency translation differences	(\$ 68,969)	(\$ 99,542)
Remeasurement of defined benefit obligations	(3,037)	(2,270)
	(\$ 72,006)	(\$ 101,812)

B. Reconciliation between income tax expense and accounting profit

	For the year ended December 31, 2017	For the year ended December 31, 2016
Tax calculated based on profit before tax and statutory tax rate	\$ 1,226,085	\$ 1,454,591
Effects from items disallowed by tax regulation	(422,809)	(298,097)
Effect from investment tax credits	(35,723)	(42,153)
Prior year income tax overestimation	(203)	(161,879)
Underestimation of prior year's net deferred tax assets and liabilities	(111,730)	(191,104)
earnings		
Additional 10% tax on undistributed earnings	137,354	128,434
Effect from Alternative Minimum Tax	7,692	5,599
Others	8,990	902
Income tax expense	<u>\$ 809,656</u>	<u>\$ 896,293</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, 2017

	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
— Deferred tax assets:				
Temporary differences				
Impairment loss	\$ 91,548	(\$ 1,018)	\$ -	\$ 90,530
Currency translation differences	161,971	283	68,969	231,223
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	<u>125,446</u>	<u>9,084</u>	<u>-</u>	<u>134,530</u>
	<u>1,194,242</u>	<u>116,636</u>	<u>72,006</u>	<u>1,382,884</u>
— Deferred tax				
Temporary differences				
Investment income from foreign investments	929,393	(99,578)	-	829,815
Land value incremental	1,050,369	-	-	1,050,369
Trademark right	331,034	16,307	-	347,341
Others	<u>174,647</u>	<u>20,851</u>	<u>-</u>	<u>195,498</u>
	<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>

For the year ended December 31, 2016

	January 1	Recognized in profit or loss	Recognized in other comprehensive income	Business combinations	December 31
— Deferred tax assets:					
Temporary differences					
Impairment loss	\$ 90,679	\$ 869	\$ -	\$ -	\$ 91,548
Currency translation differences	61,605	824	99,542	-	161,971
Difference resulting from different usefullives of property, plant and equipment between financial and tax basis	44,295	12,027	-	-	56,322
Unrealized expenses	410,207	(69,311)	-	1,679	342,575
Permanent loss on investments	29,817	-	-	-	29,817
Loss on inventory	111,883	30,434	-	-	142,317
Over provision of allowance for doubtful accounts	47,265	(12,059)	-	-	35,206
Others	258,331	(58,312)	2,270	6,751	209,040
Tax losses	129,165	(3,719)	-	-	125,446
	<u>1,183,247</u>	<u>(99,247)</u>	<u>101,812</u>	<u>8,430</u>	<u>1,194,242</u>
— Deferred tax					
Temporary differences					
Investment income from foreign investments	753,039	176,354	-	-	929,393
Land value incremental	1,050,369	-	-	-	1,050,369
Trademark right	352,629	(21,595)	-	-	331,034
Others	161,684	11,888	-	1,075	174,647
	<u>2,317,721</u>	<u>166,647</u>	<u>-</u>	<u>1,075</u>	<u>2,485,443</u>
	<u>(\$ 1,134,474)</u>	<u>(\$ 265,894)</u>	<u>\$ 101,812</u>	<u>\$ 7,355</u>	<u>(\$ 1,291,201)</u>

D. Expiration dates of unused tax losses and amounts of unrecognized deferred tax assets are as follows:

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>	
December 31, 2016				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognized deferred tax assets	Usable until year
2007	Amount assessed	\$ 352,325	\$ 352,325	2017
2008	Amount assessed	284,672	279,736	2018
2009	Amount assessed	895,208	864,640	2019
2010	Amount assessed	514,576	514,576	2020
2011	Amount assessed	265,574	213,113	2021
2012	Amount assessed	403,636	152,718	2022
2013	Amount assessed	185,962	185,962	2023
2014	Amount filed	165,792	165,792	2024
2015	Amount filed	142,376	142,376	2025
2016	Amount filed	215,028	150,472	2026
		<u>\$ 3,425,149</u>	<u>\$ 3,021,710</u>	

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

	December 31, 2017	December 31, 2016
Deductible temporary differences	<u>\$ 1,911,927</u>	<u>\$ 1,182,582</u>

- F. As of December 31, 2017, the Company and its subsidiaries' income tax returns through various years between 2013 and 2016, respectively, have been assessed and approved by the Tax Authority.
- G. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China in February, 2018, the information on unappropriated retained earnings and the balance of the imputation credit account as of December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed.

H. Unappropriated retained earnings:

	<u>December 31, 2016</u>
Earnings generated in and before 1997	\$ 684,024
Earnings generated in and after 1998	<u>11,132,665</u>
	<u>\$ 11,816,689</u>

- I. As of December 31, 2016, the balance of the imputation tax credit account was \$765,673. The creditable tax rate was 8.02% for the year ended December 31, 2016.
- J. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. This will increase the Company's deferred tax assets and deferred tax liabilities by \$39,737 and \$150,246, respectively, which will be adjusted in the first quarter of 2018.
- K. 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.

(31) Earnings per share

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	\$ <u>1.56</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	8,736	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ <u>3,092,358</u>	<u>1,988,986</u>	\$ <u>1.55</u>

For the year ended December 31, 2016			
	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	\$ 3,481,480	1,980,250	\$ <u>1.76</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	10,723	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ <u>3,481,480</u>	<u>1,990,973</u>	\$ <u>1.75</u>

(32) Business combinations

- A. On February 5, 2016, the Group acquired 12.12% of the share capital of Century Development Corporation for \$462,233. Along with 40.63% of share capital originally held, the Group collectively holds 52.75% of the share capital in Century Development Corporation and exercises control over Century Development Corporation, which is engaged in designing, developing and managing parks in Taiwan. As a result of the acquisition, the Group is expected to strengthen its ability to develop and manage real estate.
- B. The following table summarizes the consideration paid for Century Development Corporation and the fair values of the assets acquired and liabilities assumed at the acquisition date, as well as the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets at the acquisition date:

	February 5, 2016
Purchase consideration	
Cash	\$ 462,233
Fair value at the acquisition date of share capital of the company held before the business combination	1,841,807
Fair value of the non-controlling interest	1,824,817
	<u>4,128,857</u>
Fair value of the identifiable assets acquired and liabilities assumed	
Cash	728,501
Notes and accounts receivable	36,261
Other current assets	346,376
Property, plant and equipment	4,278,726
Other non-current assets	1,390,461
Notes and accounts payable	(70,186)
Other current liabilities	(506,374)
Long-term borrowings	(1,897,782)
Other non-current liabilities	(177,126)
Total identifiable net assets	<u>4,128,857</u>
Goodwill (listed as intangible assets)	<u>\$ -</u>

C. The Group recognized a gain of \$216,160 as a result of measuring at fair value its 40.63% equity interest in Century Development Corporation held before the business combination.

(33) Supplemental cash flow information

A. Investing activities with partial cash payments:

	For the year ended December 31, 2017	For the year ended December 31, 2016
Acquisition of property, plant and equipment	\$ 1,006,855	\$ 1,494,401
Add:		
Payables at beginning of the year	151,433	122,004
Less:		
Payables at end of the year	(136,471)	(151,433)
Cash paid	<u>\$ 1,021,817</u>	<u>\$ 1,464,972</u>

B. The book values of the assets and liabilities of the consolidated subsidiaries as of December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$ -	\$ 728,501
Other current assets	-	382,637
Property, plant and equipment	-	4,278,726
Other non-current assets	-	1,390,461
Other current liabilities	- (	576,560)
Other non-current liabilities	- (	2,074,908)
	<u>\$ -</u>	<u>\$ 4,128,857</u>
Proceeds from acquisition of subsidiaries	\$ -	\$ 462,233
Cash balance of subsidiaries	- (	728,501)
Net cash effect of consolidated subsidiaries	<u>\$ -</u>	<u>(\$ 266,268)</u>

(34) Details of significant controlling interests

As of December 31, 2017 and 2016, the non-controlling interest amounted to \$6,044,372 and \$5,992,976, respectively. The information on non-controlling interest and respective subsidiaries is as follows:

		Non-Controlling Interest			
		December 31, 2017		December 31, 2016	
Name of subsidiary	Principal place of business	Amount	Ownership	Amount	Ownership
Tecom Co., Ltd.	R.O.C	\$ 316,178	36.48%	\$ 328,767	36.48%
Taiwan Pelican Express Co., Ltd.	R.O.C	1,128,238	67.85%	1,101,883	67.85%
Kuen Ling Machinery Refrigerating Co., Ltd.	R.O.C	1,081,634	80.02%	1,083,945	80.02%
Century Development Corporation	R.O.C	2,021,418	47.25%	1,935,474	47.25%

Summarized financial information of the subsidiaries:

Balance sheets

	Tecom Co., Ltd.	
	December 31, 2017	December 31, 2016
Current assets	\$ 1,513,819	\$ 2,226,004
Non-current assets	724,220	673,974
Current liabilities	(1,245,590)	(2,066,348)
Non-current liabilities	(442,489)	(286,116)
Total net assets	<u>\$ 549,960</u>	<u>\$ 547,514</u>
	Taiwan Pelican Express Co., Ltd.	
	December 31, 2017	December 31, 2016
Current assets	\$ 1,787,139	\$ 1,626,126
Non-current assets	654,569	616,732
Current liabilities	(759,856)	(603,606)
Non-current liabilities	(19,010)	(15,253)
Total net assets	<u>\$ 1,662,842</u>	<u>\$ 1,623,999</u>
	Kuen Ling Machinery Refrigerating Co., Ltd.	
	December 31, 2017	December 31, 2016
Current assets	\$ 1,757,267	\$ 1,800,946
Non-current assets	630,524	601,271
Current liabilities	(816,774)	(832,903)
Non-current liabilities	(152,935)	(148,213)
Total net assets	<u>\$ 1,418,082</u>	<u>\$ 1,421,101</u>
	Century Development Corporation	
	December 31, 2017	December 31, 2016
Current assets	\$ 1,139,718	\$ 990,841
Non-current assets	4,764,686	5,308,707
Current liabilities	(561,768)	(535,338)
Non-current liabilities	(1,062,833)	(1,682,024)
Total net assets	<u>\$ 4,279,803</u>	<u>\$ 4,082,186</u>

Statements of comprehensive income

Tecom Co., Ltd.		
	For the year ended December 31, 2017	For the year ended December 31, 2016
Revenue	\$ 3,085,255	\$ 4,101,045
(Loss) profit before income tax	(67,057)	69,858
Income tax expense	(66)	(6,496)
(Loss) profit for the year	(67,123)	63,362
Other comprehensive income (net of tax)	82,218	132,093
Total comprehensive income for the year	\$ 15,095	\$ 195,455
Comprehensive income attributable to non- controlling interest	\$ 14,426	\$ 32,767

Taiwan Pelican Express Co., Ltd.		
	For the year ended December 31, 2017	For the year ended December 31, 2016
Revenue	\$ 3,059,610	\$ 2,638,239
Profit before income tax	134,661	101,208
Income tax expense	(16,250)	(18,046)
Profit for the year	118,411	83,162
Other comprehensive loss (net of tax)	(36,608)	(25,492)
Total comprehensive income for the year	\$ 81,803	\$ 57,670
Comprehensive income attributable to non-controlling interest	\$ 80,338	\$ 62,149
Dividends paid to non- controlling interests	\$ 32,105	\$ 38,863

Kuen Ling Machinery Refrigerating Co., Ltd.		
	For the year ended December 31, 2017	For the year ended December 31, 2016
Revenue	\$ 2,692,408	\$ 2,577,835
Profit before income tax	253,110	295,353
Income tax expense	(57,047)	(56,632)
Profit for the year	196,063	238,721
Other comprehensive loss (net of tax)	(27,554)	(56,634)
Total comprehensive income for the year	<u>\$ 168,509</u>	<u>\$ 182,087</u>
Comprehensive income attributable to non-controlling interest	<u>\$ 135,645</u>	<u>\$ 145,992</u>
Dividends paid to non- controlling interests	<u>\$ 134,054</u>	<u>\$ 109,680</u>
Century Development Corporation		
	For the year ended December 31, 2017	For the year ended December 31, 2016
Revenue	\$ 1,310,846	\$ 801,532
Profit before income tax	379,464	305,594
Income tax expense	(64,590)	(47,654)
Profit for the year	314,874	257,940
Other comprehensive loss (net of tax)	(10,089)	(3,731)
Total comprehensive income for the year	<u>\$ 304,785</u>	<u>\$ 254,209</u>
Comprehensive income attributable to non-controlling interest	<u>\$ 167,574</u>	<u>\$ 186,605</u>
Dividends paid to non-controlling interests	<u>\$ 76,447</u>	<u>\$ 61,637</u>

Statements of cash flows

	Tecom Co., Ltd.	
	For the year ended December 31, 2017	For the year ended December 31, 2016
Net cash provided by (used in) operating activities	\$ 442,105	(\$ 78,928)
Net cash (used in) provided by investing activities	(40,743)	105,012
Net cash used in financing activities	(359,266)	(16,839)
Increase in cash and cash equivalents	42,096	9,245
Cash and cash equivalents, beginning of year	275,120	265,875
Cash and cash equivalents, end of year	<u>\$ 317,216</u>	<u>\$ 275,120</u>
	Taiwan Pelican Express Co., Ltd.	
	For the year ended December 31, 2017	For the year ended December 31, 2016
Net cash provided by operating activities	\$ 109,282	\$ 151,135
Net cash used in investing activities	(73,672)	(50,586)
Net cash used in financing activities	(42,907)	(57,263)
Effect of exchange rates on cash and cash equivalents	(51)	(501)
(Decrease) increase in cash and cash equivalents	(7,348)	42,785
Cash and cash equivalents, beginning of year	1,048,669	1,005,884
Cash and cash equivalents, end of year	<u>\$ 1,041,321</u>	<u>\$ 1,048,669</u>

	Kuen Ling Machinery Refrigerating Co., Ltd.	
	For the year ended December 31, 2017	For the year ended December 31, 2016
Net cash provided by operating activities	\$ 229,941	\$ 300,241
Net cash used in investing activities	(66,650)	(22,019)
Net cash used in financing activities	(186,819)	(150,114)
Effect of exchange rates on cash and cash equivalents	(18,824)	(27,538)
(Decrease) increase in cash and cash equivalents	(42,352)	100,570
Cash and cash equivalents, beginning of year	403,075	302,505
Cash and cash equivalents, end of year	<u>\$ 360,723</u>	<u>\$ 403,075</u>
	Century Development Corporation	
	For the year ended December 31, 2017	For the year ended December 31, 2016
Net cash provided by operating activities	\$ 471,486	\$ 399,016
Net cash provided by (used in) investing activities	453,948	(20,541)
Net cash used in financing activities	(739,282)	(484,359)
Effect of exchange rates on cash and cash equivalents	(312)	-
Increase (decrease) in cash and cash equivalents	185,840	(105,884)
Cash and cash equivalents, beginning of year	622,617	728,501
Cash and cash equivalents, end of year	<u>\$ 808,457</u>	<u>\$ 622,617</u>

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. (Note 2) (Nano Bit)	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)	"
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 Inyerdisciplinary Foundation (Taiwan Art)	"
TA Associates International Pte Ltd. (TA Assotiates)	"	Xia Men An-Shin Food Management Co., Ltd. (Xia Men An-Shin)	"
Teco-Motech Co., Ltd. (Teco-Motech)	"	Teco Technology Foundation (Teco Found)	"

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.

