

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Balance Sheet

A. Condensed Balance Sheet-IFRS

Unit: NT\$thousand

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

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

B. Consolidated Condensed Balance Sheet-IFRS

Unit: NT\$thousand

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

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

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

6.1.2 Condensed Statement of Income

A. Condensed Statement of Income-IFRS

Unit: NT\$thousand

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

B. Consolidated Condensed Statement of Income-IFRS

Unit: NT\$thousand

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

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

6.1.3 Auditors' Opinions from 2014 to 2018

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

6.2 Five-Year Financial Analysis

6.2.1 Five-Year Financial Analysis-IFRS

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

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

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

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

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

6.2.2 Consolidated Five-Year Financial Analysis-IFRS

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

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

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

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

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

6.3 Inspection Report of Audit Committee

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

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

To

General Shareholders Meeting 2019

TECO Electric & Machinery Co., Ltd

Audit Committee Convener : Ting-Wong, Cheng

Date: March 26, 2019

TECO ELECTRIC & MACHINERY CO., LTD.

PARENT COMPANY ONLY FINANCIAL

STATEMENTS AND REPORT OF INDEPENDENT

ACCOUNTANTS

DECEMBER 31, 2018 AND 2017

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To TECO Electric & Machinery Co., Ltd.

Opinion

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

In our opinion, based on our audits and the audit reports of other independent accountants, as described in the other matter section of our report, the parent company only financial statements present fairly, in all material respects, the financial position of TECO Electric & Machinery Co., Ltd. as of December 31, 2018 and 2017, and its financial performance and cash flows for the years then ended, in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”

Basis for opinion

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

Key audit matters

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

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

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

Revenue recognition of export sales of heavy industrial products group

Description

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

How our audit addressed the matter

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

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

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

Description

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

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

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

How our audit addressed the matter

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

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

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

Description

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

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

How our audit addressed the matter

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

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

Other matter – Reports of other independent accountants

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

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

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

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

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

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

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

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

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

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

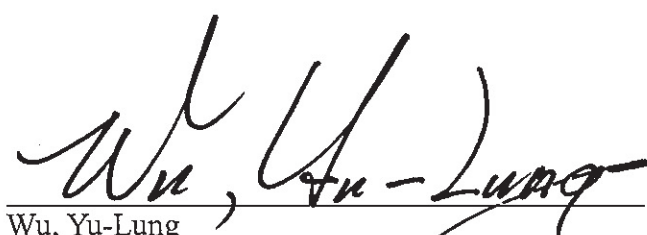
1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The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

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

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

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

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



Wu, Yu-Lung



Chou, Chien-Hung

For and on behalf of PricewaterhouseCoopers, Taiwan

March 28, 2019

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

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

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

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

(Continued)

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

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

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

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

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

(Continued)

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

1. HISTORY AND ORGANIZATION

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

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

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

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

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

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

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

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

A. IFRS 9, 'Financial instruments'

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

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

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

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

Step 1: Identify contracts with customer.

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

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

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

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

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

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

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

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

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

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

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

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

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

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

IFRS 16, 'Leases'

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

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

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

(3) Foreign currency translation

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

A. Foreign currency transactions and balances

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

B. Translation of foreign operations

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

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

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

(4) Classification of current and non-current items

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

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

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

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

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

Effective 2018

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

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

Effective 2018

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

(8) Accounts and notes receivable

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

(9) Impairment of financial assets

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

(10) Derecognition of financial assets

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

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

(11) Operating leases (lessor)

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

(12) Inventories

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

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

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

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

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

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

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

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

(14) Property, plant and equipment

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

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

(15) Leased assets/ operating leases (lessee)

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

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

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

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

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

(16) Investment property

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

(17) Intangible assets

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

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

(18) Impairment of non-financial assets

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

impairment had not been recognized.

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

(19) Borrowings

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

(20) Notes and accounts payable

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

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

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

(22) Bonds payable

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

(23) Derecognition of financial liabilities

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

(24) Offsetting financial instruments

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

(25) Financial guarantee contracts

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

(26) Provisions for other liabilities

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

(27) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

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

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

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

C. Termination benefits

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

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

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

(28) Income tax

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

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

(29) Share capital

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

(30) Dividends

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

(31) Revenue recognition

A. Sales of goods—wholesale

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

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

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

B. Installation and construction service of electrification products

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

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

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

C. Incremental costs of obtaining a contract

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

(32) Government grants

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

(33) Business combinations

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

profit or loss on the acquisition date.

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

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

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

None.

(2) Critical accounting estimates and assumptions

Impairment assessment of goodwill

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

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For the year ended
December 31, 2018

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

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

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

(4) Notes and accounts receivable

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

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

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

The above ageing analysis was based on past due date.

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

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

(5) Inventories

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

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

(6) Investments accounted for under the equity method

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

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

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

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

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

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

A. Subsidiaries:

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

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

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

B. Associates

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

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

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

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

Balance sheet

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

Statement of comprehensive income

Tung Pei Industrial Co., Ltd.		
	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenue	\$ 7,913,408	\$ 7,173,122
Profit for the period from continuing operations	\$ 564,485	\$ 629,397
Other comprehensive loss, net of tax	(74,911)	(157,344)
Total comprehensive income	\$ 489,574	\$ 472,053
Dividends received from associates	\$ 117,435	\$ 78,290
Lien Chang Electronic Enterprise Co., Ltd.		
	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenue	\$ 2,428,431	\$ 2,303,239
(Loss) profit for the period from continuing operations	(\$ 189,823)	(\$ 38,262)
Other comprehensive loss, net of tax	(67,165)	(3,017)
Total comprehensive (loss) income	(\$ 256,988)	(\$ 41,279)
Dividends received from associates	\$ -	\$ 28,907
Kuen Ling Machinery Refrigerating Co., Ltd		
	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenue	\$ 2,975,329	\$ 2,692,408
Profit for the period from continuing operations	\$ 214,794	\$ 196,063
Other comprehensive loss, net of tax	(9,266)	(27,554)
Total comprehensive income	\$ 205,528	\$ 168,509
Dividends received from associates	\$ 30,223	\$ 33,481

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

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

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

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

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

C. Joint venture

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

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

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

Balance sheet

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

Note: The company was liquidated in 2018.

Statement of comprehensive income

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

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

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

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

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

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

(7) Property, plant and equipment

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

	Land	Buildings and structures	Machinery and 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)
	<u>\$ 1,601,867</u>	<u>\$ 847,660</u>	<u>\$ 349,532</u>	<u>\$ 1,887</u>	<u>\$ 26,482</u>	<u>\$ 686,365</u>	<u>\$ 129,688</u>	<u>\$ 3,643,481</u>
<u>2017</u>								
Opening net book amount	\$ 1,601,867	\$ 847,660	\$ 349,532	\$ 1,887	\$ 26,482	\$ 686,365	\$ 129,688	\$ 3,643,481
Additions	-	4,050	304,037	-	20,119	141,836	-	470,042
Disposals	-	-	(4,079)	-	-	(19,691)	-	(23,770)
Reclassification	-	-	(7,769)	-	-	(806)	8,575	-
Depreciation charge	-	(33,165)	(100,884)	(506)	(17,087)	(167,132)	(9,490)	(328,264)
Closing net book amount	<u>\$ 1,601,867</u>	<u>\$ 818,545</u>	<u>\$ 540,837</u>	<u>\$ 1,381</u>	<u>\$ 29,514</u>	<u>\$ 640,572</u>	<u>\$ 128,773</u>	<u>\$ 3,761,489</u>

At December 31, 2017

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

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

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

(8) Investment property

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

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

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

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

(9) Other non-current assets

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

(10) Short-term borrowings

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

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

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

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

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

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

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

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

(12) Bonds payable

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

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

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

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

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

(13) Long-term borrowings

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

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

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

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

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

(14) Pensions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(15) Share capital

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

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

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

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

(a) Voting rights

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

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

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

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

GDR holders own the same rights as common shareholders.