(2) Significant related party transactions

A. Operating revenue:

	For the year ended December 31, 2017	For the year ended December 31, 2016
Sales of goods and services:		
Associates	\$ 468,099	\$ 410,808
Other related parties	321,382	133,148
	<u>\$ 789,481</u>	<u>\$ 543,956</u>

The Group sells commodities and services to related parties based on mutual 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, 2017	For the year ended December 31, 2016
Purchases of goods:		
Associates	\$ 163,057	\$ 108,447
Other related parties	59	-
	<u>\$ 163,116</u>	<u>\$ 108,447</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:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Receivables from related parties:		
Associates	\$ 101,112	\$ 227,425
Other related parties	88,859	29,524
Less: Reclassified to other receivables	(5,339)	(16,795)
	<u>184,632</u>	<u>240,154</u>
Other receivables - transfer of accounts receivable that were past due		
Associates	<u>5,339</u>	<u>16,795</u>
Other receivables - others		
Associates		
Le-Li Co., Ltd.	9,862	9,872
Others	14,510	468,798
Other related parties	<u>5,133</u>	<u>2,331</u>
	<u>29,505</u>	<u>481,001</u>
	<u>34,844</u>	<u>497,796</u>
	<u>\$ 219,476</u>	<u>\$ 737,950</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 \$5,339 and \$16,795 as of December 31, 2017 and 2016, 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:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Payables to related parties:		
Associates	\$ 123,800	\$ 105,889
Other related parties	<u>839</u>	<u>839</u>
	<u>\$ 124,639</u>	<u>\$ 106,728</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. Loans to related parties:

(a) Receivables from related parties (listed as 「 1210 other receivables - related parties 」)

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates		
Teco Century	<u>\$ -</u>	<u>\$ 55,071</u>

(b) Interest income

	For the year ended December 31, 2017	For the year ended December 31, 2016
Associates		
Le-Li Co., Ltd.	\$ -	\$ 2,680
Qingdao Century	-	3,327
	<u>\$ -</u>	<u>\$ 6,007</u>

The loans to associates are payable monthly over 2 years and carry interest at 1.25%~7% per annum for the year ended December 31, 2016.

F. Endorsements and guarantees provided to related parties:

	December 31, 2017	December 31, 2016
Associates	<u>\$ 41,051</u>	<u>\$ 171,198</u>

G. Property transactions:

	For the year ended December 31, 2017	For the year ended December 31, 2016
Acquisition of property, plant and equipment		
Associates		
Le - Li Co., Ltd.	<u>\$ -</u>	<u>\$ 235,000</u>

(3) Key management compensation

	For the year ended December 31, 2017	For the year ended December 31, 2016
Salaries and other short-term employee benefits	\$ 557,623	\$ 573,630
Post-employment benefits	<u>6,363</u>	<u>4,451</u>
	<u>\$ 563,986</u>	<u>\$ 578,081</u>

8. PLEDGED ASSETS

Pledged asset	Book value		Purpose
	December 31, 2017	December 31, 2016	
Available-for-sale financial assets - current			
Innolux Corporation	\$ -	\$ 12,126	Commercial papers payable and short-term borrowings
Notes receivable	35,344	41,723	Short-term borrowings
Accounts receivable	-	723,141	Merchandise loans
Inventories	-	650,121	"
Other current assets			
Demand deposits	111,359	79,945	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	11,293	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	336,115	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	15,900	Short-term borrowings and commercial papers payable
Far Eastone Telecommunications Co., Ltd.	220,500	217,500	"
Innolux Corporation	26,973	25,233	Long-term borrowings
Taiwan High Speed Rail Corporation	381,219	298,486	"
Investments accounted for under the equity method			
Creative Sensor Inc.	144,090	116,830	Short-term borrowings
Property, plant, and equipment			
Land	119,377	243,537	Long-term borrowings , short-term borrowings
Buildings and structures	3,819,104	4,210,332	"
Other non-current assets			
Refundable deposits	62,947	82,597	Exercise guarantee or warranty for construction and exercise guarantee for tender
Long-term prepaid rent	964,200	991,502	Short-term borrowings, long-term borrowings and endorsements and guarantees to others
Treasury stock	247,091	247,091	Short-term borrowings
	<u>\$ 6,459,271</u>	<u>\$ 8,303,472</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, 2017	December 31, 2016
Property, plant and equipment	\$ 167,204	\$ 191,261

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, 2017	December 31, 2016
Not later than one year	\$ 495,499	\$ 436,331
Later than one year but not later than five years	1,073,832	943,534
Later than five years	2,450,472	3,146,031
	\$ 4,019,803	\$ 4,525,896

C. As of December 31, 2017, the outstanding usance L/C used for acquiring raw materials and equipment was \$680,832.

10. SIGNIFICANT DISASTER LOSS

On July 16, 2017, a fire occurred at a plant of the subsidiary, Tong-An Assets Management & Development Co., Ltd., in Guanyin Dist., Taoyuan City, which caused damages on certain plant, equipment and inventories. The estimated compensation claim for disaster and disaster loss amounted to \$346,186 and (\$262,216), respectively, and have been recognized in other gains and losses for the year ended December 31, 2017. The Group has insurance on aforementioned damaged assets, however, the Group is still in the process of negotiating the compensation with insurance company.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Group's applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. This will increase the Company's deferred tax assets and deferred tax liabilities by \$39,737 and \$150,246, respectively. Please refer to Note6(30) for related information.

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. Fair value information of financial instruments

The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, bond investments without active markets, notes

receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payable, other payables, bonds payable and long-term borrowings) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

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. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance. The Group uses derivative financial instruments to hedge certain risk exposures (see Notes 6(2) and 6(15)).
- (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. 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 various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Group use forward foreign exchange contracts, transacted with Group treasury. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.
- iii. The Group uses forward exchange contracts / forward exchange traded derivatives transactions that hedge the recognized foreign asset or liability due to exchange rate fluctuations.
- 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, 2017

	Sensitivity Analysis					Effect on other comprehensive income			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss				
(Foreign currency: functional currency)									
Financial assets									
Monetary items									
USD:NTD	\$	104,852	29.7600	\$	3,120,396	1%	\$	31,204	-
EUR:USD	EUR	7,303	1.1952		259,768	1%		2,598	-
EUR:NTD	EUR	14,518	35.5700		516,405	1%		5,164	-
USD:RMB	USD	57,013	6.5192		1,696,707	1%		16,967	-
USD:SGD	USD	11,859	1.3369		352,924	1%		3,529	-
JPY:NTD	JPY	1,456,730	0.2642		384,868	1%		3,849	-
RMB:NTD	RMB	81,725	4.5650		373,075	1%		3,731	-
USD:MYR	USD	2,290	4.0647		68,150	1%		682	-
MYR:SGD	MYR	12,975	0.3289		93,586	1%		936	-
AUD:NTD	AUD	4,528	23.1850		104,982	1%		1,050	-
USD:AUD	USD	3,519	1.2836		104,725	1%		1,047	-
Non-monetary items									
USD:NTD	USD	612,940	29.7600		18,241,096				
EUR:NTD	EUR	116,142	35.5700		4,131,154				
SGD:NTD	SGD	141,918	22.2600		3,159,088				
VND:NTD	VND	126,843,846	0.0013		164,897				
MYR:NTD	MYR	17,618	7.3215		128,993				
Financial liabilities									
Monetary items									
USD:NTD	USD	80,352	29.7600		2,391,276	1%		23,913	-
USD:RMB	USD	10,314	6.5192		306,945	1%		3,069	-
USD:SGD	USD	8,663	1.3369		257,811	1%		2,578	-
USD:VND	USD	2,779	22,892.3077		82,703	1%		827	-
USD:AUD	USD	7,123	1.2836		211,980	1%		2,120	-
EUR:NTD	EUR	6,252	35.5700		222,384	1%		2,224	-
JPY:NTD	JPY	409,287	0.2642		108,134	1%		1,081	-

December 31, 2016

Sensitivity Analysis						
Foreign currency amount		Effect on profit or loss			Effect on other comprehensive income	
	(In thousands)	Exchange rate	Book value (NTD)	Degree of variation		
(Foreign currency: functional currency)						
Financial assets						
Monetary items						
USD:NTD	USD \$	32.2500	\$	4,250,425	\$	42,504 \$
EUR:USD	EUR	1.0512		258,151		2,582
EUR:NTD	EUR	33.9000		1,181,201		11,812
USD:RMB	USD	6.9851		1,735,170		17,352
USD:SGD	USD	1.4468		646,542		6,465
CAD:USD	CAD	0.7414		109,316		1,093
JPY:NTD	JPY	0.2756		345,297		3,453
RMB:NTD	RMB	4.6170		284,163		2,842
USD:MYR	USD	4.4712		89,505		895
MYR:SGD	MYR	0.3236		105,236		1,052
USD:EUR	USD	0.9513		10,928		109
Non-monetary items						
USD:NTD	USD	32.2500		18,955,277		
EUR:NTD	EUR	33.9000		3,866,855		
SGD:NTD	SGD	22.2900		2,932,708		
VND:NTD	VND	0.0014		173,883		
MYR:NTD	MYR	7.2128		117,796		
Financial liabilities						
Monetary items						
USD:NTD	USD	32.2500		2,796,990		27,970
USD:RMB	USD	6.9851		561,191		5,612
USD:SGD	USD	1.4468		215,403		2,154
USD:VND	USD	23.035.7143		127,316		1,273

- v. Total exchange (loss) gain including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2017 and 2016 amounted to (\$235,383) and \$23,928, respectively.

Price risk

- i. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. 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 domestic listed and unlisted stocks. 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, 2017 and 2016 would have increased/decreased by \$12,700 and \$10,134, 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 \$689,808 and \$656,386 as a result of gains/losses on equity securities classified as available-for-sale, respectively.

Interest rate risk

- i. The Group's interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is floating rate. During the years ended December 31, 2017 and 2016, the Group's borrowings at variable rates were denominated in the NTD, USD and RMB.
- ii. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.
- iii. At December 31, 2017 and 2016, 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, 2017 and 2016 would have been \$19,778 and \$27,700 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. According to the Group's credit policy, each local entity in the Group 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 utilization 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. For banks and financial institutions, only independently rated parties with a better credit rating are accepted.

- ii. No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The credit quality information of financial assets that are neither past due nor impaired is provided in Note 6(6).

(c) Liquidity risk

- i. 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.
- ii. As of December 31, 2017 and 2016, the undrawn credit amounts are \$19,571,220 and \$14,914,070, respectively.
- iii. 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:

<u>December 31, 2017</u>	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	-

<u>December 31, 2016</u>	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	\$ 3,078,361	\$ -	\$ -	\$ -	-
Notes payable	170,772	-	-	-	-
Accounts payable	7,610,470	-	-	-	-
Other payables	4,998,690	-	-	-	-
Bonds payable	-	-	-	3,000,000	-
Long-term borrowings (including current portion)	6,535,764	917,069	789,327	1,866,071	167,528

- iv. As of December 31, 2017 and 2016, the derivative financial liabilities which were executed by the Group were all due within one year.
- v. The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(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(11).
- 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 at December 31, 2017 and 2016 is as follows:

<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>				
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>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	\$ -	\$ 2,528	\$ -	\$ 2,528
<u>December 31, 2016</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	\$ 202,676	\$ -	\$ -	\$ 202,676
Forward exchange contracts	-	30,832	-	30,832
Available-for-sale financial assets				
Equity securities	11,877,610	-	1,250,106	13,127,716
	<u>\$ 12,080,286</u>	<u>\$ 30,832</u>	<u>\$ 1,250,106</u>	<u>\$ 13,361,224</u>

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, 2017 and 2016, there was no transfer between Level 1 and Level 2.
- F. The following table presents the changes in level 3 instruments as at December 31, 2017 and 2016.

	Non-derivative equity	
	For the year ended December 31, 2017	For the year ended December 31, 2016
Beginning balance	\$ 1,250,106	\$ 1,662,626
Gain and loss recognized in other comprehensive income (Note)	(63,210)	(70,189)
Acquired during the year	53,648	81,685
Sold during the year	(77,669)	(414,833)
Impairment loss	-	(9,183)
Ending balance	<u>\$ 1,162,875</u>	<u>\$ 1,250,106</u>

Note: Recorded as unrealized valuation gain or loss on available-for-sale financial assets.