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

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

Details are as follows:

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

(16) Capital surplus

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

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

(17) Retained earnings and legal reserve

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

(18) Other equity items

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

(19) Operating revenue

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

A. Disaggregation of revenue from customers

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

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

B. Contract assets and liabilities

For the year ended
December 31, 2018

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

Advance sales receipts \$ 35,076

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

(20) Other income

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

(21) Other gains and losses

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

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

(22) Finance costs

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

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

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

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

(24) Income tax

A. Income tax expense

(a) Components of income tax expense:

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

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

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

B. Reconciliation between income tax expense and accounting profit

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

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

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

For the year ended December 31, 2017

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

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

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

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

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

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

(25) Earnings per share

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

(26) Supplemental cash flow information

Investing activities with partial cash payments:

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

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

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

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

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

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

Note 1: This company was dissolved in 2017.

Note 2: This company was dissolved in 2018.

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

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

(2) Significant related party transactions

A. Sales

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

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

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

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

B. Purchases of goods and services

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

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

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

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

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

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

C. Notes and accounts receivable

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

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

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

D. Payables to related parties:

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

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

E. Loan to related parties:

(a) Receivables from related parties – credit line

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

(b) Interest income

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

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

F. Other receivables

(a) Transfer of accounts receivable that were past due

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

(b) Others

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

The above represents other receivables for rental.

G. Other payables

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

Other payables mainly consist of rent payable, etc.

H. Financing with related parties

(a) Payables to related parties - credit line

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

(b) Interest expense

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

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

I. Endorsements and guarantees provided to related parties

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

J. Property transactions

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

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

(3) Key management compensation

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

8. PLEDGED ASSETS

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

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

None.

(2) Commitments

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

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

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

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

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

12. OTHERS

(1) Capital management

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

(2) Financial instruments

A. Financial instruments by category

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

B. Financial risk management policies

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

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

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

December 31, 2018

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

December 31, 2017

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

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

Price risk

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

Cash flow and fair value interest rate risk

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

(b) Credit risk

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

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

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

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

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

(c) Liquidity risk

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

Non-derivative financial liabilities:

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

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

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

(3) Fair value information

- A. Details of the fair value of the Company's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A. Details of the fair value of the Company's investment property measured at cost are provided in Note 6(8).
- B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:
- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company's investment in listed stocks, beneficiary certificates and others is included in Level 1.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Company's investment in derivative instruments is included in Level 2.
- Level 3: Unobservable inputs for the asset or liability. The fair value of the Company's investment in derivative instruments is included in Level 3.
- C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

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

D. The methods and assumptions the Company used to measure fair value are as follows:

- (a) The instruments the Company used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	Open-end fund
Market quoted price	Closing price

- (b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques method can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).
- (c) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate.
- (d) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Company's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Company's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
- (e) The Company takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Company's credit quality.

E. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

F. The following table presents the changes in level 3 instruments.

	Non-derivative equity	
	For the years ended December 31, 2018	For the years ended December 31, 2017
Beginning balance	\$ 877,620	\$ 914,778
Gains and losses recognized in profit or loss	10,938	-
Gain and loss recognized in other comprehensive income (Note)	(24,886)	(12,811)
Acquired during the year	61,754	-
Sold during the year	-	(24,347)
Ending balance	\$ 925,426	\$ 877,620

- G. Finance and Accounting Department is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the source of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.
- H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement.

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity:					
Unlisted shares	\$ 925,426	Market comparable companies	Price to earnings ratio multiple	0.99~3.46	The higher the multiple and control premium, the higher the fair value
Private equity fund			Discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value

	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity:					
Unlisted shares	\$ 877,620	Market comparable companies	Price to earnings ratio multiple	1.13~3.42	The higher the multiple and control premium, the higher the fair value
Private equity fund			Discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value

J. The Company has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorized within Level 3 if the inputs used to valuation models have changed:

December 31, 2018						
			Recognized in profit or loss		Recognized in other comprehensive income	
			Favourable change	Unfavourable change	Favourable change	Unfavourable change
Input	Change					
Financial assets						
Equity instrument	Discount for lack of marketability	±5%	\$ 45,910	(\$ 45,910)	\$ 361	(\$ 361)
December 31, 2017						
			Recognized in profit or loss		Recognized in other comprehensive income	
			Favourable change	Unfavourable change	Favourable change	Unfavourable change
Input	Change					
Financial assets						
Equity instrument	Discount for lack of marketability	±5%	\$ -	\$ -	\$ 43,881	(\$ 43,881)

(4) Effects on initial application of IFRS 9, 'Financial instruments'

A. Summary of significant accounting policies adopted in 2017:

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

- They are financial assets held for trading. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term.

Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.

- ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- iii. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss.

(b) Available-for-sale financial assets

- i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.
- ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
- iii. They are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(c) Loans and receivables

i. Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

ii. Investment in debt instrument without active market

(i) Investments in debt instrument without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:

- a. Not designated on initial recognition as at fair value through profit or loss;
- b. Not designated on initial recognition as available-for-sale;
- c. Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(ii) On a regular way purchase or sale basis, investments in debt instrument without active

market are recognized and derecognized using trade date accounting.

- (iii) Investments in debt instruments without active market held by the Company are those time deposits with a short maturity period but do not qualify as cash equivalents, and they are measured at initial investment amount as the effect of discounting is immaterial.

(d) Impairment of financial assets

- i. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a Company of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Company of financial assets that can be reliably estimated.
- ii. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (i) Significant financial difficulty of the issuer or debtor;
 - (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (iii) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - (v) The disappearance of an active market for that financial asset because of financial difficulties;
 - (vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a Company of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the Company, including adverse changes in the payment status of borrowers in the Company or national or local economic conditions that correlate with defaults on the assets in the Company;
 - (vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
 - (viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- iii. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:
 - (i) Financial assets at amortized cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

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

- i. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.
- ii. Financial liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss.

(f) Financial guarantee contracts

Financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract is initially recognized at its fair value adjusted for transaction costs on the trade date. After initial recognition, the financial guarantee is measured at the higher of the initial fair value less cumulative amortisation and the best estimate of the amount required to settle the present obligation on each balance sheet date.

C. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

	Measured at fair value through profit or loss	Available- for-sale- equity	Measured at fair value through other comprehensive income-equity	Total	Retained earnings	Other equity
IAS 39	\$ -	\$ 6,609,115	\$ -	\$ 6,609,115	\$ 12,750,338	\$ 2,026,521
Transferred into and measured at fair value through profit	1,899,305	(1,899,305)	-	\$ -	689,725	(689,725)
Transferred into and measured at fair value through other comprehensive income-equity	-	(4,709,810)	4,709,810	-	1,247,396	(1,247,396)
Impairment loss adjustment	-	-	-	-	-	-
IFRS 9	<u>\$ 1,899,305</u>	<u>\$ -</u>	<u>\$ 4,709,810</u>	<u>\$ 6,609,115</u>	<u>\$ 14,687,459</u>	<u>\$ 89,400</u>

(a) Under IAS 39, because the equity instruments, which were classified as available-for-sale financial assets amounting to \$4,709,810, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)" amounting to \$4,709,810, which resulted to a decrease in other equity interest and increase in retained earnings in the amounts of \$1,247,396 and \$1,247,396 on initial application of IFRS 9, respectively.

(b) Under IAS 39, the equity instruments, which were classified as available-for-sale financial assets amounting to \$1,899,305, were reclassified as "financial assets at fair value through profit or loss (equity instruments)" amounting to \$1,899,305, which resulted to a decrease in other equity interest and increase in retained earnings in the amounts of \$689,725 and \$689,725 under IFRS 9, respectively.