- 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, 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
	Fair value at December 31, 2016	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity:					
Unlisted shares	\$ 1,250,106	Market comparable companies	Price to earnings ratio multiple	0.94~2.30	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

- I. 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, 2017						
Input	Change	Recognised in profit or loss		Recognised in other comprehensive income		
		Favourable change	Unfavourable change	Favourable change	Unfavourable change	
Financial assets						
Equity instrument	Discount for lack of marketability	±5%	\$ -	\$ -	\$ 58,144	\$ 58,144

December 31, 2016

		Recognised in profit or loss		Recognised in other comprehensive income	
		Favourable change	Unfavourable change	Favourable change	Unfavourable change
Input	Change				
Financial assets					
Equity instrument	Discount for lack of marketability				
	±5%	\$ -	\$ -	\$ 62,505	(\$ 62,505)

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(2) and 6(15).
- 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(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 year ended December 31, 2017 and 2016 is as follows:

	For the year ended December 31, 2017				
	Heavy industrial products division	Home electric 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	<u>\$ 49,421,617</u>	<u>\$ 11,426,605</u>	<u>\$ 11,942,942</u>	<u>\$ 21,848,643</u>	<u>\$ 50,942,521</u>
Segment profits and losses	<u>\$ 2,842,109</u>	<u>\$ 414,245</u>	<u>\$ 239,846</u>	<u>\$ -</u>	<u>\$ 3,496,200</u>
Segment profits and losses including:					
Depreciation and amortization	<u>\$ 851,483</u>	<u>\$ 194,129</u>	<u>\$ 438,276</u>	<u>\$ -</u>	<u>\$ 1,483,888</u>
Not included in segment profit, but regularly provided to the chief operating decision-maker:					
<u>Segment assets</u>					
Identifiable assets	<u>\$ 37,005,238</u>	<u>\$ 5,417,893</u>	<u>\$ 19,977,080</u>	<u>\$ 7,762,656</u>	<u>\$ 54,637,555</u>
Capital expenditures	<u>\$ 739,189</u>	<u>\$ 105,605</u>	<u>\$ 162,061</u>	<u>\$ -</u>	<u>\$ 1,006,855</u>
<u>Segment liabilities</u>	<u>\$ 15,364,884</u>	<u>\$ 3,177,101</u>	<u>\$ 7,209,181</u>	<u>\$ 8,488,848</u>	<u>\$ 17,262,318</u>

For the year ended December 31, 2016

	Heavy industrial products division	Home electric appliance division	Others	Adjustment and elimination	Total
<u>Operating revenues</u>					
Operating revenues from external customers	\$ 30,413,129	\$ 8,312,065	\$ 11,198,642	\$ -	\$ 49,923,836
Operating revenues from internal segments	15,275,073	3,797,065	814,436	(19,886,574)	-
Total operating revenues	\$ 45,688,202	\$ 12,109,130	\$ 12,013,078	\$ 19,886,574	\$ 49,923,836
Segment profits and losses	\$ 3,512,771	\$ 181,835	\$ 494,875	\$ -	\$ 4,189,481
Segment profits and losses including: Depreciation and amortization	\$ 866,026	\$ 214,066	\$ 469,631	\$ -	\$ 1,549,723
Not included in segment profit, but regularly provided to the chief operating decision-maker:					
<u>Segment assets</u>					
Identifiable assets	\$ 38,050,775	\$ 6,149,450	\$ 19,838,521	\$ 6,911,953	\$ 57,126,793
Capital expenditures	\$ 1,080,040	\$ 71,649	\$ 342,712	\$ -	\$ 1,494,401
<u>Segment liabilities</u>	\$ 15,270,189	\$ 3,575,822	\$ 5,917,239	\$ 7,499,238	\$ 17,264,012

(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 31, 2017 and 2016 is provided as follows:

	For the year ended December 31, 2017	For the year ended December 31, 2016
Adjusted operating income of reportable segments	\$ 3,256,354	\$ 3,694,606
Adjusted operating income of other operating segments	239,846	494,875
Total segments	3,496,200	4,189,481
Interest income	150,197	172,217
Unrealized (loss) profit on financial instruments	(7,101)	13,231
Financial cost	(254,638)	(282,231)
Associates' and joint ventures' profit and loss accounted for under the equity method	233,927	(90,260)
Gain on disposal of property, plant and equipment	150,541	687
Impairment loss	(889)	(127,277)
Others	585,667	1,057,443
Income before income tax	\$ 4,353,904	\$ 4,933,291

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.

	For the year ended December 31, 2017	For the year ended December 31, 2016
Assets of reportable segments	\$ 39,776,025	\$ 40,664,817
Assets of other operating segments	14,861,530	16,461,976
Unamortized items:		
Deferred income tax assets	1,382,884	1,194,242
Available-for-sale financial assets	13,796,160	13,127,716
Bond investments without active market	3,794,570	2,830,572
Investments accounted for under the equity method	4,022,455	3,871,299
Financial assets at fair value through profit or loss	254,004	233,508
General assets of the Group	14,129,329	13,989,826
Total assets	<u>\$ 92,016,957</u>	<u>\$ 92,373,956</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, 2017	For the year ended December 31, 2016
Liabilities of reportable segments	\$ 13,447,497	\$ 13,227,941
Liabilities of other operating segments	4,698,418	4,036,071
Unamortized items:		
Financial liabilities at fair value through profit or loss	2,528	-
Deferred income tax liabilities	2,423,023	2,485,443
Current income tax liabilities	917,494	550,441
Short-term borrowings (including current portion)	2,187,621	3,920,947
Corporate bonds payable (including current portion)	4,000,000	3,000,000
Long-term borrowings	6,466,239	9,428,570
Total liabilities	<u>\$ 34,142,820</u>	<u>\$ 36,649,413</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, 2017	For the year ended December 31, 2016
Sales revenue	\$ 40,243,212	\$ 41,073,462
Construction revenues	3,141,743	2,466,811
Service revenue	7,004,090	6,212,372
Revenue from disposal of land	426,500	-
Others	126,976	171,191
	<u>\$ 50,942,521</u>	<u>\$ 49,923,836</u>

(6) Geographical information

Geographical information for the years ended December 31, 2017 and 2016 is as follows (revenue recognition is based on the operating locations where revenue is earned):

	For the year ended December 31, 2017		For the year ended December 31, 2016	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	\$ 28,681,617	\$ 15,827,118	\$ 28,368,002	\$ 16,433,614
America	7,592,882	575,255	7,154,529	678,229
China	4,330,891	3,122,937	3,599,044	3,323,309
Others	10,337,131	1,858,658	10,802,261	1,990,777
Total	<u>\$ 50,942,521</u>	<u>\$ 21,383,968</u>	<u>\$ 49,923,836</u>	<u>\$ 22,425,929</u>

(7) Major customer information

No single customer accounts for more than 10% of the consolidated operating revenue for the years ended December 31, 2017 and 2016.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES

Loans to others

For the year ended December 31, 2017

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			Interest rate (%)	Nature of loans	Amount of transactions with the borrower	Reason for short-term financing	Allowance		Collateral		Footnote	
					the year ended December 31, 2017	December 31, 2017 (Note 12)	Balance at December 31, 2017					e for doubtful accounts	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	\$ 93,557	\$ 86,304	\$ 86,304	2.3	Short-term financing	\$ -	For operating capital	\$ -	-	\$ -	1,554,893	\$ 5,182,977	Note 2
0	TECO ELECTRIC & MACHINERY CO., LTD.	QingDao Teco	"	"	150,127	136,357	136,357	3.5	Short-term financing	-	For operating capital	-	-	-	1,554,893	5,182,977	Note 2
1	U.V.G.	Teco Netherlands	"	"	251,230	248,990	248,990	1.54	Short-term financing	-	For operating capital	-	-	-	443,449	739,081	Note 3
2	Tai-An Wuxi	Fujian Teco	"	"	11,543	11,413	11,413	3.91	Short-term financing	-	For operating capital	-	-	-	68,161	136,321	Note 4
3	Teco Westinghouse	TWMM	"	"	66,726	66,726	42,557	2-4.36	Short-term financing	-	For operating capital	-	-	-	701,798	1,403,596	Note 5
3	Teco Westinghouse	TECO ELECTRIC & MACHINERY CO., LTD.	"	"	304,200	297,600	297,600	1.1	Short-term financing	-	For operating capital	-	-	-	701,798	1,403,596	Note 5
4	Tong-An Assets	TECO ELECTRIC & MACHINERY CO., LTD.	"	"	280,000	280,000	280,000	1.05	Short-term financing	-	For operating capital	-	-	-	529,645	529,645	Note 6
5	Motovario S.p.A.	GEAR SOLUTIONS ES	"	"	160,967	159,531	159,531	2.75-3	Short-term financing	-	For operating capital	-	-	-	206,954	413,909	Note 7
6	Baycom	Tecom	"	"	55,000	40,000	40,000	2.13	Short-term financing	-	Repayments of debt	-	-	-	47,487	94,974	Note 8
7	Tecom Co., Ltd.	Tecom	"	"	25,000	-	-	2.15	Short-term financing	-	Repayments of debt	-	-	-	24,325	48,650	Note 9

Number (Note 1)	Creditor	Borrower	General ledger account	Related party	Maximum outstanding balance during		Balance at December 31, 2017 (Note 12)	Actual amount drawn down	Interest rate (%)	Nature of loans	Amount of transactions with the borrower	Reason for short-term financing	Allowance		Collateral		Footnote
					the year ended	December 31,							e for doubtful accounts	Value	Limit on loans granted to a single party	Ceiling on total loans granted	
					December 31, 2017	2017											
8	Kuen Ling	Kuen Ling (Vietnam)	Other receivables	Yes	\$ 38,640	\$ 35,652	\$ 5,942	2.94	Short-term financing	\$ -	-	For operating capital	\$ -	\$ -	\$ 131,536	\$ 526,183	Note 10
8	Kuen Ling	K.A. Corp.	"	"	32,230	29,710	-	-	Short-term financing	-	-	For operating capital	-	-	131,536	526,183	Note 10
9	Kuen Ling (Suzhou)	Kuen Ling (Shanghai)	"	"	39,571	-	-	-	Short-term financing	-	-	For operating capital	-	-	52,451	104,901	Note 11

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, 2017), 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, 2017).

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, 2017), 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, 2017).

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, 2017), 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, 2017).

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, 2017), 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, 2017).

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, 2017), 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, 2017).

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, 2017), 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, 2017).

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, 2017); 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, 2017).

Note 9: The ceiling on total loans to others of Tecom International Investment Co., Ltd. is 20% of the Group's net assets; the limit on loans granted to a single party is 10% of the Company's net assets. And for companies that have transactions with Tecom International Investment Co., Ltd. and other companies that were approved by the Board of Directors, the ceiling on loans granted to these companies is 5% of the net assets of financial statement on December 31, 2017, and is limited to 40% of the borrower's net assets.

Note 10: The ceiling on total loans to others of Kuen Ling Machinery Refrigerating Co., Ltd. is 40% of the Group's net assets; for companies have business relationship with the Group, the limit to a single party is the amount of business transactions between the creditor and borrower in the current year. And the limit on loans to a single party for short-term financing is limited to 10% of the borrower's net assets of financial statement on December 31, 2017.

Note 11: The ceiling on total loans to Kuen Ling Machinery Refrigerating Co., Ltd. is 40% of the net assets of financial statement on December 31, 2017. The limit on loans to a related parties for short-term financing is limited to 20% of the borrower's net assets.

Note 12: The credit line approved by the Board of Directors.

Table 2

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES

Provision of endorsements and guarantees to others
For the year ended December 31, 2017

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed		Maximum outstanding endorsement/ guarantee amount as of December 31, 2017	Outstanding endorsement/ guarantee amount at December 31, 2017	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			Footnote
		Company name	Relationship with the endorser/ guarantor (Note 2)							endorsements/ guarantees by parent company to subsidiary	endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	
0	TECO ELECTRIC & MACHINERY CO., LTD.	GD TECO	1	\$ 10,365,953	\$ 100,000	\$ 100,000	\$ -	0.19	\$ 31,097,859	Y	N	N	Note 3
0	TECO ELECTRIC & MACHINERY CO., LTD.	Teco International	1	10,365,953	100,000	100,000	-	0.19	31,097,859	Y	N	N	"
0	TECO ELECTRIC & MACHINERY CO., LTD.	Motorvario	1	10,365,953	2,942,980	2,712,568	-	5.24	31,097,859	Y	N	N	"
0	TECO ELECTRIC & MACHINERY CO., LTD.	Others	1,2,3,4	10,365,953	4,125,048	4,114,362	-	7.94	31,097,859	Y	N	N	"
1	Teco Westinghouse	TWMM	1	701,798	52,166	12,934	-	0.19	1,403,596	Y	N	N	Note 4
2	Teco Australia	Ejoy Australia	1	198,009	-	-	-	0.00	594,026	Y	N	N	Note 5
2	Teco Australia	MOS Burger Australia Pty Ltd.	1	198,009	1,384	-	-	0.00	594,026	Y	N	N	"
3	Tong-an Investment	TG Teco Vacuum Insulated Glass Corp.	4	119,226	119,226	-	-	0.00	200,000	N	N	N	Note 6
4	Motorvario S.p.A.	TECNOFIB SRL	3	827,817	1,363	577	-	0.01	2,510,658	N	N	N	Note 7
5	Kuen Ling	Kuen Ling	2	394,637	45,777	-	-	3.50	526,183	Y	N	Y	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: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following five categories:

(1) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(2) The endorser/guarantor parent company directly or indirectly through its subsidiaries owns more than 50% voting shares of the endorsed/guaranteed company.

(3) Having business relationship.

(4) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

(5) An investee accounted for under the equity method.

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, 2017), and the guarantee to a single party shall not exceed 20% of the Company's net assets.

Note 4: In accordance with the Tecu Westinghouse's policy, the total guarantee amount shall not exceed 20% of Tecu Westinghouse's net assets based on the latest financial statements (December 31, 2017), and the guarantee to a single party shall not exceed 10% of Tecu Westinghouse's net assets.

Note 5: In accordance with the Tecu Australia's policy, the total guarantee amount shall not exceed 60% of Tecu Australia's net assets based on the latest financial statements (December 31, 2017), and the guarantee to a single party shall not exceed 20% of Tecu Australia's net assets.

Note 6: In accordance with Tong-An Investment's policy, the total guarantee amount shall not exceed \$200 million, and the guarantee to a single party shall not exceed \$50 million.

Note 7: 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, 2017), and the guarantee to a single party shall not exceed 20% of Motovario S.p.A.'s net assets.

Note 8: The limit of provision of endorsements and guarantees to Kuen Ling Machinery Refrigerating Co., Ltd. and total amount to others are 40% of the net assets of the Group. The limit on endorsements and guarantees for any single entity is 30% of the Company's net assets.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

For the year ended December 31, 2017

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, 2017				Ownership (%)	Fair value	Footnote
				Number of shares	Book value					
	Stock 1	None	Note 1	10,084	\$	143,197	\$	0.08	143,197	
	Stock 2	"	"	9,610		119,166		0.10	119,166	
	Stock 3	The Company is a supervisor of the investee	"	11,527		308,359		1.96	308,359	
	Stock 4	The Company is a director of the investee	"	190,061		4,466,424		3.38	4,466,424	
	Stock 5	None	"	47,839		426,244		1.98	426,244	
	Stock 6	"	"	2,710		27,046		0.06	27,046	
	Stock 7	The Company is a director of the investee	"	32,980		308,552		10.99	308,552	
	Stock 8	None	"	7,500		314,775		5.00	314,775	
	Fund 1	"	"	-		98,111		-	98,111	
	Stock 9, etc.	The Company is a director of the investee	"	5,098		114,097		15.66	114,097	
	Stock 10, etc.	None	"	-		283,144		-	283,144	
	Stock 11	The Company is a director of the investee	"	6,377		105,859		5.67	105,859	
	Stock 12, etc.	"	"	10,237		252,440		-	252,440	
	Stock 13, etc.	"	"	2,367		166,906		-	166,906	
	Stock 14, etc.	"	Note 3	371		15,743		-	15,743	
	Stock 15, etc.	An investee company accounted by the Company using equity method	Note 2	19,540		556,891		0.98	556,891	
	Stock 16	Related party in substance	Note 1	9,197		152,662		8.17	152,662	
	Stock 17	"	"	33,263		359,069		-	359,069	
	Stock 18	None	"	9,332		685,899		0.29	685,899	
	Stock 19	"	"	1,645		176,838		0.05	176,838	
	Stock 20, etc.	The Company is a director of the investee	"	15,470		3,364,725		10.89	3,364,725	
	Fund 2, etc.	None	"	554		96,381		2.24	96,381	
	Fund 3	"	Note 2	1,504		70,412		-	70,412	
	Stock 21, etc.	"	Note 3	9,627		620,279		-	620,279	
	Stock 14	An investee company accounted by the Company using equity method	"	922		14,494		-	14,494	
	Stock 11	Related party in substance	Note 1	1,201		41,833		-	41,833	
	Stock 15	"	"	118		8,072		-	8,072	
	Stock 22	"	"	2,826		80,534		0.14	80,534	
	Stock 23, etc.	"	"	1,270		21,084		1.13	21,084	
	Fund 4, etc.	"	"	2,756		246,358		8.51	246,358	
	Stock 11	None	Note 3	195		8,771		-	8,771	
	Stock 24, etc.	"	Note 2	481		36,667		-	36,667	
	Stock 18	Related party in substance	Note 1	4,136		53,842		-	53,842	
	Stock 18, etc.	None	"	200		3,323		0.18	3,323	
	Stock 18	"	"	4,074		31,524		-	31,524	
	Stock 18	"	"	304		66,033		0.21	66,033	
	Stock 18	"	"	1,284		99,832		-	99,832	
	Stock 18	"	"	460		100,137		0.32	100,137	

As of December 31, 2017

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Teco Nanotech	Stock 11 Fund 5	Related party in substance	Note 1	81	\$ 1,337	0.07	\$ 1,337	
Sankyo	Stock 25	"	Note 2	62	10,989	-	10,989	
Kuen Ling	Stock 26	"	Note 3	68	8,821	-	8,821	
	Stock 27	"	Note 1	1,000	-	9.00	-	
	Stock 28	"	"	158	4,039	15.00	4,039	
Tecom	Stock 2	"	"	-	5,720	18.00	5,720	
	Stock 4	"	"	2,175	26,973	0.02	26,973	
Tecom International	Stock 29	The Company is a corporate director of the investee	"	16,222	381,219	0.29	381,219	
	Stock 30, etc.	None	Note 3	3,354	32,633	1.69	32,633	
	Fund 8	"	Note 1	370	767	-	767	
Top-Tower	Stock 14	An investee company accounted by the Company using equity method	Note 2	-	103,017	-	103,017	
	Stock 31, etc.	None	Note 3	72	2,201	-	2,201	
			"	3	62	-	62	

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.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES

Disposal of real estate reaching \$300 million or 20% of paid-in capital or more

For the year ended December 31, 2017

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

Real estate disposed by	Real estate	Transaction date or date of the event	Date of acquisition	Book value	Disposal amount	Status of collection of proceeds	Gain (loss) on disposal	Counterparty	Relationship with the seller	Reason for disposal	Basis or reference used in setting the price	Other commitments
Century Development Corporation	Land and buildings in the phase II of the Nankang Software Park	2017/9/8	104/2/9	\$ 345,530	\$ 426,500	Fully collected	\$ 80,970	Bank Taiwan Life Insurance Co., Ltd	None	Raise funds for overseas development	Based on the appraisal report of Cushman & Wakefield, Savills Plc, Sinyi Real Estate Appraiser Office	None

Note 1: The appraisal result should be presented in the 'Basis or reference used in setting the price' column if the real estate disposed of should be appraised pursuant to the regulations.

Note 2: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 3: Date of the event referred to herein is the date of contract signing, date of payment, date of execution of a trading order, date of title transfer, date of board resolution, or other date that can confirm the counterparty and the monetary amount of the transaction, whichever is earlier.

TECO ELECTRIC & 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, 2017

Table 5

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	
				\$		30 days	Note	Note	(\$	Percentage of total notes/accounts receivable (payable)
TECO ELECTRIC & MACHINERY CO., LTD.	Tesen	An investee accounted for under the equity method	Purchases	2,245,090	13%				1,428	-
	Kuen Ling	"	"	265,237	2%	"	"	"	(172,058)	(4%)
	Taian Subic	"	"	166,147	1%	"	"	"	(71,488)	(1%)
	Tai-An Wuxi	An indirect investee accounted for under the equity method	"	465,883	3%	"	"	"	(42,305)	(1%)
	Wuxi Teco	"	"	1,508,353	9%	"	"	"	(762,090)	(16%)
	Qing Dao Teco	"	"	478,607	3%	"	"	"	(55,849)	(1%)
	Teco Malaysia	"	"	368,977	2%	"	"	"	(48,059)	(1%)
	Jiangxi Teco	"	"	102,473	1%	"	"	"	(47,021)	(1%)
	Taisan Electric	An investee accounted for under the equity method	Sales	(214,148)	(1%)	90 days	"	"	20,521	1%
	Teco Singapore	"	"	(809,877)	(4%)	"	"	"	101,654	3%
	Tong Dai	"	"	(900,998)	(4%)	"	"	"	212,854	6%
	Tong Tai Jung	"	"	(729,815)	(3%)	"	"	"	182,183	5%
	E-Joy Electronics	"	"	(174,818)	(1%)	"	"	"	35,042	1%
	Tecom	"	"	(151,230)	(1%)	"	"	"	14,023	-
	Top-Tower	An indirect investee accounted for under the equity method	"	(325,304)	(2%)	"	"	"	85,047	2%
	Teco Westinghouse	"	"	(3,515,735)	(17%)	"	"	"	463,325	12%
	Teco Westinghouse Canada	"	"	(751,189)	(4%)	"	"	"	142,311	4%
	Teco Australia	"	"	(1,206,015)	(6%)	"	"	"	313,726	8%
	Teco Netherlands	"	"	(245,641)	(1%)	"	"	"	124,301	3%
	Sankyo	"	"	(110,339)	(1%)	"	"	"	12,700	-
	TWMM	"	"	(126,255)	(1%)	"	"	"	52,017	1%



		Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)	
Transaction					
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Percentage of total purchases (sales)	
				Amount	Percentage of total notes/accounts receivable (payable)
				Credit term	Balance
				Unit price	Footnote
				Credit term	

Note: Comparable with other types of transactions, trading conditions are handled in accordance with the agreement of the conditions.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES

Receivables from related parties reaching \$100 million or 20% of paid-in capital or more
For the year ended December 31, 2017

Table 6

Creditor	Counterparty	Relationship with the	Balance as at December 31, 2017	Turnover rate	Overdue receivables		Amount collected subsequent	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	\$ 212,854	4.23	\$ -	-	\$ 208,622	
"	Tong Tai Jung	"	182,399	4.40	-	-	182,399	
"	Teco Singapore	"	103,653	7.41	-	-	77,017	
"	Teco Westinghouse	An indirect investee accounted for under the equity method	464,659	7.33	-	-	464,659	
"	QingDao Teco	"	253,663	0.02	-	-	252,290	
"	Wuxi Teco	"	128,235	0.07	-	-	122,216	
"	Teco Australia	"	313,898	4.56	-	-	172,845	
"	Sankyo	"	243,080	0.51	181,364	In the process of collection	19,834	
"	Teco Netherlands	"	445,829	0.52	321,282	"	660	
"	Teco Westinghouse Canada	"	142,447	6.74	-	-	142,447	
Kuen Ling	TECO ELECTRIC & MACHINERY CO., LTD.	An investee accounted for under the equity method	172,058	2.68	-	-	172,058	
Teco Westinghouse	"	"	297,600	-	-	-	-	
Wuxi Teco	"	An indirect investee accounted for under the equity method	762,090	2.08	-	-	235,424	
Tong-An Assets	"	"	280,000	-	-	-	-	
U.V.G.	Teco Netherlands	"	248,990	-	-	-	-	
Motovario S.p.A.	GEAR SOLUTIONS ES	"	159,531	-	-	-	-	Total amount was \$18,670

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES

Significant inter-company transactions during the reporting period

For the year ended December 31, 2017

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

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.	Teco westinghouse	(1)	Accounts receivable and other receivables	\$	Because there is no transaction in same type which can be compared with, it is based on the condition and the period of both side's agreement.	1%
0	"	Tong Dai	"	Accounts receivable	212,854	"	-
0	"	Tong Tai Jung	"	Notes receivable, accounts receivable and other receivables	182,399	"	-
0	"	QingDao Teco	"	"	253,663	"	-
0	"	Teco Australia	"	"	313,898	"	-
0	"	Teco Netherlands	"	"	445,829	"	-
0	"	Sankyo	"	"	243,080	"	-
0	"	Teco Singapore	"	"	103,653	"	-
0	"	Teco Westinghouse Canada	"	"	142,447	"	-
1	Kuen Ling	TECO ELECTRIC & MACHINERY CO., LTD.	(2)	Accounts receivable	172,058	"	-
2	Wuxi Teco	"	"	Notes receivable and accounts receivable	762,090	"	1%
3	Teco westinghouse	"	"	Accounts receivable and other receivables	297,600	"	-
4	Tong-An Assets	"	"	"	280,000	"	-
5	U.V.G	Teco Netherlands	(3)	"	248,990	"	-
6	Motovario S.p.A.	GEAR SOLUTIONS ES	"	"	159,531	"	-
0	TECO ELECTRIC & MACHINERY CO., LTD.	Teco westinghouse	(1)	Sales	3,515,735	"	7%
0	"	Teco Westinghouse Canada	"	"	751,189	"	1%
0	"	Teco Singapore	"	"	809,877	"	2%
0	"	Tong Dai	"	"	900,998	"	2%
0	"	Top-Tower	"	"	325,304	"	1%
0	"	Tong Tai Jung	"	"	729,815	"	1%

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 of both side's agreement.	
0	TECO ELECTRIC & MACHINERY CO., LTD.	Teco Australia	(1)	Sales	\$ 1,206,015		2%
0	"	Teco Netherlands	"	"	245,641	"	-
0	"	E-Joy Electronics	"	"	174,818	"	-
0	"	Tecom	"	"	151,230	"	-
0	"	Sankyo	"	"	126,255	"	-
7	Tesen	TECO ELECTRIC & MACHINERY CO., LTD.	(2)	"	2,245,090	"	4%
1	Kuen Ling	"	"	"	265,237	"	1%
8	Tai-An Wuxi	"	"	"	465,883	"	1%
2	Wuxi Teco	"	"	"	1,508,353	"	3%
9	QingDao Teco	"	"	"	478,607	"	1%
10	Teco Malaysia	"	"	"	368,977	"	1%
11	Taian Subic	"	"	"	166,147	"	-
12	Jiangxi Teco	"	"	"	102,473	"	-

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 & MACHINERY CO., LTD. AND SUBSIDIARIES

Information on investees

For the year ended December 31, 2017

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017			Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016	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	2,045,704	620,789	193,260	None
	Tecom	Taiwan	Manufacturing of key telephone system and nonkey service unit telephone system	631,410	631,410	400,602,050	63.52	168,463	61,286	(38,500)	None
	Teco International	Taiwan	Investment holdings, investments in securities and construction of commercial buildings	100,013	100,013	55,003,366	100	1,156,169	77,142	77,267	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	9,166,670	394,449	394,871	None
	Teco Singapore and its subsidiaries	Singapore	Distribution of the Company's motor products in Singapore	112,985	112,985	7,200,000	90	3,159,088	292,992	251,563	None
	Tong-An Investment	Taiwan	Investment holdings	2,490,000	2,490,000	434,148,995	100	8,587,611	346,796	405,409	None
	Teco Electro	Taiwan	Manufacturing of Stepping motors	128,496	128,496	15,386,949	62.57	240,788	27,112	17,055	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	7,389,874	(233,937)	(233,098)	None
	Information Technology Total	Taiwan	E-business service, mailing and data management	121,232	121,232	12,123,248	60.62	162,835	48,631	29,480	None
	Service Tesen	Taiwan	Manufacturing and sales of home appliance	200,000	200,000	20,000,000	100	204,602	6,268	2,932	None