D. The significant accounts as of December 31, 2017 and for the year ended December 31, 2017 are as follows:

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

Items	December 31, 2017
Current items:	
Financial assets held for trading	
Financial assets not for hedging	\$ 2,529

i. The Company recognized net loss amounting to \$2,529 on financial assets held for trading for the year ended December 31, 2017.

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

<u>Financial instruments</u>	<u>Maturity date</u>	<u>December 31, 2017</u>	
		<u>Contract amount</u> <u>(Notional principal)</u>	<u>Fair value</u>
Forward foreign exchange contracts			
SELL USD/BUY JPY	2018.02.02	JPY 300,000,000	(\$ 213)
SELL EUR/BUY USD	2018.02.01	EUR 3,000,000	(2,316)
			(\$ 2,529)

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

(b) Available-for-sale financial assets

<u>Items</u>	<u>December 31, 2017</u>
Non-current items :	
Listed stocks	\$ 5,839,708
Emerging stocks	407,234
Unlisted shares	596,469
	6,843,411
Valuation adjustment of available-for-sale financial assets	3,280,754
Accumulated impairment	(394,039)
	\$ 6,609,115

- A. The Company recognized \$1,133,547 in other comprehensive income for fair value change and reclassified \$25,874 from equity to profit or loss for the year ended December 31, 2017.
- B. The Company has no available-for-sale financial assets pledged to others .
- E. Credit risk information for the year ended December 2017 are as follows:
- (a) Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including

outstanding receivables. Only banks and financial institutions with optimal credit ratings are accepted.

- (b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Company's Credit Quality Control Policy:

	December 31, 2017
Group 1	\$ 867,482
Group 2	220,456
Group 3	145,746
Group 4	111,588
Group 5	71,119
	<u>\$ 1,416,391</u>

Company 1: Clients without substantial risk, such as government institutions and listed Companies.

Company 2: Clients with extremely low risk, which have excellent reputation and prospect, as ratified by the director of credit management of the Company.

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

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

Company 5: Clients with fewer transactions with the Company, which have lower transaction amounts and their management shall be continuously monitored.

- (d) The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	December 31, 2017
Up to 30 days	\$ 110,434
31 to 90 days	41,644
91 to 180 days	13,060
Over 180 days	275,339
	<u>\$ 440,477</u>

The above ageing analysis was based on past due date.

- (e) Movement analysis of financial assets that were impaired is as follows:

- i. As of December 31, 2017 the Company's impaired notes and accounts receivable amounted to \$27,484.

ii. Movements on allowance for uncollectible accounts are as follows:

	2017		
	Individual provision	Group provision	Total
At January 1	\$ 25,250	\$ 5,972	\$ 31,222
Gains on doubtful debt recoveries during the period	-	(3,738)	(3,738)
At December 31	\$ 25,250	\$ 2,234	\$ 27,484

(5) Effects of initial application of IFRS 15

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below:

(a) Sales of goods

- i. The Company manufactures and sells various types of mechanical equipment, air-conditioning units and electronic equipment products. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods is recognized when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.
- ii. The Company offers customers volume discounts and right of return for defective products. The Company estimates such discounts and returns based on historical experience. Provisions for such liabilities are recorded when the sales are recognized. The volume discounts are estimated based on the anticipated annual sales quantities.

(b) Sales of services

The Company provides products repair services. Revenue from delivering services is recognized under the percentage-of-completion method when the outcome of services provided can be estimated reliably. The stage of completion of a service contract is measured by the percentage of the actual services performed as of the financial reporting date to the total services to be performed. If the outcome of a service contract cannot be estimated reliably, contract revenue should be recognized only to the extent that contract costs incurred are likely to be recoverable.

(c) Construction revenue

If the result of a construction contract can be estimated reliably and it is probable that this

contract would make a profit, contract revenue and cost should be recognized by reference to the stage of completion of the contract activity in the end of the reporting period in revenue and expense.

(d) A sale agreement comprising of multiple components

A sale agreement offered by the the Company might comprise of multiple components, including sale of goods and subsequent maintenance services, etc. If a sale agreement comprises of multiple identifiable components, the fair value of the consideration received or receivable in respect of the sale agreement is allocated among those components based on the relative fair value of each component. The amount of proceeds allocated to each component is recognized as revenue in profit or loss following the revenue recognition criteria applied to each component. The fair value of each component is determined by its market value when it is sold separately.

(e) Construction contracts

- i. IAS 11, 'Construction Contracts', defines a construction contract as a contract specifically negotiated for the construction of an asset. If the outcome of a construction contract can be estimated reliably and it is probable that this contract would make a profit, contract revenue is recognized by reference to the stage of completion of the contract activity, using the percentage-of-completion method of accounting, over the contract term. Contract costs are expensed as incurred. The stage of completion of a contract is measured by the proportion of contract costs incurred for work performed up to the balance date to the estimated total costs for the contract. An expected loss where total contract costs will exceed total contract revenue on a construction contract should be recognized as an expense as soon as such loss is probable. If the outcome of a construction contract cannot be estimated reliably, contract revenue should be recognized only to the extent of contract costs incurred that are likely to be recoverable.
- ii. Contract revenue should include the revenue arising from variations from the original contract work, claims and incentive payments that are agreed by the customer and can be measured reliably.
- iii. The excess of the cumulative costs incurred plus recognized profits (less recognized losses) over the progress billings on each construction contract is presented as an asset within 'receivables from customers on construction contracts'. While, the excess of the progress billings over the cumulative costs incurred plus recognized profits (less recognized losses) on each construction contract is presented as a liability within 'payables to customers on construction contracts'.

- B. The revenue recognized by using above accounting policies for the year ended December 31 and for the nine-month period ended September 30, 2017 are as follows:

	For the year ended December 31, 2017
Sales of goods	\$ 18,316,697
Sales of services	329,645
Construction contract revenue	2,654,866
	<u>\$ 21,301,208</u>

- C. The construction contract receivable/payable recognized by using above construction contract accounting policies for the year ended December 31, 2017 are as follows:

	December 31, 2017
Aggregate costs incurred plus recognized profits (less recognized losses)	\$ 12,838,960
Less: Progress billings	(12,166,955)
Net balance sheet position for construction in progress	<u>\$ 672,005</u>
Presented as:	
Construction contracts receivable	\$ 836,338
Construction contracts payable	(164,333)
	<u>\$ 672,005</u>

- D. The effects and description of current balance sheet and comprehensive income statement if the Company continues adopting above accounting policies for the year ended December 31, 2018 are as follows:

		December 31, 2018		
		Balance by using IFRS 15	Balance by using previous accounting policies	Effects from changes in accounting policies
<u>Balance sheet items</u>	<u>Description</u>			
Construction contracts receivable		\$ -	\$ 1,074,420	(\$ 1,074,420)
Contract assets		1,074,420	-	1,074,420
Contract liabilities		(356,457)	-	(356,457)
Construction contracts payable		-	(219,308)	219,308
Sales revenue received in advance		-	(137,149)	137,149

There is no significant impact to the comprehensive income statement if the Company continues adopting above accounting policies for the year ended December 31, 2018.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.

- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: Please refer to table 4
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 6
- I. Trading in derivative financial instruments undertaken during the reporting periods ended: Please refer to Notes 6(11).
- J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 8.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 9.
- B. Significant transactions, either directly or indirectly through a third party, transactions with the investee companies in Mainland Area: Please refer to table 10.