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017			Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016	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	\$ 526,975	\$ 38,262	(13,165)	None
	Tong Dai	Taiwan	Distribution of the Company's motor products in Taichung	22,444	22,444	5,290,800	92.63	268,668	80,886	74,921	None
	Teco Vietnam	Vietnam	Manufacturing and sales of motors	264,111	264,111	13,772,799	100	164,897	3,477	3,444	None
	Yatec	Taiwan	Development and maintenance of various electric appliances	92,389	92,389	7,799,996	64.95	136,518	9,183	5,958	None
	Tong-An Assets	Taiwan	Real estate business	2,111,889	2,111,889	388,423,711	100	5,296,447	107,803	107,803	None
	Taian Subic	Philippines	Manufacturing and sales of switches	165,819	165,819	17,131,155	76.70	156,895	6,909	5,522	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	1,521,289	13,734	14,818	None
	Century Development	Taiwan	Development and management of industrial park	951,141	951,141	91,243,692	28.67	1,344,150	309,300	81,640	None
	An-Tai International Pelican	Taiwan	Investment holdings	150,000	150,000	23,941,302	100	550,242	37,619	37,619	None
	Kuen Ling	Taiwan	Logistics and distribution services	255,116	255,116	24,121,700	25.27	420,151	118,411	29,919	None
		Taiwan	Manufacturing, installation, repair, domestic and export sales and leasing of condenser, water cooling, watercooled chiller and freezer	296,003	296,003	15,218,642	19.98	336,447	190,456	38,062	None
	Senergy Wind Power	Taiwan	Manufacturing machinery for electricity generation, transmission and distribution	249,990	249,990	24,999,000	50	169,815	(143,675)	7,427	None
	Taian-Etacom Technology Co., Ltd.	Taiwan	Bus bar and manufacturing of its components	70,330	70,330	7,033,000	84.73	138,169	24,919	21,115	None

Investor	Investee	Location	Main business activities	Initial investment amount			Shares held as at December 31, 2017				Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016	\$	Number of shares	Ownership (%)	Book value				
TECO ELECTRIC & MACHINERY CO., LTD.	Eagle Holding Co.	Cayman Islands	Investment holdings	\$ 3,691,723	\$ 3,691,723	\$	1	100	\$	4,131,154	\$	116,775	None
Eagle Holding Co.	TECO MOTOR B.V.	Netherlands	Investment holdings	3,691,723	3,691,723		1	100		4,131,154		116,775	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		4,131,154		116,775	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		1,443,507		98,491	None
Tecom	Tecom International Baycom	Taiwan	Investment holdings	100,000	100,000		12,000,000	100		243,250		510	None
		Taiwan	Manufacturing and sales of optical telecom products	359,656	359,656		9,619,819	28.64		124,884		9,919	None
Tong-An Investments	Creative Sensor Inc.	Taiwan	Manufacturing and sales of electronic components	87,464	87,464		7,913,310	6.23		212,032		210,020	None
	Century Development	Taiwan	Development and management of industrial park	420,646	420,646		41,937,916	13.17		650,703		309,300	None
	Pelican	Taiwan	Logistics and distribution services	54,874	54,874		6,474,468	6.78		112,772		118,411	None
Lien Chang	Gen Mao International Corp.	Taiwan	Investment holdings	92,000	92,000		11,720,000	100		128,310		5,943	None
	Gen Mao (Singapore)	Singapore	Investment holdings	582,246	582,246		27,502,354	84.97		679,827		56,274	None
Gen Mao International Corp.	Gen Mao (Singapore)	Singapore	Investment holdings	91,079	91,079		4,866,045	15.03		121,501		56,274	None
Century Development	Centurytech Construction and Management Corp.	Taiwan	Construction and sales of related raw materials	98,170	98,170		10,000,000	100		141,317 (		6,473) (	None
	Jack Property Service & Management Company	Taiwan	Building management servicing	13,750	13,750		1,512,500	50		69,573		40,203	None
	United Development	Taiwan	Investment consultancy service for domestic and foreign industrial parks and land	25,536	25,536		3,850,997	51.60		61,093		11,516	None
	Greyback International Property Inc.	Philippines	Housing project in Subic	9,912	9,912		144,600	30.11		10,491		1,335	None

Investor	Investee	Location	Main business activities	Initial investment amount			Shares held as at December 31, 2017			Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016		Number of shares	Ownership (%)	Book value			
				\$	\$	\$	1,000,000	100	\$	1,034	\$	None
Century Development	Century Real Estate (International) Pte. Ltd.	Singapore	Investing in other areas	30,070	-				28,756		1,034	None
Teco Electro	Teco Electro Devices Co., Ltd.	British Virgin Islands	Trading and investment holdings	88,108	88,108		2,510,000	100	105,106	11,220	11,344	None
Teco Singapore	Century Development	Taiwan	Development and management of industrial park	179,222	179,222		19,290,419	6.06	255,883	309,300	18,744	None
Teco International	Creative Sensor Inc.	Taiwan	Manufacturing and sales of electronic components	52,560	52,560		4,326,447	3.41	115,924	210,020	7,152	None
Kuen Ling	CHING CHI INTERNATIONAL LIMITED	British Virgin Islands	Investing in other areas	201,467	201,467		6,200,000	83	475,635	25,117	20,847	None
Tong-An Assets	Century	Taiwan	Leasing of real estate	184,893	184,893		15,432,335	4.85	204,727	309,300	14,996	None

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

For the year ended December 31, 2017

Table 9

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital \$	Investment method	Amount remitted from Taiwan to Mainland China/				Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Remitted to Mainland China	Remitted back to Taiwan	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017					
Teco (Dong Guan)	Manufacturing and sales of air conditioners mechanical equipment	268,799	Note 2	\$ 188,139	\$ -	\$ -	\$ 188,139	100	\$ 3,200	\$ 152,147	\$ -	Note 17
Wuxi Teco	Manufacturing and sales of motors	1,697,276	Note 1	768,259	-	-	768,259	82.35	(43,942)	1,603,374	-	Note 16
Taian (Wuxi)	Manufacturing and sales of optical fiber	495,213	Note 12	205,551	-	-	205,551	100	31,705	1,363,210	-	Note 17
Nanchang Teco	Manufacturing and sales of home appliances	456,293	Note 3	456,293	-	-	456,293	100	759	(8,369)	-	Note 17
Jiangxi Teco	Manufacturing and sales of motors	1,481,569	Note 1	1,383,653	-	-	1,383,653	98.07	(66,220)	1,482,763	-	Note 16
QingDao Teco	Manufacturing and sales of dyes	947,331	Note 1	1,648,510	-	-	1,648,510	87.60	(31,129)	350,512	-	Note 16,21
Xiamen Teco	Sales of motors and home appliances	20,590	Note 3	20,590	-	-	20,590	100	23	27,318	-	Note 17
Xiamen An-Tai	Development, manufacturing and sales of LCD monitors. Plant rentals and related real estate management	678,681	Note 3	467,577	-	-	467,577	100	(15,230)	276,699	-	Note 16

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Amount remitted from Taiwan to Mainland China/										Footnote							
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017		Amount remitted back to Taiwan for the year ended December 31, 2017		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017		Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017								
				\$	9,837	\$	-	\$	9,837						\$	676	\$	27,792	\$	-	
Teco Han Zou	Development and consulting of device products	9,837	Note 1	\$	9,837	\$	-	\$	-	\$	9,837	\$	676	100	\$	676	\$	27,792	\$	-	Note 17
Nanchang Dong- Huan	Business management consulting	3,222	Note 1		3,222		-		-		3,222		-	100		-		1,159		-	Note 20
Teco Century	Manufacturing and sales of compressor	680,938	Note 3		340,469		-		-		340,469		(32,348)	24		(7,764)		31,598		-	Note 17
Fujian Teco	Manufacturing and sales of electronic components	391,843	Note 1		391,843		-		-		391,843		(23,209)	100		(22,917)		86,009		-	Note 17
Ecoelectric International	Distribution of air conditioner	24,004	Note 2		-		-		-		-		(7,927)	39.90		(3,163)		10,444		-	Note 17
Teco (Tianjin) Innovation	Central China area Operation center	15,990	Note 3		15,990		-		-		15,990		291	100		291		15,019		-	Note 17
Teco (Jiang Xi)	Manufacturing and sales of air conditioning mechanical equipment	79,813	Note 3		79,813		-		-		79,813		5,563	100		5,563		122,174		-	Note 17
Teco Sichuan Trading	Sales of home appliances	26,522	Note 12		-		-		-		-		1,832	100		1,832		6,791		-	Note 17
Jiangxi Teco- Lead	Manufacturing and sales of wind generator	141,079	Note 1		62,865		-		-		62,865		(55)	45		(25)		3,567		-	Note 17
Qingdao Teco Innovation	Science Park development and business operations and consulting services	59,444	Note 14		59,444		-		-		59,444		(545)	100		(545)		33,518		-	Note 17
Shanghai Teco	Sales of home appliances	23,829	Note 1		23,829		-		-		23,829		(13,956)	100		6,950		(44,222)		-	Note 16
Hunan TECO	Manufacturing, sales and technical services of 2.0 megawatt and above aerogenerator, wheel bay and other components	240,818	Note 12		240,818		-		-		240,818		(17,975)	100		(17,913)		163,871		-	Note 17
Jiangxi TECO Westinghouse Motor Coil Co., Ltd.	Manufacturing and sales of motors, winding and related parts	119,840	Note 13		-		-		-		-		3,461	100		3,461		122,001		-	Note 17
Wuxi TECO Precision Industry Co. Ltd.	Production and sale of industrial motors and applications	656,500	Note 15		-		-		-		-		(55,785)	100		(55,785)		825,847		-	Note 16

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Amount remitted from Taiwan to Mainland China/			Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Amount remitted back to Taiwan for the year ended December 31, 2017	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017					
		\$		\$	\$	\$			\$	\$	
Beijing Pelican Express	Storage services	26,422	Note 4	26,422	-	-	100	8,214	5,122	-	Note 16
Fubon Gehua (Beijing) Trading Co., Ltd.	Merchandise wholesale	1,152,070	Note 5	24,746	-	24,746	2.16	-	-	-	Note 18,19
Kuen Ling (Shanghai)	Manufacturing and sales of air conditioning mechanical equipment	181,713	Note 6	116,068	-	116,068	100	30,674	274,425	43,219	Note 16
Kuen Yuan (Suzhou)	General manufacturing business	255,456	Note 6	58,649	-	58,649	100	5,304	262,253	-	Note 16
Firm Precision Industrial (Shanghai)	Manufacturing and sales of metal carton	31,764	Note 6	11,157	-	11,157	9	41,402	259	-	None
Suzhou Firm Precision Industrial	Manufacturing and sales of metal carton	255,459	Note 6	21,173	-	21,173	9	7,723	10,681	-	None
Wuhan Tecom	Communication network information, technology development, sales and technology services business	6,950	Note 7	6,950	-	6,950	100	2,739	6,549	-	Note 16
Tecom Tech (Wuxi)	R & D manufacture of broadband access network communication system equipment; sale of products to provide technology services	485,455	Note 8	485,455	-	485,455	100	24	3,143	-	Note 16
Tecom Tech Investment (BVI)	Flat panel displays, IT products, printed circuit board assembly, manufacture, testing and communication products and equipment R & D reproduction	34,990	Note 9	34,990	-	34,990	100	68	3,175	-	Note 16
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 9	14,566	-	14,566	100	1,157	8,399	-	Note 16
Information Technology (Wuxi)	ERP building, system maintenance and purchases of information appliance	10,167	Note 10	10,167	-	10,167	100	1,414	18,339	-	Note 17
Information Technology Total Service (Hang Zhou)	ERP building, system maintenance and purchases of information appliance	2,257	Note 10	2,257	-	2,257	100	127	169	-	Note 17

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Amount remitted from Taiwan to Mainland China/				Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Amount remitted back to Taiwan for the year ended December 31, 2017	Remitted to Mainland China	Remitted back to Taiwan					
Information Technology Total Service (Xiamen)	ERP building, system maintenance and purchases of information appliance	\$ 1,000	Note 10	\$ -	\$ -	\$ -	\$ -	88	\$ 88	\$ 2,701	\$ -	Note 17
Wuxi TECO Precision Industry Co. Ltd.	R&D, manufacturing and sales of motors and provide products sales skills	115,125	Note 11	86,101	-	-	-	100	11,228	106,208	43,266	Note 16

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 Ching Chi International Limited and Full Ocean Trading 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 Tecon Global Tech Investment (B.V.I) 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 Tecon Global Tech Investment Pte 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 Tecon Investment (B.V.I) Limited 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 Information Technology Total Service (BVI) Co., Ltd. and then invest in Mainland China.

Note 11: 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 12: 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 13: 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 14: Through investing in investees in the third areas, which then invested in the investee in Mainland China: Invested through Teocapital Investment (Samoa) Co., Ltd. and then invest in Mainland China.

Note 15: 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 16: The amount recognised was based on the financial statements that were audited by R.O.C. parent company's CPA firm.

Note 17: The amount recognised was based on the financial statements that were audited by other CPA firm.

Note 18: Available-for-sale financial assets - non-current.

Note 19: As of December 31, 2017, accumulated impairment of \$24,746 was accrued.

Note 20: The company had been liquidated in 2016.