14. SEGMENT FINANCIAL INFORMATION

Not applicable

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES

Loans to others

For the year ended December 31, 2018

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Creditor	Borrower	General ledger account	Related party	December 31, 2018	Balance at December 31, 2018 (Note 9)	Actual amount drawn down	Interest rate (%)	Nature of loans	Amount of transactions with the borrower	Reason for short-term financing capital	Allowance for doubtful accounts	Collateral			Footnote	
													Item	Value	Limit on loans granted to a single party		Ceiling on total loans granted
0	TECO ELECTRIC & MACHINERY CO., LTD.	Xiamen An-Tai	Other receivables	Yes	\$ 92,865	\$ 92,145	\$ 27,644	2.3	Short-term financing	\$ -	For operating capital	\$ -	-	\$ -	\$ 1,610,360	\$ 5,367,866	Note 2
0	TECO ELECTRIC & MACHINERY CO., LTD.	QingDao Teco	"	"	139,971	133,579	133,579	3.5	Short-term financing	-	For operating capital	-	-	-	1,610,360	5,367,866	Note 2
1	CO LTD U.V.G.	Teco Netherlands	"	"	253,680	246,400	246,400	1.5	Short-term financing	-	For operating capital	-	-	-	450,722	751,203	Note 3
2	Tai-An Wuxi	Fujian Teco	"	"	11,715	-	-	-	Short-term financing	-	For operating capital	-	-	-	64,978	129,957	Note 4
3	Teco Westinghouse	TWMM	"	"	67,012	67,012	43,922	2.51~ 3.53	Short-term financing	-	For operating capital	-	-	-	768,918	1,537,837	Note 5
3	Teco Westinghouse	TECO ELECTRIC & MACHINERY CO., LTD.	"	"	309,550	309,550	307,150	1.1	Short-term financing	-	For operating capital	-	-	-	768,918	1,537,837	Note 5
4	Tong-An Assets	TECO ELECTRIC & MACHINERY CO., LTD.	"	"	280,000	200,000	200,000	1.05	Short-term financing	-	For operating capital	-	-	-	525,281	525,281	Note 6
5	Motovario S.p.A.	CO., LTD. Motovario S.A (Spain)	"	"	162,536	-	-	-	Short-term financing	-	For operating capital	-	-	-	212,194	424,388	Note 7

Number (Note 1)	Creditor	Borrower	General ledger account	Related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018 (Note 9)	Collateral							Footnote		
							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			
													Item		Value	Limit on loans granted to a single party	Ceiling on total loans granted
6	Baycom	Tecom	"	"	40,000	-	-	-	Short-term	-	Repayments	-	-	46,182	92,365	Note 8

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1) The Company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: In accordance with the Company's policy, limit on total loans shall not exceed 10% of the Company's net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 3% of the Company's net assets based on the latest financial statements (December 31, 2018).

Note 3: In accordance with U.V.G.'s policy, limit on total loans shall not exceed 10% of U.V.G.'s net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 6% of U.V.G.'s net assets based on the latest financial statements (December 31, 2018).

Note 4: In accordance with Tai-An Wuxi's policy, limit on total loans shall not exceed 10% of Tai-An Wuxi's net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 5% of Tai-An Wuxi's net assets based on the latest financial statements (December 31, 2018).

Note 5: In accordance with Teco Westinghouse's policy, limit on total loans shall not exceed 20% of Teco Westinghouse's net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 10% of Teco Westinghouse's net assets based on the latest financial statements (December 31, 2018).

Note 6: In accordance with Tong-An Assets' policy, limit on total loans shall not exceed 10% of Tong-An Assets' net assets based on the latest audited financial statement (December 31, 2018).

Note 7: In accordance with Motovario S.p.A.'s policy, limit on total loans shall not exceed 10% of Motovario S.p.A.'s net assets based on the latest financial statements (December 31, 2018), and limit on loans to a single party shall not exceed 5% of Motovario S.p.A.'s net assets based on the latest financial statements (December 31, 2018).

Note 8: According to the policy of the Tecom subsidiaries, limit on loans to Baycom is 20% of the granting company's net assets based on the latest audited financial statements (December 31, 2018); limit on loans to a single party is 10% of the granting company's net assets based on the latest audited financial statements (December 31, 2018).

Note 9: The credit line approved by the Board of Directors.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES

Provision of endorsements and guarantees to others
For the year ended December 31, 2018

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Company name	Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company (%)	Ceiling on total amount of endorsements/ guarantees provided	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements / guarantees to the party in Mainland China	Footnote
0	TECO ELECTRIC & MACHINERY CO., LTD.	TECO Smart Technologies Co., Ltd.	(2)	\$ 10,735,732	\$ 100,000	\$ 100,000	\$ -	0.19	\$ 32,207,196	Y	N	N	Note 3
0	TECO	Teco International	(2)	10,735,732	100,000	100,000	-	0.19	32,207,196	Y	N	N	"
0	TECO	Motovario S. P. A.	(2)	10,735,732	2,763,662	2,078,208	-	3.87	32,207,196	Y	N	N	"
0	TECO	Others	(2),(5),(6)	10,735,732	4,118,437	74,586	-	0.14	32,207,196	Y	N	N	"
1	Teco Westinghouse	TWMM	(4)	768,918	26,193	7,320	-	0.10	1,537,837	Y	N	N	Note 4
2	Motovario S.p.A.	TECNOFIB SRL	(1)	848,775	576	498	-	0.01	2,546,325	N	N	N	Note 5
3	Yatec Engineering Corporation	Yatec Engineering (VN) Company Limited	(4)	89,209	32,321	32,321	-	14.49	178,418	Y	N	N	Note 6
4	Century Development	CDC DEVELOPMENT INDIA PRIVATE LIMITED	(6)	436,241	211,291	211,291	-	4.84	872,481	Y	N	N	Note 7

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1) The Company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.



Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories:

- (1) Having business relationship.
- (2) The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.
- (3) The endorsed/guaranteed company owns directly and indirectly more than 50% voting shares of the endorser/guarantor parent company.
- (4) The endorser/guarantor parent company owns directly and indirectly more than 90% voting shares of the endorsed/guaranteed company.
- (5) Mutual guarantee of the trade as required by the construction contract.
- (6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.
- (7) Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

Note 3: In accordance with the Company's policy, the total guarantee amount shall not exceed 60% of Company's net assets based on the latest financial statements (December 31, 2018), and the guarantee to a single party shall not exceed 20% of the

Note 4: In accordance with the Teco Westinghouse's policy, the total guarantee amount shall not exceed 20% of Teco Westinghouse's net assets based on the latest financial statements (December 31, 2018), and the guarantee to a single party shall not

Note 5: In accordance with Motovario S.p.A.'s policy, the total guarantee amount shall not exceed 60% of Motovario S.p.A.'s net assets based on the latest financial statements (December 31, 2018), and the guarantee to a single party shall not exceed

Note 6: In accordance with Yatec Engineering Corporation's policy, the total guarantee amount shall not exceed 80% of Yatec Engineering Corporation's net assets based on the latest financial statements (December 31, 2018), and the guarantee to a

single party shall not exceed 40% of Yatec Engineering Corporation's net assets. If the guarantee amount is denominated in foreign currency, the amount shall be translated at the exchange rate prevailing on the date of approval by the

Note 7: In accordance with Century Development's policy, the total guarantee amount shall not exceed 20% of Century Development's net assets based on the latest financial statements (December 31, 2018), and the guarantee to a single party shall not

exceed 10% of Century Development's net assets. If the guarantee amount is denominated in foreign currency, the amount shall be translated at the exchange rate prevailing on the date of approval by the Board of Directors to assess