Note 21: The investee company, Suzhou Teco was merged with Qingdao Teco as resolved by the Board of Directors, and Suzhou Teco was the dissolved company. Under the merger, Qingdao Teco will be the surviving company.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	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	\$ 31,097,859
Taiwan Pelican Express Co., Ltd.	51,168	51,168	997,705
Kuen Ling Machinery Refrigerating Co., Ltd.	207,047	375,448	850,849
Tecom Co., Ltd.	541,961	754,000	329,976
Information Technology Total Services Co., Ltd.	12,424	12,424	161,171
Teco Electro Devices Co., Ltd.	86,101	104,259	231,325

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

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

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, 2017

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 10

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 December 31, 2017	Others
	Amount	%	Amount	%	Balance at December 31, 2017	%	Balance at December 31, 2017	Purpose	December 31, 2017	December 31, 2017	Balance at December 31, 2017	Interest rate		
	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Wuxi Teco	48,237	-	-	-	12,507	-	-	-	-	-	-	-	-	-
Taian (Wuxi)	94,675	-	-	-	14,594	-	-	-	-	-	-	-	-	-
Jiangxi Teco	21,336	-	-	-	5,556	-	-	-	-	-	-	-	-	-
QingDao Teco	4,738	-	-	-	2,504	-	-	-	134,471	-	136,357	3.50%	4,151	-
Xiamen An-Tai	-	-	-	-	-	-	-	-	90,901	-	86,304	2.30%	1,776	-
Shanghai Teco	17,303	-	-	-	15,849	-	-	-	-	-	-	-	-	-
Xiamen Teco	12	-	-	-	-	-	-	-	-	-	-	-	-	-
Teco (Jiang Xi)	251	-	-	-	54	-	-	-	-	-	-	-	-	-
Kuan Ling (Shanghai)	3,321	-	-	-	89	-	-	-	-	-	-	-	-	-
Wuxi Teco Precision	6,024	-	-	-	70	-	-	-	-	-	-	-	-	-
Wuxi Teco	(1,508,353)	(9%)	-	-	(762,090)	(16%)	-	-	-	-	-	-	-	-
Taian (Wuxi)	(465,883)	(3%)	-	-	(42,305)	(1%)	-	-	-	-	-	-	-	-
Jiangxi Teco	(102,473)	(1%)	-	-	(47,021)	(1%)	-	-	-	-	-	-	-	-
QingDao Teco	(478,607)	(3%)	-	-	(55,849)	(1%)	-	-	-	-	-	-	-	-
Xiamen An-Tai	(10,106)	-	-	-	-	-	-	-	-	-	-	-	-	-
Teco (Jiang Xi)	(37,574)	-	-	-	(3,352)	-	-	-	-	-	-	-	-	-
Hunan TECO Wind Energy Limited	(6,613)	-	-	-	-	-	-	-	-	-	-	-	-	-
Kuen Ling (Suzhou)	(25,956)	-	-	-	(2,227)	-	-	-	-	-	-	-	-	-
Kuan Ling (Shanghai)	(8,151)	-	-	-	-	-	-	-	-	-	-	-	-	-
Wuxi Teco Precision	(9,056)	-	-	-	-	-	-	-	-	-	-	-	-	-

VII. Review of Financial Status, Operating Results, and Risk Management

7.1 Analysis of Financial Status

Unit: NT\$thousand

Item \ Year	2017/12/31	2016/12/31	Difference		Remark
			Amount	%	
Current Assets	\$44,262,768	\$45,296,310	(1,033,542)	(2)	
Fixed Assets	17,922,299	18,463,450	(541,151)	(3)	
Intangible Assets	5,612,315	5,636,766	242,525	5	
Other Assets	24,219,575	22,977,430	975,169	4	
Total Assets	92,016,957	92,373,956	(356,999)	(0)	
Current Liabilities	18,742,356	18,958,845	(216,489)	(1)	Note 1
Long-term Liabilities	15,400,464	17,690,568	(2,290,104)	(13)	
Total Liabilities	34,142,820	36,649,413	(2,506,593)	(7)	
Equity attributable to owners of parent	51,829,765	49,731,567	2,098,198	4	
Capital stock	20,026,929	20,026,929	0	0	
Capital surplus	7,628,542	7,671,889	(43,347)	(1)	
Retained Earnings	22,469,336	21,187,539	1,281,797	6	
Other Comprehensive Income for the year	1,704,958	845,210	859,748	102	Note 2
Non Controlling Interest	6,044,372	5,992,976	51,396	1	
Total Stockholders' Equity	57,874,137	55,724,543	2,149,594	4	

Note 1: Reason for decreased Current Liabilities: The main reason is that repaying bank loan.

Note 2: Reason for increased Other Comprehensive Income for the year and comprehensive income attributable to owners of the parent and total stockholders' equity: Foreign exchange difference while transferring sales of overseas subsidiaries into New Taiwan Dollar. Euro dollar appreciates more than last year.

7.2 Analysis of Operating Results

7.2.1 Operating Results

Unit: NT\$thousand

Item \ Year	2017	2016	Difference		Remark
			Amount	%	
Sales Revenue	50,942,521	49,923,836			
Operating Costs	(38,743,733)	(36,788,304)			
Gross Profit	12,198,788	13,135,532	(936,744)	(7)	
Realized(Unrealized) Profit from Sales	(2,520)	(1,137)	(1,383)	122	
Gross Profit - Net	12,196,268	13,134,395	(938,127)	(7)	Remark1
Operating Expenses	(8,700,068)	(8,944,914)	244,846	(3)	
Operating Profit	3,496,200	4,189,481	(693,281)	(17)	Remark1
Non-operating Income and Gains	857,704	743,810	113,894	15	
Profit before income tax	4,353,904	4,933,291	(579,387)	(12)	Remark1
Tax Expense	(809,656)	(896,293)	86,637	(10)	Remark2
Net Income	3,544,248	4,036,998	(492,750)	(12)	Remark1-2
Other comprehensive income	781,789	323,292	458,497	142	Remark3
Total comprehensive income	4,326,037	4,360,290	(34,253)	(1)	Remark4
Analysis and explanation for changes:					
1. Gross margin declined due to product mix and foreign exchange rate					
2. Tax expense decreased due to decreasing profit.					
3. Change in foreign exchange rate resulted into increasing currency translation differences of foreign operations.					
4. In summary, total comprehensive income decreased in the year.					

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
13,989,826	5,891,652	5,752,148	14,129,330	-	-
<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: Purchase of fixed assets and expansion of core business were major cash-outflow items for investing activities.</p> <p>c. Financing activities: Repayment of bank loan 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
14,129,330	4,960,477	2,262,847	16,826,960	-	-
<p>A. Analysis of change in cash flow in the current year:</p> <p>a. Operating activities: Although the U.S. economy has been recovering stably, the economic growth of other regions is weak and unstable. However, thanks to steady growth for core business, operation activities are expected to score net cash inflow this year.</p> <p>b. Investing activities: To expand core business, the company will adjust investment plan according to economic status and continue review long-term equity investment outside core business, for disposal at proper timing, so as to generate profits to support core-business investment. Investment activities are expected to continue generate net cash outflow this year. It's expected that investing activities will result in cash outflow.</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		
				2016	2017	2018~2019
2016 Capital Expenditure – Equipment Renewal	Working Capital	2016/12/31	1,464,972	1,464,972		
2017 Capital Expenditure – Equipment Renewal	Working Capital	2017/12/31	1,021,817		1,021,817	
2018 Capital Expenditure – Equipment Renewal	Working Capital	2018/12/31	1,390,578			1,390,578

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 line with changes in domestic and global economies, as well as the current of energy saving, emission reduction, intelligence and automation in global industries, the company focuses its new investment on its core businesses of industrial motor and home appliances, development in Vietnam, India and Africa, related construction of wind power and solar power generation, IIOT and AI, accompanies long-term development plan, and cautiously evaluate each investment plan.

7.5.2 Major reasons for profits or loss:

The company listed NT\$233,927 thousands of investment gain on the basis of equity method in 2017, and it is much more than NT\$90,260 thousands in 2016. It mainly came from Heavy Industrial Product and Green Electric Machine.

7.5.3 Investment plan for the next year

In the coming one year, investments will focus on energy saving, automation, automation intelligence. Business unit of motor will develop high efficiency motor, explosion proof motor, smart motor. Business unit of system automation will develop inverter with communication function, and Business unit of Home Appliance will develop intelligence control air conditioner, air cooling/ water cooling chiller. In addition, the main process and production line will be IoT.

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

	2017	Unit: NT\$Thousand
Interest Income or Loss(1)		(104,441)
Sales Revenues(2)		50,942,521
Operating Income(3)		3,496,200
(1)/(2)		(0.21%)
(1)/(3)		(2.99%)

The company's net interest expense amounted to NT\$104,441 thousands in 2017, equivalent to -0.21% and -2.99%, respectively, of the revenues and operating profits, similar to 2016 level.

Looking ahead at this year, the U.S. will continue interest-rate hike, Europe and Japan may scale down their loose money policy, and China will maintain stable neutral monetary policy. It is forecast that global finance will become tighter, with interest-rate cut rather unlikely.

In order to alleviate the influence of interest-rate change, the company will properly adjust NT dollar-loan position or increase investment in fixed-rate corporate bonds.

B. Effects of Changes in Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

	2017	Unit: NT\$thousand
Exchange Gain or Loss(1)		(235,383)
Sales Revenues(2)		50,942,521
Operating Income(3)		3,496,200
(1)/(2)		(0.46%)
(1)/(3)		(6.73%)

The company suffered NT\$235,383,000 loss from exchange rates, due mainly to large-scale devaluation of U.S. dollar, which inflicted significant exchange-rate loss on its overseas affiliates for their U.S. dollar positions. In 2018, with interest-rate hike expected to bolster U.S. dollar, challenge to forex-risk management is high, as there will be many variables for the exchange rates of the currencies of major trading partners of the U.S., given emerging emergence of global trade protectionism due to the policy of the Trump Administration. The company will monitor exchange-rate fluctuation closely and execute following countermeasures:

- 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.
- 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 alumina. Oil price rebounds since second half in 2016, and the material price and metal price grows. It affects 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 company 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 2017, outstanding loans extended by the company amounted to NT\$222,661 thousands.
- C. In 2017, the outstanding amount of the endorsement and guarantee extended by the company reached NT\$7,026,930 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 2017, 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) High-efficiency motor and servo motor
- (c) Motors with mining application in America and Canada
- (d) Reluctive motor and drive
- (e) EV motor and drive as well as joint development of whole vehicle
- (f) R&D on generator and drive for offshore wind turbine
- (g) Remote monitoring of motor and generator
- (h) R&D on four-phase control for medium-voltage inverter and switch between industrial network and inverter
- (i) High technology for system automation products
- (j) R&D on KW-grade four-phase wind-power converter
- (k) Multiple commercial air-conditioners systems and smart air-conditioners
- (l) R&D on inverter air conditioner related products for specific occasion
- (m) Development of high-performance energy saving centrifugal icy-water machine
- (n) 2016 high-performance energy saving water-cooled packaged air conditioner
- (o) Development of high-performance energy saving variable-frequency air-cooled icy-water machine
- (p) Development of eliminating shaft voltage and shaft current
- (q) Development of high-performance compact servo motor
- (r) Development of IE5 comparable-grade magnetic-resistance motor drive

The goal is to develop products conforming to new 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\$1.4 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
		Permanent-magnet motor and drive
		Control for servo system
		High rotational-speed motor
		Multi-unit commercial-use package air conditioning unit
		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
Mid-term	Accumulation of core technological strength & Development of new technological strength	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
Long-term	Deployment in new business scope	Commercial air-conditioning for train
		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

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

In line with the social trend of decreasing population, as well as the need of green energy, the company has taken into account the global development trend, own technological strength, and growth potential of related industries. Therefore, in addition to strengthening its technological edges of high-performance motor, application of environment-friendly coolant in home appliances, and energy-saving inverter duty products, the company added the R&D of rare-earth permanent-magnet

electric machinery in passenger/farm oriented vehicle, closely studied international technology trend's and market trend's reports, gave an impetus to innovative competition, supported green energy international competition, and planned technology forum in several areas and long-term technology development plan to accomplish planned-to-achieved strategies and time table.

In green energy, there include motor of electric vehicle, wind-power generators, peripheral equipments of smart grid, energy-saving home appliances and multiple air-conditioners 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.

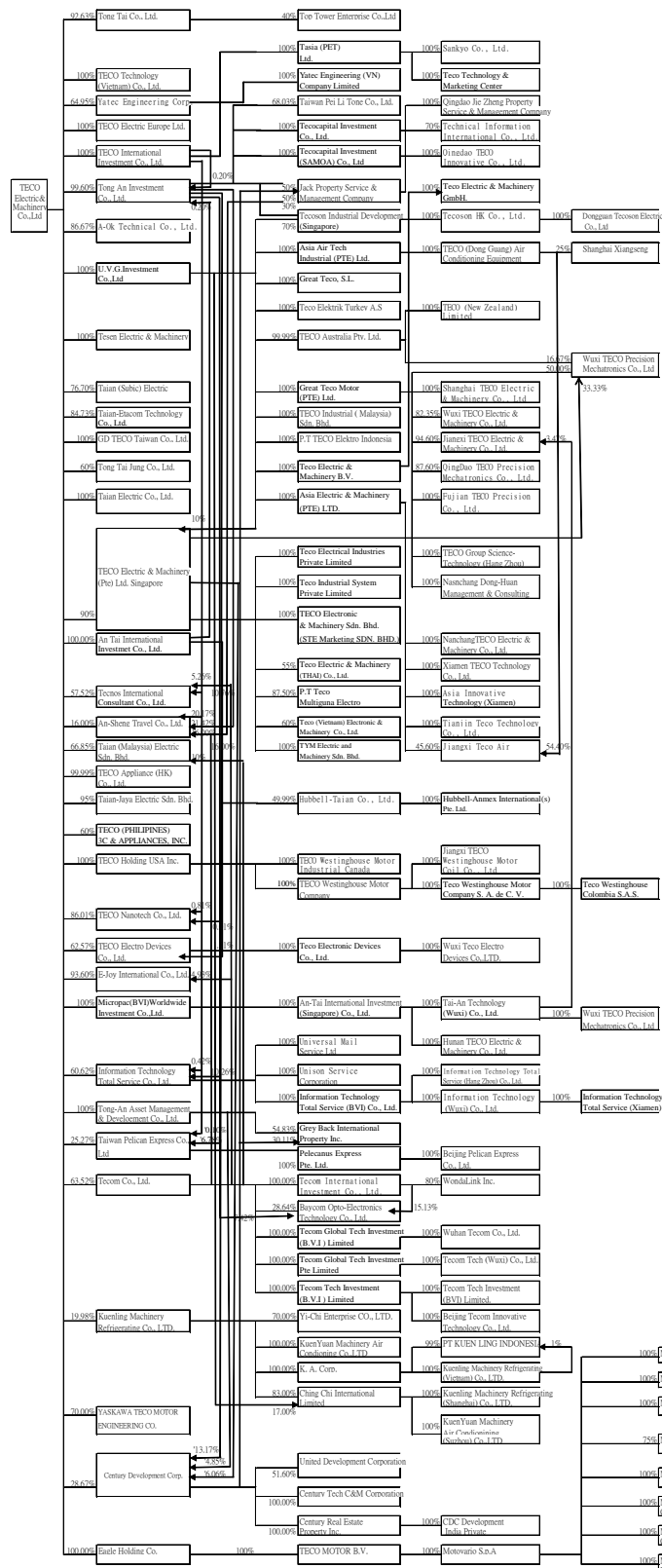
7.6.13 Other Major Risks

None

VIII. Special Disclosure

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	550,034	Investment Activity
TECO Holding USA Inc.	1995.03	794,800	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	180,495	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	4,175,216	Investment Activity
TECO Electro Devices Co., Ltd.	1998.03	245,926	Manufacture of Stepping Motors
Tecnos International Consultant Co., Ltd.	1998.06	87,524	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	7,592,084	Investment Holding Company
Information Technology Total Services Co., Ltd.	1990.12	199,990	Sales of Software
Tesen Electric & Machinery Co., Ltd.	2001.03	200,000	Manufacture of Home Appliance
GD TECO Taiwan Co., Ltd.	2002.02	150,000	Manufacture of IC Projects
Yatec Engineering Corporation	1993.01	120,100	Electric System Development and Service
Taian (Subic) Electric Co., Inc.	1997.03	215,775	Manufacture and Sales of Tools and Equipment
Taian (Malaysia) Electric Sdn. Bhd.	1989.03	180,671	Manufacture and Sales of Tools and Equipment
An-Tai International Investment Co., Ltd.	1990.09	239,413	Investment Activity
Micropac (BVI) Worldwide Investment Co., Ltd.	1993.03	442,936	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	23,640	Investment Activity
Tecoson Industrial Development (Singapore)	1993.02	36,770	Investment and Trading Activities
Tecoson HK Co., Ltd.	1993.06	15,184	Investment Activity
Asia Air Tech Industrial (Pte) Ltd.	1999.06	252,960	Investment Activity
TECO (Dong Guang) Air Conditioning Equipment Co., Ltd.	1999.11.09	321,180	Manufacture of Air Conditioning Equipment
TECO Australia Pty. Ltd.	1993.04	695,550	Sales of Motors and Home Appliance in Australia
TECO New Zealand Ltd.	1983.04	63,291	Sales of Home Appliances
Great Teco Motor Ltd.	2000.01.27	3,631,501	Investment Activity

Company	Date of Incorporation	Paid-in Capital	Major Business
Wuxi TECO Electric & Machinery Co., Ltd.	2002	1,529,732	Manufacture and Sales of Motors
TECO Industrial (Malaysia) Sdn. Bhd.	1989.06	551,675	Manufacture and Sales of Motors in Malaysia
P.T TECO Elektro, Indonesia	1997.08.14	757,392	Sales of Home Appliances
P.T TECO Multiguna Electro	1983.06	16,509	Investment and Trading Activities
TECO Electronic & Machinery (Thai) Co., Ltd.	1987.04	54,594	Investment and Trading Activities
TECO Westinghouse Motor Company	1988.01	613,800	Sales of Motors in USA
TECO Westinghouse Motor Industrial, Canada	1995.12	26,176	Sales of Motors
TECO Electro Devices Co., Ltd.	1998.03	101,482	International Trading
Wuxi Teco Electro Devices Co., Ltd.	2001.12	125,688	Manufacture and Sales of Stepping Motors
An-Tai International Investment (Singapore) Co., Ltd.	1993.03	493,586	Investment Activity
Tai-An Technology (Wuxi) Co., Ltd.	2000.07	541,433	Manufacture and Sales of Optical Fiber
Asia Electric & Machinery Pte Ltd.	2000.06.05	1,654,210	Investments in Home Appliances Business
Jack Property Service & Management Company	2000.04.13	30,250	Asset Management
Great Teco, S.L.	2003.01	21,342	Sales of Home Appliances
Nanchang TECO Electric & Machinery Co., Ltd.	2003.11.10	520,871	Manufacture and Sales of Air Conditioning
Sankyo Co, Ltd.	1992.02.14	7,926	Sales of Home Appliances
TECO Electronic & Machinery B.V.	2005.04.18	23,476	Sales of Motors and LCD TV in Europe
STE Marketing Sdn. Bhd.	1987.12	64,576	Investment and Trading
Jiangxi TECO Electric & Machinery Co., Ltd.	2005.06.01	1,529,252	Manufacture and Sales of Motors
Qingdao TECO Precision Mechatronics Co., Ltd	2006.12	854,855	Manufacture and Sales of Compressors
TECO Westinghouse Motor Company S.A. de C.V	2005.12	54,396	Manufacture and Sales of Motors
Xiaman TECO Technology Co., Ltd.	2006.11	22,438	Sales of Motors and Home Appliances
TYM Electric & Machinery Sdn. Bhd.	2006.06	3,661	Sales of Motors
TECO (Vietnam) Electric & Machinery Company	2005.04	51,398	Manufacture and Sales of Motors
TECO Technology (Vietnam) Co., Ltd.	2006.08	206,197	Manufacture and Sales of Tools and Equipment
Asia Innovative Technology (Xiamen) Co., Ltd.	2006.12	851,477	R&D and Manufacture of LCD TV
TECO Group Science-Technology (Hang Zhou) Co., Ltd.	2007.06	10,372	R&D of Electronic Devices and System Automation
Tianjin TECO Technology Co., Ltd	2010.01.22	15,589	Operation Center in Central China
Jiangxi TECO Air Conditioning Equipment Co., Ltd.	2010.02.05	169,211	Sales of Air Conditioners
TECO Sichuan Trading Co., Ltd.	2010.08.25	27,390	Sales of Home Appliances
Fujian TECO Precision Co., Ltd.	2008.05	383,938	Sales and Production of Motors and Generators
Teco Appliance (HK) Co., Ltd.	1991.02.12	5,694	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	23,567	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	45,860	Investment Acitivities
Teco Group Science-Technology (Hang Zhou) Co., Ltd.	2002.10	2,456	Software, Data Processing and Information Provision
Information Technology (Wuxi) Co., Ltd.	2004.08	11,335	Software, Data Processing and Information Provision
Information Technology Total Service (Xiamen) Ltd.	2007.12	4,565	Software, Data Processing and Information Provision
GreyBack International Property Inc.	2007.02.28	29,763	Real Estate Business
Taian-Jaya Electric Sdn. Bhd.	1988.06.07	7,322	Manufacture and Sales of Motors
TECO CAPITAL INC.	2008.04.15	19,586	Investment Activities
TECO (PHILIPINES) 3C & APPLIANCES, INC.	2008.08.22	29,195	Sales of Home Appliance and Air Conditioners
Pelecanus Express Pte, Ltd	2010.04.19	26,784	Investment Activities
Qingdao TECO Innovation Co., Ltd.	2010.08.11	59,733	Merchant and Management Service for Science Park's Development and Operation
TECO Technology & Marketing Center Co., Ltd.	2011.04.01	7,926	Investment Activities
TECO Capital Investment (SAMOA) Co., Ltd.	2011.01.18	59,520	Holding Company
Beijing Pelican Express Co., Ltd.	2010.10.13	24,880	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	45,650	Development & Sales of Software
Shanghai TECO Electric & Machinery Co., Ltd.	2012.08.04	23,137	Agency of Machinery and Electric Products
TECO Electric and Machinery GmbH.	2012.09.01	889	Production & Sales of Machinery
Tecom Co., Ltd.	1980.09.25	6,306,652	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 Activities
WondaLink Inc.	2010.03.18	47,422	Telecommunication and Production and Design of Electronic Components
Wuhan Tecom Co., Ltd.	2003.02.24	7,557	Internet Telecommunication Technnolgy Development and Related Services
Tecom Tech (Wuxi) Co., Ltd.	2004.09.06	516,489	R&D and Production of Telecommunication System

Company	Date of Incorporation	Paid-in Capital	Major Business
Tecom Tech Investment (BVI) Limited.	2008.11.03	31,220	R&D and Production of IT Products
Beijing Tecom Innovative Technology Co., Ltd.	2010.12.07	14,761	The Internet of Intelligent Home System and Related Services
Qingdao Jie Zheng Property Service & Management Company	2012.08.20	0	Property Management and Related Services
Kuenling Machinery Refrigerating Co., LTD.	1988.04.05	761,524	Manufacture and Rental of Refrigeration and Air-Conditioning
Ching Chi International Limited	2000.07.12	242,731	Investment
K.A Corp	2002.03.20	129,505	Sales and Trading
Yi-Chi Enterprise CO., LTD.	2000.07.10	11,000	Manufacture
KuenYuan Machinery Air Conditioning Co.,LTD	2004.11.15	30,000	Manufacture
Kuenling Machinery Refrigerating (Shanghai) Co., LTD.	2000.09.01	181,713	Manufacture of Bonchiller
KuenYuan Machinery Air Conditioning (Suzhou) Co.,LTD	2006.04.18	255,456	Manufacture
Kuenling Machinery Refrigerating (Vietnam) Co., LTD.	2005.11.25	89,325	Manufacture
Donghua Enterprise Co.,Ltd.	1968.07.30	18,000	Franchise of FA/GE Product
Hunan TECO Electric & Machinery Co., Ltd.	2013.06.20	224,406	Manufacture of Related Component of 200 MGW Wind Turbine
TECO Elektrik Turkey A.S	2013.08.01	31,974	Franchise of Home Appliance and FA/GE Product
Mocet Networks Inc.	2012.12.29	1,488	Sales of telephone and merchandise
Jiangxi TECO Westinghouse Motor Coil Co., Ltd	2014.07.24	112,628	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	640,616	Manufacture and Sales of motor and gear reducer
Motovario S.A(Spain)	2001.2.14	34,180	Manufacture and Sales of motor and gear reducer
Motovario Ltd	1999.3.26	14,613	Manufacture and Sales of motor and gear reducer
Motovario GMBH	1997.2.28	11,458	Manufacture and Sales of motor and gear reducer
Motovario Corp.	1997.10.06	9,226	Manufacture and Sales of motor and gear reducer
Motovario S.A(France)	1995.2.09	11,499	Manufacture and Sales of motor and gear reducer
Motovario Int. Trading Co. Ltd	2004.7.22	7,556	Manufacture and Sales of motor and gear reducer
Motovario Power Transmission Co. Ltd.	2008.3.14	6,336	Manufacture and Sales of motor and gear reducer
Motovario Gear Solution Private Ltd	2011.7.15	5,804	Manufacture and Sales of motor and gear reducer
Eagle Holding Co.	2010.8	3,307,842	Holding Company
TECO MOTOR B.V.	2015.7	3,557,356	Holding Company
TECO Yaskawa Motor Engineering Co.	2005	52,840	Manufacture and Sales of motor
Wuxi TECO Precision Mechatronics Co., Ltd	2015.7	898,447	Manufacture and Sales of electric machinery and component
Century Development Corporation	1993.2.9	3,182,920	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	74,638	Consultant service for industrial park and land investment

Company	Date of Incorporation	Paid-in Capital	Major Business
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
Dongguan Tecoson Electric Co., Ltd	2015.9	320	Dealer for home appliance
Century Real Estate (International) Pte. Ltd.	2017.8	29,760	Investment in other regions
CDC Development India Private	2017.10	23,230	Consulting service for industrial zone and land investment
PT Kuen Ling Indonesia	2017.6.9	8,824	Product sales and trade

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	589,736	297,303	292,433	1,067,000	76,462	80,856	14.16
Tecnos International Consultant Co., Ltd.	92,569	315,011	192,473	122,538	1,787,729	20,421	17,799	1.92
TECO Electric Europe Limited	180,495	73,306	163,104	-89,798	114,720	-38,412	-38,961	-8.66
TECO International Investment Co., Ltd.	550,034	1,323,150	166,891	1,156,259	95,288	80,837	77,162	1.40
TECO Electro Devices Co., Ltd.	245,926	588,967	203,425	385,542	653,039	35,520	27,112	1.10
TECO Electric & Machinery (Pte) Ltd. Singapore	178,080	3,142,211	206,626	2,935,585	1,235,395	-24,123	251,593	31.45
Tong Tai Jung Co., Ltd.	66,000	437,896	285,333	152,563	760,993	35,143	29,154	4.42
Information Technology Total Services Co., Ltd.	199,990	857,640	591,469	266,171	1,124,667	49,907	46,118	2.31
UVG Investment Co., Ltd.	7,005,904	7,940,371	549,558	7,390,813	0	-268,120	-233,937	-0.99
Tong-An Investment Co., Ltd.	4,358,926	9,242,662	61,435	9,181,227	413,521	352,597	346,796	0.80
TECO Holding USA Inc.	794,800	11,061,613	1,892,884	9,168,729	7,838,585	509,208	553,627	20.73
TECO Westinghouse Motor Company	613,800	8,429,788	1,411,815	7,017,973	6,245,786	385,268	295,661	14.34
An-Tai International Investment Co., Ltd.	239,413	633,591	2,797	630,794	37,365	35,126	37,638	1.57
Taian (Subic) Electric Co., Inc	199,124	326,705	121,778	204,927	289,539	7,545	6,939	1.04
Taian (Malaysia) Electric Sdn. Bhd.	183,396	11,985	531	11,454	0	-731	-504	-0.02
Taian-Etacom Technology Co., Ltd.	83,000	499,910	336,850	163,060	536,675	29,202	24,519	2.95
Tasia (PTE) Ltd.	23,640	1,519	155	1,364	0	-165	-165	-0.16
Teco Electronic & Machinery (THAI) Co.,Ltd.	54,594	235,244	45,758	189,486	238,812	676	5,746	0.10
TECO Australia Pty. Ltd.	695,550	1,809,241	526,392	1,282,849	1,861,225	10,779	-6,524	-0.22
TECO Industrial Malaysia Sdn. Bhd.	551,675	815,906	60,288	755,618	550,012	14,488	22,270	0.30