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES

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

December 31, 2018

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Securities held by TECO ELECTRIC & MACHINERY CO., LTD.	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018			Ownership (%)	Fair value	Footnote
				Number of shares	Book value				
Teco International	Stock 1	The Company is a director of the investee	Note 1	190,061	\$ 5,806,351		3.38	\$ 5,806,351	
	Stock 2	None	"	9,610	93,411		0.10	93,411	
	Stock 3, etc.	The Company is a director of the investee	"	5,098	83,700		-	83,700	
	Stock 4	None	Note 4	10,084	113,449		0.08	113,449	
	Stock 5	The Company is a director of the investee	"	11,527	288,762		1.96	288,762	
	Stock 6	None	"	47,839	382,711		1.98	382,711	
	Stock 7	"	"	2,710	18,699		0.06	18,699	
	Stock 8	The Company is a director of the investee	"	32,980	308,552		10.99	308,552	
	Stock 9, etc.	None	"	7,500	314,775		5.00	314,775	
	Stock 10, etc.	"	"	43,654	233,757		-	233,757	
	Fund 1, etc.	"	"	-	175,084		-	175,084	
	Stock 11	"	Note 1	275	51,700		0.20	51,700	
	Stock 12, etc.	"	"	13,715	267,455		-	267,455	
Tong-an Investment	Stock 13, etc.	"	Note 3	4,589	197,350		-	197,350	
	Stock 10, etc.	"	Note 2	665	27,698		-	27,698	
	Stock 14	An investee company accounted by the Company using equity method	Note 1	19,540	340,974		0.98	340,974	
	Stock 15	Related party in substance	"	9,197	128,751		8.17	128,751	
	Stock 16	None	"	8,502	649,549		0.26	649,549	
	Stock 17	"	"	1,285	136,853		0.04	136,853	
	Stock 11	The Company is a director of the investee	"	14,050	2,641,400		10.03	2,641,400	
	Stock 18	None	"	555	78,243		2.25	78,243	
	Stock 19, etc.	"	"	26,166	309,656		-	309,656	
	Stock 11, etc.	"	Note 2	5,228	387,460		-	387,460	
	Stock 20, etc.	"	Note 3	15,145	698,071		-	698,071	
	Fund 2, etc.	"	Note 2	-	14,494		-	14,494	
	Fund 3, etc.	"	Note 4	-	37,453		-	37,453	
Jie-Zheng Property Teco Electro Information Technology	Stock 21, etc.	"	Note 1	118	5,723		-	5,723	
	Stock 14	An investee company accounted by the Company using equity method	"	2,826	49,309		0.14	49,309	
	Stock 15	Related party in substance	"	1,270	17,782		1.13	17,782	
	Stock 19	"	"	2,756	178,568		8.51	178,568	
	Stock 22	None	"	195	8,986		-	8,986	
	Stock 23, etc.	"	Note 3	1,545	68,930		-	68,930	
	Stock 10, etc.	"	Note 2	170	7,990		-	7,990	
	Fund 4, etc.	"	Note 2	-	30,811		-	30,811	
	Stock 15	Related party in substance	Note 1	200	2,803		0.18	2,803	
	Stock 24, etc.	None	"	3,238	32,488		-	32,488	

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
Teco Singapore	Stock 11, etc.	"	"	304	\$ 58,031	-	\$ 58,031	
Taiwan Pelican express	Stock 11, etc.	"	"	459	86,292	-	86,292	
Teco Australia	Stock 11	"	"	460	86,896	0.33	86,896	
Teco Nanotech	Stock 15	Related party in substance	"	81	1,127	0.07	1,127	
	Fund 5	None	Note 2	62	11,036	-	11,036	
Sankyo	Stock 25	"	Note 1	68	5,959	-	5,959	
Tecom	Stock 2	"	"	2,175	21,144	0.02	21,144	
	Stock 1	The Company is a corporate director of the investee	"	16,222	495,585	0.29	495,585	
Tecom International	Stock 29	None	Note 3	3,354	31,560	1.69	31,560	
	Stock 30, etc.	"	Note 1	758	680	-	680	
	Fund 6	"	Note 2	1,735	18,879	-	18,879	
Top-Tower	Stock 14	An investee company accounted by the Company using equity method	Note 3	77	1,348	-	1,348	
	Stock 31, etc.	None	"	3	40	-	40	

Note 1: Available-for-sale financial assets - non-current.

Note 2: Financial assets at fair value through profit or loss - current.

Note 3: Available-for-sale financial assets - current.

Note 4: Financial assets at fair value through profit or loss - non-current.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES

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

For the year ended December 31, 2018

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions				Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Notes/accounts receivable (payable)		
									Balance	Percentage of total notes/accounts receivable (payable)	
TECO ELECTRIC & MACHINERY	Tesen	An investee accounted for under the equity method	Purchases	\$ 2,270,807	14%	30 days	Note	Note	\$ -	-	-
	Taian Subic	"	"	189,986	1%	"	"	"	(60,289)	(1%)	
	Kuen Ling	"	"	191,610	1%	"	"	"	(152,966)	(3%)	
	Tai-An Wuxi	An indirect investee accounted for under the equity method	"	521,565	3%	"	"	"	(36,917)	(1%)	
	Wuxi Teco	"	"	1,118,801	7%	"	"	"	(406,218)	(9%)	
	Qing Dao Teco	"	"	670,305	4%	"	"	"	(54,176)	(1%)	
	Teco Industrial (Malaysia) Sdn. Bhd.	"	"	424,788	3%	"	"	"	(75,318)	(2%)	
	Jiangxi Teco	"	"	146,972	1%	"	"	"	(24,504)	(1%)	
	Genmao Electronics (Suzhao)	"	"	121,540	1%	"	"	"	-	-	
	Taian Shen Electric Co., Ltd.	An investee accounted for under the equity method	Sales	(206,950)	(1%)	90 days	"	"	25,409	1%	
	E-Joy International	"	"	(169,524)	(1%)	"	"	"	-	-	
	Tong Dai	"	"	(957,327)	(5%)	"	"	"	203,900	6%	
	Tong Tai Jung	"	"	(697,700)	(3%)	"	"	"	179,604	5%	
	Teco Singapore	An indirect investee accounted for under the equity method	"	(776,836)	(4%)	"	"	"	157,105	4%	
	Teco Westinghouse	"	"	(3,479,182)	(17%)	"	"	"	374,166	11%	
	Teco Westinghouse Canada	"	"	(806,834)	(4%)	"	"	"	71,701	2%	
	Teco Australia	"	"	(1,110,099)	(5%)	"	"	"	210,585	6%	
	Top-Tower	"	"	(312,742)	(1%)	"	"	"	75,357	2%	
	Motovario S.P.A.	"	"	(206,672)	(1%)	"	"	"	129,778	4%	

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

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
Receivables from related parties reaching \$100 million or 20% of paid-in capital or more
December 31, 2018

Table 5

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Overdue receivables		Amount collected subsequent to the balance sheet date	Expressed in thousands of NTD (Except as otherwise indicated)
				Turnover rate	Amount		
TECO ELECTRIC & MACHINERY CO., LTD.	Tong Dai	An investee accounted for under the equity method	\$ 204,029	4.59	\$ -	\$	83,748
"	Tong Tai Jung	"	180,115	3.85	-	-	63,827
"	Teco Singapore	"	157,446	5.95	-	-	139,288
"	Teco Westinghouse	An indirect investee accounted for under the equity method	374,289	8.29	-	-	349,870
"	QingDao Teco	"	269,250	0.03	-	-	942
"	Wuxi Teco	"	103,173	0.36	-	-	6,312
"	Teco Australia	"	213,722	4.21	-	-	92,599
"	Sankyo	"	221,618	0.39	178,201	In the process of collection	16,412
"	Teco Netherlands	"	327,132	0.20	280,930	"	8,762
"	Teco Westinghouse Canada	"	71,701	7.54	-	-	61,744
"	Motovario S. P. A.	"	172,814	1.96	-	-	24,653
Kuen Ling	TECO ELECTRIC & MACHINERY CO., LTD.	An investee accounted for under the equity method	152,966	2.11	-	-	19,541
Tong-An Assets	"	"	212,563	-	-	-	-
Teco Westinghouse	"	An indirect investee accounted for under the equity method	307,150	-	-	-	12,953
Wuxi Teco	"	"	406,218	1.92	-	-	158,245
U.V.G.	Teco Netherlands	"	246,400	-	-	-	-
							Total amount was \$18,245

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
Significant inter-company transactions during the reporting period
For the year ended December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 6