Company	Capital	Total Assets	Total Liabilities	Net Worth	Net Sales	Operating Income	Net Profit / Loss	EPS (NT\$)
P.T. TECO Elektro, Indonesia	757,392	409,694	6,843	402,851	21,868	122	122	0.00
Asia Air Tech Industrial (PTE) Ltd.	252,960	153,190	7,018	146,172	0	-2,999	-3,402	-0.40
Tecoson Industrial Development (Singapore)	36,770	26	155	25	0	-166	-166	-0.10
TECO Westinghouse Motor Industrial, Canada	26,176	2,531,991	330,114	2,201,877	1,498,091	119,400	94,513	85.61
Jiangxi TECO Westinghouse Motor Coil Co., Ltd	112,628	149,769	27,769	122,000	104,386	5,461	3,462	NA
Teco Westinghouse Colombia S.A.S.	0	0	1,250	-1,250	0	0	5,727	0.00
An-Tai International Investment (Singapore) Co., Ltd.	493,586	440,584	641	439,943	0	-24,854	-24,854	-1.12
Tecoson HK Co., Ltd.	15,184	15,841	2,122	13,719	13,450	-1,749	-1,053	-0.26
TECO (Dong Guang) Air Conditioning Equipment Co., Ltd.	321,180	153,612	1,465	152,147	26,980	-5,461	-3,201	NA
Micropac (BVI) Worldwide	442,936	1,527,326	641	1,526,685	0	-60	13,734	0.92
Taian Technology (Wuxi) Co., Ltd	541,433	1,893,834	530,383	1,363,451	1,909,576	31,296	31,943	NA
Great Teco Motor Ltd.	3,631,501	4,152,985	45,131	4,107,854	0	-182,358	-183,997	-1.51
Jack Property Service & Management Company	30,250	241,190	101,351	139,839	399,460	47,653	40,203	13.29
Universal Mail Service Ltd.	13,000	38,730	29,511	9,219	81,236	-2,042	1,164	0.90
INFORMATION TECHNOLOGY TOTAL SERVICE (BVI) Co., Ltd.	45,860	74,179	609	73,570	0	-3,692	-466	-0.30
Tong-An Assets Management & Development Co., Ltd.	3,884,237	6,361,609	1,065,162	5,296,447	185,124	30,164	107,803	0.28
P.T. TECO Multiguna Electro	16,509	453,962	100,524	353,438	694,441	73,322	58,656	0.01
Yatec Engineering Corporation	120,100	378,181	167,823	210,358	450,750	10,595	9,183	0.76
TECO New Zealand Limited	63,291	57,444	97,822	-40,378	78,498	8,504	9,290	3.10
Asia Electric & Machinery	1,654,210	406,354	12,001	394,353	0	-19,472	-19,471	-0.35
Wuxi TECO Electric & Machinery Co., Ltd	1,529,732	3,408,064	1,531,733	1,876,331	4,186,944	-22,956	-53,360	NA
GD TECO Taiwan Co., Ltd.	150,000	169,246	115,915	53,331	320,228	5,953	6,449	0.43
Tesen Electric & Machinery Co., Ltd.	200,000	261,038	51,407	209,631	2,254,912	19,920	6,268	0.31
Teco Electronic Devices Co.,Ltd.	101,482	106,213	0	106,213	0	11,211	11,211	3.29
Wuxi Teco Electro Devices Co.,Ltd.	125,688	218,417	112,208	106,209	276,529	9,967	11,228	NA
Unison Service Corporation	17,000	23,329	37,864	-14,535	102,859	4,203	4,003	2.35
Information Technology Total Service (Hang Zhu) Ltd.	2,456	4,303	4,134	169	0	141	127	NA
Taian Electric Co., Ltd.	1,000	831	0	831	0	-12	-11	-0.11
E-Joy International Co., Ltd.	101,500	109,973	47,082	62,891	213,216	4,393	4,449	0.44
A-Ok Technical Co., Ltd.	22,500	132,454	80,119	52,335	370,702	26,820	21,609	9.60
Great Teco, S.L.	21,342	13,204	283	12,921	8,430	-10,681	-5,847	-9.75
Nanchang TECO Electric & Machinery Co., Ltd.	520,871	33,515	41,884	-8,369	17,689	300	759	NA

Company	Capital	Total Assets	Total Liabilities	Net Worth	Net Sales	Operating Income	Net Profit / Loss	EPS (NT\$)
Sankyo Co., Ltd.	7,926	153,925	273,124	-119,199	270,728	8,493	7,048	0.23
Teco Electric & Machinery B.V.	23,476	256,126	756,939	-500,813	491,853	-69,574	-70,591	-106.96
STE Marketing SDN. BHD	64,576	391,447	77,037	314,410	438,990	32,710	28,830	32.69
Jiangxi TECO Electric & Machinery Co., Ltd.	1,529,252	1,745,134	235,831	1,509,303	465,433	-96,352	-70,128	NA
Qingdao TECO Precision Mechatronics Co., Ltd	854,855	1,024,911	624,783	400,128	991,212	-20,169	-35,535	NA
Teco Westinghouse Motor Company S. A. de C. V.	54,396	304,459	301,064	3,395	409,646	1,243	3,206	0.09
Xiaman TECO Technology Co., Ltd.	22,438	85,320	58,002	27,318	181,231	71	23	NA
TYM Electric & Machinery Sdn. Bhd.	3,661	113,937	11,738	102,199	119,724	12,988	11,558	231.15
Teco (Vietnam) Electronic & Machinery Company Ltd.	51,398	277,961	117,979	159,982	283,465	33,719	27,038	0.01
TECO Technology (Vietnam) Co., Ltd.	206,197	293,131	128,060	165,071	88,663	4,003	3,477	0.00
Asia Innovative Technology (Xiamen) Co., Ltd.	851,477	419,387	110,289	309,098	53,796	-19,794	-15,230	NA
Fujian TECO Precision Co., Ltd.	383,938	189,688	103,679	86,009	0	-40,117	-23,209	NA
Teco Appliance (HK) Co., Ltd.	5,694	2,760	0	2,760	0	0	4	0.00
An-Sheng Travel Co., Ltd.	30,000	15,825	1,454	14,371	37,122	1,139	-934	-0.31
Hubbell-Taian Co., Ltd.	27,200	110,435	32,197	78,238	148,198	9,578	8,866	3.26
Hubbel-Anmex International(s) Pte. Letd.	23,567	31,132	2,539	28,593	7,690	2,060	1,821	2.30
Information Technology (Wuxi) Co., Ltd.	11,335	51,759	33,557	18,202	68,033	1,688	1,516	NA
Information Technology Total Service (Xiamen) Ltd.	4,565	6,269	3,572	2,697	7,103	66	88	NA
GreyBack International Property Inc.	29,763	36,265	1,423	34,842	0	-226	-176	-0.18
Teco Group Science-Technology (Hang Zhou) Co., Ltd.	10,372	29,296	2,485	26,812	28,999	901	676	NA
Taian-Jaya Electric Sdn. Bhd.	7,322	196,941	69,217	127,724	113,683	13,251	9,961	9.96
TECO CAPITAL INC.	19,586	8,433	0	8,433	0	-47	971	1.48
TECO (PHILIPINES) 3C & APPLIANCES, INC.	29,195	37,170	34,908	2,262	49,176	9,332	2,151	2.19
Taiwan Pelican Express Co., Ltd.	954,670	2,441,708	778,866	1,662,842	3,059,610	70,728	118,411	1.24
Tianjin TECO Technology Co., Ltd.	15,589	15,019	0	15,019	1,463	-900	306	NA
Jiangxi TECO Air Conditioning Equipment Co., Ltd.	169,211	225,018	102,845	122,173	399,057	6,343	5,564	NA
TECO Sichuan Trading CO.,LTD.	27,390	22,042	15,251	6,791	33,556	5,565	1,832	NA
Pelecanus Express Pte. Ltd.	26,784	5,675	121	5,554	0	-267	-8,445	-9.38
Qingdao TECO Innovation Co., Ltd.	59,733	90,282	56,766	33,516	0	-7,608	-545	NA
TECO Technology & Marketing Center Co., Ltd.	7,926	11,397	49,735	-38,338	2,103	-236	-236	-0.01
TECO Capital Investment (SAMOA) Co., Ltd.	59,520	30,542	0	30,542	0	0	-529	-0.26
Beijing Pelican Express Co., Ltd.	24,880	5,454	337	5,117	11,026	-6,864	-8,213	NA
TECO Nanotech Co., Ltd.	250,000	43,849	26,051	17,798	6,793	-10,343	8,171	0.33

Company	Capital	Total Assets	Total Liabilities	Net Worth	Net Sales	Operating Income	Net Profit / Loss	EPS (NT\$)
Technical Information International Co., Ltd.	45,650	12,692	1,653	11,039	17,381	951	1,016	NA
Shanghai TECO Electric & Machinery Co., Ltd.	23,137	1,742,424	1,775,264	-32,840	3,872,156	-10,173	-13,956	NA
TECO Electric and Machinery GmbH.	889	7,943	1,842	6,101	52,448	1,257	74	2.98
Tecom Co., Ltd.	6,306,652	2,004,754	1,717,824	286,930	2,671,313	-54,062	-61,286	-0.10
Tecom International Investment Co., Ltd.	120,000	244,028	778	243,250	0	-232	510	0.04
MOCET Networks Inc.	1,488	211	46	165	0	0	0	0.00
Baycom Opto-Electronics Technology Co., Ltd.	335,913	525,250	50,380	474,870	344,481	11,977	9,919	0.30
Tecom Global Tech Investment (B.V.I)	33,156	6,596	0	6,596	0	0	2,739	0.08
Tecom Global Tech Investment Pte Limited	487,166	3,167	0	3,167	333	0	-25	0.00
Tecom Tech Investment (B.V. I)	49,556	3,175	8,287	-5,112	0	0	-1,113	-0.02
WondaLink Inc.	47,422	61,063	35,383	25,680	70,443	-33,341	-35,758	-7.54
Wuhan Tecom Co., Ltd.	7,557	26,112	19,561	6,551	74,149	2,875	2,737	NA
Tecom Tech (Wuxi) Co., Ltd.	516,489	3,326	183	3,143	0	0	11	NA
Tecom Tech Investment (BVI) Limited.	31,220	3,175	0	3,175	0	0	-31	NA
Beijing Tecom Innovative Technology Co., Ltd.	14,761	2,251	10,538	-8,287	4,039	-819	-1,114	NA
Qingdao Jie Zheng Property Service & Management Company	0	0	0	0	0	0	0	NA
Kuenling Machinery Refrigerating Co., LTD.	761,524	1,906,300	991,312	914,988	1,557,088	200,977	190,456	2.50
Ching Chi International Limited	242,731	873,257	301,088	572,169	0	24,397	25,117	NA
K.A Corp	129,505	168,610	82,181	86,429	89,363	27,066	8,013	0.06
Yi-Chi Enterprise CO., LTD.	11,000	24,843	8,109	16,734	28,478	5,046	4,456	4.05
Kuenyuan Machinery Air Conditioning Co.,Ltd	30,000	43,266	9,736	33,530	3,613	2,691	2,129	0.71
Kuenling Machinery Refrigerating (Shanghai) Co., LTD.	181,713	586,133	312,757	273,376	1,020,338	30,509	30,556	NA
Kuenyuan(Suzhou) Refrigeration Co.,Ltd	255,456	301,390	39,269	262,121	286,697	-5,396	-5,289	NA
Kuenling Machinery Refrigerating (Vietnam) Co., LTD.	89,325	158,216	80,232	77,984	89,363	11,259	8,733	0.10
Donghua Enterprise Co.,Ltd.	18,000	224,923	143,598	81,325	450,792	49,727	41,356	22.98
Hunan TECO Electric & Machinery Co., Ltd.	224,406	165,614	1,744	163,870	6,586	-14,771	-17,976	NA
TECO Elektrik Turkey A.S	31,974	6,851	394	6,457	313	-8,363	-7,752	-1.90
Motovario S.p.A.	640,616	7,876,573	4,334,613	3,541,960	3,534,238	140,274	-14,338	-0.80
Motovario S.A(Spain)	34,180	341,539	286,545	54,994	341,845	18,875	17,527	NA
Motovario Ltd	14,613	142,435	110,959	31,476	204,687	1,204	-3,137	NA
Motovario GMBH	11,458	59,985	96,184	-36,199	155,693	-3,144	-3,636	NA
Motovario Corp.	9,226	405,026	44,183	360,843	533,740	90,535	53,113	171.33

Company	Capital	Total Assets	Total Liabilities	Net Worth	Net Sales	Operating Income	Net Profit / Loss	EPS (NT\$)
Motovario S.A(France)	11,499	129,641	121,777	7,864	222,107	538	7	NA
Motovario Int. Trading Co. Ltd	7,556	35,773	34,697	1,076	89,910	11,564	8,816	NA
Motovario Power Transmission Co. Ltd.	6,336	18,085	19,809	-1,724	1,601	79	-643	NA
Motovario Gear Solution Private Ltd	5,804	130,218	208,211	-77,993	97,126	-1,332	-26,540	NA
Eagle Holding Co.	3,307,842	4,131,055	0	4,131,055	0	0	110,119	0.99
TECO MOTOR B.V.	3,557,356	4,131,154	0	4,131,154	0	0	116,775	1.17
TECO Yaskawa Motor Engineering Co.	52,840	77,665	18,010	59,655	76,563	807	386	0.00
Wuxi TECO Precision Mechatronics Co., Ltd	898,447	973,769	147,922	825,847	274,611	-51,599	-55,785	NA
Century Development Corporation	3,182,920	5,766,188	1,543,689	4,222,499	1,186,179	370,144	309,300	0.97
Century Tech. C&M Corporation	100,000	247,736	60,849	186,887	122,475	-8,110	-6,473	-0.65
United Development Corporation	74,638	137,027	18,630	118,397	2,640	399	11,516	1.54
Teco Industrial System Private Limited	6,919	9,587	4,007	5,580	10,837	1,488	1,702	0.11
Teco Electrical Industries Private Limited	30,199	33,579	16,219	17,360	20,916	-11,605	-11,028	-0.17
Yatec Engineering (VN) Company Limited	18,548	24,898	8,249	16,649	16,487	1,386	-1,899	0.00
Dongguan Tecoson Electric Co., Ltd	320	320	0	320	0	0	0	0.00
Century Real Estate (International) Pte. Ltd.	29,760	29,770	158	29,612	0	-126	-126	-0.13
CDC Development India Private	23,230	23,620	1,273	22,347	0	-887	-887	-0.02
PT KUEN LING INDONESIA	8,824	7,760	1,537	6,223	0	-582	-582	-0.07

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.	4,358,926	Working Capital	99.60%	Successive Acquisition	19,540,052Shares \$232,969	-	-	19,540,052Shares \$556,891	16,561,052Shares	-	-
An Tai International Investment Co., Ltd.	239,413	Working Capital	100.00%	Successive Acquisition	2,825,748Shares \$26,308	-	-	2,825,748Shares \$80,534	None	-	-
Donghua Enterprise Co.,Ltd.	18,000		0.00%	Successive Acquisition	77,222 shares \$724	-	-	77,222 shares \$2,201	None		

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