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	TECO ELECTRIC & MACHINERY CO., LTD.	Tong Dai	(1)	Notes receivable, accounts receivable and other receivables	\$ 204,029	Because there is no transaction in same type which can be compared with, it is based on the condition and the period specified in the agreement.	-
0	"	Tong Tai Jung	"	"	180,115	"	-
0	"	Teco Westinghouse	"	Accounts receivable and other receivables	374,289	"	-
0	"	QingDao Teco	"	"	269,250	"	-
0	"	Teco Australia	"	"	213,722	"	-
0	"	Teco Netherlands	"	"	327,132	"	-
0	"	Sankyo	"	"	221,618	"	-
0	"	Teco Singapore	"	"	157,446	"	-
0	"	Wuxi Teco	"	"	103,173	"	-
0	"	Motovario S. P. A.	"	"	172,814	"	-
1	Wuxi Teco	TECO ELECTRIC & MACHINERY CO., LTD.	(2)	Accounts receivable	406,218	"	-
2	Tong-An Assets	"	"	Other receivables	212,563	"	-
3	Teco Westinghouse	"	"	"	307,150	"	-
4	U.V.G	Teco Netherlands	(3)	"	246,400	"	-
0	TECO ELECTRIC & MACHINERY CO., LTD.	Teco westinghouse	(1)	Sales	3,479,182	"	7%
0	"	Teco Westinghouse Canada	"	"	806,834	"	2%
0	"	Teco Singapore	"	"	776,836	"	2%
0	"	Tong Dai	"	"	957,327	"	2%
0	"	Tong Tai Jung	"	"	697,700	"	1%
0	TECO ELECTRIC & MACHINERY CO., LTD.	Teco Australia	"	"	1,110,099	"	2%
0	"	Top-Tower	"	"	312,742	"	1%
0	"	E-Joy International	"	"	169,524	"	-
0	"	Motovario S. P. A.	"	"	206,672	"	-
5	Tesen	TECO ELECTRIC & MACHINERY CO., LTD.	(2)	"	2,270,807	"	5%

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
6	Tai-An Wuxi	TECO ELECTRIC & MACHINERY CO., LTD.	(2)	Sales	\$ 521,565	Because there is no transaction in same type which can be compared with, it is based on the condition and the period specified in the agreement.	1%
1	Wuxi Teco	"	"	"	1,118,801	"	2%
2	QingDao Teco	"	"	"	670,305	"	1%
7	Teco Malaysia	"	"	"	424,788	"	1%
8	Taian Subic	"	"	"	189,986	"	-
9	Jiangxi Teco	"	"	"	146,972	"	-

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship with the transaction company:

(1) The parent company to the subsidiary.

(2) The subsidiary to the parent company.

(3) The subsidiary to another subsidiary.

Note 3: Regarding percentage of transaction amount to total operating revenues or total assets, it is computed based on period-end balance of transaction to total assets for balance sheet accounts and based on accumulated transaction amount for the period to total operating revenues for income statement accounts.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES

Information on investees

For the year ended December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 7

Investor	Investee	Location	Main business activities	Initial investment amount			Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017		Number of shares	Ownership (%)	Book value			
TECO ELECTRIC & MACHINERY CO., LTD.	Tung Pei	Taiwan	Manufacturing of bearings	\$ 12,293	\$ 12,293		39,145,044	31.14	\$ 2,087,582	\$ 561,598	\$ 174,843	None
	Tecom	Taiwan	Manufacturing of key telephone system and monkey service unit telephone system	431,109	631,410		200,301,025	63.52	209,755 (	46,435) (	29,068)	None 1
	Teco International	Taiwan	Investment holdings, investments in securities and construction of commercial buildings	100,013	100,013		57,533,521	100	1,064,316	34,515	34,280	None
	Teco Holdings and its subsidiaries	U.S.A	Manufacturing and distribution of motors and generators, and investment and trading in USA	726,428	726,428		1,680	100	9,858,588	576,103	576,350	None
	Teco Singapore and its subsidiaries	Singapore	Distribution of the Company's motor products in Singapore	112,985	112,985		7,200,000	90	3,302,731	173,316	137,869	None
	Tong-An	Taiwan	Investment holdings	2,490,000	2,490,000		444,134,422	99.60	7,997,267	182,276	181,547	None
	Teco Electro	Taiwan	Manufacturing of Stepping	128,496	128,496		15,386,949	62.57	241,857	26,550	16,704	None
	UVG and its subsidiaries	Cayman Islands	Manufacturing and distribution of the Company's motor products and home appliances, and investment holdings	8,505,434	8,505,434		195,416,844	100	7,489,862	246,687	247,200	None
	Information Technology Service	Taiwan	E-business service, mailing and data management	121,232	121,232		11,723,248	57.64	161,139	45,197	27,195	None
	Tesen	Taiwan	Manufacturing and sales of home appliance	200,000	200,000		20,000,000	100	216,783	19,179	17,823	None

Initial investment amount				Shares held as at December 31, 2018				Investment income (loss) recognized by the Company for the year ended December 31, 2018			Footnote	
Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018	2018		
TECO ELECTRIC & MACHINERY CO., LTD.	Lien Chang	Taiwan	Manufacturing of color flybacks transformers and mono flyback transformers, mono mono deflection yokes	\$ 117,744	\$ 117,744	37,542,159	33.84	\$ 440,000	189,823	(\$ 64,244)	None	
	Tong Dai	Taiwan	Distribution of the Company's motor products in Taichung	22,444	22,444	5,290,800	92.63	262,353	62,121		57,540	None
	Teco Vietnam	Vietnam	Manufacturing and sales of motors	352,252	264,111	20,405,297	100	337,986	2,034		2,108	None
	Yatec	Taiwan	Development and maintenance of various electric appliances	92,389	92,389	7,799,996	64.95	144,794	21,328		13,903	None
	Tong-An Assets	Taiwan	Real estate business	2,111,889	2,111,889	388,423,711	100	5,252,807	56,566		56,566	None
	Taian Subic	Philippines	Manufacturing and sales of switches	165,819	165,819	17,131,155	76.70	169,000	10,574		7,809	None
	Micropac (BVI) and its subsidiaries	British Virgin Islands	Manufacturing and distribution of optical fiber apparatus and international trading	454,923	454,923	14,883,591	100	1,451,867	58,069		58,604	None
	Century Development	Taiwan	Development and management of industrial park	951,141	673,801	96,353,338	28.67	1,377,232	218,953		61,169	None
	An-Tai	Taiwan	Investment holdings	150,000	150,000	25,018,661	100	472,934	28,814		28,814	None
	Pelican	Taiwan	Logistics and distribution services	255,116	255,116	24,121,700	25.27	407,863	68,475		17,302	None
	Kuen Ling	Taiwan	Manufacturing, installation, repair, domestic and export sales and leasing of condenser, water cooling, watercooled chiller and freezer	230,541	296,003	13,408,642	17.61	347,255	214,794		41,264	None
	Taian-Etacom Technology Co., Ltd.	Taiwan	Bus bar and manufacturing of its components	70,330	70,330	7,033,000	84.73	141,071	28,529		24,174	None

Initial investment amount				Shares held as at December 31, 2018				Investment income (loss) recognized by the Company for the year ended December 31, 2018		Footnote
Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018	
TECO ELECTRIC & MACHINERY CO., LTD.	Eagle Holding Co.	Cayman Islands	Investment holdings	\$ 3,691,723	\$ 3,691,723	1	100	\$ 4,311,420	\$ 205,744	None
	TECO MOTOR Co.	Netherlands	Investment holdings	3,691,723	3,691,723	1	100	4,311,420	205,744	None
	TECO MOTOR B.V.	Italy	Production and sale of gear reducers and motors	3,989,850	3,989,850	18,010,000	100	4,311,420	205,744	None
	Tung Pei	Samoa	Investment holdings and establishment of overseas distribution channel	646,343	646,343	23,031,065	100	1,529,147	85,640	None
Tecom	Tecom International	Taiwan	Investment holdings	100,000	100,000	12,000,000	100	241,425 (	752) (	None
Tong-An Investments	Baycom	Taiwan	Manufacturing and sales of optical telecom products	359,656	359,656	9,619,819	28.64	121,532 (	582) (	None
	Creative Sensor Inc.	Taiwan	Manufacturing and sales of electronic components	87,464	87,464	7,913,289	6.23	201,681	205,800	None
	Century Development	Taiwan	Development and management of industrial park	420,646	420,646	44,266,526	13.17	669,137	218,953	None
	Pelican	Taiwan	Logistics and distribution services	54,874	54,874	6,474,468	6.78	109,474	68,475	None
Lien Chang	Century Biotech Development Corp.	Taiwan	Development and construction of real estate	200,000	-	20,000,000	28.57	196,517 (	12,191) (	None
	Century Real Estate	Singapore	Investing in other areas	274,856	-	9,120,000	30	261,579 (	25,227) (	None
	Gen Mao	Taiwan	Investment holdings	92,000	92,000	11,720,000	100	133,786	8,637	None
	Gen Mao (Singapore)	Singapore	Investment holdings	582,246	582,246	27,502,354	84.97	714,974	67,051	None
Gen Mao International	Gen Mao (Singapore)	Singapore	Investment holdings	91,079	91,079	4,866,045	15.03	126,459	67,051	None
Century Development	Centurytech Construction and Management Corp.	Taiwan	Construction and sales of related raw materials	98,170	98,170	10,000,000	100	121,237 (	21,555) (	None
	Jack Property Service & Management	Taiwan	Building management servicing	13,750	13,750	1,512,500	50	66,838	30,817	None

Initial investment amount			Shares held as at December 31, 2018					Investment income (loss) recognized by the Company for the year ended December 31, 2018			Footnote
Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018		
Century Development	United Development	Taiwan	Investment consultancy service for domestic and foreign industrial parks and land	\$ 25,536	\$ 25,536	3,850,997	51.60	\$ 64,104	\$ 6,544	\$ 3,377	None
	Century Biotech Development Corp.	Taiwan	Development and construction of real estate	300,000	-	30,000,000	42.86	294,775	(12,191)	(5,225)	None
	Greyback International Property	Philippines	Housing project in Subic	9,912	9,912	144,600	30.11	10,838	35	11	None
	Century Real Estate (International) Pte. Ltd.	Singapore	Investing in other areas	365,820	30,070	12,160,000	40.00	348,773	(25,227)	(10,091)	None
Teco Electro	Teco Electro Devices Co., Ltd.	British Virgin Islands	Trading and investment holdings	88,108	88,108	2,510	100	120,885	17,878	18,248	None
Teco Singapore	Century Development	Taiwan	Development and management of industrial park	179,222	179,222	20,368,652	6.06	264,362	218,953	14,416	None
Teco International Kuen Ling	Creative Sensor Inc.	Taiwan	Manufacturing and sales of electronic components	52,560	52,560	4,326,447	3.41	110,265	205,800	7,008	None
	CHING CHI INTERNATIONAL LIMITED	British Virgin Islands	Investing in other areas	201,467	201,467	6,200,000	83	467,264	577	579	None
Tong-An Assets	Century Development	Taiwan	Leasing of real estate	184,893	184,893	16,301,644	4.85	211,511	218,953	11,534	None
	Century Biotech Development Corp.	Taiwan	Development and construction of real estate	200,000	-	20,000,000	28.57	196,517	(12,191)	(3,483)	None
	Century Real Estate (International) Pte. Ltd.	Singapore	Investing in other areas	274,856	-	9,120,000	30	261,579	(25,227)	(7,568)	None

Note 1: The Company has reduced capital by the ratio of 50% to offset losses.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

For the year ended December 31, 2018

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital \$	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
					Mainland China	Remitted to back to Taiwan							
Teco (Dong Guang)	Manufacturing and sales of air conditioners mechanical equipment	268,799	Note 2	\$ 188,139	\$ -	\$ -	\$ 188,139	\$ 5,486	100	\$ 5,486	\$ 139,614	\$ -	Note 15
Wuxi Teco	Manufacturing and sales of motors	1,697,276	Note 1	768,259	-	-	768,259	158,174	82.35	130,256	1,604,689	-	Note 15
Taian (Wuxi)	Manufacturing and sales of optical fiber	495,213	Note 11	205,551	-	-	205,551	62,625	100	62,625	1,299,537	-	Note 15
Nanchang Teco	Manufacturing and sales of home appliances	456,293	Note 3	456,293	-	-	456,293	963	100	963	(7,252)	-	Note 15
Jiangxi Teco	Manufacturing and sales of motors	1,481,569	Note 1	1,383,653	-	-	1,383,653	34,095	98.07	30,386	1,431,028	-	Note 15
QingDao Teco	Manufacturing and sales of dyes	947,331	Note 1	1,648,510	-	-	1,648,510	(10,808)	87.6	(9,468)	334,065	-	Note 15
Xiamen Teco	Sales of motors and home appliances	20,590	Note 3	20,590	-	-	20,590	1,705	100	1,705	28,437	-	Note 15
Xiamen An-Tai	Development, manufacturing and sales of LCD monitors. Plant rentals and related real estate	678,681	Note 3	467,577	-	-	467,577	(12,824)	100	(12,824)	258,457	-	Note 15

Investee in Mainland China	Main business activities	Paid-in capital \$	Investment method	Amount remitted from Taiwan to		Accumulated amount of remittance from Taiwan	Net income of the year ended December 31, 2018	Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
				Investment Mainland China/ to Taiwan for the year ended December 31, 2018	Remitted to Mainland China to Taiwan	as of December 31, 2018	2018					
Teco Han Zou	Development and sales of of device products	9,837	Note 1	\$ -	\$ -	\$ -	\$ 3,103	100	\$ 2,127	\$ 29,381	\$ -	Note 15
Teco Century	Manufacturing and sales of compressor	680,938	Note 3	-	-	340,469	(2,137)	100	(513)	30,450	-	Note 16
Fujian Teco	Manufacturing and sales of electronic components	391,843	Note 1	-	-	391,843	(11,051)	100	(11,051)	73,394	-	Note 16
Ecoelectric International Teco (Tianjin)	Distribution of air conditioner	24,004	Note 2	-	-	-	(23,447)	39.9	(9,355)	(5,414)	-	Note 16
Innovation Teco (Jiang Xi)	Central China area Operation center Manufacturing and sales of air conditioning mechanical equipment	15,990	Note 3	-	-	15,990	88	100	88	14,799	-	Note 15
Teco Sichuan Trading	Sales of home appliances	79,813	Note 3	-	-	79,813	7,150	100	7,150	126,712	-	Note 15
Jiangxi Teco- Lead	Sales of home appliances	26,522	Note 11	-	-	-	768	100	768	7,408	-	Note 15
Qingdao Teco Innovation	Manufacturing and sales of wind generator Science Park development and business operations and consulting services	141,079	Note 1	-	-	62,865	(1,184)	45	(2,566)	971	-	Note 16
Shanghai Teco	Sales of home appliances	59,444	Note 13	-	-	59,444	510	100	510	33,337	-	Note 16
Hunan TECO	Manufacturing, sales and technical services of 2.0 megawatt and above aerogenerator, wheel bay and other components	23,829	Note 1	-	-	23,829	67,946	100	67,946	23,464	-	Note 15
Westinghouse Motor Coil Co., Ltd.	Manufacturing and sales of motors, winding and related parts	240,818	Note 11	-	-	240,818	(2,476)	100	(2,476)	158,099	-	Note 15
Jiangxi TECO	Manufacturing and sales of motors, winding and related parts	119,840	Note 12	-	-	-	8,498	100	8,498	119,819	-	Note 15
Wuxi TECO Precision Industry Co. Ltd.	Production and sale of industrial motors and applications	656,500	Note 14	-	-	-	(10,144)	100	(10,144)	799,052	-	Note 15

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Investment	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of the investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
Beijing Pelican Express	Storage services	\$ 26,422	Note 4	\$ 26,422	-	-	\$ 26,422	(2,395)	100	(2,395)	\$ 2,756	\$ -	Note 15
Fubon Gehua (Beijing) Trading Co., Ltd.	Merchandise wholesale	344,643	Note 5	24,746	-	-	24,746	-	1.63	-	-	-	Note 17,18
Wuhan Tecom	Communication network information, technology development, sales and technology services business	6,950	Note 6	6,950	-	-	6,950	(4,450)	100	(4,450)	2,560	-	Note 15
Tecom Tech (Wuxi)	R & D, manufacture of broadband access network communication system	485,455	Note 7	485,455	-	-	485,455	(54)	100	(54)	3,089	-	Note 15
Tecom Tech Investment (BVI)	to provide technology services	34,990	Note 8	34,990	-	-	34,990	-	100	-	-	-	Note 20
Beijing Tecom Innovation Technology Co., Ltd.	Fat panel displays, IT products, printed circuit board assembly, manufacture, testing Intelligent home systems and spare parts of the Internet of things, goods and technology import and export, import and export agency, to provide technical advice, technical training and technical services	14,566	Note 8	14,566	-	-	14,566	436	100	436	221	-	Note 15
Information Technology (Wuxi)	ERP building, system maintenance and purchases of information appliance	10,167	Note 9	10,167	-	-	10,167	(2,501)	100	(2,501)	15,496	-	Note 15
Information Technology Total Service (Hang Zhou)	ERP building, system maintenance and purchases of information appliance	2,257	Note 9	2,257	-	-	2,257	(303)	100	(303)	132	-	Note 15
Information Technology Total Service (Xiamen)	ERP building, system maintenance and purchases of information appliance	1,000	Note 9	-	-	-	-	(2,084)	100	(2,084)	597	-	Note 15

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Accumulated amount of remittance from Taiwan to Mainland China		Amount remitted from Taiwan to Mainland China/Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of the investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)(%)	Investment income (loss) recognized by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018		Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
				2018	\$	2018	\$	2018	\$	2018	\$	2018	\$	2018	
Wuxi TECO Precision Industry Co. Ltd.	R&D, manufacturing and sales of motors and provide products sales skills	\$ 115,125	Note 10	\$ 86,101	\$ -	\$ -	\$ -	\$ 86,101	\$ 17,878	100	\$ 17,878	\$ 121,617	\$ -	\$ 43,266	Note 15

Note 1: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through United View Global Investment Co., Ltd. and Great Teco Motor (Pte) Ltd. and then invest in Mainland China.

Note 2: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through United View Global Investment Co., Ltd. and Asia Air Tech Industrial (Pte) Ltd. and then invest in Mainland China.

Note 3: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through United View Global Investment Co., Ltd. and Asia Electric & Machinery (Pte) Ltd. and then invest in Mainland China.

Note 4: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Pelecanus Express Pte. Ltd., and then invest in Mainland China.

Note 5: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Asian Crown International Co., Ltd., Fortune Kingdom Corporation and Hong Kong Fubon Multimedia Technology Co., Ltd. and then invest in Mainland China.

Note 6: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Tecom Global Tech Investment (B.V.I) Limited and then invest in Mainland China.

Note 7: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Tecom Global Tech Investment Pte Limited and then invest in Mainland China.

Note 8: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Tecom Tech Investment (B.V.I) Limited and then invest in Mainland China.

Note 9: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Information Technology Total Service (BVI) Co., Ltd. and then invest in Mainland China.

Note 10: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Teco Electro Devices Co., Ltd. and then invest in Mainland China.

Note 11: Through investing in investees in the third areas, which then invested in the investee in Mainland China: Invest through Micropac Worldwide (B.V.I) and then invest in Mainland China.

Note 12: Through investing in investees in the third areas, which then invested in the investee in Mainland China: Invest through Teco Holding USA Inc. and Teco Westinghouse Motor Company and then invest in Mainland China.

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

Note 14: Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Invest through Great Teco Motor (Pte) Ltd., Teco Australia Pty. Ltd. and Teco Electric & Machinery (Pte) Ltd. and then invest in Mainland China.

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

Note 16: The amount recognized was based on the financial statements that were audited by the other CPA firm.

Note 17: Financial assets at fair value through other comprehensive income.

Note 18: As of December 31, 2018, accumulated impairment of \$24,746 was accrued.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
TECO Electric & Machinery Co., Ltd.	\$ 6,487,880	\$ 8,713,487	\$ 35,094,549
Taiwan Pelican Express Co., Ltd.	51,168	51,168	968,526
Tecom Co., Ltd.	541,961	754,000	359,405
Information Technology Total	12,424	12,424	167,723
Services Co., Ltd.			
Teco Electro Devices Co., Ltd.	86,101	104,259	232,262

Note 1: The accounts of the Company are expressed in New Taiwan dollars. Income statement accounts denominated in foreign currencies are translated into New Taiwan dollars at the weighted average exchange rates prevailing at the transaction dates and balance sheet accounts at spot exchange rates prevailing at the transaction dates.

Note 2: The amount disclosed was based on Investment Commission, MOEA Regulation No. 09704604680 announced on August 29, 2008.

Note 3: Tecom completed the investment in Mainland China in the third quarter of 2010 and the ceiling on investments was \$1,760,251 which was calculated based on Tecom's net assets of \$2,933,752 in the third quarter of 2010.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas
For the year ended December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 9

Investee in Mainland China	Sale (purchase)		transaction		(payable)		guarantees		Financing		Interest during the year ended December 31, 2018	Others
	Amount	%	Amount	%	Balance at December 31, 2018		Balance at December 31, 2018	Purpose	Maximum balance during the year ended December 31, 2018	Balance at December 31, 2018		
Wuxi Teco	\$ 42,211	-	\$ -	-	13,902	-	\$ -	-	-	\$ -	-	\$ -
Taian (Wuxi)	59,185	-	-	-	11,243	-	-	-	-	-	-	-
Jiangxi Teco	72,335	-	-	-	19,031	-	-	-	-	-	-	-
QingDao Teco	7,118	-	-	-	1,106	-	-	-	-	139,971	133,579	3.5%
Xiamen An-Tai	-	-	-	-	-	-	-	-	-	92,985	92,145	2.3%
Shanghai Teco	3,176	-	-	-	-	-	-	-	-	-	-	-
Xiamen Teco	161	-	-	-	-	-	-	-	-	-	-	-
Teco (Jiang Xi)	345	-	-	-	-	-	-	-	-	-	-	-
Wuxi Teco Precision	757	-	-	-	149	-	-	-	-	-	-	-
Wuxi Teco	(1,118,801)	(7%)	-	-	(406,218)	(9%)	-	-	-	-	-	-
Taian (Wuxi)	(521,565)	(3%)	-	-	(36,917)	(1%)	-	-	-	-	-	-
Jiangxi Teco	(146,972)	-	-	-	(24,504)	(1%)	-	-	-	-	-	-
QingDao Teco	(670,305)	(4%)	-	-	(54,176)	(1%)	-	-	-	-	-	-
Xiamen An-Tai	(16,252)	-	-	-	-	-	-	-	-	-	-	-
Teco (Jiang Xi)	(32,498)	-	-	-	(12,489)	-	-	-	-	-	-	-
Hunan TECO Wind	(681)	-	-	-	-	-	-	-	-	-	-	-
Wuxi Teco Precision	(58,565)	-	-	-	-	-	-	-	-	-	-	-